

THARAKA



UNIVERSITY

COLLEGE

UNIVERSITY EXAMINATIONS

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

BCOM 241: RISK AND INSURANCE

STREAMS: BCOM (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
- Do not write on the question paper

**QUESTION ONE**

- (a) ABC company ltd effected a fire insurance policy on their building for a sum of ksh 50,000,000. The company had an extension to cover impact which includes: motor vehicles and trains. During the policy period, the building was damaged by a motor vehicle and the losses were estimated at kshs 4,000,000. The insurer settled the claim at ksh 3,950,000 net of policy deductible and at the same time ABC Company limited received ksh 4,050,000 from the negligent motor vehicle driver. On learning this, the insurer of ABC is seeking to recover the proceeds from her insured

**Required:**

- (i) Advice ABC limited whether to comply or not, supporting your answer with two reasons [4 marks]

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- (ii) A commercial buildings has an actual value of ksh 50 million and 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 ksh 1 million occurs [4 marks]
- (b) Insurance contracts require full disclosure of material facts by both parties to the contract. Explain what is regarded as material facts on the part of the insurer [6 marks]
- (c) Explain how you would deal with an insurance claim under a dispute [5 marks]
- (d) Using practical examples differentiate between fundamental and particular risk [5 marks]
- (e) Assume you have been assigned the responsibility of doing a presentation to a group trainee underwriters on the best practice for risk acceptance. Explain to them how they should prudently classify risks for the purpose of underwriting [6 marks]

### QUESTION TWO

- (a) Mr. Kibol insured his motor vehicle comprehensively for ksh 700,000. During the policy period, the vehicle got involved in an accident and the cost of repairs were estimated at ksh 60,000
- (i) Demonstrate how the claim will be paid assuming an excess of 5% of the sum insured [3 marks]
- (ii) Show how the claim will be handled assuming franchise of 9% of the sum assured [3 marks]
- (b) Risk is the salt and sugar of life. Explain [8 marks]
- (c) Discuss the legal effect of a certificate of insurance [3 marks]
- (d) Discuss the automobile insurance coverage provided in Kenya [3 marks]

### QUESTION THREE

- (a) What do you understand by the term “corollary”? Define and describe the principles of insurance that are corollary to each other [6 marks]

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- (b) Some business people believe that it's a waste to purchase insurance. Discuss the importance of businesses purchasing various insurance covers. [10 marks]
- (c) Write brief notes on the following forms of insurance
- (i) Annuities [2 marks]
  - (ii) Money insurance [2 marks]

### QUESTION FOUR

- (a) With help of relevant examples, discuss five merging insurance intermediates promoting insurance products in Kenya [5 marks]
- (b) Discuss the functions of the IRA [7 marks]
- (c) Demonstrate how the insurance mechanisms works [4 marks]
- (d) A wall of a building was damaged in Meru town and remained standing for several weeks. The municipal authority for the sake and public safety, ordered it demolished. While demolishing, the walls damaged the adjoining building owned by Kariuki. Kariuki building was comprehensively insured.

#### Required

Explain the position of Kariuki regarding insurer's compensation [4 marks]

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