

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

B. COMM (HONOUR) INSURANCE AND RISK MANAGEMENT

ADVANCED CORPORATE RISK MANAGEMENT – CIN 4005

APRIL/MAY 2003 EXAMINATION

Instructions to Candidates

1. Answer 1 (one) question from Section A and 4 (four) questions from Section B.
 2. Each question carries 20 marks.
-

SECTION A

Question 1

As a risk manager of a major public company you are attempting to raise awareness to management concerning the cost to the company of losses.

- (a) Discuss the true cost of risk to society. **[8 marks]**
- (b) Prepare a briefing to the board on the subject of the cost of risk to your company and in particular the relationship between those aspects which can be insured and the overall cost. **[12 marks]**

Question 2

- (a) Define Forward Contracts and futures contracts. **[4 marks]**
- (b) Define Options (both a put and a call) **[4 marks]**
- (c) Explain the major applications of financial derivatives in the management of risk. **[12 marks]**

SECTION B

Question 3

You are the risk manager of a major financial services firm which is expanding rapidly through mergers, acquisitions and/or joint ventures. Explain the main issues to be considered from a risk perspective.

[20 marks]

Question 4

You have been asked by your board to submit a case to the board for the appointment of a risk manager. Your company currently employs a health and safety advisor with insurance being negotiated by the finance director.

Prepare a report for the board:

- (a) Outlining the case for the appointment of a risk manager. **[8 marks]**
- (b) Outlining the role of the risk manager. **[6 marks]**
- (c) Outlining the role of the risk manager in relation to the safety adviser. **[6 marks]**

Question 5

- (a) Discuss the main pre and post loss objectives and their relation with shareholder value. **[10 marks]**
- (b) What sources of post-loss finance are available. Explain. **[10 marks]**

Question 6

Explain the following risk financing mechanisms and comment on particular advantages and disadvantages associated with each:-

- (i) Single Parent Captive **[8 marks]**
- (ii) Mutual pools **[4 marks]**
- (iii) Protected cell captive **[4 marks]**
- (iv) Open-Market Captive **[4 marks]**

Question 7

- (a) Outline the objectives for corporate risk management. **[6 marks]**
- (b) Compare and contrast the corporate goals Value Maximisation and Profitability. **[6 marks]**

- (c) Define:-
 - (i) Operational risk **[2 marks]**
 - (ii) Legal risk **[2 marks]**
 - (iii) Financial risk **[2 marks]**
 - (iv) Business/strategic risk **[2 marks]**

Question 8

(a) Explain the following terms:-

- (i) Probability of ruin [3 marks]
- (ii) Systematic risk [3 marks]
- (iii) Unsystematic risk [3 marks]
- (iv) Risk premium [3 marks]

(b) Describe characteristics of the efficient frontier and explain why investment portfolios on this frontier are superior to all other available portfolio. [8 marks]

Question 9

Flammable liquids are to be introduced into your workplace in significant quantities.

Explain how you would protect the workplace and occupants against potential risks.

[20 marks]

END OF EXAMINATION