



UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

**INS 421: EMERGING ISSUES IN INSURANCE AND RISK
MANAGEMENT**

DATE: 29TH JULY 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 40

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:

JAMBO HOLDINGS LTD - A MULTI-FACETED RISK CRISIS

Jambo Holdings Ltd (JHL) is a diversified Kenyan conglomerate with four operating divisions: Jambo Manufacturing (plastic pipe production, annual revenue Ksh 8 billion; key risks: fire, machinery breakdown, raw material price volatility); Jambo Transport (long-haul trucking fleet of 200 trucks, annual revenue Ksh 5 billion; key risks: accident, theft, cargo damage, driver fatigue); Jambo Properties (commercial real estate, 15 buildings, annual revenue Ksh 3 billion; key risks: fire, terrorism, tenant default, property devaluation); and Jambo Agri (large-scale farming, 5,000 acres, annual revenue Ksh 4 billion; key risks: drought, pest infestation, crop disease, price fluctuation).

In 2026, JHL faced multiple simultaneous risk events. Event A - Manufacturing Division (March): A major fire destroyed the main pipe production facility. Investigation revealed that fire alarms had been disconnected and sprinklers were non-functional due to cost-cutting measures implemented six months earlier. The building was insured for Ksh 1.2 billion against an actual replacement cost of Ksh 2 billion. Business interruption losses are estimated at Ksh 800 million.

Event B - Transport Division (April-June): Three major truck accidents occurred within 60 days: (i) driver fatigue caused a collision resulting in two fatalities; (ii) cargo was stolen while the driver stopped at an unsecured roadside; and (iii) a truck overturned due to speeding on a bend.

Event C - Properties Division (July): A terrorist attack on an adjacent building caused structural damage to JHL's flagship commercial tower. The building was unoccupied at the time owing to the post-COVID remote-working trend. Repairs cost Ksh 500 million.

Event D – Agri Division (August-October): Unprecedented flooding destroyed 60% of the maize crop. No crop insurance was in place because management considered premiums too high.

JHL's insurance and risk management background is as follows: JHL has a single group-wide insurance programme with InsureCo Kenya Ltd; the fire policy includes an Average Condition clause (80% of value); there is no business interruption cover for the manufacturing division; the transport division holds statutory third-party cover only with no comprehensive cover; the properties division has terrorism cover included in the Fire and Special Perils policy; there is no risk management department and insurance is handled by the finance manager; no formal risk assessment has been conducted in five years; and JHL self-insured the agri division after rejecting crop insurance quotes.

The crisis triggered the following stakeholder reactions: the Board of Directors asked "How did this happen? We thought we had insurance!"; the bank threatened to call in a Ksh 5 billion loan due to covenant breach; transport division employees threatened strike action over safety conditions; the Insurance Regulatory Authority (IRA) opened an inquiry into JHL's insurance compliance; and InsureCo Kenya indicated it may not renew the policy.

Required:

- a) Classify six types of risk evident in JHL's case study using systems such as pure/speculative, static/dynamic, and fundamental/particular, and explain why each fits its classification.

(6 marks)

- b) Analyze JHL's failures through the six stages of the risk management process, highlighting one specific failure at each stage and proposing one corrective action for the future.

(6 marks)

- c) Critically evaluate JHL's group-wide insurance programme design. Identify three (3) major inadequacies in their insurance arrangements. For each inadequacy, explain the actual consequence JHL experienced

and recommend the appropriate insurance cover they should have had.

(5 marks)

- d) The fire policy includes an Average Condition clause (80% of value). Calculate the claim payment JHL will receive for the manufacturing building fire, showing all workings. Evaluate whether JHL has any recourse against the insurance broker who advised on the sum insured.

(4 marks)

- e) Synthesize the concepts of risk management programme policy, implementation, and review as they apply to JHL. Propose a comprehensive risk management programme framework covering: policy statement components, implementation structure, and review frequency and metrics.

(4 marks)

QUESTION TWO

Kenya Space Agency (KSA) is a new government agency planning to launch Kenya's first satellite. They have approached the local insurance market for coverage. The proposed risks include: satellite loss during launch (estimated value USD 50 million); third-party liability for launch debris damage; business interruption if the satellite fails to achieve orbit; and cyber risk of satellite command interference.

- a) Evaluate the requisites of insurability by constructing a framework and assessing whether satellite launch risks meet each requisite, concluding whether such risks are ideally insurable or require special treatment.

(8 marks)

- b) Analyze the historical development of insurance lines. Using satellite insurance as an example of an emerging risk, explain how new insurance products typically develop. What conditions enabled the development of aviation insurance historically that may parallel satellite insurance today?

(4 marks)

- c) Evaluate the role of the Insurance Regulatory Authority (IRA) in Kenya in controlling the development of new insurance products like satellite insurance.

(3 marks)

QUESTION THREE

Green Fields Farmers Cooperative insured its grain warehouse under a Fire and Special Perils policy. A fire destroyed the warehouse and 10,000 bags of maize. The insurer, Trust Insurance Ltd, has rejected the claim on three grounds: (i) non-disclosure – the proposal form asked whether the insured had suffered a fire loss in the previous five years; Green Fields answered “No”, yet a small fire (Ksh 50,000 loss) had occurred three years earlier and was settled by a previous insurer; (ii) breach of warranty – the policy contains a warranty that a 24-hour security guard shall be present at the warehouse, but on the night of the fire the guard was absent for two hours; and (iii) excluded peril – the insurer argues the fire was caused by spontaneous combustion, which is excluded, rather than by fire, which is covered.

- a) Synthesize the principles governing the insurance contract – utmost good faith, insurable interest, indemnity, subrogation, contribution, and proximate cause. For each principle, explain whether it is relevant to this dispute and how it would apply.

(8 marks)

- b) Regarding the non-disclosure issue, explain the legal test for materiality and evaluate whether Green Fields’ omission of the small fire would be considered material. Justify your answer.

(4 marks)

- c) Evaluate the insurer’s three grounds for rejection. For each ground, present the insurer’s position, Green Fields’ potential counter-argument, and your reasoned conclusion as to who would likely prevail.

(3 marks)

QUESTION FOUR

You are the Underwriting Manager at NexGen Insurance Ltd. You have received two applications and one claim. Application 1 – Restaurant: A new Indian restaurant in Westlands, Nairobi, seeking Fire and Special Perils cover for Ksh 50 million. The building was built in 1980, has no sprinklers, and uses open-flame tandoor ovens. The previous tenant (a clothing store) had no fire claims. Application 2 – Logistics Company: A logistics company seeking Goods in Transit cover for high-value electronics at Ksh 200 million per shipment. Security measures include

GPS tracking, 24/7 monitoring, and armed escort for high-value loads.
 Claim 1 - Fire: A manufacturing client suffered a fire loss of Ksh 30 million under a policy with a Ksh 5 million excess. Investigation reveals the client had been warned twice about faulty wiring but took no action.

a) Synthesize the underwriting process for property insurance. For Application 1, make an underwriting decision - accept or decline. If you accept, state the terms including premium loading, excess, and conditions, together with risk improvement measures required. Justify your decision. **(6 marks)**

b) Analyze Application 2 for Goods in Transit cover. Evaluate the risk factors and determine a relative premium level. Propose additional risk control measures you would recommend.

(4 marks)

c) Analyze the claims process for Claim 1. The client argues that having paid the premium the insurer must pay the claim in full. Evaluate the merits of this position and state whether you would pay in full, partially, or reject the claim and justify your decision with reference to insurance principles and policy conditions.

(3 marks)

d) Analyze the functions and applications of reinsurance. The manufacturing client's fire loss of Ksh 30 million falls within NexGen's retention limit of Ksh 50 million per risk. NexGen also holds a catastrophe excess of loss treaty of Ksh 200 million excess of Ksh 50 million. Explain whether this claim would be ceded to the reinsurer, and why NexGen would maintain such a treaty even for losses below the retention.

(2 marks)

QUESTION FIVE

Despite Kenya having a well-developed insurance industry, insurance penetration - premiums as a percentage of GDP - remains below 3%. The Association of Kenyan Insurers (AKI) has commissioned you to analyze the marketing challenges and propose solutions.

a) Evaluate explain three unique characteristics of insurance as a product that make its marketing different from marketing physical

goods. For each characteristic, explain one implication for insurance marketing strategy in Kenya. **(6 marks)**

- b) Analyze three major phases of development. For each phase, explain one key driver and one challenge faced by insurers.

(6 marks)

- c) Most Kenyan SMEs do not have formal risk management programmes. Propose one (1) practical, low-cost strategy that AKI could promote to help SMEs implement basic risk management..

(3 marks)

QUESTION SIX

A client, Pamoja Community Hospital, needs comprehensive insurance. The hospital has a 50-bed facility building valued at Ksh 300 million, medical equipment worth Ksh 150 million, 200 employees including doctors, nurses, and administrative staff, 10 vehicles including ambulances and administrative cars, and receives numerous patients and visitors daily.

- a) Analyze six different types drawn from different classes – property, liability, motor, and life/health. For each type, explain the specific risk being covered, how a relevant insurance principle applies, and why the cover is essential for the hospital.

(9 marks)

- b) Remote working has reduced occupancy in commercial buildings. Analyze how this trend affects property insurance, liability insurance, and business interruption insurance.

(6 marks)