

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF INSURANCE AND ACTUARIAL SCIENCE

FINANCIAL RISK MANAGEMENT

[CIN 4205]

FINAL EXAMINATION

MAY 2012

TIME : 3 HOURS

**INSTRUCTIONS TO CANDIDATES**

- In this examination paper you are required to answer four questions. There are six questions all together and you are required to choose four.
- All the questions carry equal marks of 25.
- You can answer the questions in any order and would not be penalised.

**Question one [25 MARKS]**

Discuss the strengths and weaknesses of “qualitative and quantitative risk assessment methods” in a financial market environment. [25 marks]

**Question two [25 MARKS]**

- (i) Explain what you understand by the term cost of risk [7marks]
- (ii) Explain the determinants of insurers’ costs [7marks]
- (iii) Using appropriate examples, where possible, explain how risks can be transferred from banks to institutional investors [11 marks]

**Question three [25 MARKS]**

- (i) Discuss the significance of the relationship between corporate objectives and financial risk management. [7 marks]
- (ii) Discuss what you understand by corporate strategic risk. [10 marks]

- (iii) Explain the significance of social climate for financial firms operating in Zimbabwe. [8marks]

**Question four [25 MARKS]**

- (a) Discuss the strengths and weaknesses of credit swaps as an instrument in financial risk management. [8 marks]
- (b) Compare and contrast swaps and options. [10 marks]
- (c) Explain the significance of information asymmetry and market domination as sources of market failure in a financial market. [7 marks]

**Question five [25 MARKS]**

Identify and discuss at least five critical factors that you have to take into account when underwriting asset backed bonds. [25 marks]

**Question six [25 MARKS]**

- (i) Identify and explain five key factors that have led to a demand and growth of the “alternative risk transfer markets.” [9 marks]
- (ii) “The two broad segments in alternative risk transfer markets are risk transfer through alternative carriers and risk transfer through alternative products.” Using appropriate examples, where possible, explain how a reinsurance firm may take advantage of the two segments referred to in the statement to enhance corporate value. [16 marks]

End of the examination questions