

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

B.COMM INSURANCE AND RISK MANAGEMENT

APPLIED RISK MANAGEMENT (CIN 2107)

DECEMBER 2005 FIRST SEMESTER EXAMINATION

DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all questions in SECTION A.
2. Answer one (1) question ONLY from SECTION B.
3. Answer two (2) questions ONLY from SECTION C.
4. Write clearly and legibly.

SECTION A

The following are TRUE/FALSE statements. On your answer sheet write against the question number “TRUE” in full if the statement is TRUE and write “FALSE” in full if the statement is FALSE.

QUESTION 1

- (a) Market risk is attributable to the primary market in which an instrument is active. [1 mark]
- (b) A risk manager is responsible for managing all risks that an organization is exposed to. [1 mark]
- (c) A risk management manual shows who is responsible for specific risks. [1 mark]
- (d) Fault tree analysis is an example of a risk measurement method. [1 mark]
- (e) EVR Congruence model is a model for risk management programme. [1 mark]
- (f) ARF is similar to ART. [1 mark]
- (g) Risk avoidance is a risk control strategy. [1 mark]

- (h) Securitisation is an example of ARF. [1 mark]
- (i) Options are used to hedge portfolios. [1 mark]
- (j) Finite risk solutions is an alternative risk transfer method. [1 mark]

SHORT ANSWER QUESTIONS – GIVE SHORT ANSWER QUESTIONS

- (k) Give an example of a dynamic risk and explain why you say that risk type is a dynamic type risk. [2 marks]
- (l) State two principles of risk management. [2 marks]
- (m) State two goals of risk management. [2 marks]
- (n) State two costs associated with risk management. [2 mark]
- (o) Briefly explain one objective of state involvement in risk management. [3marks]
- (p) Explain what a contingent loan is? [4 marks]

SECTION B

QUESTION 2

Advise a banking corporation on five alternative risk transfer methods that could be used in the management of its particular risk exposures. **[25 marks]**

QUESTION 3

(a) Explain how the following are used in identifying organizational risk exposures.

- (i) Fault tree analysis **[2 marks]**
- (ii) Checklists **[2 marks]**
- (iii) Independent audit **[2 marks]**
- (iv) Financial records **[2 marks]**
- (v) Risk survey **[2 marks]**

(b) Give one advantage and two disadvantages of using each of the above noted methods.

[15 marks]

SECTION C

QUESTION 4

You have been approached by a multinational corporation that is faced with the dilemma of choosing between risk retention and risk transfer. Compile a paper detailing how the multinational corporation should decide on the suitability of each option for the various risk exposures that the organization is faced with. **[25 marks]**

QUESTION 5

Evaluate the extent to which a captive insurance company could assist a Multinational Corporation in managing its risk exposures. **[25 marks]**

QUESTION 6

The rising cost of insurance has forced the Board of Directors of the mining company you work for to assign you as the Risk Manager to devise a way of reducing the cost of insurance without unduly exposing the company. Advise the Board of Directors accordingly.

[25 marks]

QUESTION 7

Reinsurance has become a popular risk transfer mechanism. Explain how short-term insurance companies can utilize this mechanism to manage risks that they are exposed to.

[25 marks]

END OF EXAMINATION