The Management University of Africa

MUA

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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

INS 313: FUNDAMENTALS OF RISK MANAGEMENT

DATE: 27TH JULY 2026

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:

RISK MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES

World over, risk is the potential for a negative future reality that may or may not happen. Risk is defined by two characteristics of a possible negative future event: probability of occurrence (whether something will happen), and consequences of occurrence (how catastrophic if it happens). If the probability of occurrence is not known then one has uncertainty, and the risk is undefined. Risk is inherent in all activities. It is a normal condition of existence. Risk is ubiquitous and spreads through every issue of life. To business sectors, unforeseen situations create severe loss exposures. Furthermore, to small-medium enterprises (SMEs) and micro companies, where the capital background is not sufficiently strong, a catastrophe could likely lead to interruption in operational activities, financial loss, and bankruptcy

No doubt any business entity needs robust risk management systems but the SMEs need much more than that as they may not have wherewithal to manage and control risks due to their very size and several limitations. This is not true in the case of large corporate entities where professional personnel take care of many aspects pertaining to risk. All risk-taking units must operate within approved procedures, limits and controls.

Studies have indicated that SME sectors are exposed to some specific risks; these include; a) Constitution of business entity. The business entities under SME sectors are mostly proprietorship and partnership concerns. Few in the joint stock companies are private limited or closely held public limited companies. Thus, the very constitution itself may prove to be risky due to lack of professionalism and overdependence on one or two key persons for running the show. Lenders and other stakeholders in SME sector cannot afford to forget this fact. (b) Leverage on financial structure. The nature of constitution of the business entity limits the funds mobilization efforts and leveraging capacity. There is a limit up to which a small and medium business enterprise can raise capital and borrow. This naturally affects their capacity to leverage on the financial structure. (c) Tough competition and inadequate margin. By virtue of the fact that most of the entities in SME sector are small players in their field, they may have to encounter tough competition from the bigger players.

They face the pressure on their margin as they can’t raise their price but have to absorb the high input cost. (d) Low collection in Account Receivables. As is evidenced in the increasing trend of outstanding receivables in the SSI sectors, there exists collection risk in the receivable portfolio of SME sectors for the reason that SMEs cannot dictate terms to their customers. As SME sector business entity is at the receiving end, this may put strain on the liquidity position of the business entity. However, the track record of SMEs as borrowers reveals that the default rate is low. Very low rates of bad debts may be the result of banks restricting their exposure to this sector. These are some of the few from many risks that are eminent to the SMSs in Kenya among other nations.

Therefore, managing risks to reduce and minimize the loss exposure is essential for every small business. Despite the necessity, many SMEs and micro companies rarely carry out detailed risk assessment and management strategies. It is due to the fact that engaging in risk assessment and management require a certain budget and human resource, which are limited in small enterprises. These companies’ decision on how and what to invest in depends on the ongoing activities and on their financial status. Small scale businesses generally shift the process of risk management into project-based. It is questionable that whether a traditional risk management plan or a customized project risk management would help SMEs and micro companies to reduce the losses, or would negatively weigh on their budgets.

Required:

a) Discuss the various risks faced by small and medium enterprises **(12 Marks)**

b) With the help of appropriate examples, examine any two challenges encountered by small and medium enterprises in the assessment of risk. **(3 Marks)**

c) Explore any three likely impacts of risk on small and medium enterprises **(6 Marks)**

d) Evaluate two characteristics of risk as identified in the above case **(4 Marks)**

QUESTION TWO

a) Discuss five conditions that must be satisfied for the principle of contribution to operate. **(10 Marks)**

b) Examine the importance of risk management to business organisations **(5 Marks)**

QUESTION THREE

a) Discuss the five insurance policies available for liability risks . **(10 Marks)**

b) Evaluate five characteristics of life insurance **(5 Marks)**

QUESTION FOUR

a) Discuss the steps involved in risk management process **(7 Marks)**

b) Pre-loss objectives try to pre-empt the occurrence of losses to the firm. Explore any four pre-loss objectives of a risk management programme. (**8 Marks)**

QUESTION FIVE

a) Explain the law of large numbers **(3 Marks)**

b) Evaluate six approaches that can be used by business managers to identify risk **(12 Marks)**

QUESTION SIX

a) The existence of risk causes discontent to individuals and the uncertainty accompanying it causes anxiety and worry. Explore five methods of handling risks. **(10 Marks)**

b) With the help of appropriate examples, discuss two reasons why government agencies are involved in risk management **(5 Marks)**