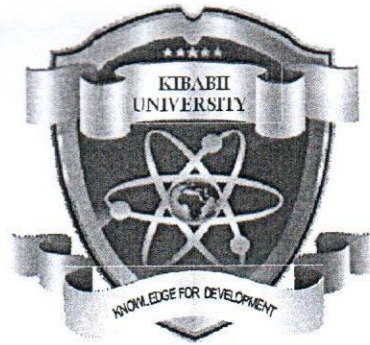


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UNIVERSITY EXAMINATIONS

2019/2020 ACADEMIC YEAR

SPECIAL/SUPPLEMENTARY EXAMINATIONS

THIRD YEAR FIRST SEMESTER

FOR THE DEGREE OF

BACHELOR OF COMMERCE

COURSE CODE: BCI 441E

COURSE TITLE: RE-INSURANCE

DATE: 02/02/2021

TIME: 2.00 – 4.00PM

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**INSTRUCTIONS**

- Answer question ONE (1) (COMPULSORY) and any other TWO (2) questions

This Paper Consists of FOUR (4) Printed Pages. Please Turn Over.



**Question 1 (Compulsory) and any other TWO (2) questions**

**QUESTION 1: (30 MARKS)**

The ceding company has a 60% quota share treaty. Therefore, 40% of all premiums and losses will be retained by the company and 60% of all premiums (less commission) and losses will be ceded to the reinsurer subject to the limit of the treaty. The commission to the ceding company is agreed upon at 30%.

Assume a risk is written for a limit of Ksh.400, 000 at a premium of Ksh.2, 000

**Required:**

a. Calculate:

- i. The premium retained by the ceding company (2 marks)
- ii. The premium paid to the reinsurer (2 marks)
- iii. The commission to the ceding company (2 marks)

If a total loss of Ksh.400, 000 occurs for the company; then calculate

- iv. The loss the ceding company would pay (2 marks)
- v. The loss reinsurer would pay (2 marks)

b. i. As a financing mechanism, explain how quota share treaty reinsurance will be very important to providing surplus relief to the organization. (5 marks)

ii. The global expansion of reinsurance companies in Kenya has been very successful in the recent years. What has led to the uses of reinsurances in Kenya? (5 marks)

c. i. Reinsurer P and Q are frequently co-reinsurers on the same liability excess of loss treaties.

Explain the most likely reasons that reinsure P would not want to write a liability quota share

Retrocession for reinsurer Y. (5 marks)

ii. Discuss the advantages of quota share treaties. (5 marks)

QUESTION 2

- a) Differentiate five features between Facultative reinsurance on an individual risk basis and treaty reinsurance encompassing a block of the ceding company's book of business (10 marks)
- b) Explain the purpose and operation of reinsurance sidecar (10 marks)

QUESTION 3

- a. i. A cedent has a 10-line surplus treaty which is subject to a maximum cession of Ksh.1, 000,000. What is the maximum gross capacity of the cedent, for a single risk if no other reinsurance coverage is in force? (5 marks)
- ii. Explain what Material Fact is as used in Reinsurance. (5 marks)
- b. The reinsurance industry in Kenya is faced with a lot of challenges and competition due to various social and economic conditions. Identify and discuss the social and economic challenges the industry is facing and explain how they can be overcome. (10 marks)

QUESTION 4

A ceding company wants to create surplus relief and strengthen its balance sheet. The reinsurer agrees to assume 50% quota share of all premiums and losses. The reinsurer will pay 30% commission on the premium assumed. The Balance sheet before the quota is as follows:

**Balance Sheet**

(Before the Quota Share)

Assets (Ksh)	Liabilities/Surplus (Ksh.)
Cash/Premium - 8,000,000	Unearned Premium Reserve - 8,000,000
Others - <u>14,000,000</u>	Others - 12,000,000
<u>22,000,000</u>	Surplus - <u>2,000,000</u>
	<u>22,000,000</u>

- a. Calculate after the Quota Share
- i. Assets (3 marks)
- ii. Liabilities/Surplus (4 marks)
- iii. A New Balance Sheet (3 marks)

- b. The reinsurance industry in many ways contributes to the well-being and security of individuals and their families who are running various businesses. Discuss this proposition fully (10 marks)

#### QUESTION 5

- a. Differentiate between proportional and non-proportional methods of treaty reinsurance (10 marks)
- b. i. What is Pro-rata as used in reinsurance? Explain the advantages of Pro-rata reinsurance to an organization (5 marks)
- ii. Discuss the factors affecting retention of reinsurance in an organization. (5 marks)

**END**