

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

B. COMM INSURANCE AND RISK MANAGEMENT

APPLIED RISK MANAGEMENT : CIN 2107

TIME: 3 HOURS

DECEMBER 2002 1ST SEMESTER EXAMINATION

INSTRUCTIONS TO CANDIDATES

1. Answer Question One Section A
2. Answer Two Questions from Section B.

SECTION A

1. ABC (Pvt) Ltd has engineering equipment valued at \$5 million. The equipment can be insured under a machinery breakdown policy at a rate of 0,02%. Management is considering setting aside \$200 000 annually for a loss reserve fund. The firm earns 20% interest on invested capital. Highly liquid assets that have a low degree of risk can be invested at 5% interest.
 - (a) Recommend to ABC how they should manage this risk. **[15 marks]**
 - (b) Justify your response to question (a) **[20 marks]**
 - (c) Discuss the advantages and disadvantages of self insurance. **[15 marks]**

SECTION B

2.
 - (a) Explain the concept of reinsurance as a risk management technique. **[12½ marks]**
 - (b) Identify and explain the reasons for using reinsurance as a risk management technique. **[12½ marks]**
3. "Pursuing a strategy of risk elimination in a commercial organisation is futile". Discuss this statement. **[25 marks]**
4.
 - (a) How can the economic value of human life be determined? **[12½ marks]**
 - (b) Why is it not advisable to insure human life for an amount equal to the economic value of a persons life? **[12½ marks]**

5. Tobacco is a high income earning product. On the other hand it is a high risk to both life and property. Explain how best:

(a) Governments can manage this risk. **[12½ marks]**

(b) Insurers can manage this risk. **[12½ marks]**

END OF EXAMINATION