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UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER
SPECIAL/SUPPLEMENTARY EXAMINATIONS
FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCI 210

COURSE TITLE: INSURANCE AND RISK MANAGEMENT

DATE: 25/07/2022

TIME: 2.00PM – 4.00PM

INSTRUCTIONS

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

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



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

QUESTION 1: (30 MARKS)

Read the following case and answer the questions that follow:

The insurance sector has faced a multitude of challenges since its inception and more specifically since 1601 when the first insurance legislation was enacted in the United Kingdom. Since the industry was first discovered, it has more often than not been marked by vivacity of inception, apathy of progress and pre-maturity of decay, to say the least. Some of the challenges range from inadequate disclosure of information by the insured persons or the insurers, troubled underwriters, low quality financial statements by insurance companies, absence of enough regulations to support the extant law, money laundering and corruption to slow judicial process in addressing the multifarious suits filed in courts.

The need for regulation in the insurance sector cannot be underestimated. We need regulation to maintain insurer insolvency, protect innocent insurance sector consumers who in many occasions usually have inadequate rates are put in place and most importantly to avail insurance, in other words, to make insurance services available because the industry is created by law.

Depending on the insurance regulator in any given jurisdiction, insurance may take many forms; Laws may be enacted by the legislatures of the various jurisdictions to create the regulatory institutions and also to create insurance offences the punishments of which are also provided for under such laws. In Kenya for example, we have the Insurance Act, Cap 487 of Laws of Kenya, which is a creature of the legislature. Regulations may be put in place by the respective Minister to supplement what the act provides or even give effect various sections of the act. In Kenya, for example, we have the Insurance (Policy holders Compensation Fund) Regulations of 2010, Legal Notice no. 86 of 2010, Insurance regulators with current trends in regulation. Directives and circulars may also be issued on a periodic basis to the industry players to serve the various purposes intended by the regulator.

The regulator system of any given jurisdiction may take various options:

1. Self/Non state regulation which incorporate industry standards and best practices, professional code of ethics and Corporate Social Responsibility (CSR). Such an option does not require any stand-by regulator to monitor the day to day activities in the industry. The industry players instead put in place the various industry ethics to be their guide when carrying out the activities that are engaged in every day.
2. Co- regulation whereby both the government and the industry best practices regulate the sector
3. State regulation whereby the government through a well-structured system of laws enacted by the legislature puts in place a body or authority to regulate the sector

- a) i. Who are underwriters in the insurance? (2 marks)
- ii. State the challenges the insurance sector has faced since its inception. (8 marks)
- b) If the risk managers use insurance to treat certain loss exposures of the company, identify five key areas that must be emphasized for risk management solutions. (10 marks)
- c) The need for regulation in the insurance sector cannot be underestimated, why? (5 marks)
- d) Which options are available for the regulatory system of any given jurisdiction according to the case study? (5 marks)

QUESTION TWO

- a) The insurance industry in Kenya, who are the fraudsters according to Insurance Regulatory Authority? (10 marks)
- b) Identify the various risk treatment options that an organization can succeed in her risk management programs (10 marks)

QUESTION THREE

Supuu Beauty is a clothing retailer who imports clothes from diverse suppliers worldwide. Supuu has a very strong, well-publicized corporate ethical code. The company accountant has just found out that one of Supuu suppliers use child labour in the manufacture of their clothes and pay very low wages with cramped, dangerous conditions. This is in breach of contract conditions with that supplier. You have been selected as the Chairman of the Risk Management Committee of Supuu Beauty.

- a) Explain the Risk Monitoring concept to the committee members (2 marks)
- b) Describe the Terms of Reference (TOR) of the Risk Management Committee (8 marks)

At some stage, Supuu Beauty will wish to review the effectiveness of its risk management arrangement described by the Risk Management Committee

- c) i). Discuss the Insurability of the risk above (5 marks)
- ii). Analysis the challenges of getting Insurance in Kenya (5 marks)

QUESTION FOUR

Wanjala a Bachelor of Commerce graduate from Kibabi University wants to set up a video model company. He is sure to do a clean business.

- a) Advise him on how he can manage risks in his business venture (10 marks)
- b) i) Differentiate between peril and hazards in Risk Management (5 marks)
- ii) Briefly describe the steps in the risk management process that should be followed by Wanjala. (5 marks)

QUESTION FIVE

- a) State the benefits of risk management program to an organization (10 marks)
- b) i). What is a risk register? Explain three main purposes served by a risk register. (5 marks)
- ii). Distinguish between pure and speculative risk, giving relevant examples in each case. (5 marks)