



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
THIRD YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 3rd August, 2022
Time: 11.30am –1.30pm

KFI 306 - RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

Excel Global Consulting (EGC) is a Nigerian management advisory firm with a branch in Nairobi. In their recently published strategic report based on Kenyan firms, EGC identified the need to place more emphasis on risk management practices, especially in the financial services sector and related firms. However, they noted that most individuals in these firms do not understand the basic concepts of risk management. EGC have therefore, in conjunction with the CBK, contracted your services as a risk management specialist to shed more light on the relevance of risk management at their next national seminar on the same. Required:

- a) Individuals and firms perceive risk differently, and this guides their approach to risk management. Giving examples in each, describe the three risk attitudes as identified in risk management. (6 marks)
- b) Using examples, differentiate between the following terms as used in risk management:
 - i) Subjective risk and objective risk (2 marks)
 - ii) Pure risk and Speculative risk (2 marks)
- c) For risk management to be effective in its implementation, it must fulfill some conditions. List any three characteristics of risk management. (6 marks)
- d) It is advisable for all firms to have an operational risk department and adequate staff depending on their size and potential risks. Highlight any four functions of a risk office in this department. (4 marks)
- e) Highlight any three roles played by a company's board in risk management. (6 marks)
- f) Information asymmetry arises when two contractual parties possess different amounts of information. Distinguish between the moral hazard and adverse selection. (4 marks)

QUESTION TWO (20 MARKS)

- a) Failure to properly identify a firm's exposure to risk can be catastrophic both legally and financially. Explain the common mistakes that a risk officer may make that could be costly to the firm.
(10 marks)
- b) Risk identification is done when a company seeks to establish its exposure to risk. Describe five factors that should be considered during this process.
(10 marks)

QUESTION THREE (20 MARKS)

- a) The risk management process is a continuous cycle that ensures all aspects regarding risk are well taken care of. Discuss the steps involved in the risk management process.
(10 marks)
- b) Businesses face different risks depending on their business environment. Describe any five categories of risk that firms are exposed to.
(10 marks)

QUESTION FOUR (20 MARKS)

- a) Risk measurement deals with determining the potential impact of identified risks. Describe any five methods used in the measurement of risk by firms.
(10 marks)
- b) Risk management aids businesses estimate the extent of their risk exposure and the decision on how to handle the risk or potential opportunity. Expound the various strategies and financial options for managing risk.
(10 marks)

QUESTION FIVE (20 MARKS)

- a) Insurance ensures that a business minimizes the probability of a risk or loss occurring and is well covered in an eventuality. Briefly explain the five principles of insurance.
(10 marks)
- b) Enterprise risk management is meant to minimize the effects of risk on an organization's capital and earnings. Elucidate any five challenges firms encounter during enterprise risk management.
(10 marks)