



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR FIRST SEMESTER EXAMINATION FOR DEGREE
OF BACHELOR OF BUSINESS ADMINISTRATION; BACHELOR
OF ARTS (ECONOMICS & BUSINESS STUDIES); BACHELOR
OF EDUCATION WITH INFORMATION TECHNOLOGY**

MAIN CAMPUS

ABA 407: INSURANCE THEORY AND PRACTICE

Date: 8th December, 2016

Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE.

QUESTION ONE

- a) In a contract of insurance explain the duty of disclosure that rests on the assured. What is meant by an "insurable interest"? (10 marks)
- b) K owned a cottage by the sea which was valued at £30,000, though it was only insured for £15,000. It was damaged by storms to the value of £10,000.

K wishes to make a claim against the insurance company for the damages. Advise K.

Would your advice be different if K's insurance policy contained a "subject to average" clause? (5 marks)

- c) "A common carrier is an insurer of the goods carried". What does this statement mean and what are the exceptions to it? (10 marks)

QUESTION TWO

- a) "A contract of insurance is a contract of "*Uberrimae fidei* (utmost good faith)". Explain this statement. (5 marks)
- b) Discuss the major issues facing the insurance sector (10 marks)

QUESTION THREE

- a) Explain the legal principles that govern double insurance of goods. (8 marks)
- b) Discuss the essential elements of a contract of insurance. (7 marks)

QUESTION FOUR

- a) Discuss the characteristics of risks that can be insured. (6 marks)
- b) Discuss the characteristics of insurance which are, generally, observed in case of life, marine, fire and general insurances. (9 marks)

QUESTION FIVE

- a) Discuss the factors that influence premium calculation (7 marks)
- b) Factors influencing rate of mortality improvement (8 marks)

QUESTION SIX

Nyumba Safi Ltd. operates a housing development project. There was a fire on its premises on 31 January 2000 which destroyed most of the building, although stock to the value of Sh.3,960,000 was salvaged. The company has an insurance policy

(with suitable average clauses) covering stock for Sh.600,000,000, buildings for Sh.800,000,000 and loss of profits (including standing charges for Sh.250,000,000 with a six months indemnity period).

An extract of the company's trading profit and loss account for the year ended 31 December 1999 is as shown below:

	Sh.'000'		Sh.'000'
Opening stock	412,500	Sales of houses	2,000,000
Purchases: materials	1,812,500	Closing stock	525,000
Insured standing charges	167,500	Interest on investment	5,000
Other expenses	80,000		
Net profit for the year	57,500		

Additional information:

1. The company's records show that the sale of housing units for January 2000 had been the same as for the corresponding month in the previous year at Sh.100 million.
2. Payments to creditors were Sh.106,680,000 and Sh.3,320,000 was owing to creditors at the end of January 2000.
3. Business was disrupted until the end of April 2000 during which period turnover fell by Sh.180 million compared to the same period last year.
4. It was agreed that $\frac{3}{4}$ of the value of buildings had been lost and that at the time of fire, buildings were worth Sh.1,000 million.

Required:

Ascertain the amount of various claims to be submitted to the insurers.(15 marks)