Uganda Martyrs University

FACULTY OF SCIENCE

DEPARTMENT OF MATHEMATICS AND STATISTICS

UNIVERSITY EXAMINATIONS 2015/2016

Final assessment for BSc III FM

MTF 3202 RISK MANAGEMENT

Time allowed: 3 hours

Instructions

I.   Answer **five** questions.
II. Credit will be given for appropriate use of examples.
III. Write both sides of the paper but begin each new question on a fresh page.
IV. Show all your solutions clearly and neatly.

1) (a) (i) Define the terms *loss, peril, hazard* and *risk* as applied in the Insurance industry. (4 marks)

(ii) What do you understand by:
- Proximate cause of loss,
- Underwriting. (4 marks)

(b) Explain why Insurance Fraud increases the cost of insurance for all policy holders. (4 marks)

(c) By use of a privately owned insurance company as an example, explain how insurance industry can contribute to the growth of an economy. (5 marks)

(d) Outline the four components of Insurance Premium (IP) and write an equation relating them with IP. (3 marks)

2) (a)(i) What is *risk management* to you? (2 marks)

(ii) You have been recruited by an insurance company to work as Head of a newly created Department of Risk Management. What would you recommend to be the main objectives of risk management at that company? (4 marks)

(b) Explain the following terms:

Loss control, risk avoidance, loss prevention and *loss reduction.* (6 marks)

(c) Explain the following terms *Risk Assumption, Risk Transfer* and *Insurance* in relation to risk financing. (4 marks)

(d) Explain the three major steps involved in the risk management process. (4 marks)

3) (a) State and explain the principles used by insurers to classify rates for clients. (6 marks)

(b) You are working for an insurance company and a client asks what factors she should consider to find a good insurance company. State three main factors you would mention to her. (3 marks)

(c) Patricia is a business woman in Masaka who wants to insure her business. Outline three commonsense rules that may help Patricia arrive at the right cost of insurance. (3 marks)

(d) Explain the terms *subsidization* and *adverse selection* as applied in insurance industry. (4 marks)

(e) Explain the statement that *adverse selection causes subsidization*. (4 marks)

4) (a) Explain any three main categories of banking risks giving examples for each. (6 marks)

(b) (i) What is *credit risk* to you? (2 marks)

(ii) Loans are normally classified in the categories: *standard, watch, substandard, doubtful* and *loss*. What do you understand by each category? (5 marks)

(iii) When is a loan classified as a non performing asset? (2 marks)

(c) You are recruited as a risk manager for a big bank reporting to the Board of Directors (BOD). Discuss the considerations that would form the basis of the sound lending policies you would recommend to the BOD. (5 marks)

5 (a) What is *Liquidity management* to you. Explain what you understand by the following terms as applied to liquidity risk management.

- Maturity mismatch,
- Deposit concentration. (6 marks)

(b) What does it mean to you for a bank to practice *market funding-based liquidity management*? Outline four risks associated with this practice. (6 marks)

(c) You are employed in a banking industry and asked to develop liquidity management policies. Explain some clauses you would include in your policy statement. (6 marks)

(d) What does the term *stress testing* as applied to banking industry. (2 marks)

6 (a) (i) What is Interest rate risk? (2 marks)

(ii) Explain the techniques to analyze and manage Interest rate risk. (6 marks)

(b) (i) What is Currency risk? (2 marks)

(ii) Discuss the policies you would recommend to a bank to ensure an effective currency risk management. (6 marks)

(c) Outline two advantages and two disadvantages of insurance. (4 marks)

END