

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF
DEGREE OF BACHELOR OF COMMERCE**

BCOM 444: REINSURANCE

STREAMS: BCOM (Y4S2)

TIME: 2 HOURS

DAY/DATE : WEDNESDAY 22 /09/ 2021

8.30 AM – 10.30 AM

INSTRUCTIONS TO CANDIDATES:

- Answer Question One and any other Two Questions.
- Show all your workings
- DO NOT WRITE ANYTHING on the question paper.

QUESTION ONE

- (a) Bima Insurance Corporation has a retention level of Kshs.2,000,000. The insurer arranges four treaties as follows;

First surplus 4 lines

Second surplus 3 lines

Third surplus 2 lines

Assume the following further:

A risk of Kshs.22,000,000 to Bima Insurance Corporation

A claim of Kshs.5,000,000 for the risk

Required:

- (i) Show how the risk will be shared. [5 Marks]
- (ii) Demonstrate how the claim will be handled. [10 Marks]

- (b) Assume you have been appointed to the position of a Chief executive officer of Mashariki insurance company limited. Explain to your board of directors, why it would be necessary to arrange treaties before commencing business. [10 Marks]
- (c) Critically explain why retrocession business is more hazardous to retrocessionnaires. [5 Marks]

QUESTION TWO

- (a) Explain the advantages and disadvantages of a treaty reinsurance arrangement. [12 Marks]
- (b) A non-proportional reinsurance has been arranged by X insurance company for Kshs.800M excess of loss Kshs.400M. Suppose a loss of Kshs.900M has occurred; show how the loss will be shared. [4 Marks]
- (c) Reinsurance Y accepts 20% of facultative proportional reinsurance whose original sum insured is kshs.400m at a rate of 2.5 per mille. The rate of commission payable is 20%. What is the net premium due to Y? [4 Marks]

QUESTION THREE

- (a) Critically analyse quota share reinsurance method, showing where it is applicable. [10 Marks]
- (b) Write brief notes on the following clauses used in the reinsurance contracts.
- i) Intermediaries clause. [3 Marks]
- ii) Follow the fortunes clause [4 Marks]
- iii) Reinstatement clause [3 Marks]

QUESTION FOUR

- (a) Assume you are working in a reinsurance company and have been given a responsibility of making decisions in accepting cessions from insurance companies. Discuss the factors you would consider before accepting the business. [10 Marks]
- (b) Mr. Otieno is a new reinsurance manager with XYZ Insurance Co.Ltd and has been assigned a responsibility by his CEO to come up with the right retention levels for his Company. He is in dilemma as to what will form the basis of his decision. Advise Mr. Otieno. [10 Marks]
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