

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 241: RISK AND INSURANCE

STREAMS: BCOM Y2S2 (ODEL)

TIME: 2 HOURS

DAY/DATE: MONDAY 08/04/2024

8.30 A.M – 10.30 A.M.

INSTRUCTIONS:

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

QUESTION ONE (30 MARKS)

(a) Using examples explain the following terms as used in risk and insurance;

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|-------|------------------|-----------|
| (i) | Moral hazard | (3 marks) |
| (ii) | Physical hazards | (3 marks) |
| (iii) | Peril | (2 marks) |
| (iv) | Morale hazards | (2 marks) |

(b) Mr. Obed placed a burglary insurance policy on his stock with three companies as follows; A: Kshs 30M, B:Kshs 20M and C: Kshs 50M. During the period of insurance, he suffered a loss of Kshs. 6 million.

Required

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|------|---|-----------|
| (i) | Show how the claim will be settled. | (3 marks) |
| (ii) | Assume that at the time of loss, the market value of his stock was Kshs. 110M. Demonstrate how the claim will be handled. | (7 marks) |
- (c) Using examples, explain the following categories of risks, showing their relative insurability;
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|-----|-------------------|-----------|
| (i) | Fundamental risks | (4 marks) |
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- (ii) Pure risks (3 marks)
- (iii) Speculative risks (3 marks)

QUESTION TWO (20 MARKS)

- (a) Using relevant examples, show under what circumstances an insured can be less than indemnified. (10 marks)
- (b) Explain any two principles which are corollaries to the principles of indemnity, clearly demonstrating that relationship. (6 marks)
- (c) Evaluate any four valid requirements of an insurance contract. (4 marks)

QUESTION THREE (20 MARKS)

- (a) Demonstrate how IRA meets its mandate in regulating and supervising the insurance industry in Kenya. (10 marks)
- (b) The principles of utmost good faith requires that all material facts be disclosed, explain what constitutes material facts, clearly showing those facts to be disclosed and facts exempted from this requirement. (10 marks)

QUESTION FOUR (20 MARKS)

- (a) Write brief notes on the following policies of insurance
 - (i) Money insurance (5 marks)
 - (ii) Endowment life insurance (5 marks)
 - (b) John argues that all risks are insurable, while Jane thinks otherwise. Discuss this statement in the light of insurance as a risk management mechanism, giving the right position. (10 marks)
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