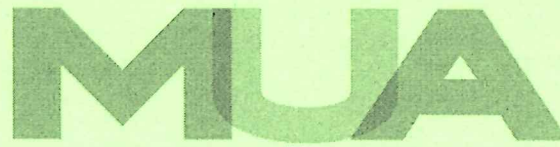


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

INS 314: RISK MANAGEMENT AND LIFE INSURANCE

DATE: 30TH JULY 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:

RISK MANAGEMENT IN LIFE INSURANCE

Risk management is a broad topic. It involves taking steps to minimize the likelihood of things going wrong, a concept known as loss control. It also involves the purchasing of insurance to reduce the financial impact of adverse events on a company when, despite your best efforts, bad things happen. Life insurance contracts are fairly simple to understand but are some of the most important in terms of personal risk. Some students believe that the risk involved in life insurance is death. In reality, death is assured for each individual and therefore it cannot be a risk anymore. The risk involved in life insurance is therefore twofold: premature death and superannuation.

As human beings we do not know when we shall die and therefore this situation creates uncertainties in our minds. We must therefore prepare for the consequences of death at any time. Superannuation is a situation of living too long that you overstretch your income during your old age. This therefore requires policies that will provide income during the old age. The unique function of life insurance is to create an instant estate upon which the policyholder and dependents will rely on when a financial need arises. To a greater extent life insurance is intended for the dependents because once the policyholder dies, the policy is no longer useful to him but to his/her dependents. What life insurance does is to accumulate an estate for the possible contingency of premature death.

Life insurance follows the same concepts of risk management. Vaughan states that "the risk in life is not whether the individual is going to die, but when and the risk increases from year to year". This is quite correct because as we grow old we experience deterioration in our physical state because of aging and activities that bring stress to our bodies. In life insurance there is no partial loss like in property insurance where a fire could destroy part of a house and leave the rest intact. Death is a total loss and therefore the policy matures on death except if you survive the

period of coverage. Life insurance contracts are regarded as long-term contracts. Although we can have in certain cases short-term policies, but a majority of them are given for periods in excess of one year. All the policies cover the individual until death.

Required:

With reference to the case study above:

- a) Examine six characteristics of life insurance policies. (12 marks)
- b) Identify and explain the three traditional life insurance policies not specifically mentioned in the case study above. (6 marks)
- c) Explain what is meant by the term mortality and elucidate 3 factors affecting mortality rate. (4 marks)
- d) Explain why people assume that the risk involved in life insurance is death (3 marks)

QUESTION TWO

- a) Evaluate 3 advantages and 3 disadvantages of using insurance as a risk transfer mechanism (9 marks)
- b) Identify and explain six sources of information for an underwriter (6 marks)

QUESTION THREE

- a) Assess three functions that necessitate the need for risk management in organizations (6 marks)
- b) A prospective client would like to find out if his business has insurable risks. You have been requested to induct the client on 6 requisites of insurability of business risk. (9 marks)

QUESTION FOUR

- a) Examine the three cardinal rules in risk management (6 marks)
- b) There are various types of risks, which face individuals and business. Examine six such risks (9 marks)

QUESTION FIVE

- a) Risk financing involves devices that focus on arranging the availability of funds to meet the losses that arise from risks that remain after control measures have been taken, Examine two techniques used in risk financing (6 marks)

- b) Identify a company of your choice and show practical treatment of risks using the risk treatment matrix (9 marks)

QUESTION SIX

- a) Describe five successful strategies an organization can use to manage risk (10 marks)

- b) Illustrate five types of risk assessments and when to use them (5 marks)