

KABARAK



UNIVERSITY

UNIVERSITY EXAMINATION

2009/2010 ACADEMIC YEAR

**FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT AND INFORMATION TECHNOLOGY**

COURSE CODE: BMGT 211

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

STREAM: Y2S1

DAY: SATURDAY

TIME: 9:00 – 11:00 A.M.

DATE: 10/04/2010

INSTRUCTIONS:

- (i) This paper contains SIX questions
- (ii) Answer ANY FOUR questions
- (iii) All the questions carry equal marks
- (iv) Marks are allocated at the end of each question.
- (v) All Workings Leading to Answers MUST be clearly shown
- (vi) Any irregularity will be punished severely

PLEASE TURNOVER

QUESTION 1

- a) Define risk management. How does risk management differ from insurance management? (10 marks)
- b) Explain the Objective of a risk management program both before and after a loss. (15 marks)

[Total:25 marks]

QUESTION 2

- a) Although no risk completely meets all the ideal requirements of an insurance risk, some risks come much closer to meeting them than others. Briefly list and explain the ideal requirement of an insurable risk. (13 marks)
- b) In determining the appropriate method of 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:

Give a reason and an example; explain how each loss exposure can be handled (methods of handling risk). (12 marks)

[Total: 25 marks]

QUESTION 3

- (a) To ensure that corporate risk management strategies are consistent with the overall goals of the corporation, risk management is required to formulate risk management policy for an organization.

Required:

Identify the duties and responsibilities of a risk manager. (9 marks)

- (b) There are many techniques for carrying out risk identification in order to ascertain the risk to which a firm is exposed.

Required:

List and explain four such techniques. (16 marks)

[Total: 25 marks]

QUESTION 4

- a) List and briefly explain **any two** principles of insurance. (6 marks)
- b) List and explain **four** major prerequisites of insurability which represent ideal elements of insurable risk. (8 marks)
- c) 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 factors that contribute to the low usage of risk management methods in practice. (11 marks)

[Total: 25 marks]

QUESTION 5

- a) Explain the following classifications of pure risks that exist for individuals and business firms.
 - (i) Personal risk. (4 marks)
 - (ii) Property risks. (4 marks)
 - (iii) Liability risks. (4 marks)
 - (iv) Risks arising from others. (4 marks)
- b) List any two drawbacks associated with whole life assurance. (4 marks)
- c) State three reasons why it is important to classify insurances or assurances. (5 marks)

[Total: 25 marks]

QUESTION 6

- a) Many businesses have policy statement promulgated by top management, which define the risk management objectives and the duties and responsibilities of the risk manager for their organization. Professors Dawin close and John O'connell have identified five advantages and various desirable characteristics of such a policy.

Required:

- (i) Explain any **five** advantages of such a policy statement. (5 marks)
- (ii) Explain any **five** desirable characteristics of such a policy statement. (10 marks)
- b) Why is it desirable to have a separate risk manager in the corporation when independent agents or brokers are available to perform this function? (5 marks)

[Total: 25 marks]