



CENTRAL UNIVERSITY COLLEGE

RESIT EXAMINATION: 2016/2017

DEPARTMENT OF MANAGEMENT STUDIES

COURSE CODE: CBMG 304

RISK MANAGEMENT

LEVEL 300

DURATION: 3HOURS

STUDENT ID No.....

INSTRUCTIONS

SECTION A: MULTIPLE CHOICE – Answer **ALL** Questions

SECTION B: FILL-IN-THE-BLANK – Answer **ALL** Questions

SECTION C: COMPULSORY TAKE-HOME QUESTION

SECTION D: CASE STUDIES – Answer **ONE** Question **ONLY** from this section

Answer **ALL** Questions into the **Answer Booklet** provided.

DO NOT TURN OVER THIS PAGE UNTIL YOU ARE TOLD TO DO SO BY THE INVIGILATOR

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SECTION A: MULTIPLE CHOICE QUESTIONS (25 MARKS)

Choose the most appropriate response to each of the following questions. Write the alphabet (a, b, c or d) that corresponds to the correct answer into your Answer Booklet.

1. A risk condition that increases the probability, frequency or severity of a loss is known as:
 - A. Catastrophe
 - B. Disaster
 - C. Hazard
 - D. Peril

2. Which of the following is **NOT** an example of insurable peril?
 - A. Accidents
 - B. Terrorism
 - C. Theft
 - D. Vandalism

3. A manufacturer holds a large amount of stock in the form of finished products in its warehouse. What type of risk does the company face?
 - A. Default risk
 - B. Equity risk
 - C. Interest rate risk
 - D. Liquidity risk

4. Having a fire extinguisher in the car is a _____ method of risk control.
 - A. Loss prevention
 - B. Loss reduction
 - C. Risk avoidance
 - D. Risk transfer

5. In the case of physical assets, the worse loss that is likely to occur in a time period or because of a single event is termed the:
 - A. Possible Maximum Loss
 - B. Probable Maximum Loss
 - C. Valuable at Risk
 - D. Value Added Loss

6. After a terrible car crash, Kwabena's insurance company decides to pay him the cedi equivalence of a brand new 2016 model of his 2006 Toyota Matrix but deducted 20% of the value to account for Kwabena's five year usage of the car. Which valuation method is the insurance company using?
- Market Value
 - Market Value Less Depreciation
 - Replacement Cost New
 - Replacement Cost New Less Depreciation
7. A company has sold one of its old vehicles that keeps breaking down to avoid paying the cost of repairing it. What type of risk control measure is this?
- Risk Abandonment
 - Risk Avoidance
 - Risk Retention
 - Risk Transfer
8. The process by which an organisation is able to learn of the areas in which it is exposed to risk is referred to as:
- Hazard analysis
 - Risk assessment
 - Risk Control
 - Risk Identification
9. A driver without insurance who drives carelessly with no seatbelt is exposed to _____ hazard.
- Moral
 - Morale
 - Pure
 - Systematic
10. A debt instrument which is the least in line of priority when default occurs and the last to be paid after all other debt obligations have been settled is called _____ debt.
- Bond
 - Secured
 - Subordinated
 - Debentures
11. Madam Koffie purchased a debt security of Nestle Ghana Ltd which she later exchanged for a fixed number of shares in the company. This type of financial instrument is called:
- Common stock
 - Convertible debt
 - Preference stock
 - Swap

12. Madam Koffie also has a small number of stock with Coca Cola on which she earns a fixed dividend. This type of stock is known as:
- A. Common stock
 - B. Convertible debt
 - C. Preference stock
 - D. Swap
13. Risks such as theft, grapevine, harassment and discrimination originate from the
- A. Cognitive environment
 - B. Natural environment
 - C. Physical environment
 - D. Social environment
14. A car crash is an example of :
- A. Physical risk
 - B. Pure risk
 - C. Speculative risk
 - D. Systematic risk
15. Fire outbreak at Makola that destroyed the merchandise and valuables of the market women is an example of:
- A. Economic peril
 - B. Natural peril
 - C. Physical peril
 - D. Social peril
16. The ownership right that holders of a common stock have is:
- A. A promised payment
 - B. Control rights
 - C. Fixed dividend
 - D. Right to assets of the company
17. Which of the following is **NOT** a risk treatment tool?
- A. Programme Implementation
 - B. Risk Assessment
 - C. Risk Control
 - D. Risk Financing
18. The risk financing arrangement under which the entity experiencing the loss bears the direct financial consequences is termed"
- A. Risk Absorption
 - B. Risk Diversification
 - C. Risk Retention
 - D. Risk Transfer

19. The risk financing method by which an organisation absorbs losses and pays from accumulated earmarked liability accounts set aside in advance of any losses is called:
- A. Absorption insurance
 - B. Captive insurance
 - C. Insurance transfer
 - D. Self-insurance
20. UT Holdings owns an insurance firm that insures the entire assets of the UT Holdings and those of other private and corporate bodies. This type of insurance whereby an insurer is owned by the insured is known as:
- A. Absorption insurance
 - B. Captive insurance
 - C. Insurance transfer
 - D. Self-insurance
21. A risk condition characterised by high frequency but low severity should be treated by:
- A. Avoidance and Transfer
 - B. Insurance and Prevention
 - C. Prevention and Retention
 - D. Reduction and Insurance
22. The process by which an insurer brings together a large number of risk exposures by collecting premiums from the insured for the purpose of reimbursing eligible insured who incur losses is termed"
- A. Adverse selection
 - B. Discrimination
 - C. Risk pooling and loss sharing
 - D. Risk sharing and loss pooling
23. Which of the following is **NOT** and economic peril:
- A. Corruption
 - B. Inflation
 - C. Lack of access to credit
 - D. Use of obsolete technology
24. Which of the following is **NOT** one of the methods of calculating the loss frequency of human assets?
- A. Employment rate
 - B. Number of hospital visits
 - C. Number of persons injured in a year
 - D. The mortality rate

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25. The present value of an employee's annual after tax earnings reduced to reflect personal consumption is known as:
- A. Human Life Value
 - B. Insurance
 - C. Pension
 - D. Social Security

SECTION B: FILL-IN-THE-BLANK (25 MARKS)

Complete the ff. Statements with the Appropriate Word or Phrase!

1. Activities that provide the means of reimbursing losses that occur and that fund other programmes to reduce risk and uncertainty is called _____
2. The amount over and above the expected value required to induce an individual to participate in a bet or risk is referred to as _____
3. Virtually anything that threatens or limits the ability of a company, community or an organisation to achieve its mission is considered a _____
4. In asset valuation, the _____ is what a willing seller will accept and a willing buyer will pay for the property in a regular transaction on the date the property is valued.
5. Programmes that are put in place by governments and/or organisations to alleviate the risk of poor health include _____ and _____
6. The price quoted on the official receipt issued at the time the property was purchased is referred to as _____
7. A business firm which decides against developing a new product after market survey revealed negative public response is practicing _____
8. The type of risk control tool that causes some entity other than the one experiencing the loss to bear the burden of the loss is referred to as _____

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9. Mason (1995) suggests three dimensions of risk financing mention two _____ and _____
10. The type of risk wherein there is a chance of loss but no chance of gain is termed _____
11. The type of risk financing arrangement under which some other entity other than the entity experiencing the loss bears the direct financial consequences is called _____
12. The financial transaction in which one asset is held to offset the risk of holding another asset is known as _____
13. Risk can be classified as _____ and _____
14. Risk can be thought of as arising in two ways namely _____ and _____
15. The sources of poor health include _____ and _____
16. The presence of doubt in our ability to predict the future outcomes of current actions is referred to as _____
17. The type of risk that cannot be reduced in any manner and it is almost impossible to predict or protect yourself against this type of risk is called _____
18. A type of asset which is a legal instrument that conveys rights to the holder of the contract although does not necessarily apply to a specific tangible object is called _____
19. Mr. Turkson was driving home from work when he skidded off the road and hits a telephone pole. He spends Ghc 850.00 to repair the car and Ghc 250.00 to rent a car for the day while his car was being repaired. The Ghc 250.00 is the _____ loss while the Ghc 850.00 is the _____ loss.

20. Give one reason why risk managers are concerned about risks faced by employees and their households is _____
21. The causes of human asset exposure include _____ and _____
22. Mention two ways in which employers provide resources to offset loss due to the premature death _____ and _____
23. Kofi, a chain smoker whose state of wellbeing is significantly below that of his age mates can be said to have _____
24. Old age, where a net producer becomes a net consumer is also known as _____
25. One way by which organisations, governments and individuals deal with the risk of old age is through _____

SECTION C: COMPULSORY QUESTION (30 MARKS)

“Insurance is one of the best instruments in the development of the modern society. It is that which distinguishes a modern society from a primitive one” (Edwards, 1989).

- (a) Define insurance and explain the Law of Large Numbers and its implications for an insurance system and society as a whole (5Marks).
- (b) Explain the process of pooling and loss sharing (5Marks).
- (c) As an insurance broker, compare the Fire and Motor Insurance policies of the State Insurance Corporation (SIC) and one other recognised insurance firm of your choice. Advise a client on which of these firms to purchase these insurance policies from and why (10 Marks).
- (d) With reference to the two insurance firms discussed in (c) above, state the different categories of pools they have for each of the policies and explain why it is necessary to discriminate in order to pool (5Marks).
- (e) Using examples from the Fire or Motor insurance discussed in (c) above, explain the concept of “Adverse Selection”. How can insurers reduce or protect themselves against it? (5Marks).

SECTION D: CASE STUDIES – ANSWER ONE QUESTION ONLY (20 MARKS)

1. Majestic Cleaning Company provides commercial cleaning services to businesses, employing 60 full- and part-time cleaners. They have won a contract to clean all concourse areas, including outer entrance areas, of a shopping centre. The shopping centre is open from 8.00 am to 9.00 pm, every day, and has 24-hour security. General cleaning, by four cleaners, is done from 8.00 am to 5.00 pm, and more detailed cleaning, by six cleaners, from 9.00 pm to 11pm. A supervisor is in charge of each shift. Rest facilities for cleaners, including toilets and a small kitchen, are provided at the shopping centre management offices. Cleaning machines, materials and other equipment are securely stored there. The manager's office contains typical office furniture and equipment. Three people do administrative and accounting work there. They also clean the adjacent staff kitchen, where drinks can be prepared and food heated, and the nearby toilet and washing facilities. The offices were built in the 1950s and the walls have cracks in them. The office, kitchen, toilet and washing facilities have been surveyed for the presence of asbestos. Asbestos containing materials (ACMs) were found but, as the ACMs are in good condition, it was decided to leave them in place. Recently, Majestic Cleaning Company has acquired new floor polishing machines which the cleaners find difficult to operate resulting in a number of accidents. They have also changed their cleaning detergents and chemicals using locally manufactured instead of the imported ones they have hitherto used. Shoppers have complained lately about coughing and sneezing in the store.

The Managing Director has ordered the Risk Manager to conduct a detailed risk assessment on the company and its operations.

- (a) What is risk assessment and why is it necessary for management to conduct risk assessment? (5marks).
- (b) Identify and fully discuss the steps in the risk assessment process (5Marks).
- (c) As the Risk Manager of Majestic Cleaning Company, conduct risk assessment on the company and the shopping centre following the steps identified in (b) above (10marks).
2. Ghampro Ltd, a local agro processing company is embarking upon a major expansion project by developing new products for the local and international market following growing demand for its products. To implement this expansion strategy, the firm requires a large amount of capital which cannot be generated internally. It has already invested money in acquiring five acres of land and requires money to procure a new manufacturing technology and plant for mass production and construct a giant warehouse. Mr. Amankwa, an investor has offered to provide the investment capital for the expansion in return for 50% equity in the firm. Alternatively, the CEO can acquire a loan facility from the bank. However, interest rates are quite high and there are speculations that given the cedi's rapid depreciation, the interest rate might go up drastically in the future. Another

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option opened to Ghampro is to list on the Ghana Stock Exchange and raise funds by selling shares of the company. Apart from financial difficulties, the firm also faces regular shortage of raw materials like maize, wheat, and fresh fruits. There are opportunities available to negotiate a Forwards agreement with some farmers unions to secure the future supply of these raw materials at current prices. As a Risk Manager and a Business Consultant:

- (a) Identify and discuss all the sources of financial asset exposures that Ghampro and the potential investor face with respect to the investment decisions that are being considered (**5Marks**).
- (b) What advice will you give the CEO and the potential investor regarding the investment decisions being contemplated and how to control the associated risks? (**5Marks**).
- (c) Discuss **three** risk control measures that the CEO can adopt to control, prevent and reduce any losses that may occur. (**5Marks**).
- (d) Discuss **three** risk financing techniques that the CEO can adopt to ensure smooth implementation and achievement of organisational goals? (**5Marks**)