

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 346: INSURANCE OF TRANSPORTATION I

STREAMS: BCOM Y3S2

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 08/04/2020

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

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

QUESTION ONE

- (a) Omwansa insured his private vehicle on comprehensive basis with Bima Insurance Company Limited at Kshs. 1,000,000/= for a period of 2 years, free of any accident. He had earned a No Claim Discount for that period. However, during the third year, he was involved in an accident and was compensated for damage to his vehicle. The following is the NCD scale and step back schedule attached to the policy.

NCD SCALE

After first year free of claim	20%
Second year Discount	30%
Third year Discount	40%
Fourth year Discount	50%

STEP BACK SCHEDULE FOR NCD LOSS

4 th Year NCD	Single claim in one year	Step back to 2 nd year
4 th Year NCD	Two or more claims in one year	Step back to nil
3 rd Year NCD	Single claim in one year	step back to 1 st year
3 rd Year NCD	Two or more claims	step back to nil
1 st & 2 nd year NCD	One or more claims	step back to nil

Assume the following;
Revised sum insured Kshs 900,000/=
Applicable premium rate 6%

Required:

- Determine the renewal premium in year four (6 marks)
- (b) Using practical market examples, critically analyze the rationale behind motor insurance in Kenya. (10 marks)
- (c) Evaluate a windscreen cover in a motor insurance policy and demonstrate why such cover is issued as an extension even when the vehicle is comprehensively insured. (8 marks)
- (d) Analyze the following steps in a claims process, showing their importance in claims management.
- (i) Claim review (3 marks)
- (ii) Response to the insured (3 marks)

QUESTION TWO

- (a) Assume you are working in the underwriting department of a motor insurer and have been assigned a responsibility of accepting new business. Explain the process you would adopt. (10 marks)
- (b) Write brief notes on the following terms used in motor insurance
- (i) Uninsured Motorists (6 marks)
- (ii) Cancellation clause (4 marks)

QUESTION THREE

- (a) Discuss the available classes of hire cars in the market, clearly demonstrating their relative risk exposure and attractiveness to insurers. (12 marks)
- (b) Evaluate 'Knock for knock' agreement, showing how it is applied in claims settlement in the insurance industry. (8 marks)

QUESTION FOUR

- (a) ABC insurance Company Ltd, where you are working as an underwriter has assigned you a responsibility in renewal section. Demonstrate how you would handle renewal of motor insurance business for effective retention. (10 marks)
- (b) A motor vehicle owned arranged for an annual motor policy on comprehensive basis for a sum insured of Kshs. 1,200,000 for the period running from 25th May 2018 to 24th May 2019 at a premium rate of 4%. He however, decided to downgrade his policy to third party only on 24th August 2018, having realized he would not afford the comprehensive policy. His insurers accepted but, noted that they would prorate the premium. The applicable third party premium for the whole year was Kshs. 7,500. The motor vehicle owner had already paid Kshs. 10,000/=

Required

- (i) Calculate the refund or additional premium in respect of the above policy if any. (5 marks)
- (ii) Assume you are endorsing the above policy, use appropriate words to do a narration in order to reflect the changes. (5 marks)
-