MACHAKOS UNIVERSITY

University Examinations for 2020/20201Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BMS 101 INTRODUCTION TO INSURANCE

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

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (30 MARKS) (COMPULSORY)

a) Distinguish between the following terminologies used in insurance:

  i.   Direct losses and Indirect losses   (2 marks)

  ii.   Indemnity and Reinstatement   (2 marks)

  iii.   Moral hazard and morale hazard   (2 marks)

b) Describe any two risks associated with swaps between two parties.   (4 marks)

c) Express briefly, your opinion about life insurance in general and give reasons for your opinion.   (4 marks)

d) Organizations use various strategies to protect themselves against risks. Explain the two techniques for risk control.   (6 marks)

e) Explain the purpose of the principle of proximate cause (causa proxima) and give clear examples of how it fits in the insurance practice.   (10 marks)

QUESTION TWO (20 MARKS)

a) Explain with clear examples, any FIVE types of Crime Insurance an organization may put in place to protect itself.   (10 marks)

b) Insurance covers various types of risks and include various insurance policies which provide protection against loss. Discuss the property insurance classification from the risk point of view.   (10 marks)

QUESTION THREE (20 MARKS)

a)   Describe the major coverage elements in an automobile insurance policy.   (10 marks)

b)   Explain with relevant examples, any five reasons for exclusions in an insurance contract.

(10 marks)

QUESTION FOUR (20 MARKS)

a)   Insurance premiums are calculated by predicting future losses of a particular group but without absolute precision. Insurance prediction is therefore based on the law of large numbers. Discuss how The Law of Accuracy and Large Numbers operates.   (10 marks)

b)   Insurance companies are not willing to accept all that people may transfer to them. For risks to be regarded, as insurable, certain characteristics must be present. Discuss the elements of insurability of risks.   (10 marks)

QUESTION FIVE (20 MARKS)

a)   With the help of a suitable example, illustrate the insurance Principle of Contribution and state under which circumstances the right of contribution arises.   (10 marks)

b)   Explain clearly, the legally binding elements of insurance contracts mainly derived from the general law of contracts.   (10 marks)