

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

1<sup>ST</sup> SEMESTER 2023/2024 ACADEMIC YEAR

SECOND YEAR EXAMINATION FOR THE DEGREE  
OF BACHELOR OF COMMERCE

**BCOM 214: RISK AND INSURANCE**

***STREAM:***

***TIME: 2 HRS***

***DAY: MONDAY [11.30-13.30 P.M]***

***DATE: 18/12/2023***

**THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES**

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**QUESTION ONE: (20 marks)**

- a) Explain the following types of hazard. Give an example of each.
- i) Physical hazard
  - ii) Moral Hazard
  - iii) Morale hazard
- (2 Marks Each)**
- b) Andrew is a property claims adjustor for a large property insurer. Fatumais a policy owner who recently notified the owner that the roof of her home incurred substantial hail damage because of a recent storm that caused severe property damage to homes in the area. Sarah owns her home and is insured under a standard homeowner's policy with no special endorsements. Identify the questions Andrew should ask before the claim is approved for payment by his company
- (6marks)**
- 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)**
- d) Why are market risks, financial risks, production risks and political risks considered difficult to insure by private insurers? Explain citing examples.
- (8 Marks)**

**QUESTION TWO: (20 marks)**

- a) Explain the meaning of adverse selection and what methods do insurers use to control for adverse selection
- (10 Marks)**
- b) How does transaction costs and uncertainty influence the role of intermediaries in the insurance market place?
- (10 marks)**

**QUESTION THREE: (20 marks)**

- a) Discuss the insurance hurdles facing the motor industry in Kenya. How can insurance companies overcome the hurdles? **(10 Marks)**
- b) In order to curb the growth of fraudulent claims, every insurer should take certain steps. Elaborate. **(10 Marks)**

**QUESTION FOUR: (20 marks)**

- a) Private insurance provides numerous coverage that can be used to meet specific loss situations. For each of the following loss situations, identify a private insurance coverage that would provide the desired protection.
- i) Beatrice, age 28, is a single parent with two dependent children. She wants to make certain that funds are available for her children's education if she dies before her youngest child finishes college.
  - ii) Anthony, age 30, is married with two dependents. He wants his income to continue if he becomes totally disabled and unable to work.
  - iii) Danielle, age 16, recently obtained her driver's license. Her parents want to make certain they are protected if Danielle negligently injures another motorist while driving a family car. **(6 Marks)**
- b) Identify social insurance programs and explain their basic characteristics. **(6 Marks)**
- c) Avoidance is a risk-control technique that can be used effectively in a risk management program. What is the major advantage of using the technique of avoidance in a risk management program? Is it possible for a company to avoid all potential losses? **(8 Marks)**