

CHUKA



UNIVERSITY

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CHUKA, EMBU, ISEMBE & THARAKA

EXAMINATIONS FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT,  
PROCUREMENT & ACCOUNTING

DIBM 0242: RISK AND INSURANCE

STREAMS: DIBM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 08/8/2018

2.30 P.M. – 4.30 P.M.

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INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

- (a) Describe the categories in which pure risks may be subdivided, how can insurance be applied to treat the risks? [10 marks]
- (b) Using examples, differentiate between the following terms
  - (i) Superstandard and substandard risks [3 marks]
  - (ii) Personal and business risks [3 marks]
- (c) Explain how the law of large numbers supports the operation of the insurance mechanisms [3 marks]
- (d) Explain how risk is the “Salt and Sugar of life” [6 marks]
- (e) Discuss the various insurance coverages sold under home owners policy in Kenya [5 marks]

QUESTION TWO

- (a) Private insurance provides numerous coverage that can be used to meet specific loss situations. For each of the following, identify and explain a private insurance coverage that would provide the desired protection

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- (i) Emily, age 28, is a single parent with two dependant children. She wants to be certain that funds are available for her children's education if she dies prematurely [2 marks]
  - (ii) Danielle age 18, recently obtained her drivers license. Her parents want to make sure they are protected if Daniele negligently injures another motorist while driving [2 marks]
  - (iii) Jacob, age 30, is married with two dependants. He wants his income to continue if he becomes totally disabled and unable to work [2 marks]
- (b) Explain five sections of a typical insurance policy document used in the Kenyan market [10 marks]
- (c) Explain the main requirements that must be met before making an insurance claim in Kenya [4 marks]

### QUESTION THREE

- (a) Not all risks are insurable. Explain the characteristics of insurable risks [6 marks]
- (b) John your friend has attended an insurance awareness meeting in which one of the speakers has said that the insurance principle of 'Uberima Fides' imposes that the insured must disclose all material facts. Briefly but clearly explain him what the speaker meant [7 marks]
- (c) How can liability risk arise from each of the following
  - (i) Business goods and services [2 marks]
  - (ii) Professional liability of doctor [2 marks]
- (d) Explain how aircraft insurance coverage resembles marine insurance coverage [3 marks]

### QUESTION FOUR

- (a) Briefly explain the arguments for regulation of insurance business by the government [8 marks]
- (b) How does insurance create certainty from the standpoint of an insured business [8 marks]

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(c) XYZ power and lightening company placed a fire policy with three companies because of the high value of her property which was kshs 6 billion. The lead underwriter A took 60% of the share, while B and C were apportioned 30% and 10% respectively. The recommended rate of premium was 1.75 per mile. During the period of the policy, one of the fire stations was destroyed by fire and the loss was estimated to be ksh 1 million. XYZ power and lighting approached company A for claims settlement because they were the lead underwriters, after all this was a small claim

- (i) Explain the principle that is displayed in this case [2 marks]
  - (ii) Demonstrate how company A will handle the claim [2 marks]
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