

CHUKA



UNIVERSITY

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**THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF COMMERCE**

BCOM 344: PENSIONS MANAGEMENT

STREAMS: BCOM (Y3S1)

TIME: 2 HOURS

DAY/DATE: MONDAY 02/12/2019

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: Answer question ONE and TWO questions

QUESTION ONE (CASE STUDY)

Read the below case study and answer the questions that follow

Low insurance penetration a sign of less development

One of the measures of a country's level of development is the penetration rate of the insurance industry. It is measured as premiums paid divided by the country's Gross Domestic Product. As a country develops, more wealth is created and insured. We should be bold enough to admit that the low insurance penetration rate in Kenya is an indicator of our level of development, and we've little to insure.

Why has the penetration rate gone down to 2.43 per cent as per 2018 Insurance Regulatory Authority (IRA) report? New laws could also shake the industry. Most people think insurance is an industry where customers pay for services they never receive. It's the only industry where you only benefit from suffering, at least to the layman. To the sophisticated, insurance ensures you suffer no loss. But to the laymen, there is nothing to lose; you can't lose what you do not have.

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The layman also feels insurance is forced by law. Clearly, one way to grow insurance is to expand the economy so that more people have something to lose and therefore insure. Fraud results in lack of transparency. What happens to the money you pay as premiums? Unless you are a shareholder of an insurance firm, that remains a mystery unless you are making a claim or you are about to renew your cover! What of lack of standards and penalties for non-compliance?

Legislating too much can be counter-productive. Think of the amended Insurance act 2019 that focuses too much on cash and carry, removing payment by installment and removing the intermediating role of brokers. Yet, by its nature, insurance should be paid by installments. Why not weekly or as needed? The fact that some insurance is backed by law and we have no choice demands its payment should be made as easy as possible.

The carrot can work as much as the stick. The secrets of insurance growth will depend on the confluence of economic growth, regulation and understanding our behaviour and motivations. Some innovations cited by IRA include cancer insurance policy, funeral expense, critical illness, family income, and livestock among others. There is no doubt the insurance sector needs a disruption, but not through legislation.

QUESTIONS

- (a) According to the case, the penetration rate of insurance products has gone down to 2.43 per cent as per 2018 Insurance Regulatory Authority (IRA) report. Explain the reasons for this phenomenon. [10 marks]
- (b) Discuss the role of IRA in promoting the insurance industry in Kenya. [10 marks]
- (c) Discuss any five innovative pension products on offer by insurance firms in Kenya. [10 marks]

QUESTION TWO

- (a) Explain the meaning of the term annuity, and discuss the various types of annuity. [12 marks]
- (b) Discuss the characteristics of defined benefit pension scheme. [8 marks]

QUESTION THREE

- (a) Before considering a pension premium, a provider must consider and scrutinize various risk factors. Explain the risk factors for different classes of pension products. [12 marks]
- (b) Explain the benefits of pension funds to both individuals and organizations in Kenya. [8 marks]

QUESTION FOUR

- (a) Explain the role of a pension trustee [10 marks]
 - (b) Explain the ways in which the county and National governments can promote the uptake of personal pension products among its citizens. [10 marks]
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