

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

1ST SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE

BUST 411: PRINCIPLES OF RISK AND INSURANCE

STREAM:

TIME: 2 HRS

DAY: THURSDAY [14.30-16.30 P.M]

DATE: 14/12/2023

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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QUESTION ONE: (20 marks)

a) Using an example explain the term deductible. What are some of the problems associated with deductibles? **(8 Marks)**

b) Read the case study carefully and answer the questions that follows;

A foods company has a cold storage warehouse where it stores frozen foods and delivers to Supermarkets. The company was established in 2001 and has employed 400 people. An accident book is kept on site since sometimes minor injuries are recorded. Last month only 2 employees fell sick and were diagnosed with asthma. A potential cause of asthma was realized to be the dry atmosphere when working in extreme cold temperatures. This increases the likelihood of employees showing signs of asthma. Every week, a meeting takes place on site between the site manager and the health and safety manager to discuss risk management matters. The agenda for today's meeting is risk assessment with a review of health and safety hazards and the matters discussed are restricted to operational risks.

- i) Explain how to reduce the level of risk when working in the warehouse **(2 Marks)**
- ii) Describe the corrective action could the two managers consider to reduce the likelihood of more employees going off sick with asthmatic conditions **(4 Marks)**
- iii) To ensure employees are complying with health and safety standards in the warehouse, which directive controls could be instigated? **(4 Marks)**

b) At the beginning of the semester, the course lecturer gives a summary of the following terms; peril, hazard and risk.

- i) With relevant examples, distinguish between risk and peril **(4 Marks)**
- ii) Discuss types of hazards giving an example for each **(8Marks)**

QUESTION TWO: (20 marks)

a) Explain some of the conditions that should be fulfilled before retention is used in a risk management program. **(6 Marks)**



- b) Mercy wants to take an insurance cover for her children but she has not seen a policy document before. She has approached you to explain to her the main components of a policy document before she makes a decision. Advise her accordingly. **(10 marks)**

QUESTION THREE: (20 marks)

- a) The Kenyan government plays a vital role in risk management. Explain how the different government agencies are involved in risk control. **(10 Marks)**
- b) Using a risk management matrix and examples, classify the various loss exposures and appropriate risk management techniques **(10 Marks)**

QUESTION FOUR: (20 marks)

- a) Insurance companies normally insure only pure risk. However not all pure risks are insurable. Certain requirements usually must be fulfilled before pure risk can be privately insured. Discuss. **(10 Marks)**
- b) Most insurance companies face difficulties in computing premiums. Elaborate **(5 Marks)**
- c) The insurance market is very dynamic with numerous challenges. Highlight some of the challenges experienced in the Kenyan market with regards to insurance. **(5 Marks)**

QUESTION FIVE: (20 marks)

- a) Explain underwriting and discuss its basic requirements **(10 Marks)**
- b) There are many costs and losses which can arise out of the occurrence of risks in the operations of businesses. Elaborate. **(10 Marks)**