MACHAKOS UNIVERSITY

University Examination for 2017/2018 Academic year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING AND FINANCE

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BMS 101: INTRODUCTION TO INSURANCE

Answer question one and any other two questions.

QUESTION ONE (COMPULSORY)(30marks)

1. Indemnity principle maintains that the insured should not make a profit out of the insurance contract, but should be restored to the same financial position he was in before the risk occurred. This principle has specific peculiarities uncommon with other principles. Its measurement nor its methods of providing it is different. You are required to:
2. Describe four methods of providing indemnity (12 marks)
3. Explain how indemnity is to be measured (8marks)
4. Insurance mechanism operates with the law of numbers, popularly known as “tyranny of numbers “. It is understood that for one to initiate and operate an insurance system, the issue of numbers is a big factor where large numbers of potential losers come together and contribute to a pool in order to compensate for the affected. Bearing in mind how insurance mechanism operates, you are required to:
5. Describe the process of taking up an insurance policy (6marks)
6. Consider and calculate the amount payable as compensation from the following details contained in an insurance claim of A ltd after a loss

Actual value of property: ksh. 750,000

Sum insured: Ksh 250,000

Loss assessed: Ksh 100,000 (4Marks)

SECTION TWO-ANSWER ANY TWO QUESTIONS

QUESTION TWO (20 MARKS)

According to Kenya’s insurance industry report, insurance is one of the major financial industries in the country. As a result, there has been tremendous growth in all facets of the economy. As a student of insurance law, you are required to:

1. Briefly explain four types of business insurance in Kenya (8marks)
2. Discuss any four economic and social significance of insurance industry in Kenya (12 marks)

QUESTION THREE(20MARKS)

A contract of fire insurance is a contract whereby the insurer undertakes, in consideration of the premium paid to make good of any loss or damage caused by fire during a specific period. Recently, fire episodes have been common and has had devastating effects in our slum areas. In an effort to make this risk of fire to be understood by management in Kenya:

1. Explain any five characteristics of fire Insurance contract(12marks)
2. Explain briefly how hazards in fire risks can be reduced (8 marks)

QUESTION FOUR (20MARKS)

Insurance and wagering are two conflicting concepts. Many times Insurance is seen as wagering, hence discourages potential clients for insurance business. With this in mind, briefly:

1. Discuss five differences between insurance and wagering (12marks)
2. Highlight the nature of contract of insurance in order to justify or conquer the similarities between insurance and wagering. (8marks)

QUESTION FIVE (20MARKS)

1. Discuss four principles of insurance (10marks)
2. Mention any three types of hazards (6marks)
3. Discuss the steps of risk management process of any company of your choice in Kenya (4marks)