



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2016/2017**

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE  
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION  
WITH INFORMATION TECHNOLOGY**

**CITY CAMPUS – EVENING**

**ABA 421: INSURANCE RISK MANAGEMENT**

Date: 27<sup>th</sup> July, 2017

Time: 5.30 - 8.30pm

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**INSTRUCTIONS:**

- Answer Question ONE and any other THREE
- Question one carries 25 marks and the rest 15 marks each
- Do not write on the question paper



**QUESTION ONE {compulsory}**

- a) In order for risk to be covered by Kenyan insurers the risk must fulfil certain conditions. Explain these conditions in relation to risk and insurance management practices. (7mks)
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- b) Risk reduction incorporates all measures designed to reduce average loss frequency or average severity. In the light of these statements, examine the main categories of measures aimed at reducing the frequency of risk in a company (8mks)
- c) "Besides analysing the current state of the organisation, the firm should also anticipate possible changes in the internal conditions during the short, medium and long term" Discuss the post loss objectives of Risk Management. (10mks)

**QUESTION TWO**

Explain if a risk Management program will operate successfully without a risk manager, risk management objectives and a risk policy statement. (15mks)

**QUESTION THREE**

- a) Define the term frequency of losses. (2mks)
- b) Consider a house and its contents of total value 100,000 that has been damaged by fire. The table below shows the probability distribution of possible loss size.

Loss size	Probability
0-100	0.8000
100-1000	0.1500
1000-10000	0.0400
10000-50000	0.0080
50000-75000	0.0015
75000-100000	0.0005

Required ;

- i) Calculate the average loss size (5mks)
- ii) Calculate the probability of having a loss over Ksh 10000 (3mks)
- iii) Discuss the duties of a risk manager in an industry of your choice (5mks)

#### QUESTION FOUR

Describe the following known methods of risk identification in profit and non-profit organisations in Kenya.

- i) Statistical record of losses (5mks)
- ii) Financial statement method (5mks)
- iii) Contract analysis method (5mks)

#### QUESTION FIVE

A company realizes that its products contain chemicals that if used inappropriately can cause serious illness if swallowed, severe irritation on contact with the eyes or skin, respiratory and other illnesses if inhaled, allergic reactions in the high sensitivity to small amounts of certain chemicals. As the risk manager, advise the company on the measures it can take in reducing risks associated with chemicals in its products to minimize liability claims. (15mks)

#### QUESTION SIX

- a) The main problem before the insurer is to decide when death will take place. Death is certain but when it takes place is not certain" Critically discuss three(3) types of probability risk management (9mks)
- b) Discuss the features of a mortality table (2mks)
- c) Table 1.1 shows mortality table constructed on yearly basis

Age	Number of living	Number of Deaths
20	1,000,000	2,000
21	998,000	3,000
22	995,000	4,000

Required:

- i) Calculate the death rate (2mks)
- ii) Survivors rate (2mks)