



UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF COMMERCE, BACHELOR OF COOPERATIVE  
MANAGEMENT, BACHELOR OF PROCUREMENT & LOGISTICS  
MANAGEMENT & BACHELOR OF CATERING AND HOTEL MANAGEMENT

BCOM 241: RISK AND INSURANCE

STREAMS: BCOM, BCOP, BPLM & BCHM (Y2S2)

TIME: 2 HOURS

DAY/DATE: MONDAY 06/04/2020

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions
- Show all the working
- Do not write on the question paper

QUESTION ONE (30 MARKS)

- (a) 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 these exemptions. [7 marks]
- (b) ABC company Ltd effected a fire insurance policy and their building for a sum of kshs 30,000,000. The policy had an extension to cover impact which includes; motor vehicles, trains and animals. 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. ABC company Ltd lodged the claim with their insurer, while pursuing from the negligent motor vehicle owner. The insurer settled the claim at kshs. 3,900,000 net of policy deductible. At the same time management of ABC company Ltd received ksh. 4,050,000 from the motor vehicle insurer. On learning this, the insurer of company ABC Ltd is seeking to recover the proceeds from her insured.

**Required:**

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Advise management appropriately whether to comply or not, supporting your answer with reasons. [8 marks]

- (c) Mapenzi Lewa enterprises ltd insured their property against accidental damage with insurance company; A, B and C for; kshs. 4 M, kshs. 2M and Kshs. 1M respectively. The policies were subject to an excess of ksh. 30,000/= . During the policy period, damage occurred to the property and the loss was estimated to be ksh. 1 M

### Required:

Demonstrate how the claim will be settled [6 marks]

- (d) Patrick is a lucky winner of Sport Pesa having won four times. He wants to continue with betting, but fears that he might lose any time in the future and his close friend advises him to take insurance to cushion himself against such losses in case they occur. Advise Patrick whether to take insurance or not supporting your answer with reasons. [5 marks]
- (e) Explain the following categories of risks
- (i) Fundamental risks [2 marks]
  - (ii) Particular risks [2 marks]

## QUESTION TWO (20 MARKS)

- (a) Distribution of insurance products is changing because of changes in the dynamic environment. As a student who has done risk and insurance as a course, show any four possible channels through which insurance products can reach the ultimate customer. [12 marks]

- (b) Mwongozo company ltd has in the recent past experienced a variety of risks in the businesses. Advice the company's CEO on any four possible strategies they can use to manage risk exposures [8 marks]

## QUESTION THREE (20 MARKS)

- (a) Paul argues that all risks are insurable while Pauline believes otherwise. Discuss the statement in the light of insurance as a risk management mechanisms, giving the right position. [10 marks]
- (b) Discuss the uniqueness of insurance contracts [10 marks]

**QUESTION FOUR (20 MARKS)**

(a) Discuss the rationale behind regulation and supervision of insurance business in Kenya

[10

marks]

(b) Write brief notes on the following policies

(i) Endowment Life Assurance

[5 marks]

(ii) Money insurance

[5 marks]

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