

# Advanced risk financing and transfer

## Purpose

At the end of this unit, candidates should be able to understand the role that risk financing and risk transfer play in risk management.

## Target Candidate

Insurance, broking and risk staff who wish to understand the range of options an organisation may have in dealing with the financing of risk.

## Assumed Knowledge

It is assumed that the candidate already has grounding in insurance gained from study of IF1 Insurance, legal and regulatory and M92 Insurance business and finance or equivalent examinations.

### Summary of learning outcomes

1. Evaluate the role that risk financing and risk transfer play in risk management.
2. Evaluate the use of unfunded risk financing mechanisms.
3. Evaluate the use of funded risk financing mechanisms.
4. Evaluate the use of conventional pre-loss risk transfer mechanisms.
5. Evaluate the use of non-conventional pre-loss risk transfer mechanisms.
6. Evaluate the use of post-loss risk transfer mechanisms.

## Important notes

- **Method of assessment:** Coursework – 3 online assignments (80 marks). Each assignment must be individually passed.
- The syllabus is examined on English law and practice unless otherwise stated.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit [www.cii.co.uk/updates](http://www.cii.co.uk/updates)
  2. Select the appropriate qualification
  3. Select your unit on the right hand side of the page

## **1. Evaluate the role that risk financing and risk transfer play in risk management**

- 1.1 Evaluate the differences between risk financing and risk transfer within the risk management process.
- 1.2 Discuss the development of alternative risk transfer and the drivers for alternative risk transfer.
- 1.3 Discuss the role of the risk manager and other key staff in designing and implementing risk financing and risk transfer strategies.
- 1.4 Explain the range of risk financing and risk transfer mechanisms that are available.
- 1.5 Discuss the impact of risk appetite on risk financing and risk transfer strategies.

## **2. Evaluate the use of unfunded risk financing mechanisms**

- 2.1 Discuss the use of cash flow and unallocated reserves to finance losses.
- 2.2 Discuss the use of deductibles and self-insurance programmes to finance retained risk.
- 2.3 Evaluate the advantages and disadvantages of unfunded risk finance.
- 2.4 Discuss the legal and fiscal implications of unfunded risk finance mechanisms.

## **3. Evaluate the use of funded risk financing mechanisms**

- 3.1 Discuss the use of allocated reserves, captives, mutual funds and debt as mechanisms to fund losses.
- 3.2 Evaluate the advantages and disadvantages of allocated reserves, captives, mutual funds and debt as mechanisms to fund losses.
- 3.3 Discuss the legal and fiscal implications of funded risk finance mechanisms.

## **4. Evaluate the use of conventional pre-loss risk transfer mechanisms**

- 4.1 Discuss the role of conventional pre-loss risk transfer mechanisms.
- 4.2 Discuss the range of conventional pre-loss risk transfer mechanisms available.
- 4.3 Evaluate the advantages and disadvantages of conventional pre-loss risk transfer mechanisms.
- 4.4 Discuss the legal and fiscal implications of conventional pre-loss risk transfer mechanisms.

## **5. Evaluate the use of non-conventional pre-loss risk transfer mechanisms**

- 5.1 Discuss the role of non-conventional pre-loss risk transfer mechanisms.
- 5.2 Discuss the range of non-conventional pre-loss risk transfer mechanisms.
- 5.3 Evaluate the advantages and disadvantages of non-conventional pre-loss risk transfer mechanisms.
- 5.4 Discuss the legal and fiscal implications of non-conventional pre-loss risk transfer mechanisms including the systemic implication of the use of derivatives.

## **6. Evaluate the use of post-loss risk transfer mechanisms**

- 6.1 Discuss the role of post-loss risk transfer mechanisms.
- 6.2 Discuss the use of equity placings and rights issues as risk transfer mechanisms.
- 6.3 Discuss the use of retro finite insurance and reinsurance as a risk transfer mechanism.
- 6.4 Evaluate the advantages and disadvantages of post-loss risk transfer mechanisms.

## Reading list

The following list provides details of various publications which may assist you with your studies.

**Note: The examination will test the syllabus alone. However, it is important to read additional sources as 10% of the exam mark is allocated for evidence of further reading and the use of relevant examples.**

The reading list is provided for guidance only and is not in itself the subject of the examination.

The publications will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

## CII study texts

Advanced risk financing and transfer. London: CII. Study text 997.

Insurance business and finance. London: CII. Study text M92.

Insurance, legal and regulatory. London: CII. Study text IF1.

## eBooks

The following ebooks are available through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only):

Alternative alternatives: risk returns and investment strategy. Sona Blessing. Chichester: Wiley-Blackwell, 2011.

Capital structure and corporate financing decisions: theory, evidence and practice. H. Kent Baker, Gerald S. Martin. Hoboken: Wiley, 2011.

Capital structure decisions: evaluating risk and uncertainty. Yamini Agarwal. Singapore: Wiley, 2013.

Investing in insurance risk: insurance-linked securities: a practitioner's perspective. Alex Krutov. London: Risk Books, 2010.

Natural catastrophes: risk financing and insurance issues. Oliver H. Rohde. Hauppauge, New York: Nova Science Publishers, Inc., 2013.

Risk analysis in finance and insurance. 2nd ed. A V Melnikov. Boca Raton, Florida: CRC Press, 2011.

Risk management: how to assess, transfer and communicate critical risks. Antonio Borghesi, Barbara Gaudenzi. Milan: Springer, 2013.

The handbook of insurance-linked securities. Pauline Barrieu, Luca Albertini. Chichester: Wiley, 2009.

'Trustworthy transfer; probable pooling. Financing insurance risks' Chapter - Acts of God and man: ruminations on risk and insurance. Michael Powers. NY: Columbia University Press, 2012.

## Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via [www.cii.co.uk/ciifactfiles](http://www.cii.co.uk/ciifactfiles) (CII/PFS members only).

- Alternative risk transfer (ART). Alan Punter.
- Insurance-linked securities (ILS). Alan Punter.
- Risk control. Ian Searle.
- Risk transfer. Ian Searle.

A guide to captives. Federation of European Risk Management Associations (FERMA). Available online via [www.ferma.eu](http://www.ferma.eu).

Artemis - website providing general news on alternative risk intelligence, insurance risk securities and reinsurance capital and investment. Available at [www.artemis.bn](http://www.artemis.bn).

Captives 101: managing cost and risk. Towers Watson. Available online via [www.towerswatson.com](http://www.towerswatson.com).

Captive benchmarking report 2016: creating security in an uncertain world. Marsh. Available online via [www.marsh.com](http://www.marsh.com).

Mutual insurance in the 21st century: back to the future? Sigma no. 4/2016, Swiss Re. Available online via [www.swissre.com](http://www.swissre.com).

The fundamentals of insurance-linked securities. Expertise Publication by Swiss Re. 2011. Available online via [www.swissre.com](http://www.swissre.com).

## Journals and magazines

Post magazine. London: Incisive Financial Publishing. Monthly. Also available online at [www.postonline.co.uk](http://www.postonline.co.uk).

Strategic risk. London: Newsquest Specialist Media. Eight issues a year.

The Journal. London: CII. Six issues a year. Also available online via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/PFS members only).

Further periodical publications are available at [www.cii.co.uk/journalmagazines](http://www.cii.co.uk/journalmagazines) (CII/PFS members only).

## Reference materials

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.\*

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.\*

\*Also available as an ebook through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only).

## Specimen guides

Specimen guides are available for all coursework units.

These are available on the CII website under the unit number before purchasing the unit. They are available under the following link [www.cii.co.uk/qualifications/advanced-diploma-in-insurance-qualification](http://www.cii.co.uk/qualifications/advanced-diploma-in-insurance-qualification).

These specimen guides are also available on the RevisionMate website [www.revisionmate.com](http://www.revisionmate.com) after you have purchased the unit.

## **Exam technique/study skills**

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/iilrevision](http://www.cii.co.uk/iilrevision) (CII/PFS members only).