

Advanced Risk Financing and Transfer

5th March 2023

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

- 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

QUESTION 1

CASE STUDY

Volkswagen Group is a global manufacturing company that produces a range of motor vehicles.

They have operations in several countries and are exposed to a variety of risks, including natural disasters, supply chain disruptions, fluctuating currency and product liability claims to name a few.

Volkswagen Group is currently reviewing their risk transfer financing strategies and is considering both pre-loss and post-loss risk transfer options.

QUESTION

As an expert in pre-loss and post-loss risk transfer financing strategies, advise Volkswagen Group on the most appropriate options to manage their risk exposure.

In your answer, provide a detailed analysis of the various pre-loss and post-loss risk transfer financing strategies available to Volkswagen Group and explain why the options you recommend are the most appropriate.

(80 marks)

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

QUESTION 2

SCENARIO

Businesses continue to experience an unprecedented level of ransomware and cyberattacks, and insurance companies only expect those cyberattacks to increase as a result of Russia's recent invasion of Ukraine and the harsh economic sanctions that Western nations have imposed on Russia in response. Policyholders need to be prepared to navigate a difficult and hardening cyber insurance market as insurance companies reel from past claims experience, and as they anticipate future claims activity as a result of Russia's invasion.

QUESTION

Describe in detail, four risk transfer mechanisms that insurance companies could use to manage their exposure to cyber risk.

Discuss the advantages and disadvantages of each mechanism.

(40 marks)

QUESTION 3

SCENARIO

Hurricane Katrina was one of the most devastating natural disasters in U.S. history, causing over \$100 billion in damages and resulting in thousands of deaths. Many insurance companies faced significant losses as a result of the hurricane, leading to a re-evaluation of risk transfer mechanisms in the insurance industry.

QUESTION

Describe in detail, the role of catastrophe bonds in transferring risk associated with natural disasters such as Hurricane Katrina.

(40 marks)

QUESTION 4

SCENARIO

ACME Corporation is a large multinational company with operations in several countries. They have a diverse portfolio of products and services and are exposed to a wide range of risks, including market risk, credit risk, operational risk, and political risk. As part of their risk management strategy, ACME Corporation has decided to explore alternative risk transfer mechanisms to manage their risk exposure.

QUESTION

Evaluate the different unfunded and funded risk financing mechanisms that ACME Corporation could use to manage their risk exposure and discuss the advantages and disadvantages of each mechanism.

(40 marks)
