



UNIVERSITY OF RUHUNA  
FACULTY OF MANAGEMENT AND FINANCE

No. of Pages: 02  
No. of Questions: 05  
Total Marks: 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS  
DEGREE

Three Hours

4000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP  
2025

FIN 41343 – Risk and Insurance

Academic Year 2024/2025

**Instructions:** Answer all questions.

**Question 1**

- (A) Explain the risk and discuss how insurance can act as a risk management tool. (3 marks)
- (B) Explain the fundamental difference between **pure risk** and **speculative risk**, providing a clear example within a business or personal context for each. (4 marks)
- (C) Explain why the **risk of premature death** is generally considered a pure risk and how this characteristic makes it suitable for insurance. (4 marks)
- (D) How does **diversifiable risk** differ from **non-diversifiable risk**? (3 marks)
- (Total 14 marks)

**Question 2**

- (A) State the fundamental difference between a **peril** and a **hazard** and provide an example in the context of insurance for each. (3 marks)
- (B) List the four **primary types of hazards** and discuss how two of these types can influence the frequency and severity of a loss. (4 marks)
- (C) “Insurance is not preventing risk, but to indemnify the losses arising from a certain risk.” Discuss. (4 marks)
- (E) Explain what **non-life insurance** is and how it differs fundamentally from **life insurance**. (3 marks)
- (Total 14 marks)

**Question 3**

**Serenity Resorts** is a new, upscale hotel chain with three properties located in tourist destinations across the country. Each hotel has a five-star rating and includes a restaurant, spa, and fitness center. The management team is committed to providing a premium experience but is also concerned with managing various risks associated with operating in the hospitality industry, particularly given the competitive market and reliance on consumer sentiment.

- (A) Explain the fundamental difference between **risk control** and **risk financing** as risk management techniques using suitable examples. (3 marks)

- (B) Based on the scenario of Serenity Resorts, describe **four** major loss exposures that the company faces. Classify each exposure as either a **property loss exposure, liability loss exposure, or personnel loss exposure.** (4 marks)
  - (C) For **two** of the loss exposures, you identified in part (b), propose a specific risk management technique (or a combination of techniques) that Serenity Resorts could use to handle the exposure using suitable justifications. (4 marks)
  - (D) The management is considering a high-deductible insurance plan as a form of risk retention. Analyze the three potential advantages of this strategy for Serenity Resorts, particularly in a year with a high number of claims. (3 marks)
- (Total 14 marks)**

**Question 4**

"**LankaSure Insurance Plc,**" a newly established company, is applying for a license from the Insurance Regulatory Commission of Sri Lanka (IRCSL) to operate in both life and general insurance sectors.

- (A) Based on the **Regulation of Insurance Industry Act No. 43 of 2000**, what is the primary mandate and overarching objective of the Insurance Regulatory Commission of Sri Lanka (IRCSL)? (3 marks)
  - (B) The management of **LankaSure Insurance Plc** is required to meet specific financial and prudential standards before their license is granted. Describe **two** of these key financial requirements, and explain the purpose of each in ensuring market stability and policyholder protection. (4 marks)
  - (C) To comply with the IRCSL's focus on consumer protection, LankaSure must establish a robust system for handling customer issues. Explain the main components of the **complaints handling framework** established by the IRCSL. (4 marks)
  - (D) Briefly explain specific enforcement actions that the IRCSL can take if LankaSure Insurance Plc fails to maintain the required solvency margin after being licensed. (3 marks)
- (Total 14 marks)**

**Question 5**

- (A) Explain the **rate-making function of insurers**, including the key factors and principals involved in setting premium rates. (3 marks)
  - (B) Describe the steps of the **underwriting process**, from the initial receipt of an application to the point of a final underwriting decision. (4 marks)
  - (C) Based on this context, discuss the three main reasons why governments establish social insurance programs. (3 marks)
  - (D) Provide a brief overview of two major social insurance program currently operating in Sri Lanka. (4 marks)
- (Total 14 marks)**

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