



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF COMMERCE

BACHELOR OF ECONOMICS

BMS 101: INTRODUCTION TO INSURANCE

DATE: 11/12/2020

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Answer Question one and any other two Questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

CASE STUDY

Read the case study below then answer the questions that follow.

Bob is a 25 year old qualified carpenter who is a subcontractor to various builders. He is earning Ksh70,000 gross but pays Ksh20,000 in expenses, most which are fixed expenses i.e. a leased car and leased equipment. Bob rents an apartment and spends the rest of his earnings of Ksh50,000 on living and entertainment expenses. Bob has little in the way of savings.

Bob has a car accident and is hospitalized for one month. He then faces a long and painful rehabilitation process of 12 months to try to regain the use of one of his arms. Even with private health insurance there are medical bills to be paid particularly for physiotherapy and rehabilitation sessions. Bob has no income for 13 months but must continue to pay his lease costs of Ksh20,000 per annum. What little money Bob receives in disability payments from the government won't cover his rental costs. Bob has to move back home and borrow money from his parents. If he does not recover the use of his arm Bob will never be able to work as a carpenter again and will have to retrain into a potentially lower paid job.

- a) Describe THREE types of insurances that Bob could have taken out. (10 marks)
- b) Analyze the scenario if Bob **had** had these insurances. (10 marks)
 - i. Distinguish differed annuities from temporary annuities. (4 marks)
 - ii. You are the newly promoted Risk Manager in your company. You have been given the task of handling new interns. Explain to them the following terms:
 - I. Re-insurance (2 marks)
 - II. Double insurance (2 marks)
 - III. Assurance (2 marks)

QUESTION TWO (20 MARKS)

- a) Explain THREE benefits that an individual obtains by purchasing insurance cover. (6 marks)
- b) Explain three methods that an insurer can use to measure risk. (6 marks)
- c) Discuss the circumstances under which the right of contribution arises. (8 marks)

QUESTION THREE (20 MARKS)

- a) Distinguish Pure risk from Speculative risk. (4 marks)
- b) Explain TWO functions of Reinsurance. (4 marks)
- c) Insurance companies are not willing to accept all that other people may transfer to them. For risks to be regarded, as insurable, certain characteristics must be present, that is the elements of insurability of risks. Discuss these elements. (12 marks)

QUESTION FOUR (20 MARKS)

- a) Explain clearly the THREE primary functions of insurance. (6 marks)
- b) Buying of insurance was the traditional role of risk management and was the key function of risk managers. Outline TWO Risk Management strategies (tools). (4 marks)
- c) Insurance law is mainly derived from the general law of contract. Discuss the elements of an insurance contract that are legally binding. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Describe, with relevant examples, the following contractual provisions limiting insurance coverage.
 - i. Deductibles (4 marks)
 - ii. Deductibles and adverse selection (6 marks)
- b) Explain with clear examples,
 - i) The principle of contribution and (5 marks)

ii) The principle of causa proxima

(5 marks)