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APPROVED

Qualifying *Certified ILS specialist (Cert ILS)* exam questions

The exam comprising **50 multiple-choice** questions over a maximum of **150 minutes** (2,5 hours) limit. Please note, that some questions require more than one correct answer to be credited (partial correct answer is not counted). To qualify, you need to answer **35+ questions** correctly (70% ratio).

1. Which form of collateral is used within ILS transactions? **TWO** correct answers.

   - ☐ Bank guarantee
   - ☐ Standby Letter of Credit
   - ☐ Collateral Trust Account
   - ☐ Deposit of funds directly into the sponsor's (issuer's) account

2. Which of the following investments would be most typical for an ILS-related collateral trust fund?

   - ☐ ETFs
   - ☐ Stock of insurance or reinsurance companies
   - ☐ Pre-agreed equities
   - ☐ U.S. Treasuries

3. Which sovereign insurance pool ever sponsored a catastrophe bond?

   - ☐ SEADRIF Insurance Company
   - ☐ African Risk Capacity (ARC)
   - ☐ Pacific Catastrophe Risk Insurance Company (PCRIC)
   - ☐ The Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC)

4. Which organisation is credited with the first-ever sponsorship (issuance) of a catastrophe bond?

   - ☐ Swiss Re
   - ☐ Hannover Re
   - ☐ USAA
   - ☐ California Earthquake Authority (CEA)

5. Which multilateral organisation was behind sovereign catastrophe bonds issued to date?

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- ☐ International Bank for Reconstruction and Development (IBRD)
- ☐ UN Office for Disaster Risk Reduction (UNDRR)
- ☐ Multilateral Investment Guarantee Agency (MIGA)
- ☐ Asian Development Bank (ADB)

6. Which of the following thoughts investors are considering mostly, when allocating to ILS products? **TWO** correct answers.

   - ☐ Because they understand the mechanics of the reinsurance market
   - ☐ Because ILS are mostly ESG-compliant instruments
   - ☐ Diversification from financial market risks
   - ☐ Cushions against inflation risk

7. What events ignited the ILS market development? **TWO** correct answers.

   - ☐ Hurricane Gilbert, which at the time was the second most intense on record
   - ☐ Hurricane Andrew hit Florida
   - ☐ Northridge earthquake in Greater Los Angeles, California
   - ☐ 2008 financial crisis

8. Why might a sponsor use different tranches in a catastrophe bond transaction?

   - ☐ Because they can use various ILS types in a single transaction
   - ☐ It is a cheaper way to structure a catastrophe bond
   - ☐ To place different peril/territory combinations in one transaction
   - ☐ Using a hybrid trigger type with a tranche is a good way to hedge interest rate risk

9. Which “slice” does **NOT** belong to the multi-layered approach in sovereign disaster risk management?

   - ☐ Borrowing money on the international capital markets
   - ☐ Budget reallocation in case of a low-severity but high-frequency catastrophe events
   - ☐ Disaster risk transfer instruments, e.g. catastrophe bonds, parametric insurance schemes, etc.
   - ☐ Contingent credit lines, e.g. the World Bank DDO or similar arrangements

10. Which EU-regulated funds have the best sustainable investment flows opportunity under SFDR disclosure requirements?

    - ☐ Complying with Article 9

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- ☐ There is no difference in the fund's SFDR pillow, and investments are considered using other metrics
- ☐ Complying with Article 8
- ☐ Complying with Article 6

11. Which regulatory authorities are running an ILS grant scheme? **TWO** correct answers.

- ☐ Guernsey Financial Services Commission
- ☐ Cayman Islands Monetary Authority
- ☐ Monetary Authority of Singapore
- ☐ Hong Kong Insurance Authority

12. What does ESG stand for?

- ☐ Environmental, Social and Corporate Governance
- ☐ ESG is a government risk pool
- ☐ Environmental, Socioeconomic, and Corporate Governance
- ☐ Economic, Socioeconomic, and Corporate Governance

13. What does the catastrophe bonds market yield consist of?

- ☐ Collateral Yield (+) Insurance Risk Spread (-) Expected Loss
- ☐ Collateral Yield (+) Insurance Risk Spread
- ☐ Insurance Risk Spread (-) Expected Loss
- ☐ Collateral Yield (+) Insurance Risk Spread (+) Expected Loss

14. What would be a disadvantage of sponsoring a single peril, single territory cat bond? **TWO** correct answers.

- ☐ Higher coupon due to the bond's lack of diversification
- ☐ A smaller number of investors are looking for such products
- ☐ Higher structuring costs
- ☐ Higher susceptibility to pricing cycles

15. What does *collateralisation* mean?

- ☐ The sponsor must put enough capital aside to cover the full liabilities limit
- ☐ Capital contributed by investors is set aside with a third party to cover the insured loss(es)
- ☐ Insurance risk is pooled into one financial security and sold to investors

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- ☐ A collateralised instrument pays out when industry losses surpass a certain threshold

16. What is **NOT** in the rationale used by (re-)insurers when considering the ILS market? **TWO** correct answers.

- ☐ Access to a wider equity investment base
- ☐ Finding a new strategic reinsurance partner
- ☐ Removal of counterparty credit risk
- ☐ Lowering capital charges

17. For how many contracts can an SPV be used for?

- ☐ Multiple
- ☐ Annual with automatic renewals
- ☐ Three
- ☐ One

18. Which jurisdiction handles most catastrophe bond-related transactions?

- ☐ Luxembourg
- ☐ Bermuda
- ☐ Hong Kong
- ☐ Cayman Islands

19. Which triggers are most common for an Industry Loss Warranty (ILW) transaction?

- ☐ Modelled loss
- ☐ Parametric
- ☐ Indemnity
- ☐ Industry Index

20. What is the difference between *Ex-ante* and *Ex-post* sovereign disaster risk management?

- ☐ *Ex-ante* refers to actions taken after an event, and *Ex-post* refers to actions taken before the event
- ☐ *Ex-post* refers to receipt of payment, and *Ex-ante* means that no triggering event has happened
- ☐ *Ex-ante* refers to actions taken before an event, and *Ex-post* refers to actions taken after the event

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- ☐ Both definitions are the jargon for risk transfer instruments

21. What is basis risk in ILS transactions?

- ☐ The difference between a portfolio's expected and incurred losses
- ☐ The risk that a cedant will have difficulties in reinsurance recoveries
- ☐ Trapped collateral delays
- ☐ The difference between economic and insured losses

22. Why would an ILS Fund manager develop proprietary modelling rather than just use a market-wide one?

- ☐ It provides end investors with more confidence in investing through this manager
- ☐ This is a regulatory burden
- ☐ They want to develop a product based on their experience and scale it up for the market
- ☐ It gives a more precise understanding of the perils and probabilities

23. Which ocean relates to the "Ring of Fire"?

- ☐ Arctic
- ☐ Atlantic
- ☐ Indian
- ☐ Pacific

24. What does a Special Purpose Insurer (SPI) or Protected Cell Company (PCC) mean?

- ☐ This is an insurer licensed to write only particular lines of business
- ☐ This is a “transformer” that sets up and manages segregated cells
- ☐ This is a subsidiary company of a large insurance group
- ☐ This is a company licensed to perform only one deal

25. Which of the following is **NOT** part of the Insurance-Linked Securities (ILS) asset class?

- ☐ An indemnity-based catastrophe bond
- ☐ Excess of Loss (XoL) ceded reinsurance contract
- ☐ A sidecar quota-share reinsurance contract
- ☐ Industry Loss Warranty (ILW) contract

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26. Why would an indemnity catastrophe bond carry a higher coupon than an industry loss-triggered one if they are the same in all parameters?

   - ☐ If bonds are identical, they will have the same coupon rate
   - ☐ The chances of collateral being trapped are higher with indemnity bonds, so investors would want an additional risk premium
   - ☐ The indemnity bond is more likely to trigger than the industry loss-triggered one
   - ☐ Indemnity bonds are more expensive to structure

27. What is the typical number of reinstatements used by ILS instruments?

   - ☐ None
   - ☐ Two
   - ☐ One at a 100% premium
   - ☐ Unlimited

28. What would be the main reason for a large institutional investor (e.g., a pension fund) to allocate to the ILS space, even as catastrophe bond spreads tighten and the reinsurance market softens?

   - ☐ For intra-class portfolio diversification
   - ☐ For hedging purposes
   - ☐ For ESG compliance reasons
   - ☐ Because they seek higher-yielding investments

29. What will be a loss to the index catastrophe bond with attachment point of USD 100bn. and exhaustion point of USD 120bn. Industry loss: USD 300bn.

   - ☐ 5%
   - ☐ 10%
   - ☐ 20%
   - ☐ NO LOSS

30. Which of the following is a secondary peril considered by the ILS market?

   - ☐ Earthquake
   - ☐ European winter storm
   - ☐ A large flood
   - ☐ Tropical Cyclone

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31. Why are collective investment schemes managers, e.g., UCITS, not investing in Industry Loss Warranties (ILWs) despite their potentially more attractive returns than catastrophe bonds?

- ☐ Because the ILW market is very limited and has a weak secondary market
- ☐ Because they consider it riskier than catastrophe bonds
- ☐ Because they do not have enough in-house expertise in catastrophe reinsurance
- ☐ Because they cannot afford a period of illiquidity attached to an ILW contract

32. What does it mean if a bond is traded over the counter (OTC)?

- ☐ The bond is eligible for trading only by institutional investors
- ☐ This is a general definition of the secondary market for securities
- ☐ Over the counter (OTC) refers to the process by which securities are traded through an exchange
- ☐ Over the counter (OTC) trading means that securities are traded through a broker-dealer network, rather than through an exchange

33. Which tranche is the MOST risk-remote when sponsoring or investing in a catastrophe bond?

- ☐ Mezzanine tranche
- ☐ Junior tranche
- ☐ All tranches have the same risk characteristics, with differences in tenor
- ☐ Senior tranche

34. What does "cat-in-a-box" mean?

- ☐ This is the name of an earthquake-triggered cat bond
- ☐ This is your cat being put into a paper box
- ☐ It is a lending protocol that self-stabilises by incentivising the conversion of users' unhealthy loans into buying pressure for the borrowable asset
- ☐ An event meeting the specified criteria is tied to the grid, so when a particular ‘box’ is hit, the bond is triggered

35. What is a *“transformer”* in ILS transactions?

- ☐ A segregated cell under regulated insurer management, allowing the investor access to reinsurance activities
- ☐ Another name for a broker involved in the transaction
- ☐ A fronting reinsurer

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- ☐ A third party holding collateral funds for an ILS transaction

36. What is the most common trigger type used in catastrophe bonds, which are currently on the market?

- ☐ Parametric
- ☐ Industry Index
- ☐ Indemnity
- ☐ Industry loss

37. Which trigger type has the lowest basis risk?

- ☐ Industry Index
- ☐ Indemnity
- ☐ Parametric
- ☐ Modelled loss

38. For which type of ILS does the active secondary market exist?

- ☐ Catastrophe bonds
- ☐ Collateralised retrocession contracts
- ☐ Industry Loss Warranties (ILWs)
- ☐ Sidecars

39. What are the names of frameworks regulating catastrophe insurance capital charge rules in Europe & the U.S.?

- ☐ Basel IV & TCFD
- ☐ IFRS & US GAAP
- ☐ Solvency II & Risk-Based Capital
- ☐ ECB & US Federal Reserve System rules

40. What is typically the strongest argument for a sovereign government in a developing country considering sponsorship of a catastrophe bond?

- ☐ No sponsor obligation to repay any amount received in case of the bond default
- ☐ Guaranteed access to funds for recovery, up to the size of issuance.
- ☐ Budget planning certainty
- ☐ Diversified source of funding to cope with the impact of natural catastrophes

41. What is the most used tenor for the catastrophe bond?

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- ☐ 2-years
- ☐ Annual with automatic renewals
- ☐ 3-years
- ☐ 5-years

42. What does the US Securities Exchange Commission (SEC) Rule 144A refer to?

- ☐ It covers public, unregistered resales of restricted and controlled securities within certain limits
- ☐ It modifies restrictions for the purchase and sale of privately placed securities among qualified institutional buyers without the need for SEC registration
- ☐ It sets up principles of securitisation
- ☐ It obliges the sponsor (issuer) to keep collateral at a trust account

43. Which company pioneered convergence between catastrophe and green bonds in partnership with a development bank?

- ☐ Generali
- ☐ SCOR
- ☐ Swiss Re
- ☐ Hannover Re

44. Why would a small or weak-rated newcoming catastrophe bond sponsor consider a Private ILS deal being umbrellaed by the large existing market player?

- ☐ Because they lack enough experience
- ☐ Because they have such a large player on their reinsurers panel
- ☐ Because the newcomer's initial bond pricing (spread) may be higher than that of an established serial sponsor
- ☐ Because it is cheaper for them in terms of structuring costs

45. What information about Private ILS deals is publicly unavailable? **TWO** correct answers.

- ☐ Size
- ☐ Trigger type
- ☐ Perils covered
- ☐ Risk modeller

46. Which of the following statements best defines *securitisation*?

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- ☐ The process of removing individual assets from a pool and selling them to investors individually
- ☐ When capital is set aside to cover 100% of potential insured losses
- ☐ The process of slicing risk into layers, each with a different risk profile
- ☐ The procedure of creating a marketable financial instrument by merging or pooling various financial assets into one group

47. What are the current appealing new avenues for ILS product development? **TWO** correct answers.

- ☐ Cyber
- ☐ Motor
- ☐ Marine
- ☐ Casualty

48. Which of the following best defines the Protection Gap?

- ☐ The amount a government pays to rebuild critical infrastructure after a natural disaster
- ☐ The difference between incurred losses and the amount paid by an insurance policy.
- ☐ The difference between economic and insured losses
- ☐ The total economic damage is divided by the population

49. What is a disadvantage of Sovereign Disaster Risk Transfer?

- ☐ Allows the insured party to set the amount of premium, which it is willing to pay
- ☐ Entails a trade-off between the cost of premiums and the frequency or scale of payouts
- ☐ Makes greater predictability and reduces volatility of expenditures
- ☐ Supports fiscal discipline

50. What was the first government to issue (sponsor) a sovereign catastrophe bond?

- ☐ Mexico
- ☐ Jamaica
- ☐ Chile
- ☐ Japan