UNIVERSITY EXAMINATIONS

SPECIAL/SUPPLEMENTARY EXAMINATION

2020/2021 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCI 221

COURSE TITLE: INSURANCE AND RISK MANAGEMENT

DATE: 21/01/2022   **TIME: 8.00 – 10.00AM**

INSTRUCTIONS

1) Answer Question **ONE**(Compulsory) and **ANY OTHER TWO** Questions
2) Candidates must hand in their answer booklets to the invigilator while in the examination room
3) Credit is given for legibility, clarity and use of relevant examples
4) Question **ONE** is **30 marks** while Questions **2-5** carry **20 marks** each
5) Clearly write your **Registration Number** on each answer sheet used

TIME: 2 Hours

KIBU observes **ZERO** tolerance to examination cheating

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

QUESTION 1: (30 MARKS)

CASE STUDY: Hair salon: "It has simplified everything"

Hairdressing has always been an important part of Nekesa Nafula's life. Back in the mid 2020 her parents opened a small hairdressing business in Bungoma town. Today, the salon remains very much a family concern. "My sister Pam and I run it and two of Pam's daughters have recently come to work here" explains Nekesa, 27.

Running a busy unisex salon with ten employees, however, involves much more than cutting, styling or colouring hair. There are key safety issues to consider too. Hairdressing products can carry risks of eye or skin irritation for both staff and customers; and even something as commonplace as shampooing carries risks for everyone in the salon. "Water, through the wash basins, is a major area of risk - people might slip on wet floors" explains Nekesa. "And with wet work; when staff are constantly shampooing 20-30 times a day - there's a risk of occupational dermatitis, a major issue in our industry." Until recently, completing a Health & Safety Risk Assessment for the salon was a headache. "It was quite complicated - and it wasn't very clearly set out" says Nekesa.

a i. If Nekesa was using the Enterprise Risk Management Program in her saloon; explain what risk is as used in the case study? (4 marks)

ii. Identify and briefly explain the risks in Nekesa's saloon (6 marks)

b. State and explain the recommendations that should be taken to either prevent or minimize the potential risk losses in the Nekesa's saloon (10 marks)

c. Insurance represents one important risk-financing tool for Nekesa's saloon. What are the key variables to consider in selecting Risk Financing techniques for Nekesa? (10 marks)

QUESTION 2

a. Critics and sceptics have continually dismissed insurance as a form of wagering or betting. How can you distinguish between insurance contract and wagering contract?

(10 marks)

You have been recently employed as a Risk Manager in one of the key financial firms in Kenya. Your first assignment is to make a presentation to the Executive Management about the organizations Risk Management Philosophy.

b. Formulate the important requirements that will contain in your risk management statement (10 marks)

QUESTION 3

a. "Most companies don't understand the catastrophic risks to their property from natural hazards, even though we can't prevent all property losses from occurring". As an expert in Insurance and Risk Management; Explain to the participants in a property loss control training, methods that can be used to minimize the severity of property losses in an organization (10 marks)

b. On the issue of insurance, Risk Manager uses insurance to treat certain loss exposures in an organization. State and describe FIVE key areas that Risk Manager need to consider (10 marks)

QUESTION 4

Insurance represents one important risk-financing tool where most organizations don't have the required funds to completely cover a potential loss by applying two risk financing techniques of risk retention and risk transfer.

a. Describe sources of funds that are used in determining retention levels and pay for such losses in the risk management programs (10 marks)

b. Explain the factors affecting choice between retention and transfer (10 marks)

QUESTION 5

a i. Why is insurance referred to as "The law of large numbers"? (5 marks)

ii. Explain the requisites of insurability? (5 marks)

b. What fundamental principles must insurance contract fulfil? (10 marks)