Risk and Insurance Studies Centre

Team

05.

Alternative Risk Solutions

What are some of the non-traditional solutions to managing risk for CIBC?

As risks grow complex, Alternative Risk Transfer (ART) solutions are essential for flexible, tailored risk management.



The project examines three Alternative Risk Transfer (ART) solutions: captives, Insurance-Linked Securities (ILS), and parametric insurance. Climate-related risks such as loss from a high magnitude earthquake can be properly modeled by using parametric insurance. Similarly, cyber bonds, which fall under ILS, can protect companies from cyber threats such as large scale data breaches. The risks discussed cannot properly be insured by traditional reinsurance which is where ART solutions come to use.

Methodology

Step 1: Analysis and Modeling

- Defined Alternative Risk Transfer (ART) and provided an overview of captives, parametric insurance, and Insurance-Linked Securities (ILS), including literature review on Canadian market regulations.

Step 2: Case Studies Review

Step 3: Cost and Benefit Analysis

A collaborative project with:

UNIVERSITY OF TORONTO

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Insights

- **Captive insurance offers long-term control over risks** like cyber events, fraud, and catastrophes, despite high upfront costs.
- Insurance-Linked Securities (ILS) transfer risk to capital markets with low counterparty risk, though they are complex and expensive to structure.
- Parametric insurance is most useful when dealing with catastrophic events and give a payout when a certain threshold is crossed and utilizes triggers, indexes and relies on large amounts of data. Factors like the claims processing time, administrative costs, modelling are the main costs associated.

Recommendations

Ultimately, considering cost, long-term impact, and benefits, **Captive Insurance could be the best option for CIBC**, as it offers the strongest long-term ROI among ART solutions.



Limitations

Research was primarily based on secondary data from industry reports, regulatory publications, and market analyses since there was a lack of internal data. Limited access to Canadian-specific case studies for captives and ILS also hindered direct comparisons.

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