MACHAKOS UNIVERSITY

University Examinations for 2020/2021Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BMS 101: INTRODUCTION TO INSURANCE

DATE: 18/6/2021   **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

Answer QUESTION ONE IN SECTION ONE AND any TWO questions IN SECTION TWO.

SECTION ONE

QUESTION ONE (30 MARKS)

a)   Insurance is said to be a unique contract as compared to other commercial contracts. In your own words, describe any three known special insurance contracts that can justify this allegation.   (9 marks)

b)   Insurance law has many definitions and terms that are used in the insurance industry. Briefly distinguish the following terms as used in insurance

      i.   Risk   (2 marks)

      ii.   Hazard   (2 marks)

      iii.   Peril   (2 marks)

c)   Insurance mechanism operates with the law of numbers, popularly known as" tyranny of numbers". It is understood that for one to initiate and operate an insurance system, the issue of numbers is a big factor where large numbers of potential losers come together and contribute to a pool in order to compensate for the affected. Bearing in mind how insurance mechanism operates ,you are required to:

      i.   Describe the process of taking up an insurance policy   (9 marks)

      ii.   During the year 2015, A Ltd suffered a loss from a fire. Calculate amount payable as compensation from the following details contained in its insurance cover.

Actual value of property   : Ksh.200000

Sum insured   : Ksh.150000

Loss assessed   : Ksh.100000   (6 marks)

SECTION TWO –answer any two questions

QUESTION TWO (20 MARKS)

According to Kenya's insurance industry report, insurance in one of the major financial industries in the country. Due to this industry, there has been tremendous growth in all facets of the economy. As a student of insurance law, you are required to:

a)   Briefly explain any four types of business insurance in Kenya.   (8 marks)

b)   Discuss any four economic and social significance of Insurance Industry in Kenya.

                                                               (12 marks)

QUESTION THREE (20 MARKS)

A contract of fire insurance is a contract whereby the insurer undertakes, in consideration of the premium paid to make good of any loss or damage caused by fire during a specified period. Recently, fire episodes have been common and has had devastating effects in our slum areas. In an effort to make this risk of fire to be understood by management in Kenya :

a)   Explain any six characteristics of fire Insurance Contract   (12 marks)

b)   Explain briefly how hazards in fire risks can be reduced   (8 marks)

QUESTION FOUR (20 MARKS)

Insurance and wagering are two conflicting concepts. Many a times insurance is seen as wagering, hence discourages potential clients for insurance business. With this in mind , briefly:

a)   Discuss five differences between insurance and wagering   (12 marks)

b)   Highlight the Nature of Contract of Insurance in order to justify or conquer the similarities

         between insurance and wagering.   (8 marks)

QUESTION FIVE (20 MARKS)

a)   State and explain five principles of insurance   (10 marks)

b)   Discuss the steps of risk management process of any company of your choice in Kenya

                                                    (10 marks)