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 COMMERCE

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

DATE: 5TH DECEMBER 2022

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:

GROWTH PROSPECTS FOR KENYA'S INSURANCE INDUSTRY

Global regulatory trends show that tougher regulation and increased pressure to perform can improve the sector's prospects and encourage investment. After many successful years of expanding their businesses in Asia, global insurers have trained their sights on Africa. At face value, Kenya's insurance sector appears to be a prime African market for investment with the sector experiencing more than a dozen mergers and acquisitions in 2014, including the arrival of large multinational players. While this activity slowed in 2015, we can expect it to pick up again going forward.

Meanwhile, Kenya's Insurance Regulatory Authority (IRA) is laying the groundwork that will inspire greater investor confidence. However, it is not yet clear whether there is the capacity in this market to implement and enforce the regulatory changes that would facilitate more investment.

Regulatory changes inspire confidence

Investors want to know that Kenya's insurance sector is governed by international best practices that improve internal governance and awareness of risk. At the same time, Kenya's insurers can use best practices to present themselves to investors in the best light possible.

Kenya's IRA is implementing risk-based supervision. Although it is difficult to raise capital requirements, the overall effect on the industry is positive. The fact that IRA is implementing risk-based supervision will give insurance companies (and investors) more confidence in future capitalization and most importantly, start to position Kenya's insurance sector in line with leading economies.

Kenya's life insurance companies are also now required to value their reserves on a new basis called Gross Premium Valuation (GPV) which is yet another step in the right direction as it brings us closer to international best practice. The IRA already requires a qualified actuary to independently assess the insurance liabilities; this contributes to greater confidence on the part of investors and the market overall.

IFRS 17 (previously called IFRS 4 Phase II) is still about four years away but developed economies have already started preparing for it and the time for Kenya's insurers to start is now. This new standard will lead to a transformational change within individual insurance entities and across the industry as a whole. Some of the fundamental changes include a new profit recognition approach (and hence a new way of reporting insurance revenue), losses recognised immediately and increased volatility of profit and equity. Furthermore, the new valuation method for insurance liabilities is a complete move to best estimate reserving; indeed, as part of the enhanced disclosure requirements insurance companies will be asked to report on 'what is the confidence level at which you are carrying your reserves?' This is another way of asking, 'what is the strength of your company?'

Required

a) In reference to the above case, explore five roles of insurance in the Kenyan economy. **(10 Marks)**

b) Identify any five challenges facing insurance penetration in Kenya **(5 marks)**

c) Discuss with the help of relevant examples any five roles of Kenya's Insurance Regulatory Authority in the growth of insurance in Kenya **(10 marks)**

QUESTION TWO

a) Discuss any five requisites of insurability and explain the rationale behind them. **(10 Marks)**

b) Examine any five cardinal rules of risk communication **(5 Marks)**

QUESTION THREE

a) Discuss the steps involved in enterprise risk management process. **(5 Marks)**

b) Examine the importance of insurance to small and medium enterprises in Kenya. **(10 Marks)**

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QUESTION FOUR

Marine insurance is important in case of import and export of goods which is an integral part of the economy. By compensating against the loss of goods and ship, the policy helps exporters and importers bear any losses incurred during transit.

Required

a) Discuss any four types of marine insurance policies available in your country. **(8 Marks)**

b) Explain seven perils covered under marine Insurance. **(7 Marks)**

QUESTION FIVE

a) Discuss any five functions of re-insurance. **(10 Marks)**

b) The unique function of life insurance is to create an instant estate upon which the policyholder and dependants will rely on when a financial need arises. To a greater extent life insurance is intended for the dependants because once the policyholder dies, the policy is no longer useful to him but to his/her dependants. Appraise any five characteristics of life insurance. **(5 Marks)**

QUESTION SIX

a) Define the term subrogation. **(1 Mark)**

b) Discuss any three Limitations of the Doctrine of Subrogation. **(6 Marks)**

c) Discuss any four risk mitigation strategies available for small and medium enterprises. **(8 Marks)**