

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS
**SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF ENTERPRENEURSHIP AND ENTERPRISE MANAGEMENT**
BCOM 241: RISK AND INSURANCE
STREAMS: BEEM Y2S1
TIME: 2 HOURS
DAY/DATE: MONDAY 10/12/2018
2.30 PM – 4.30 PM

INSTRUCTIONS:

- **Answer Question One and any other Two Questions**
- **Do not write on the question paper**
- **Show all your workings**

QUESTION ONE

- (a) XYZ Company Ltd effected a fire insurance policy on their building for a sum of ksh. 50,000,000. The policy had an extension to cover impact which includes: motor vehicles and trains. During the policy period, the building was damaged by a motor vehicle which was swerving to avoid head on collision, and the loss was estimated at ksh. 4,000,000. XYZ company ltd lodged the claim with their insurer, while pursuing from the negligent motor vehicle owner. The insurer settled the claim at kshs. 3,950,000 net of policy deductible. At the same time management of XYZ company ltd received ksh 4,050,000 from the motor vehicle insurer. On learning this, the insurer of company XYZ ltd is seeking to recover the proceeds from her insured.

Required:

- (i) Advise management appropriately whether to comply or not, supporting your answer with any two reasons. [6 marks]
- (ii) Explain the principle of insurance displayed in the above scenario [4 marks]

- (b) Using practical examples, explain the difference between pure and speculative risks. [6 marks]
- (c) Assume you have been assigned a responsibility of doing a presentation to a group of underwriters on the best practice of business acceptance. Demonstrate to them on how a prudent underwriter can classify risks for purposes of prudent underwriting. [8 marks]
- (d) Insurance contracts require full disclosure of material facts by both parties to the contract. However, there are some circumstances when the insured is exempted from this requirement. Explain any three of these exemptions. [6 marks]

QUESTION TWO

- (a) Explain any four features which make insurance contracts unique from other commercial contracts. [12 marks]
- (b) Write brief notes on the following policies.
- (i) Term Assurance policy [4 marks]
 - (ii) Theft Insurance [4 marks]

QUESTION THREE

- (a) Maisha enterprise ltd is an agrochemical company based in Nairobi's industrial area. Because of the aggressiveness of the company's marketing team, it has consistently reported profits in the last two years. However, the company takes between 90 – 150 days to pay its creditors.

Required:

- (i) Explain any two possible type of risks Maisha could be experiencing [4 marks]
 - (ii) Discuss any three possible strategies of managing the identified risk (s) in (i) above. [6 marks]
- (b) Explain any five reasons why the insurance industry is regulated in Kenya. [10 marks]

QUESTION FOUR

- (a) Demonstrate the role of insurance to the Kenyan economy. [10 marks]
- (b) Explain the two basic forms of reinsurance programs offered in the Kenyan Market. [10 marks]

