

Insurance and Risk Management

July 10, 2020

Assignment.

INSTRUCTIONS:

- . Answer ALL questions.
- . You should hand-write your solutions, **SCAN INTO .PDF FORMAT.**
- . You can use **camscanner app** from playstore.
- . The deadline is: Date: Friday, 24th, JULY 2020 at or before 9.00 pm.
- . **TO BE SUBMITTED VIA MOODLE ONLY. STRICTLY**
- . No late submissions will be marked.
- . No TYPED work will be graded.

Question 1

Henry and James cleaning company, in Nairobi Kenya, has a 20 year expertise in providing contract cleaning services. Their biggest clientele are Medical providers. They contracted you as a risk manager and in a recent occupational, Health and Safety audit conducted by your team, identified the following hazards:

- i.) The use of hazardous chemicals.
- ii.) Manual handling tasks including heavy lifting and repetitive, forceful or awkward movements.
- iii.) prevalence of sharp materials resulting in exposure to dangerous blood-borne viruses.
- iv.) The work environment, including wet floors and cluttered workspaces
- v.) unsafe work practices, including faulty electrical equipment.

Draft a basic risk treatment plan that indicates how you would deal with each of these risks.

Question 2

KCAG Manufacturing (KCAGM) owns a high-rise office building with glass cladding (a protective covering) and adjacent factory premises, and it operates from these factory premises. KCAGM refurbishes and sells electric motors. Its processes include stripping down old motors, sandblasting motor casings, armature winding, varnishing, spray-painting and assembly.

In order to write a risk management statement, the risk manager will carry out a physical inspection to familiarise himself or herself with the factory layout and processes. The risk management process of identification will consist of listing all manufacturing processes using a checklist to ensure that he or she asks all the relevant questions. The checklist will also include questions such as what flammable liquids are used, in what quantities, and where are they stored?

During the identification step of the risk management process for KCAGM, the risk manager identifies the following insurable risks:

Risk	Office building	Factory premises
Fire	Low probability	High probability
Explosions	Low probability	High probability
Storm	High probability of hail damage to glass cladding	Medium probability
Riot and strike	Low to medium probability related to possible labour disputes	Low to medium probability related to possible labour disputes
Theft	Medium probability	Low probability
Personal liability	Low probability	High probability

The next step in the risk management process is to measure the potential risks, or place a value on the impact of the risk. The measurement process for KCAGM reveals the following information:

- 1.) Fire damage to the office building: The low potential for fire in the office building is further improved by the construction specification that includes fire resistant doors on stairways and the installation of a sprinkler system. In the event of fire, estimates suggest that the damage would be limited to 60% of the building. However, this exercise identified the possibility of damage through accidental activation of the sprinkler system. This risk must be added to the list.
- 2.) Sprinkler leakage: In the case of leakage, estimates suggest that the damage would be 15% of the insured contents value of the office building.
- 3.) Fire damage to factory premises: The factory premises contain potential sources of ignition and inflammable material that could feed a fire. Open flames are used to strip

old motors. Therefore, the potential for fire damage is high and likely to be 80% of the total value of the contents and building. Fire would also damage the combustible components of the stock of refurbished and new motors.

- 4.) Storm damage: The potential loss from storm damage is estimated at 25% of the value of the factory premises, and 20% of the value of the office building. The potential damage to the glass cladding must be separately evaluated. The impact of hail damage could be 25% of the total cost of glass replacement, representing one total side of the building. Statistics also show that, on average, five panes of glass break accidentally every year. This equates to Ksh 4 000 in total, at a cost of Ksh 800 per pane.
- 5.) Riot and strike damage: The potential loss from riot and strike damage is estimated at 10% of the total value of the factory premises.
- 6.) Theft: In the case of theft the estimate loss, per event, is Ksh 50 000 for the factory and Ksh 10 000 for the office.
- 7.) Product liability: The refurbished products could attract product liability claims against KCAGM if KCAGM's negligence caused damage to property where the motors are installed. The estimated loss is KSh 2 million, inclusive of legal fees.
- 8.) Business interruption: A fire could seriously impact on the ability of the business to continue. In this event, competitors would move into KCAGM's market if the company could not provide its services for an extended period. It is estimated that KCAG could be affected for at least six months after a serious fire.

Draft a risk management plan to deal with the following risks that have been identified:

- (i) Fire and explosion.
- (ii) Business interruption.
- (iii) Product liability.

Give a tabular summary of the designed plan. This should be based on the risk management strategies. i.e Retention, Reduction, Avoidance and Transfer of risk.