



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE

BMS 4202: RISK MANAGEMENT AND INSURANCE

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Three printed pages

QUESTION 1 (Compulsory)

XYZ Limited, a manufacturer and distributor of milk products in Kenya has been in operation since 1984. The company has been operating from Nairobi and distributing its products throughout the major counties in Kenya. It owns a large manufacturing plant with an average 4250 employees. As a means of assuming survival, growth and profitability, the company management has decided to take risk management practice seriously. They have initiated an Enterprise Risk Management programme. Arising from the programme, the management wants to purchase insurance covers for the more vulnerable units and operations.

- a) Identify **FIVE** risk exposures facing the company. **(5 marks)**
- b) What are the major perils facing the assets of the organization. **(8 marks)**
- c) How would the company benefit if it decided to transfer the risks it faces. **(12 marks)**
- d) Suggest and justify the insurance covers suitable for the company. **(5 marks)**

QUESTION 2

Mr Jay Jackson, an early retirement beneficiary from the United Kingdom (UK) has made several friends via facebook in the five East African member states. Unaware of his true identity, several local ladies have “fallen in love” with him, resulting in civil marriages being organized between him and each of them, at separate venues in each member countries. Criminal investigations with the aid of the insurance oversight authorities in the member states have however revealed that Mr Jackson has been indemnified for death of his former two wives in the one of the member states, and has another current claim for the death of another wife in another country. The matter is under cross-border investigations.

- a) What insurance principle addresses the above situation and what are its essentials. **(10 marks)**
- b) Explain the ways in which the Insurance Regulatory Authority (IRA) of Kenya could address the above issue. **(10 marks)**

QUESTION 3

- a) The insurance proposal form is used by insurers to collect factual information necessary for underwriting. However, the conditions necessary for instituting the insurance contract are supplied in a policy document sometimes long after the contract has been instituted. Are there material facts, which the insurer need not disclose? If so, which ones? **(14 marks)**
- b) Explain any challenges facing the insurance sector in Kenya which are connected to, and arising from insurers. **(6 marks)**

QUESTION 4

- a) Mali Bora Limited, a local business in confectionary sector, has not found an insurance company with insurance products to suit the business risk needs. As a result, the management has set up a fund (a bank account) whereby periodic deposits are made as savings for any loss that may occur to the business.

Explain the challenges of this risk handling approach. **(10 marks)**

- b) The law of Kenya places certain obligations on persons to ensure a duty of care for loss or injury of third parties. Explain the classes of insurance that exist to deal with such obligations. **(10 marks)**

QUESTION 5

- a) Mr. Ubwete approached an insurer for an insurance cover but was turned away on account that the subject-matter for which he sought for a cover was not insurable. Justify the position of the insurer to turn down the offer. **(8 marks)**
- b) Risk management is not an activity or an event but an interactive process. Discuss. **(12 marks)**