

KABARAK



UNIVERSITY

**UNIVERSITY EXAMINATIONS
2010/2011 ACADEMIC YEAR**

FOR THE DEGREE OF BACHELOR OF EDUCATION SCIENCE

COURSE CODE: BMGT 211

**COURSE TITLE: INTRODUCTION TO RISK AND
INSURANCE**

STREAM: Y2S1

DAY: FRIDAY

TIME: 9.00 – 11.00 A.M

DATE: 26/11/2010

INSTRUCTIONS:

- i.** The paper contains **SIX** questions
- ii.** Answer **ANY FOUR** the questions
- iii.** All the questions carry **EQUAL** marks
- iv.** Marks are allocated at the end of each question

PLEASE TURNOVER

QUESTION ONE:

- a) Although there are many types of insurance policies and insurance companies, insurance is subject to some basic principles

State and briefly explain seven basic principles of insurance **(14Marks)**

- b) In determining the appropriate method or methods, a matrix can be used that classifies the various loss exposures according to frequency and severity. The following matrix can be a useful guide to the risk manager.

Type of loss exposure	Loss frequency	Loss severity
1	Low	Low
2	High	Low
3	Low	High
4	High	High

Required

Giving a reason and an example, explain how each loss exposure can be handled (method of handling risk). **(11Marks)**

QUESTION TWO:

- a) Define risk management. How does risk management differ from insurance management? **(5 Marks)**
- b) Kamau’s car is involved in a road accident with that of Kipngetich. Kamau’s car is extensively damaged and the police abstract blames Kipngetich for the accident. Kamau’s insurer settles the claim to him at Kshs. 500,000. Subsequently Kamau sues Kipngetich and the court awards him Kshs. 700,000 for the total damage to his car. Kamau’s insurer on learning of this seeks to recover from him. Stating your reasons, advise Kamau on whether he should comply with the insurer’s demand, if so how much should be refunded. **(10 Marks)**
- c) John wants to effect insurance cover but has not seen a policy document before. He has approached you to advise him on the main components of the policy document. Advise him appropriately. **(10 marks)**

QUESTION THREE:

- a) The owner of Tumbo bar in Molo was shocked to learn from her insurance agent that the insurer had declined to indemnify the heavy losses she suffered following the post election violence. The agent told her that the nature of the cause of loss had not been covered under the policy she had purchased. She is seeking your professional advice on the prerequisites of risks that can be insured. **(5mks)**
- b) “Insurance is premised on the doctrine of indemnity, however there are circumstances where an insurer may pay more than indemnity.” Discuss **(10 marks)**

- c) Briefly discuss the facts that need not be disclosed when proposing for insurance cover. **(10 marks)**

QUESTION FOUR:

- a) A policy may stipulate that losses are to be reimbursed only in excess of a stated threshold amount, called a *deductible*. For example, consider insurance that covers a loss resulting from an accident but includes a 500 deductible. If the loss is less than 500, the insurer will not pay anything to the policyholder. On the other hand, if the loss is more than 500, the insurer will pay for the loss in excess of the deductible. In other words, if the loss is 2000, the insurer will pay 1500.

Required

- i. Explain the three reasons for deductibles
 - ii. Explain four problems associated with deductibles **(8 marks)**
- b) Explain how pure risks that exist for individuals and business firms can be classified under the following headings:
- i. Personal risks **(3 marks)**
 - ii. Property risks **(3 marks)**
 - iii. Liability risks **(3 marks)**
 - iv. Risks arising from others **(3 marks)**
- c) List and briefly explain any two drawbacks associated with whole life assurance **(4 marks)**

QUESTION FIVE:

- a) Discuss the three main classifications of 'hazards' **(5 marks)**
- b) Peter Kamau has been appointed the head of risk management at M4 Manufacturing Company Ltd. among his first assignment is to prepare a risk management policy statement.

Required

- i. Explain the benefits that M4 Manufacturing Company Ltd. would derive from a well-prepared risk management policy statement. **(8 marks)**
- ii. Explain the techniques that Peter Kamau would use to identify the company's pure loss exposures. **(8 marks)**
- iii. State the merits and demerits of using commercial insurance in a company's risk management program. **(7 marks)**

QUESTION SIX:

- a) When risk management approaches are being used, they are often simplistic and users have little confidence in the result of their risk analysis.

Discuss the any five factors that contribute to the low usage of risk management methods in practice. **(5Marks)**

- b) There are five fundamental factors that influence the risk premium of insurance.

Required

- i. What is a captive insurance company? **(1Mark)**
- ii. Distinguish between pure captives and open market captives **(4Marks)**
- iii. What are the advantages of forming a multi parent captive? **(15Marks)**