



DEDAN KIMATHI UNIVERSITY OF TECHNOLOGY

UNIVERSITY EXAMINATION ACADEMIC YEAR 2019/2020

EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY. SECOND  
YEAR SEMESTER ONE

BCM 1202 PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

APRIL 2020

TIME: 2 HOURS

**INSTRUCTIONS:**

**ANSWER QUESTION ONE AND ANY OTHER TWO QUESTION**

**QUESTION ONE**

a) Describe the following terms as used in insurance and risk management

- i) Speculative risks
- ii) Proposer
- iii) Re-insurer
- iv) Self -insurance
- v) Time horizon
- vi) Cost of risk
- vii) Component of risk
- viii) Insurance certificate [8 marks]

b) Maguna supermarket would like to install a cctv camera in their supermarket in Karatina with the following features. The purchase price is ksh 5,000,000 and installation costs kshs 1,200,000. The useful life is 10 years with a salvage of kshs 1,300,000. If installed the camera will save the supermarket theft of goods worth kshs 2,200,000 annually and will require an annual maintenance of kshs 600,000. The risk free rate is 8.5%, market return is 14%, corporate tax 30%, and beta is negative 0.9.

- i) Determine whether the camera should be installed or not? [8 marks]
- ii) Will the decision change if the beta changes to positive 0.9 and all the above information remain the same? [2 marks]
- c) Describe briefly the claim settlement procedure for a motor insurance policy. [6 marks]
- d) Discuss the principle of utmost Good faith as used in goods in a personal accident policy [6 marks]

## **QUESTION TWO**

- a) Explain the risk management process in a university [8marks]
- b) Discuss risk management problems faced by manufacturing firm in Kenya and how they should be handled. [12 marks]

## **QUESTION THREE**

- a) Explain an unethical practices in Kenya insurance industry and how they should be handled by the insurance industry market players. [10 marks]
- b) Explain 5 investment insurance products available in the Kenya insurance market [10 marks]

## **QUESTION FOUR**

- a) Describe briefly how to sell an education policy using insurance sales cycle. [10 marks]
- b) Explain liability insurance classes offered by sellers of insurance in the Kenyan market. [10 marks]

## **QUESTION FIVE**

- a) Explain briefly the service providers in the insurance industry specifying their roles in the industry. [10 marks]
- b) Describe briefly risk reduction strategies used in a manufacturing firm to manage risks in Kenya. [10 marks]

