INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

# FACULTY OF BUSINESS MANAGEMENT

## END OF SEMESTER EXAMINATIONS - AUGUST 2025

**PROGRAMME: BBA**
**YEAR/SEM: YEAR 1/SEMESTER 2**
**COURSE CODE: FIN 1201**
**NAME: PRINCIPLES OF INSURANCE**

**DATE:**
**TIME:**

**INSTRUCTIONS TO CANDIDATES:**

## SECTION A

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**Question 1:**

Case Study: ShieldSure Insurance Group (SIG)

Shield Sure Insurance Group (SIG) is a mid-sized insurance company operating in Uganda since 2012. SIG offers a range of general and life insurance products to individuals, SMEs, and corporate clients across the country. With increasing exposure to diverse risks in Uganda's rapidly evolving business environment, SIG has recently overhauled its risk management framework. The firm now follows a systematic risk management process that includes identifying potential loss exposures, evaluating their impact, and applying appropriate techniques such as risk transfer through insurance, risk avoidance, and risk retention for certain low-impact exposures. To serve clients better, SIG employs both insurance brokers and agents to extend its market reach, especially in rural areas. These intermediaries play a key role in advising clients, collecting premiums, and assisting in claims processing. The company also works with licensed surveyors and loss assessors to evaluate claims and reduce fraud. Recently, SIG signed contracts with third-party administrators to improve customer support and streamline claims servicing. In its life insurance division, SIG offers policies such as term assurance, endowment plans, and whole-life coverage. The company educates clients on the differences between insurance and assurance, and outlines the roles of the parties to a life insurance contract, including the proposer, insurer, insured, and nominee. Life insurance uptake has increased due to SIG's simplified onboarding process and growing public awareness of its benefits.SIG's legal team ensures that every insurance contract meets the essential elements of a valid contract, including offer, acceptance, consideration, capacity, and lawful object. In cases of dispute or breach, the company refers to legal remedies such as damages or rescission. Additionally, SIG adheres to the legal principles of insurance, such as utmost good faith, insurable interest,

proximate cause, indemnity, and subrogation, ensuring clients receive fair and transparent treatment. Recently, SIG faced a challenge when one of its agents misrepresented a policy's coverage to a client, causing reputational damage. This incident prompted SIG to revisit its Law of Agency policies, reviewing how agents are appointed, their duties, rights, and the conditions under which the agency relationship can be terminated. The company has since tightened its training and compliance checks to align with best practices. As SIG plans to scale up operations, the management team is focused on enhancing risk control systems, ensuring compliance with Uganda's insurance regulations, and strengthening trust with stakeholders through professional conduct and customer-cantered service

Required

**a)**Differentiate between insurance and assurance**,** using SIG's offerings as examples. (6marks)

**b)** Distinguish between insurance brokers and agents, and explain their roles at SIG. (6marks)

**c)**What steps did SIG take to improve compliance and reduce reputational risk following agent misconduct? .

(6marks)

**d)** Explain how the principle of proximate cause applies to insurance claims at SIG. (10 marks)

f)Discuss benefits of insurance to SIG's clients in Uganda.
(12 marks)

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**Question 2:**

Case Study: Guardian Life & General Insurance Ltd. (GLGI)

Guardian Life & General Insurance Ltd. (GLGI) is a national insurance company headquartered in Kampala, Uganda, operating since 2010. GLGI offers both life and general insurance products, serving individual, business, and institutional clients across the country. As the company has grown, so has its exposure to diverse risks, prompting the development of a comprehensive risk management framework. This includes identifying potential losses, such as underwriting risks, operational failures, and natural disasters. GLGI classifies risks into financial, operational, strategic, and hazard-related categories. To manage these exposures, the company uses techniques like risk transfer through reinsurance, risk retention for predictable losses, and risk avoidance in high-severity cases.GLGI's core operations are governed by insurance law and contract principles. The legal team ensures that every policy issued complies with the essentials of a valid contract—offer, acceptance, consideration, and legal capacity. When disputes arise, GLGI applies remedies like contract rescission or legal damages. It also upholds key legal principles of insurance, such as utmost good faith,

proximate cause, and indemnity, to maintain fairness and trust in all transactions.In its life insurance division, GLGI offers endowment, term assurance, and whole-life policies. Clients are educated about the differences between insurance and assurance, the benefits of life insurance, and the roles of key parties in a policy (proposer, insurer, insured, and nominee). The company has streamlined the life insurance process to improve uptake, particularly in rural areas.To enhance market penetration, GLGI works with insurance intermediaries, including licensed brokers and agents who help sell policies, assess risk, and service claims. The firm also contracts surveyors and loss assessors to verify claims, and recently onboarded third-party administrators (TPAs) to handle bulk policy processing and customer service.A recent internal audit revealed that one agent misled a client about policy benefits, resulting in reputational damage and a lawsuit. This led management to review its Law of Agency framework, clarifying how agency is created, the duties and rights of agents, and conditions for termination. Training programs and stricter compliance checks were introduced.As GLGI looks to expand its digital footprint and innovate in product delivery, the company must ensure that all risk management objectives, legal obligations, and agency principles are upheld to retain customer trust and regulatory compliance.

Required

a)Using examples from GLGI’s operations, explain the main classifications of risk faced by insurance companies. How can each be managed using appropriate risk treatment

techniques? **(10 marks)**

**b)** identify and explain four essential elements of a valid insurance contract ,using GLGI's legal compliance practices as a reference .why are these elements important in enforcing insurance policies? **(10Marks)**

**c)** Explain the nature and benefits of life insurance products offered by GLGI. **(10Marks)**

**d)** Following the case of misrepresentation by a GLGI agent ,discuss the creation and termination of agency relationship **.**

**(10Marks)**

## SECTION B

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**Question 1:**

To date under Insurance industry; there is no universally agreed method of classifying Risks. In spite of this, it is generally accepted that when classified according to their sources practically all Risks can be identified.

a) Drawing from the source explain the different classes of Risks. **(10 marks)**

b) Explain the different components of Risks under Insurance industry. **(10 marks)**

**Question 2:**

a) Prepare a basic risk management plan for a mid-sized manufacturing firm, identifying at least three insurable and two non-insurable risks.

(10 marks)

b)An agency relationship between a principal and an agent can be terminated under various circumstances using examples explain how this relation can terminated.

(10 marks).

**Question 3:**

a)Differentiate among the principles of indemnity, contribution, and subrogation. Use real-world insurance

examples to illustrate how each principle operates in practice . (10 marks)

b)*A factory is insured against fire. A short circuit causes a fire, leading to water damage from firefighting efforts. The insurer denies the water damage claim.*
*Evaluate whether the claim should be paid, using the principle of proximate cause to support your answer.*

**(10 marks)**

**Question 4:**

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| Write short explanatory notes on the following. | |
| a. Re-insurance and co-insurance<br>*[Figure from the original paper could not be retrieved]*<br>v:shapes="Picture_x0020_2464"> | (5 marks) |
| b. Risk model and Risk Register. | (5marks) |
| c. Moral hazard and physical Hazard. | (5 marks) |
| d. Homogeneous Exposure and common Pool. | (5marks) |
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**Question 5:**

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Explain the key factors influencing premium pricing in insurance industry. (10 marks)

b) Risk Management Process is a process using examples explain the validity of this statement. (10marks)

**Question 6:**

Discuss the vitality of insurance to any business executive operating multi national enterprise in trouble some business environment.

(20Marks)

**Question 7:**

Explain the steps involved in the claims settlement process.

**(10Marks)**

Discuss the methods an organization can use to identify potential

losses. How does this step influence the overall risk management strategy?

**( 10marks)**

**Question 8:**

An insured scratched his leg with his thumb nail while removing his socks. Six days later the wound turned sceptic, on the tenth day septicemia set in and on the twentieth day the insured died of septic pneumonia. The policy covered death by accident but excluded death by disease.

a) Giving supporting reasons, identify the proximate cause of death and advise the insured's family on whether the claim is payable.

**(10 Marks)**

b) Explain the key factors influencing premium pricing in insurance? **(10 Marks)**

**Question 9:**

a)Mr. Hapo Latada has been appointed as the Risk and Insurance Manager of an international telecommunications company which has its headquarters in Nairobi. Using relevant examples, explain the functions that Mr. Latada's office will be expected to execute.

**[10 Marks]**

b) When proposing for her life assurance covers in 2016, Wanjiku indicated that she had not suffered from TB in last five years. She subsequently died after two years of

issuance of the policy. The dead certificate indicated that the cause of her death was TB. On seeking professional report from their medical physician about the late Wanjiku, the insurance company was informed that she had been diagnosed of TB 10 years ago and this fact had been made known to her. As a claims manager, mention major principles of insurance that are dealt with in this particular case and explain how they relate to the case. **[10 Marks)**

**Question 10:**

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align="left" hspace="12" v:shapes="Picture_x0020_2">a) Insurers normally insure only pure risks, but not all pure risks are insurable, certain requirements must be fulfilled before a pure risk can be insured. Discuss five requirements for insurable risk. ( 10marks)

b) John wants to effect insurance cover but has not seen a policy document before.

*[Figure from the original paper could not be retrieved]*

v:shapes="Picture_x0020_1">He has approached you to advise him on the main components of the policy document. Advise him appropriately.

**(10 marks)**

**Question 11:**

a)Explain the function of **risk transfer** in insurance. In your explanation, describe how it benefits both the insurer and the insured

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| . | (10 Marks) |
| b) Distinguish between the **primary function** and **secondary functions** of insurance. Use examples to support your answer. | (10 Marks) |

**Question 12:**

Risk is a state of uncertainty where some of the possibilities involve a loss, catastrophe or other undesirable outcomes. Alternatively, risk can be described as those events or conditions that may or and whose occurrence ,if it does not take place ,has harmful or negative effect.

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| a) Risk management is a strategic management issue which requires top management support". In line with this statement, explain the objective of risk management.<br>**(10 Marks)**<br><br>b) Discuss using examples the essentials of a valid insurance contract.<br>**(10 Marks)** | |