MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF EDUCATION (ARTS)

BMS 101: PRINCIPLES OF INSURANCE

DATE: 11/12/2020 **TIME: 11:00 – 1:00 PM**

Instructions to candidates:

1. ANSWER question ONE and any OTHER TWO questions
2. Question one carries 30 marks, while the rest carry 20 marks each

QUESTION ONE (COMPULSORY) (30 MARKS)

Read the case below and attempt the questions that follow

After a few years of his working life, John acquired a vehicle from Esther, his colleague at work. Upon the acquisition of the car, he learnt that, in compliance with traffic laws of Kenya, he was obliged to secure, at minimum, a third party's property and bodily injuries or death. John decoded to approach local agent who explained to him the various types of insurance cover available to him the various types of insurance cover with Royal Insurance Company, an appropriate company according to the agent.

John had prior knowledge that Esther had modified the engine of her car in order to indulge her passion of driving at a higher speed whenever she pleased. Nevertheless, he had gone ahead and purchased the car. However, John did not avail this information to his insurer at the time of making the contract. One month later, this contract was declared voidable at the opinion of the Royal insurance company.

The knowledge gathered from the insurance agent had also induced John to effect an insurance on his wife's life lie reasoned that it was in his interest to take up such cover since he would suffer loss in the event of his wife's absence due to the wife's services; around the house and with the children. He later learnt that it was un necessary to try and justify a husband interest in his wife's life, such interest exists and is unlimited in amount on one's spouse.

Questions

a) John's contract with Royal Insurance Company in respect to his car was declared voidable at the insurer's opinion.

i) Explain why the contract was voidable. (4 marks)

ii) Highlight other requirements for a valid contract (4 marks)

b) The law indicates that unlimited insurable interest exists on the life of one's spouse. Describe where such interests exist in life insurance (10 marks)

c) Discuss the legal provisions that define the scope of insurance and guide its practice

(12 marks)

QUESTION TWO (20 MARKS)

a) Insurance provides benefits to the individual's governments and the society at large. Highlight socio-economic benefits of insurance. (12 marks)

b) Explain **four** methods of handling risk. (8 marks)

QUESTION THREE (20 MARKS)

a) Highlight the distinct Features of life assurance that distinguish it from non-life insurance

(12 marks)

b) Analyze the challenges facing Kenya insurance industry (10 marks)

QUESTION FOUR (20 MARKS)

a) Explain to your friend the types of insurance cover that he can take to safeguard his property against unseen losses. (8 marks)

b) Distinguish between the following types if risks

i) Speculative risks and pure risks (4 marks)

ii) Fundamental risks and particular risks (4 marks)

iii) Static and dynamic risks (4 marks)