

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
COMMERCE

BCOM 241: RISK AND INSURANCE

STREAMS: BED (ARTS)

TIME: 2 HOURS

DAY/DATE: MONDAY 6/08/2018

8.30 A.M - 10.30 A.M.

INSTRUCTIONS:

- Answer QUESTION ONE and any other TWO Questions.
- Your answers should be clear and precise.

QUESTION ONE

Gitonga and TerryTeresa are married and own a 3 bedroom home in Chuka Town. Their own son Kaberia attends College from home and lives in their house, recently Kaberia obtained his driver's license. Their daughter Brenda is in Nursery school. Gitonga is an accountant who works for a local firm. TerryTeresa is a marketing analyst and is often away from home several days at a time. The family home contains household furniture personal properties and a computer that Gitonga uses to prepare business tax returns on weekends and a laptop computer that TerryTeresa uses while travelling. The couple also owns 3 cars. Kaberia drives a 1995 Ford, Gitonga drives a 2016 Pontiac for both business and personal use while Lucy drives a 2015 Toyota and a rented car when she is travelling. Additionally, Gitonga owns a garbage collection and disposal company. Although the couple has owned their home for several years, they are considering moving because of recent increase in violence and crimes in their neighbourhood.

- (a) Identify the major pure risks exposures to which Gitonga and TerryTeresa are exposed with respect to each of the following;
- (i) Personal loss exposures
  - (ii) Property loss exposures
  - (iii) Liability loss exposures
- [9 Marks]
- (b) With respect to each of the exposures you have mentioned above, identify an appropriate insurance cover that could be used to treat the exposure. [3 Marks]
2. Using examples, differentiate between the following terms;
- (i) Superstandard and standard risks [2 Marks]

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- (ii) Operational and speculative risks [2 Marks]
3. Explain how the law of large numbers supports the operation of the insurance mechanism. [3 Marks]
4. Discuss the various insurance coverages sold under home owners policy in Kenya. [5 Marks]
5. XYZ Power and Lighting 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 Kshs.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. [3 Marks]
- (ii) Demonstrate how company A will handle the claim. [3 Marks]

### QUESTION TWO

- (a) John contends that insurance cover is available for all risks, while Jane believes otherwise. Discuss this statement providing advice on the correct position as far as insurance mechanism is concerned. [10 Marks]
- (b) How can liability risk arise from each of the following?
- (i) Business goods and services. [3 Marks]
- (ii) Professional liability of a accountant. [2 Marks]
- (c) Explain how risk is the “Salt and Sugar of life”. [5 Marks]

### QUESTION THREE

- (a) Explain the following concepts in insurance
- (i) Reinsurance [3 Marks]
- (ii) Underwriting [2 Marks]
- (b) You have been invited for a workshop of risk management trainees. The organizer of the even requested you to address the audience on the topic; “Insurance and Risk transfer”. Write a report giving the details of what you will include in your presentation under the following headings:
- (a) Characteristics of an insurance plan. [5 Marks]
- (b) Requirements of an insurance risks. [5 Marks]
- (c) Principle of indemnity. [5 Marks]

### QUESTION FOUR

- (a) Discuss the major reasons why the government of Kenya regulates the insurance industry. [7 Marks]

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- (b) How does insurance create certainty from the standpoint of an insured individual. [7 Marks]
  - (c) A commercial building has an actual value of Kshs.50 Million and the owner has insured it for Kshs.30 Million and an 80% co-insurance clause is present. Calculate the amount that the owner can receive from the insurer if a loss of Kshs.1 million occurs. [4 Marks]
  - (d) Distinguish between business and personal risks. [2 Marks]
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