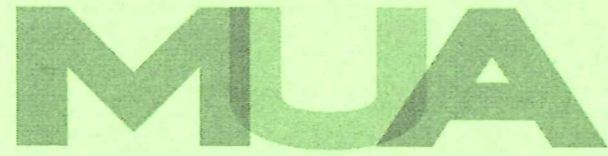


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

INS 414 : INSURER OPERATIONS AND REGULATIONS

DATE: 2ND AUGUST 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

RATE-MAKING AND CLAIMS SETTLEMENT CHALLENGES FOR PUBLIC SERVICE VEHICLE INSURERS IN KENYA

Insured parties in Kenya for motor insurance have the option of taking 'comprehensive insurance' or 'third party insurance'. The comprehensive insurance entitles the insured to compensation in case of loss of vehicle through theft, damage of the insured motor vehicle as a result of accident, loss of lives and injuries to third parties as well as damages to third party properties. Third party insurance cover compensates third parties only rather than the insured party, for injuries suffered by the third parties and/or damages incurred on their properties. The owner of the motor vehicle is not compensated by his/her insurer for loss or damage of his/her own vehicle. Such compensation can only be claimed from the insurance company of another person's vehicle that may be responsible for accident.

Insurance premiums paid for comprehensive insurance of motor vehicles is usually high owing to the high compensations. On the other hand, third party insurance coverage attracts low insurance premiums but also exposes the insured to the risk of not being compensated for loss or damage to his vehicle. A tradeoff decision has therefore to be made by insureds.

It is mandatory for public service vehicles (PSV) in Kenya to at least have third party insurance. The risks in the public transport industry in Kenya mainly dominated by privately owned public service vehicles known as 'matatus', are much higher than in developed countries where public transport buses and trains are owned by the government. A regulation was passed in Kenya about 10 years ago which required all public service vehicles to operate through Savings and Credit Co-operative Societies (SACCOs). This helped to tame the messy 'matatu' sector to some extent.

Motor cycles (famously called 'bodabodas') also offer transport services to members of the public. The 'bodaboda' riders have grossly been notorious for breaking traffic rules and hence responsible for many accidents which have resulted in deaths and injuries. Many of the riders are youngsters who don't even have driving/riding licenses. Many of the motor cycles are also not insured. Robbers have also invaded the 'bodaboda' sector and it has become extremely difficult to differentiate between genuine riders and criminals. Several policy measures are underway to install sanity to the sector which includes, but not limited to, operating through SACCOs.

Over the years, many claims were lodged with insurers of public service vehicles in Kenya, some of which have been fraudulent. This saw insurance companies offering public service motor insurance coverage collapsing one after the other due to cash flow challenges occasioned by claims outweighing incomes from premiums and investments. As a result, subsequent insurance companies have kept on increasing premiums payable for public service vehicles.

Required:

- a) In relation to motor vehicle insurance discussed above, examine four alternative risk handling techniques applicable to motor transport businesses. **(8 Marks)**
- b) Examine six tasks that are undertaken by a motor vehicle insurance risk underwriter who has received a proposal from a public service transport company operating in Kenya. **(9 Marks)**
- c) Demonstrate to a friend whose comprehensively insured vehicle has been stolen or severely damaged in an accident, on four actions to be undertaken by insured and insurer for successful claims settlement. **(8 Marks)**

QUESTION TWO

- a) Design five responsibilities that would be included in a claims adjuster's job description by the human resource manager of an insurance company. **(5 Marks)**
- b) Compose five core values of the Kenyan Insurance Regulatory Authority (IRA). **(10 Marks)**

QUESTION THREE

- a) Describe to an employee on internship in your insurance company, the process of computing premium rates for life insurance. **(5 Marks)**
- b) Propose five benefits derived by citizens and insurers in a country where there is a high uptake of insurance covers citing examples. **(10 Marks)**

QUESTION FOUR

- a) Appraise five roles that are played by lawyers engaged as employees of an insurance firm. **(5 Marks)**
- b) Assess five major reasons for the growth of reinsurance business in your country. **(10 Marks)**

QUESTION FIVE

- a) Distinguish between 'captive agent' and 'independent agent' in insurance business. **(3 Marks)**
- b) Discuss four justifications for insurance regulation by the government of your country. **(8 Marks)**
- c) Identify two participants in insurance market demonstrating their roles. **(4 Marks)**

QUESTION SIX

- a) Evaluate five challenges that are encountered in insurance regulation in Kenya. **(7½ Marks)**
- b) The board of directors of Majaliwa Manufacturers Ltd. have embarked on a decision to self-insure some of the company's properties. Propose five merits that must have informed such a bold decision. **(7½ Marks)**