MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

FIRST YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BMS 101: INTRODUCTION TO INSURANCE

DATE: 23/3/2021   **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

  Answer Question ONE and any other TWO Questions.

QUESTION ONE (30 MARKS)

a) Distinguish the following terms as used in insurance:

    i)   Subrogation and Contribution.   (2 marks)

    ii)   Insured and Insurer   (2 marks)

    iii)   Moral hazard and legal hazard   (2 marks)

    iv)   Peril and loss   (2 marks)

b) Ben gets his house insured against fire for Ksh.10000 with insurer P and for Ksh.20000 with insurer Q. A loss of Ksh.15000 occurs, P is liable to pay for Ksh.5000 and Q is liable to pay Ksh.10000. If the whole amount of loss is paid by Q, then Q can recover Ksh.5000 from P.

Required: Determine the liability of P & Q.   (8 marks)

c) In many organizations, a written statement that sets out its approach to risk management is usually an objective meant to safeguard the organization's property, interest and certain interest of employees in the course of running the business. Explain the benefits an organization may derive from formulating a risk management policy   (10 marks)

d) Describe any two types of Business insurance.   (4 marks)

QUESTION TWO (20 MARKS)

a)   Joseph would wish to take an insurance cover for his business. Explain with relevant examples, any five features of a valid insurance contract.   (10 marks)

b)   Explain briefly the economic and social significance of insurance in Kenya   (10 marks)

QUESTION THREE (20 MARKS)

a)   Explain four major facts that need to be disclosed under the principle of Uberrimae fidei.
                                                                                        (8 marks)

b)   Using a relevant example, describe how the insurance mechanism works.   (8 marks)

c)   Outline ANY two secondary functions of insurance.   (4 marks)

QUESTION FOUR (20 MARKS)

a)   Explain clearly, the five ways in which the contract of life insurance is different from other types of insurance.   (10 marks)

b)   Insurance law is mainly derived from the general law of contract. Explain five reasons for exclusions in insurance contracts.   (10 marks)

QUESTION FIVE (20 MARKS)

a)   Differentiate between a bond and a contract of insurance.   (10 marks)

b)   Discuss FIVE ways in which an insurance contract may come to an end or can be terminated.
                                                                                        (10 marks)