

# Advanced Risk Financing and Transfer

27<sup>th</sup> March 2021

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## Instructions to candidates

Read the instructions below before answering any questions

**Three hours are allowed for this paper which carries a total of 160 marks, as follows:**

### **Part I**

**1 compulsory question (case study) 80 marks**

### **Part II**

**2 questions selected from 3 (scenarios) 40 marks each for a total of 80marks**

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- You should answer the question in Part I, and two out of the three questions in Part II.
- You are advised to spend no more than 90 minutes on Part I and 45 minutes on each question selected in Part II.
- It is recommended that you spend 15 minutes reading and planning your answer to the case study and 75 minutes answering it, and that you spend 10 minutes reading and planning your answer to each scenario and 35 minutes answering it.
- A case study tests extensively across syllabus learning outcomes, whilst a scenario will be more focused on specific learning outcomes.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

**PART I**  
**Case study**

**This question is worth 80 marks**

**You should include relevant examples and further reading in  
your answer where applicable**

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**QUESTION 1**

**CASE STUDY**

Your organisation has carried out a risk identification and risk evaluation exercise and the results were plotted on a risk matrix as follows:

	Negligible	Minor	Moderate	Major	Catastrophic
Highly likely	<i>Risk D</i>				<i>Risk A</i>
Likely				<i>Risk B</i>	
Possible			<i>Risk G</i>		
Unlikely					
Rare	<i>Risks C, E and F</i>			<i>Risk H</i>	

**QUESTION**

You are appointed to design the risk control measures using a variety of risk financing and risk transfer methods for the indicated risks A to H. Your report should detail the type of tool/s or method/s suggested, the reasons and advantages for your selection and the corresponding expected outcome and effect.

Present your report.

(80 marks)

**PART II**  
**Scenarios**  
**Answer TWO of the following THREE questions.**  
**Each question is worth 40 marks**

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**QUESTION 2**

**SCENARIO**

You receive a claim pertaining to a multiple vehicle collision involving your insured who is fully to blame for the accident caused.

Your insured has caused damage to six vehicles and injuries to ten occupants on a motorway in the UK. The nationalities of the persons injured are various and include UK, European and American. These third parties sustained injuries that will entail long recovery consequences.

Your office is in Ghana and the policy has been issued to provide worldwide cover and foreign jurisdiction. The claim is fully covered by the policy and a reserve of 50 million USD has been allocated.

**QUESTION**

Assuming that the reserve is a very accurate one reflecting the expenses to expect with respect to liability.

If the liability award remaining constant and in line with the reserve, what other risks could result in the company paying more than expected? Discuss the available tools and options available to ensure that this will not happen and that no more than the reserve is eventually paid.

You should present your discussions from the risk financing and risk transfer point of view, given the long time it would take to settle all the liability claims in the potentially different jurisdictions.

(40 marks)

### **QUESTION 3**

#### **SCENARIO**

QDA company Ltd is a very large corporate consisting of a large number of oil rig offshore companies all over the world with assets of over a trillion USD. A variety of risk management techniques apply and the complexity of the risks involved entail different use of different risk control measures.

One of the methods used is the funded risk financing mechanism which is typically used by firms to retain financial impacts of their losses should they occur, thus cushioning the impacts of the losses. The mechanism involves the reserving of cash funds to help cover the cost of risk events. The company is looking at stepping up this mechanism and change it into a full-fledged captive company which, albeit is still a form of self-funding, the captive company benefits from many other market and financial advantages.

#### **QUESTION**

In the light of setting up a captive insurance company to write the risks of QDA company Ltd, explain the type of captive you would suggest giving reasons for your answer and the potential advantages and disadvantages of having such a funded risk financing mechanism.

(40 marks)

## **QUESTION 4**

### **SCENARIO**

Risk financing is a planning process to arrange for funds that are reliable and sufficient to provide for losses that might occur. The main objective of risk financing is to maximise the value of the organisation, playing a major role in removing or minimising uncertainty by arranging funds for this purpose.

Any decision to risk finance involves a number of considerations.

### **QUESTION**

In the light of the above, discuss the factors and the corresponding mechanisms that need to be considered prior to deciding to risk finance.

(40 marks)

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