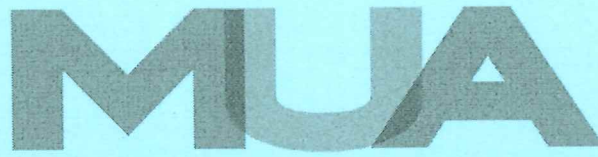


The
Management
University
of Africa



Sponsored by the Kenya Institute of Management

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

INS 413 : ADVANCED LIABILITY INSURANCE

DATE: 16TH DECEMBER 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:

How directors can cover themselves against liability risks

Under company laws, directors have a duty to enhance operational efficiencies and profitability. Under company laws, directors have a duty to enhance operational efficiencies and profitability. Indeed, the first task of every director is to comply with corporate governance policies, relevant applicable laws and rules stipulated by regulatory bodies during the execution of their mandate. Ironically, the same law allows directors to be held liable for decisions deemed to be harmful to their company, employees or shareholders.

This leaves directors in an awkward position since they are recognized as the bona fide decision makers while at the same time left to fight their own battles when claims of unprofessional conduct are made against them. America's Silicon Valley Bank (SVB) was recently put under regulatory administration after failing to raise new money to cover its funding shortfalls that were occasioned by realised impairments on its bond portfolio holdings. This incident prompted a class action lawsuit being filed against SVB parent company, SVB Financial Group, and two of its top executives by the bank's shareholders. Closer home, our country's financial services sector has also experienced similar situations with several financial institutions in the banking and insurance industries having been placed under statutory management, forcing their former employees and shareholders to turn to the court system in the hope of settlements.

Since no one knows when certain decisions made will result in litigation, there is a need for individual organisations to embrace risk solutions that will offer protection against judgements from civil lawsuits that can be initiated by shareholders, employees, customers, competitors, and government agencies.

Considering the massive payoffs resulting from such civil suits, an organisation needs to be prepared for the possibility of several associated risks, especially lawsuits, which simply cannot be ignored. How can organizations and their leadership stay protected

considering such events? Section 194(3) and Section 195 of The Companies Act 2015 acknowledge these exposures and recommend that a company should maintain an insurance cover for any liability specified in that subsection against a director of the company. Insurers offer cover designed to protect executives and board members from lawsuits that may arise from their actions or decisions made while carrying out their duties.

One of the key benefits of such covers is providing financial protection for the personal assets of directors and officers in the event of a lawsuit. This includes legal fees, settlements or judgments, and other related costs. When procuring such insurance, the first step would be ascertaining adequate liability of limit for this insurance cover considering today's corporate environment. The importance of insurance is not just limited to corporate coverage but also extends to the protection of its officers and directors. While no one can predict and avert these major risks, they can most certainly be financially prepared to battle the large expenses that come with them. Director's and officers' insurance is an essential tool in today's business world and should be seriously considered by all companies and their directors and officers.

Source (Business daily, 25th August 2023)

Required

- a) In reference to the above case study, discuss five challenges faced by directors when claims of unprofessional conduct are made against them **(5 Marks)**
- b) Analyze five reasons behind the lawsuit filed against America's Silicon Valley Bank (SVB) and its executives by the bank's shareholders **(5 Marks)**
- c) Examine the significance of Sections 194(3) and 195 of The Companies Act 2015 in protecting directors from legal claims **(5 Marks)**
- d) Evaluate five key benefits of directors' and officers' insurance mentioned in the case study. **(5 Marks)**
- e) Explore the proactive steps that companies and their leadership can take to ensure adequate protection against legal claims and the associated financial burdens. **(5 Marks)**

QUESTION TWO

- a) Explain the concept of professional liability insurance and its significance for professionals such as doctors, lawyers, and architects. **(10 Marks)**
- b) Discuss the coverage limitations and exclusions typically found in professional liability insurance policies. **(5 Marks)**

QUESTION THREE

- a) Describe the concept of environmental liability insurance and its relevance in today's environmentally conscious society. **(10 Marks)**
- b) Discuss the challenges and complexities involved in assessing and pricing environmental liability insurance coverage. **(5 Marks)**

QUESTION FOUR

- a) Evaluate five factors contributing to the increasing demand for advanced liability insurance in specific industries. **(10 Marks)**
- b) Assess five challenges faced by insurance companies in underwriting and pricing advanced liability insurance policies **(5 Marks)**

QUESTION FIVE

- a) Discuss five roles of advanced liability insurance in managing and mitigating the risks associated with product liability claims. **(10 marks)**
- b) Examine five key considerations for insurance companies when underwriting product liability insurance policies. **(5 marks)**

QUESTION SIX

- a) Jeremiah owns a fleet of vehicles that are used for transporting goods. All his vehicles are insured under commercial motor insurance. One of his vehicles while on its way to Kisumu was hit from behind by uninsured lorry and the driver lost control and hit a saloon car. The car was badly damaged and the occupants were also badly injured. Jeremiah's vehicle was damaged and the driver was also injured in the accident. Evaluate five items that will be covered by Jeremiah's commercial motor insurance policy. **(10 Marks)**
- b) Discuss the coverage of workers compensation policy. **(5 Marks)**

