MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF PURE AND APPLIED SCIENCES

DEPARTMENT OF MATHEMATICS AND STATISTICS

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF SCINCE (ACTURIAL SCIENCE)

SAC 204: RISK MANAGEMENT

DATE: 14/12/2021   **TIME: 11.00-1.00 PM**

INSTRUCTION:
Answer Question One and Any Other Two questions

QUESTION ONE (30 MARKS)

a) Using relevant examples, differentiate between:

     i.   Pure and speculative risk   (4 marks)

     ii.   Diversifiable risk and non-diversifiable risk   (4 marks)

a) Explain what is meant by moral hazard in insurance.   (2 marks)

b) Define the term captive as applied in insurance risk management.   (2 marks)

c) Outline the benefits of risk management to a firm.   (4 marks)

d) Wabebe Wote is a PSV operator in Twaendapi, which owns a fleet of 500 buses. The risk manager is considering a partial retention program for physical losses to the buses. Outline four methods the company can use to pay for physical damage losses to company buses.

                                                                         (4 marks)

e) What are the two major differences between insurance and hedging?   (4 marks)

f) Outline the major advantages and disadvantages of insurance as a risk management tool.

                                                                        (6 marks)

QUESTION TWO (20 MARKS)

The main techniques for managing risk can be classified broadly as either risk control or risk financing. Discuss, with examples,

a)   the major risk control techniques.   (10 marks)

b)   the major risk financing techniques.   (10 marks)

QUESTION THREE (20 MARKS)

a)   Differentiate between:

    i.   Objective risk and subjective risk   (2 marks)

    ii.   Peril and hazard   (2 marks)

b)   Captive insurers are formed for several reasons. Discuss the role and the reasons for creating captives.   (8 marks)

c)   Business firms face a number of speculative financial risks.

    i.   Define financial risk management.   (2 marks)

    ii.   Explain three speculative financial risks that may be considered by a risk manager.

                                                                          (6 marks)

QUESTION FOUR (20 MARKS)

a)   Explain the various categories of risk that organizations may be faced with.   (12 marks)

b)   Highlight, giving clear relevant examples, the major categories of potential loss exposures that a risk manager should consider and identify.   (8 marks)

QUESTION FIVE (20 MARKS)

a)   What is the meaning of risk management?   (2 marks)

b)   Explain the objectives of risk management.   (8 marks)

c)   Highlight (in the correct order) the four steps in the risk management process.   (4 marks)

d)   Discuss risk avoidance and risk retention in a risk management setting.   (6 marks)