LAIKIPIA UNIVERSITY

UNIVERSITY EXAMINATIONS

FIRST SEMESTER 2025/2026 ACADEMIC YEAR

SECOND YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BCOM 214: INSURANCE AND RISK MANAGEMENT

STREAM: ***Y2S1 BCOM*** ***TIME: 2 HRS***

DAY: MONDAY [11.30 A.M-1.30 P.M] ***DATE: 2/02/2026***

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE: (30 marks)

a) Define the following terms as used in risk and insurance;
   i) An agent and a broker
   ii) Certainty Equivalent and Expected Value
   iii) Peril and Hazard
   iv) Uncertainty and Risk **(12 marks)**

b) Distinguish between pure risk and speculative risk. Why do insurers typically only cover pure risks **(5 marks)**

c) The insurance Act of Kenya has been in existence to address challenges that face the insurance sector. Outline some of the challenges that the law seeks to address **(8 marks)**

d) What are the costs of insurance to society and what are the contributions that insurance makes to society that justify these costs? **(5 marks)**

QUESTION TWO: (20 marks)

a) Using an example , explain how the law of large numbers supports the operation of the insurance mechanism **(5 marks)**

b) What are the specific conditions of a social insurance plan that distinguish it from private or voluntary insurance? (**5 Marks)**

c) There are several techniques available for handling risk. For each of the following risks, identify an appropriate technique, or combination of techniques, that would be appropriate for dealing with the risk.
   i) A surgeon may be sued for medical malpractice
   ii) A new car maybe severely damaged in an auto accident
   iii) An individual's home may be totally destroyed in a hurricane

(10 marks)

QUESTION THREE: (20 marks)

a) Most risk exposures can be classified according to their frequency and potential severity. Using an appropriate tool, characterize various risks base on frequency and severity. **(10 Marks)**

d) Every insurer should take certain steps to prevent the increase in fraudulent claims. Discuss. **(10 Marks)**

QUESTION FOUR: (20 marks)

a) How do we reduce or mitigate risks in the following areas?

  i) Operational activities

  ii) Management practices

  iii) Financial management

  iv) Compliance and regulatory adherence **(12 marks)**

b) What is retention and what conditions should be fulfilled before retention is used in a risk management program? **(4 Marks)**

c) Identify two common misconceptions about risk management, and explain why these misconceptions developed. **(4 Marks)**