

**MACHAKOS UNIVERSITY**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**BMS 101: INTRODUCTION TO INSURANCE**

**BACHELOR OF COMMERCE Y1S2**

**BACHELOR OF ECONOMICS**

**BACHELOR OF ECONOMICS AND FINANCE**

**BACHELOR OF EDUCATION**

**Date: Time:**

**Instructions:** Answer Question **ONE** and any other **TWO** Questions.

**QUESTION ONE (COMPULSORY)**

1. Distinguish between the following terminologies used in insurance:
2. Insurance and Gambling (2 marks)
3. Insured and Insurer (2 marks)
4. Moral hazard and legal hazard (2 marks)
5. Peril and loss (2 marks)

b) An upcoming entrepreneur has approached you for advice on insurance and the benefits he would get from purchasing insurance for his new business. Advise him.

(10 marks)

c) Ben gets his house insured against fire for Ksh.10000 with insurer P and for Ksh.20000 with insurer Q. A loss of Ksh.15000 occurs, P is liable to pay for Ksh.5000 and Q is labile to pay Ksh.10000. If the whole amount of loss is paid by Q, then Q can recover Ksh.5000 from P.

Required: Determine the liability of P & Q. (8 marks)

d) Outline the four steps in risk management. (4 marks)

**QUESTION TWO**

a) Explain: i) Marine Insurance (6 marks)

ii) Miscellaneous Insurance (6 marks)

b) Discuss the circumstances under which the right of contribution arises. (8 marks)

**QUESTION 3**

a) Functions of insurance are divided into primary and secondary ones. Explain any three secondary functions. (6 marks)

b) Describe the process of Underwriting. (6 marks)

c) Prevention of loss is desirable because we gain a lot from preventing a loss. Explain citing examples FOUR classes of prevention and protective efforts

(8 marks)

**QUESTION 4**

1. Insurance generates significance impact on the economy of any nation by mobilizing domestic savings among others. Discuss how this industry helps stimulate the Kenyan economy.

(10 marks)

1. Briefly explain five ways to increase efficiency by reducing risk and uncertainty (10 marks)

**QUESTION 5**

a) Insurance premiums are calculated by predicting future losses of a particular group but without absolute precision. Insurance prediction is therefore based on the law of large numbers. Discuss how The Law of Accuracy and Large Numbers operates. (6 marks)

b) Describe: i) Speculative Risk

ii) Pure risk (8 marks)

1. Describe any three types of Business insurance (6 marks)