The Management University of Africa

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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/BACHELOR OF COMMERCE

BML 307/BML 402/BCM 225: **RISK AND INSURANCE MANAGEMENT**

DATE: **7TH APRIL 2025**

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:

ABC MANUFACTURING'S RISK AND INSURANCE DILEMMA

ABC Manufacturing is a mid-sized business specializing in the production of automotive parts for major car manufacturers. The company operates four production plants across different regions. Recently, they encountered a series of unfortunate events that exposed gaps in their risk management and insurance strategies.

First, a fire broke out in one of their primary plants due to faulty electrical wiring. Although ABC Manufacturing had property insurance, the coverage was found to be inadequate. The policy did not fully cover the replacement cost of the damaged inventory and equipment, which led to substantial out-of-pocket expenses. Furthermore, the business was forced to shut down operations at the plant for three months, causing delays in meeting customer orders, resulting in contract penalties and loss of business.

Second, the company has been facing escalating health risks among its workforce. Several employees have been diagnosed with chronic illnesses, leading to increased medical expenses under the company's group health insurance plan. The rising costs have significantly impacted the company's profitability, and the current health insurance policy does not adequately cover preventive care measures.

Additionally, ABC Manufacturing experienced a major data breach in its IT systems. Hackers gained access to sensitive employee information and intellectual property. The breach severely damaged the company's reputation, and they are now facing potential lawsuits from employees whose data was compromised. The company's cyber insurance policy provided some coverage, but the limits were insufficient to address all legal fees and compensation claims.

Lastly, due to climate change, ABC Manufacturing's plants located in flood-prone areas are now at increased risk of flooding. The company is uncertain about how to best manage this environmental risk and is considering whether to rely on insurance alone or implement additional risk management strategies.

ABC Manufacturing's leadership team is now seeking a comprehensive review of their risk management practices. They are exploring how they can better protect the business from future risks, improve their insurance coverage, and ensure business continuity in the face of disasters.

Required:

a) Illustrate the principles of insurance that ABC Manufacturing should have considered when purchasing their property insurance. **(5 Marks)**

b) Analyze the types of insurance policies ABC Manufacturing could adopt to manage the risks related to employee health and data breaches. **(5 Marks)**

c) Evaluate the role of enterprise risk management (ERM) in helping ABC Manufacturing mitigate future risks, especially regarding natural disasters and information technology. **(5 Marks)**

d) Based on the case, discuss the importance of indemnification and subrogation for ABC Manufacturing in addressing their losses from the fire. **(5 Marks)**

e) Formulate a risk management plan for ABC Manufacturing that includes both insurance and non-insurance strategies **(5 Marks)**

QUESTION TWO

a) Apply the principle of indemnity to a scenario where an insured party makes a claim under a property insurance policy. How does this principle affect the payout? **(5 Marks)**

b) Analyze the differences between auto insurance and health insurance in terms of coverage and societal effects. **(5 Marks)**

c) Evaluate the controversies associated with insurance liability and how they impact both insurers and policyholders. **(5 Marks)**

QUESTION THREE

a) Apply the concept of "money at risk" in the context of enterprise risk management for a large corporation managing multiple projects. **(5 Marks)**

b) Analyze the role of actuaries in determining risk exposure for a multinational corporation. **(5 Marks)**

c) Evaluate the effectiveness of composite risk index as a tool for risk measurement in project management. **(5 Marks)**

QUESTION FOUR

a) Analyze the seven cardinal rules for the practice of risk communication in the context of a company's crisis management efforts. **(5 Marks)**

b) Evaluate the role of enterprise risk management (ERM) in ensuring business continuity during major disruptions like pandemics or natural disasters. **(5 Marks)**

c) Apply the steps of the risk management process to a company dealing with supply chain disruptions. **(5 Marks)**

QUESTION FIVE

a) Analyze the common challenges companies face when implementing an ERM program, especially in regulated industries. **(5 Marks)**

b) Evaluate the evolution of enterprise risk management in the context of modern business environments. **(5 Marks)**

c) Formulate the role of governmental regulation in shaping the effectiveness of risk management strategies for large enterprises. **(5 Marks)**

QUESTION SIX

a) Evaluate the principle of utmost good faith in a scenario where an insurance claim is disputed due to non-disclosure of critical information by the insured. **(5 Marks)**

b) Analyze the differences between life insurance contracts and marine insurance policies. How do these differences impact risk coverage? **(5 Marks)**

c) Evaluate the role of reinsurance in minimizing risks for insurers, especially in high-risk industries. **(5 Marks)**