

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO.2	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)
Start each question on a fresh page	Write after invigilators have declared "time-up"
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum	Avoid the Annual Students' Forum

CANDIDATES SHOULD VISIT & UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS

ETC ON THE FOLLOWING SITES naicom.com (NAICOM), nigeriainsurers.org (NIA); ncrib.net (NCRIB); nigeriailan.com

(ILAN); clinigeria.com (CIIN)

INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT.

ANY CANDIDATE CAUGHT AND/OR FOUND TO BE CEHEATING/HAVE CHEATED, WILL BE BARRED FROM PARICIAPTING IN ANY OF THE INSTITUTE'S EXAMINATION ACTIVITY FOR TWO (2) YEARS AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).

STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A510

RISK, REGULATION AND CAPITAL ADEQUACY

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A510 - RISK, REGULATION AND CAPITAL ADEQUACY INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

A formula sheet will be issued for use with this paper.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 42.56%

Highest Score: 81%

Lowest Score: 15%

Average Score: 49%

Breakdown Updates

Question 1

The question was to test candidate knowledge of elementary statistics. It was attempted by all the candidates. Over 60% scored above average, while 40% scored below average of pass marks and need to improve their knowledge of statistical calculations.

Question 2

The two parts (a & b) of the question was on knowledge of risk and types. 100% of the candidates attempted the question. About 98% had good knowledge of both the definition and types of risks.

Question 3

This question was to test candidates' knowledge of some of insurance policy terms/wordings. 100% of the candidates attempted it. 99% of the candidates gave satisfactory definition of the three terms and scored pass marks. Those that scored below average need to study more.

Question 4

The question tested the candidates' knowledge of terms in area of reinsurance. Close to 99% of the candidates attempted the question while about 70% scored above average/pass marks. The remaining 30% candidates could not score the pass mark because of poor knowledge of "retrocession" and its meaning.

Question 5

The question was to test candidates' knowledge of where to source published report/information and or data on insurance. It was attempted by 100% of the candidates. Over 98% scored high pass mark. However, the 2% of the total candidates could not score pass marks. These ones demonstrated low awareness

of development in insurance industry/environment and where information about the Industry can be sourced.

Question 6

This question was lifted from the textbook. Those that read the coursebook scored pass marks and were about 70%. The remaining 30% of the candidate scored below pass marks as they could not give meaning of the terms.

Question 7

The candidates that have knowledge of calculating statistical average and midpoint scored pass mark and the number of candidates were over 97%. The remaining 3% could not give satisfactory ways of arriving at solutions.

Question 8

Over 90% of the candidates that attempted this question scored above average. About 10% that did not have good knowledge and interpretation of risk retention and its financing scored below average marks.

Question 9

This is compulsory and attempted by 100% of the candidates' regulatory guidelines were well stated and the probability questions were well understood by about 50% of candidates that scored pass marks. About 40% that scored below pass mark need to brush up their understanding of probability theories.

Ouestion 10

Over 90% of the candidates that have deep knowledge about reinsurance and functions scored pass marks. Only those candidates that did not studied reinsurance aspect of the course scored below pass marks.

Question 11

Over 60% of the candidates avoided attempting this question that requires knowledge in statistics related terms and the workings. Candidates demonstrated low understanding of statistical terms and workings hence over 80% of those that attempted the question did not score pass mark. Candidates must give more attention to understanding of statistical aspect of this course to be able to score pass marks on similar question in future.

Question 12

Close to 95% of the candidates attempted this question. Out of all that attempted close to 60% scored pass mark because they could put down good understanding of risk management and risk management process. The remaining candidates

close to 40% confused risk management with insurable risk and risks been presented for insurance covers in the market hence failed to score pass marks.

Question 13

This was an optional question that combined source of data generally and particularly for insurance industry. Whilst 90% of all the candidates attempted the question those that studied properly and could remembered were about 15% and scored pass marks. Those that have poor knowledge were about 8%% and scored below average.

Question 14

The question was to test candidates' knowledge and application of probability. Over 60% of the candidates attempted this question but demonstrated weak knowledge hence could not cross the pass marks.

Chief Examiner's Comments on Overall Performance:

Overall, this diet shows marked improvement in the numbers of candidates that scored pass marks. More candidates demonstrated better understanding and preparations for the examination.

Chief Examiner's Suggestion on Improvement:

Candidates' for this course must balance their study (knowledge) aspect to cover both the statistical knowledge, industry (insurance) operational guidelines and risk management as relate to insurance operations.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

- 1(a) Find the geometric mean of 8, 4, 2, and 4.
- (b) Find the median of: $\frac{1}{4}$, $\frac{7}{8}$, $\frac{6}{9}$, $\frac{3}{7}$ and $\frac{4}{8}$.
- (c) Find the mode of 2, 3, 2, 3, 4, 5, 4 and 5.

Solution

- 1) a) The Geometric Mean = $4\sqrt{8 \times 4 \times 2 \times 4} = 4\sqrt{256} = 4$
- b) The median = 4/8
- c) There is no mode.

(2 marks for each correct answer. Total: 6 marks)

- 2 (a) Give two definitions of risk in insurance and/or risk management. (2 marks)
- (b) Distinguish between Financial and Non-Financial Risks. (4 marks) **Solution**
- a) Risk may be defined in any of the following ways as:
 - an uncertainty of loss
 - a possibility of loss.
 - a combination of the probability of occurrence of an undesired outcome (loss) and its consequences.

(1 mark for each correct definition. Maximum of 2 definitions to be graded. Total: 2 marks)

b) Financial and Non-Financial Risks:

Financial risks are risks whose effect (when it eventually happens) can be expressed in monetary values. Financial risks are directly linked to insurable interest whose main feature is the capability of financial evaluation of the subject matter of insurance. Therefore, financial risks are insurable. Whereas, non-financial risks are not insurable solely because monetary values cannot be placed on them.

(2 marks for each correct explanation. Maximum of 1 explanation per term. Total: 4 marks)

- 3. Define the following policy conditions:
 - (a) an excess (b) a warranty (c) the policy exclusions.

Solution

- a) An excess is each and every amount of claim which is borne by the insured, usually the first x-amount. (2 marks)
- b) A warranty is an undertaking by the insured that certain things shall be done or not be done or that certain things shall be in place or not be in place. (2 marks)
- c) The policy exclusions are the various risks which are not covered in the ordinary course of the insurance transaction. (2 marks)

(Total: 6 marks)

- 4. Define the following two terms, and give an example of each:
- (a) Reinsurance (b) Retrocession.

Solution

- a) Reinsurance may be defined as the insurance of insurance **OR** a further spread of insurable risks **OR** a protection for the insurance companies for bigger risks which are higher than the insurance companies' net retention limit **OR** the transfer of risks from one insurance company to a reinsurance company or collection of reinsurance companies. For example, XYZ Insurance Plc ceding part of its Motor Portfolio to ABD Reinsurance Company.
- b) Retrocession may be defined as the transfer of risks from one reinsurance company to another reinsurance company or collection of reinsurance companies. For example, XYZ Reinsurance Plc ceding part of its Fire Portfolio to ABC Reinsurance Company.

 (2 marks for any correct definition. 1 mark for the correct and complete illustrated example. Sub-Total per term: 3 marks. Grand Total: 6 marks)
- 5. Mention six (6) different sources of insurance information/data in Nigeria/The Gambia/Cameroun/Rwanda.

Solution

The different sources of insurance information/data in Nigeria/The Gambia/Cameroun/Rwanda are:

- i) The Regulator (National Insurance Commission in Nigeria)
- ii) Insurance Associations
- iii) Chartered Insurance Institutes
- iv) Professional Insurance Associations
- v) Central Banks
- vi) Ministry of Finance (Insurance Department)
- vii) Bureau of Statistics / Federal Office of Statistics
- viii) Insurance Magazines
- ix) Insurance Companies' Websites

(1 mark for each correctly stated source. Maximum of 6 to be graded. Total: 6 marks)

6. Enumerate two (2) generic meanings of risk.

Solution

The generic meanings of risk are:

- a) risk as the main cause of an undesired outcome
- b) risk as the object (otherwise referred to as the subject matter)
- c) risk as the probability (i.e. likelihood) of an undesired event taken place (3 marks for each correctly stated generic meaning. Maximum of 2 to be graded. Total: 6 marks)
- 7(a) State two (2) main advantages of the arithmetic mean.
- (b) State two (2) main disadvantages of the median.

Solution

- a) The advantages of the arithmetic mean are that it:
 - makes use of all the variables given in the data.
 - is easy to calculate.
 - is easy to understand.
 - is the most known of all the averages.
 - can be used for further mathematical processes.

(1½ marks for each correctly stated advantage. Maximum of 2 to be graded. Sub-Total: 3 marks)

- b) The disadvantages of the arithmetic mean are that:
 - it cannot be used for further mathematical processes
 - it does not make use of all the variables given in the data
 - the result obtained as the median may not appear in the data given.

(1½ marks for each correctly stated disadvantage. Maximum of 2 to be graded. Sub-Total: 3 marks) (Grand Total: 6 marks)

8. Outline any three of the four (4) options available on how retained risks can be financed.

Solution

The four options available on how retained risks can be financed are:

- to be handled as an expense
- as a loan
- as a contingency fund and
- to insure it through a captive insurance company.

(2 marks for each correctly stated option. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9 (a) According to Section 4.2 of the NAICOM prudential guidelines, list the requirements for submission of reinsurance treaties/arrangements except oil and gas business. (10 marks)
- (b)i. What is a "normal distribution"? Write out its probability density function formula. (5 marks)
- ii. Outline any three (3) features of the normal distribution. (6 marks)
- iii. State the two (2) basic parameters of the normal distribution. (5 marks)
- (c) Two fair dice are tossed at once.
- i. Write out the total possible outcomes. (9 marks)
- ii. What is the probability of obtaining a total score of exactly 9? (5 marks)
- iii. What is the probability of obtaining a total score of more than 9? (5 marks)
- iv. What is the probability of obtaining a total score of less than 10? (5 marks)

Solution

- 9) a) Section 4.2 of the prudential guideline on reinsurance treaties / arrangements (except Oil and Gas) states that;
 - an Insurer shall ensure that the "treaty slips" are fully signed by all the participating reinsurers
 - all reinsurance treaties and life treaty cover-notes/addendum, for the following year, shall be filed with the Commission on or before 31st December of the preceding Year or 15 days before the effective renewal date for those whose treaty renewal dates do not fall on 1st of January. In both cases, the submissions shall also beaccompanied by the following:
 - Signed slips of all reinsurance arrangements and not only cover- notes issued/signed by the reinsurance brokers;
 - Evidence of premium remittance for the previous four (4) quarters (i.e. 4th, 1st, 2nd and 3rd Quarters);
 - evidence of payment of Minimum and Deposit (M&D) Premium for the following year on the General Business treaties; and
 - o the financial strength rating of the foreign reinsurers. (10 marks)
- b) (i) A normal distribution is a continuous probability distribution which can assume any value. (2 marks)

It has a probability density function of the form, P(x) = y =

$$y = \frac{1}{\sigma\sqrt{2\pi}}e^{-\frac{(x-\mu)^2}{2\sigma^2}}$$

$$\mu = \text{Mean}$$

$$\sigma = \text{Standard Deviation}$$

$$\pi \approx 3.14159 \cdots$$

$$e \approx 2.71828 \cdots$$
(3 marks)

- ii) The features of a normal distribution are:
 - it is a continuous distribution
 - the mean lies at a point under the peak of the curve
 - it is symmetrical
 - the two tails of the curve do not touch the horizontal axis theoretically
 - it is bell shape
 - the mean is zero and the standard deviation is one for a standard normal distribution
 - the total area under the normal distribution curve is one.

(2 marks for each correctly stated feature. Maximum of 3 to be graded. Sub-Total: 6 marks)

iii) The two basic parameters of the normal distribution are the **mean** and **variance**.

(2 marks for each bolded parameter. Sub-Total: 5 marks) (Grand Total: 16 marks) i) The total possible outcomes are:

(1/4 mark for each correctly stated outcome. Sub Total: 9 - Tabular representation is also acceptable).

ii) The probability of obtaining a total score of exactly
$$9 = \underline{4} = \underline{1} = 0.11$$

iii) The probability of obtaining a total score of more than
$$9 = \underline{6} = \underline{1} = 0.167$$

iv) The probability of obtaining a total score of less than
$$10 = 30 = 5 = 0.833$$
 (2 marks) (2 marks) (1 mark)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a) Describe in two (3) different ways, what you understand by the term "reinsurance". (9 marks)
- (b) Outline five (5) uses/functions of reinsurance to direct offices. (10 marks)
- (c) Differentiate between a treaty and a facultative reinsurance by defining the terms and stating two advantages and two disadvantages of each of the terms.

 (15 marks)

Solution

- a) Reinsurance may be defined or described in any of the following ways:
 - as a process of insuring all or part of what has already been insured by the direct office/insurance company
 - as the insurance of insurance
 - as a further spread of insurable risks
 - as the business of insurance across the boundaries of two or more countries. In this case, reinsurance business is regarded as an international business.

(3 marks for each different, complete and correct description. Maximum of 3 to be graded. Sub-Total: 9 marks)

- b) The uses of reinsurance to direct offices are for:
 - further spread of risks for the insurance companies.

- bigger capacity for the insurance companies.
- for catastrophe protection.
- stabilization of claims ratio.
- profit sharing arrangement.
- bringing about confidence to the insurance companies.
- product development.
- underwriting and other financial advisory services.
- solvency margin protection.
- training and development programmes.
 (2 marks for each correctly stated use. Maximum of 5 uses to be graded. Sub-Total: 10 marks)
- c) **Treaty** is a prior arrangement between the insurance company and a reinsurance company to place and accept certain businesses that fall within the agreed terms and conditions.

 (3½ marks)

Its main advantages are as follows:

- acceptance is automatic once the risk falls within the treaty terms
- ease of administration
- no leakages of vital information to competitors
- no loss of goodwill as there is no delay in communicating acceptance terms.
- it attracts a higher ceding commission than a facultative business

(1 mark for each correctly stated advantage. Maximum of 2 advantages to be graded. Sub-Total: 2 marks)

Its main disadvantages are as follows:

- it may be more expensive for few risks classification
- facultative method may be sought once the treaty capacity is exhausted
- it is not designed for certain risks referred to as hazardous risk.

(1 mark for each correctly stated disadvantage. Maximum of 2 disadvantages to be graded. Sub-Total: 2 marks)

Facultative is the placement and acceptance of business on an individual basis depending on its merit. That is, in a facultative reinsurance, there is no obligation on both the direct office and reinsurance company to place or accept the risk being placed.

(3½ marks)

Its main advantages are:

- it is the last resort once the treaty capacity is fully exhausted.
- it is specifically designed for hazardous risks.
- it is highly flexible in the sense it could be put in place for any risk.
- there is no binding obligation on both parties

(1 mark for each correctly stated advantage. Maximum of 2 advantages to be graded. Sub-Total: 2 marks)

Its main disadvantages are:

- it is very cumbersome in administration
- acceptance is not automatic

- there is possibility of leakages in vital information to competitors
- there is possibility of loss goodwill.

(1 mark for each correctly stated advantage. Maximum of 2 advantages to be graded. Sub-Total: 2 marks)

(Grand Total: 15 marks)

11(a) What is correlation?

(5 marks)

- (b) List and explain the five (5) types of correlation using two variables X and Y. (25 marks)
- (c) What is "co-efficient of correlation?

(4 marks)

Solution

- a) Correlation may be defined as the level or degree of relationship which exists between two variables. It may equally be described as the strength of association between two variables. (5 marks)
- b) The five (5) types of correlation are:
- i) **Positive Correlation:** A positive correlation is said to exist between two variables X and Y, if an increase in variable X leads to an increase in variable Y. Positive correlation may also be referred to as Direct Correlation.
 - (3 marks for correctly listed type; 2 marks for any correct explanation of the type. Maximum of one point to be graded per type. Sub-Total: 5 marks.)
- ii) **Negative Correlation:** A negative correlation is said to exist between two variables X and Y, if an increase in variable X leads to a decrease in variable Y. Negative correlation may also be referred to as Inverse Correlation.
 - (3 marks for correctly listed type; 2 marks for any correct explanation of the type. Maximum of one point to be graded per type. Sub-Total: 5 marks.)
- iii) **Zero Correlation:** A zero correlation is said to exist between two variables X and Y where there is no any form of relationship between the two variables.
 - (3 marks for correctly listed type; 2 marks for any correct explanation of the type. Maximum of one point to be graded per type. Sub-Total: 5 marks.)
- iv) **Spurious Correlation:** This is a correlation between two variables which does not actually indicate the real relationship that is existing between the two variables.
 - (3 marks for correctly listed type; 2 marks for any correct explanation of the type. Maximum of one point to be graded per type. Sub-Total: 5 marks.)
- v) **Perfect Correlation:** The correlation between two variables X and Y are said to be a perfect correlation if all the values of X and Y are plotted against each other and all the points obtained lie on a straight line. A perfect correlation may either be a positive or negative.

(3 marks for correctly listed type; 2 marks for any correct explanation of the type. Maximum of one point to be graded per type. Sub-Total: 5 marks.)

(Grand Total: 25 marks)

c) Coefficient of correlation may be defined as a statistical measure which determines the level of linear relationship between two variables. It is usually represented by the symbol 'r' or 'R'. Furthermore, it ranges from -1 to +1.

(2 marks for any complete and correctly stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks.)

(Grand Total: 34 marks)

12(a) What is "risk management"?

- (6 marks)
- (b) List and explain the "risk management process".

(28 marks)

Solution

a) Risk management may simply be defined as a continuous process of **identifying**, **analyzing**, **evaluating**, **monitoring** and **taking best economic control** of all those risks which may threaten the assets of an organization. (6 marks)

OR

Risk management may simply be defined as the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. (6 marks) (Sub-Total: 6 marks)

- b) The risk management process is outlines below:
- **1. Organization's Strategic Objectives:** These are long term planned objectives which an organization is set out to achieve. Risk management generally enhances organization's strategic objectives through the following:
 - by providing a framework in terms of activities in the most sequential & guided ways for the organization
 - effective & efficient allocation and use of the organization's capital as well as other resources
 - by protecting the organization's assets from all those risks that may threaten them
 - by providing enabling environment for the people to work
 - it also aids decision making process through coordinated planning and direction of business activities
 - volatility is reduced, especially in the less important aspects of the business.
- **2. Risk Assessment,** which is of two components namely risk analysis and risk evaluation.
- (a) Risk Analysis: this involves risk identification, risk description and risk estimation. It is the overall process of risk analysis and evaluation, which is briefly explained below:
 - **risk identification:** this is a systematic way of identifying all the activities that may expose the organization to various risks.

- **risk description:** this is the explicit description of all the risks identified under the risk identification stage in a way that would be readily understood by all the stakeholders
- **risk estimation:** these are the estimates both in terms of quantitative & qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as H M L may be employed in describing the estimate values or attributes.
 - H stands for High
 - M stands for Medium or Middle
 - L stands for Low
- **(b) Risk Evaluation:** is the second and last component of risk assessment whereby opinions (judgments) are formed about the importance (value) and acceptability (appetite) of risk.

3. Risk Reporting (in terms of Threats & Opportunities)

This reporting both the downside and upside aspects of the risks. In other words, we are reporting on what are the threats and opportunities associated with the risks under consideration.

4. Decision

Take informed decisions regarding the importance and acceptability of the risks having considered the threats & opportunities they present to the organization

5. Risk Treatment

The process of selecting and implementing measures to modify the risk and this basically includes:

- risk avoidance
- risk control
- risk transfer
- risk financing

Furthermore, please note that the minimum standard requirement for risk treatment method chosen is that it should be cost effective, laws & regulations compliant.

6. Residual Risk Reporting

Reporting the overall information about all the risks to the appropriate stakeholders as they are all affected separately. The stakeholders are – the board, the CEO, executive management, business units/departments, departmental heads and various individuals.

7. Monitoring

There should be regular & continuous monitoring of the risk management process with a view of ensuring that there are no omissions in the actions identified to be carried out & any deviations noticed must be reported to the appropriate channel or authority.

(1 mark for each correctly stated process. ½ mark for any correct and complete explanation. Maximum of 2 explanations per process to be graded. Sub-Total per process: 4. Grand Sub-Total: 28 marks)

(Grand Total: 34 marks)

- 13(a) Outline and fully explain the sources of database. (24 marks)
- (b) Mention any six (6) genuine sources of insurance information in any country. (6 marks)
- (c) State in clear terms any four (4) essential features of a good database.

 (4 marks)

Solution

- 7) a) The sources of database are:
- (i) creation of a new database and (ii) making use of an existing database (2 marks for each correctly stated source. Total: 4 marks)
- **(i) Creation of a new database** It is the establishment of database from a new source. This new source may be from raw data or already processed data (such as a published data).

Creation of a new data base is desirable in the following circumstances:

- where no database exists
- where the database in existence was established for another purpose
- where there are suspected inherited faults in the existing database.

(2 marks for correctly outlined source. 2½ marks for every correctly stated point. Maximum of 4 points to be graded. Sub-Total: 12 marks)

- (ii) Making use of an existing data base This is using the database that has been in existence (though, it may or may not have been processed) for another purpose(s), but which is still considered to have certain form of relevance to the new intended purpose. The following are the major advantages of making use of an existing data base:
 - the relative frequencies with which the data have occurred in the past is very important.
 - no data in actual sense exists in a vacuum.
 - it may equally be put to cost and time effectiveness advantages.
 (2 marks for correctly outlined source. 2½ marks for every correctly stated point. Maximum of 4 points to be graded. Sub-Total: 12 marks) (Grand Total: 24 marks)
- b) The genuine sources of insurance database in any country are:
 - National Insurance Commissions' office (i.e. from the regulator)
 - Insurance Associations
 - Chartered Insurance Institutes
 - Professional Insurance Associations
 - Central Banks

- Ministry of Finance (Insurance Department)
- Bureau of Statistics / Federal Office of Statistics
- Insurance magazines

(1 mark for each correctly stated genuine source. Maximum of 6 to be graded. Sub-Total: 6 marks)

- c) The essential features of a good database are:
 - it is usually created gradually over a period of time.
 - it must meet the purpose for which it was created.
 - it must not be too long in the past (i.e. not obsolete).
 - it must be very adequate and comprehensive.
 - the data in the database must be systematically organized, so as to ease accessibility.

(1 mark for each correctly stated feature. Maximum of 4 to be graded. Sub-Total: 4 marks) (Grand Total: 34 marks)

- 14. G & K Lawson Company specializes in bread production. If 10% of the bread production is bad and therefore unsaleable, find the probability that out of 10 loaves of bread baked:
- (a) exactly one loaf bread is bad (8 marks)
- (b) exactly three loaves of bread are bad (8 marks)
- (c) at most three loaves of bread are bad. (18 marks)

Solution

(a) Exactly one loaf of bread is bad

Let the probability that a loaf of bread is bad be represented by q.

Thus,
$$q = 10/100 = 0.1$$
 (1 mark)
But, $p + q = 1$ (1 mark)
Therefore, $p = 1 - 0.1 = 0.9$ (1 mark)
 $P(X) = {}^{n}C_{x}q^{x}p^{x}$ (2 marks)
 $P(1) = 10C_{1}q^{1}p^{9}$ (1 mark)

(Sub-Total: 8 marks)

(b) Exactly three loaves of breads are bad

$$\begin{array}{ll} P(X) = {}^{\rm n}C_x q^x p^x & \text{(2 marks)} \\ P(3) = {}^{\rm 10}C_3 q^3 p^7 & \text{(2 marks)} \\ &= & \underline{10!} & x & 0.1^3 & x & 0.9^7 & \text{(2 marks)} \\ &= & \underline{10 \times 9 \times 8 \times 7!} & x & 0.001 \times 0.4783 = & 0.0574 \text{ (approximately) (2 marks)} \\ &= & \underline{10 \times 9 \times 8 \times 7!} & x & 0.001 \times 0.4783 = & 0.0574 \text{ (approximately) (2 marks)} \end{array}$$

(Sub-Total: 8 marks)

(iii) At most three loaves of breads are bad

The probability that at least three breads are bad =

P(0 loaf of bread is bad) + P(1 loaf of bread is bad) + P(2 loaves of bread are bad)

where,

$$P(0) = {}^{10}C_0 q^0 p^{10}$$
 (1 mark)

$$= \frac{10!}{0! (10-0)!} \times 0.1^{0} \times 0.9^{10}$$
 (1 mark)

=
$$1 \times 1 \times 0.38742$$
 = 0.3487 (approximately) (1 mark)

$$P(1) = {}^{10}C_1q^1p^9$$
 (1 mark)

$$= 10! \times 0.1^{1} \times 0.9^{9}$$
 (1 mark)

$$1! (10 - 1)!$$

 $0 \times 9! \times 0.1 \times 0.38742 = 10 \times 0.1 \times 0.38742 = 0.3874$ (app

=
$$\frac{10 \times 9!}{9!} \times 0.1 \times 0.38742$$
 = $10 \times 0.1 \times 0.38742 = 0.3874$ (approximately) (1 mark)

$$P(2) = {}^{10}C_2q2p^8$$
 (1 mark)

$$= \frac{10!}{2! (10-2)!} \times 0.1^2 \times 0.9^8$$
 (1 mark)

=
$$\frac{10 \times 9 \times 8!}{2 \times 1 \times 8!}$$
 $\times 0.01 \times 0.43046 = 0.1937$ (approximately) (1 mark)

$$P(3) = {}^{10}C_3q^3p^7$$
 (1 mark)

$$= 10! \times 0.1^3 \times 0.9^7$$
 (1 mark)

=
$$\underline{10 \times 9 \times 8 \times 7!}$$
 $\times 0.001 \times 0.4783 = 0.0574$ (approximately) (1 mark) $3! \times 7!$

Therefore, the probability of at most three loaves of bread are bad is:

P (0 loaf of bread is bad) + P (1 loaf of bread is bad) + P(2 loaf of bread are bad) + P(3 loaf of bread are bad)

$$= 0.3487 + 0.3874 + 0.1937 + 0.0574 = 0.9872$$
 (2 marks)

(Sub-Total: 18 marks)

(Grand Total: 4 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A520

COMPANY AND CONTRACT LAW

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A520 - COMPANY AND CONTRACT LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 57.59%

Highest Score: 73%

Lowest Score: 20%

Average Score: 47%

Breakdown Updates

Question 1

This was well attempted by 85% of the candidates but less than 20% scored above average. There is need for them to study the coursebook more thoroughly.

Question 2

The question is a compulsory question and about 90% of the candidates attempted it but less than 40% of them could relate it with Nigerian environment. In addition to reading the coursebook, candidates need to be adapting with current affairs.

Question 3

The question tested understanding of legislative process. Attempt was about (90%) and performance was good (85%).

Question 4

Understanding of the judicial system was the issue tested here. Performance was poor. Candidates are advised to study the coursebook more intensely.

Question 5

The question tested understanding of contract. Since the subject is a major topic in commercial business law, most candidates displayed great understanding with about 90% good performance.

Question 6

Understanding of basic elements in contract was the focus here and most candidates came with sparkling ideas with over 90% great attempt.

Question 7

Over 90% of the candidates answered this question correctly as it is still in contract knowledge, which any candidates of insurance would be familiar with.

Question 8

Performance in (a) part of the question has about 80% attempt; but the (b) part recorded performance about 20%. The question is a small line in the textbook, so candidates are advised to pay attention to all chapters in the textbook.

Question 9

Part (a) tested understanding of regulatory/statutory powers of NAICOM. Performance was over 95%. Part (b)(i) was good at a 90% performance and attempt; while the (ii) part had a poor understanding displayed by the candidates; and part (iii) had over 90% performance. Candidates should study the coursebook thoroughly and get support from tutorial centres.

Question 10

- (a) Attempt at 80% and performance at 90%.
- (b) Attempt at about 70% but performance was below average as the candidates failed to understand the implication of the operative word significance. About 95% failed to mention that the schedule of the Act must be displayed in a prominent place.

Question 11

This question was testing disclosure of facts relating to expired conviction. Attempt was 90% but performance was below average (45%) because most of the candidates could not connect the question with disclosure of facts. Candidates need to study the coursebook more.

Question 12

- (a) This was about the understanding of agency. Attempt was good (80%) and performance about 70%.
- (b) performance here was below average (45%). Most candidates mixed this up with the powers of limited liability companies. Candidates are advised to read and understand the coursebook in full.

Question 13

This was intended to test candidates' understanding of two types of companies. Attempt was 60% but performance was below average (40%).

Question 14

A textbook question, attempt was about 90% and performance was also in the same region (90%). The question was testing agency which is a major sign post in business/commercial contract law.

Chief Examiner's Comments on Overall Performance:

More candidates passed in this diet more than passes recorded in the last 5 years because Q9 which carries 50 marks is largely a practical/contemporary question. The delay of disclosure is also a very easy question to digest.

Chief Examiner's Suggestion on Improvement:

In localising a coursebook, the books should give more than one example to aid easy and good understanding so that the candidates will have options in the current textbook. Some of the sub-topics have just one example, this becomes difficult for the examiner if he is picking the sub-topics to use a comparison with another sub topic.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Concisely but briefly summarise what is meant by the term "Common Law".

Solution

Common Law consists of ancient customs and usages of the land which have been recognized by courts and given the force of law. The customs are immemorial in nature and transcend several generations of the English men. It is a complex System of law both civil and criminal and has been modified over the years by both the statute laws and equity. It has come down in recorded judgments of judges who for hundreds of years have interpreted them. An essential feature of common law is its unwritten nature, this separates it from statute laws which can be referred to in a document.

(2 marks for each correctly stated explanation. Maximum of 3 of such to be graded. Sub-Total: 6 marks)

- 2(a) What is the composition of parliament in UK? (1 mark)
- (b) State the equivalent body of the UK parliament in Nigeria and compare the UK composition with the composition of this equivalent body in Nigeria. (5 marks)

Solution

- a) The composition of parliament in UK is the Parliament which consist of the Monarch, the House of Lords and the House of Commons. (1 mark)
- b) The equivalent body of the UK parliament in Nigeria is the **National Assembly** (1 mark) which is the law making organ in Nigeria and consists of **the Senate** (½ mark) and **Federal House of Representatives** (½ mark). The president of the country is not a member of the parliament.

In the UK, legislation must be approved by both Houses in Parliament and receive the Royal Assent from the Sovereign (1 mark); while in Nigeria, the legislative power of the National Assembly is exercised by bills adopted in both House of Representatives and the Senate (1 mark); and from there it goes to the President who is the head of the executive branch of government for assent and it becomes law(1 mark). (Sub-Total: 5 marks) (Grand Total: 6 marks)

3. Compare a private bill to a private member's bill.

Solution

A Private Bill is passed for the benefit of an individual or group of individuals example of a private bill that became a private act is Llyods Act 1982; whereas a private member's bill is introduced by an individual member of Parliament and if passed into law, it becomes a Public Act.

(3 marks for each correctly stated point. Maximum of 1 point under each term to be graded. Total: 6 marks)

4. What do you understand by a court disapproving a precedent?

Solution

A court disapproving a precedent is when, in a later case before the court, the court decides that the ratio decidendi is not wide enough to permit overruling it; but the court is now giving its opinion that an earlier case was wrongly decided and that such an opinion will be obiter but it can be influential.

(3 marks for each correctly stated point. Maximum of 2 points to be graded. Total: 6 marks)

5. What is an *unenforceable contract?*

Solution

An unenforceable contract is a contract that is valid but cannot be enforced in any court if one party refuses to observe the judgment(s). Such a contract may nevertheless be useful for other purposes, for example, it can be used as a defense to a claim.

(3 marks for each correctly stated point. Maximum of 2 points to be graded. Total: 6 marks)

6. Briefly define the following terms: (a) offeror (b) offeree and (c) counter offer.

Solution

- (a) Offeror The party who makes the offer. (2 marks)
- (b) Offeree The party to whom the offer is made to and can either accept or reject the offer. (2 marks)
- (c) Counter Offer is any variation or modification of the terms of the original offer, a counter offer terminates the original offer *Hyde V Wrench* (1840) (2 marks) (Grand Total: 6 marks)

7. What is "consensus ad idem" and what role does it play in the formation of contract?

Solution

Consensus ad idem – is meeting of the minds. (2 marks)

It is the general principle of law that parties coming into a contract must agree on some essential terms of the contract (2 marks) and where this is lacking a valid contract cannot be formed (2 marks). (Grand Total: 6 marks)

- 8(a) Explain "remoteness of damage" as it relates to negligence. (4 marks)
 - (b) Explain the term 'in terrorem'. (2 marks)

Solution

- (a) Remoteness of Damage: as it relates to negligence implies that damages will necessarily flow from a breach of contract (1 mark) but such damages must not be too remote from the original breach (2 marks); otherwise the court will not make an award (1 mark). Such as in *Hadley V Baxendale* (1854) (Sub-Total: 4 marks)
- (b) *In Terrorem* is a clause inserted in legal document or contract which is intended or designed to threaten (1 mark) someone or one of the parties to perform his obligations. (1 mark) (Sub-Total: 2 marks)

(Grand Total: 6 marks)

Part II Compulsory Question. This question carries 50 marks

9(a) There are some permissible items that can be combined to make up the share capital policy of insurance and reinsurance companies in order for those companies to be adjudged by NAICOM to have met up with the minimum regulatory capital requirement. List any four (4) of these items.

(10 marks)

- (b) Chief Somebody insured his multi-storey building complex with 'Young Shall Grow Insurance Plc', the adjoining property is a fuel station which got engulfed in fire. In the course of putting out the fire, Chief Somebody suffered water damage on his property. You are the insurance broker to the Chief,
 - (i) advise him on the position of the water damage. (5 marks)
 - (ii) will Chief Somebody recover compensation if the loss was caused

by gas explosion used for industrial purpose. (5 marks)

(iii) what is an insured peril? Give any two concise examples.

(10 marks)

- (c) What is the position of duty of disclosure at renewal on
 - (i) Long term business.

(10 marks)

(ii) Other business.

(10 marks)

Solution

- a) The combination of share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020 could be from the following:
 - existing paid up share capital
 - cash payment for new shares issued
 - retained earnings
 - payment for new shares issued such as
 - o properties
 - o treasury bills
 - o shares
 - o bonds
 - share premium

(2½ marks for each correctly stated requirement. Maximum of 4 to be graded. Total: 10 marks)

- (b) The water damage to the property of Chief Somebody is covered and recoverable under his fire policy as further damage to the subject matter due to attempt to minimize a loss already taking place is covered, therefore water damage by the fire service is recoverable. See *Johnston V West of Scotland* (1828). (5 marks)
- (b) The Standard fire policy covers losses due to explosion of (a) boilers (b) gas used for domestic purposes only. Consequently, damages due to explosion of gas used for industrial purposes are excluded and are not recoverable. (5 marks)
- (c) An insured peril is any peril which is specifically named in the policies as insured. Examples are fire, lightning and explosion (excluding one due to industrial use) under a standard fire and special peril policy.

(4 marks for correct definition of an insured peril; 2 marks for each correctly stated example of a covered peril; maximum of 2 to be graded. 2 marks for stating the type of policy that the peril is being mentioned on. Sub-Total: 10 marks)

c) Position of Duty of Disclosure in Long Term Business: in these type (e.g. life assurance and permanent health), the insurer is obliged to accept the renewal premium if the assured wishes to continue and there is no duty of disclosure operating at renewal.

(2½ marks for each bolded phrase above. Sub-Total: 10 marks)

c) Other Business: **renewal requires the assent of the insurer**, therefore the original duty of disclosure is revived the **facts which applies at renewal must be disclosed** (*PIM V Reid* (1843)).

(5 marks for each bolded phrase above. Sub-Total: 10 marks) (Grand Total: 50 marks)

Part III

Answer THREE (3) of the following FIVE (5) questions. Each question carries 34 marks.

10(a) What is a "personal contract"? Give three (3) examples. (18 marks) (b) Explain the significance of Hotel Proprietors' Act 1956. (16 marks)

Solution

a. **Personal Contracts** – are contracts that must be performed personally by the party who contracted it. e.g contract of employment. For instance, a man who has been employed as an accounts clerk in a company cannot delegate such function to his sister. Other examples of personal contracts are a contract with a pop star to perform in an event; a contract with a celebrated author to write a biography on a successful business entrepreneur; a contract to perform as an actor in a film.

(6 marks for correct definition. 4 marks for each complete and correctly stated example. Maximum of 3 examples to be graded. Sub-Total: 18 marks)

b. The significance of the Hotel Proprietors' Act is that it limits the liability of the Hotel proprietor (4 marks) to a sum of 50GBP on any one article (2 marks) and 100GBP on any of the guests (2 marks) provided, the proprietors displays a copy of the schedule of the Act in a prominent position in the hotel (4 marks).

However, the limits do not apply where the loss/ damage was occasioned by the negligence of the proprietor or his staff or in the case of goods deposited or offered for safekeeping (4 marks).

(Sub-Total: 16 marks). Grand Total: 34 marks

11(a) What is a "spent conviction"?

- (10 marks)
- (b) What is "non-disclosure and state where it may arise.
- (16 marks)

(c) What is a condition precedent to recovery?

(8 marks)

Solution

a. A "spent conviction" is a conviction which expire after a certain length of time (5 marks). These convictions are not liable to be disclosed and no one should/would be penalised for such non-disclosure (5 marks).

(Sub-Total: 10 marks)

- b. Non-disclosure is when a party to an insurance contract willfully refrain from disclosing any material fact which would influence the insurer in accepting or declining a risk or in fixing the premium, terms and conditions of the contract. This may arise in the following ways:
 - withholding a fact that is within the knowledge of one contracting party from the other contracting partner especially when the other contracting partner could not otherwise have known of it
 - withholding a fact, which is calculated that if it was disclosed would have influenced the other party in the decision making in not entering the contract at all or to have entered it at better terms
 (6 marks for the correct explanation of non-disclosure. 5 marks for any other related point stated. Maximum of 2 of such to be graded. Grand Sub-Total: 16 marks)
- c. Condition precedent to recovery is one which provides that liability for a particular loss may be avoided if the term is not complied with e.g. *Welch V Royal*. Sufficient particulars must be given by the insured within a reasonable time to document the claims so that the underwriters can determine their liability.

(5 marks for each correctly stated point. Maximum of 2 of such points to be graded. Grand Sub-Total: 10 marks)

Grand Total: 34 marks)

- 12(a) How can the legal presumption of an implied agency in favour of the wife be rebutted? (18 marks)
 - (b) State the powers available to partners.

(16 marks)

Solution

a. The legal presumption of an implied agency in favour of the wife can be rebutted by proving any of the following:

- i. express warning to the supplier to discontinue the supply of goods on credit to the wife
- ii. the wife was already adequately supplied with the goods or
- iii. the wife had an adequate cash allowance to cover necessaries within the need for the credit
- *iv.* the wife had been expressly prohibited from pledging the husband's credit (but not without notification to the supplier this could still lead to agency by estoppel).

(6 marks for each correctly stated scenario. Maximum of 3 to be graded. Sub-Total: 18 marks)

- b. The powers available to partners are power to:
 - i. sell goods or personal chattel of the firm
 - ii. purchase on account of the firm goods necessary for or usually employed in the business
 - iii. remove payments of debts due to the firm and give valid receipts
 - iv. engage employees (and to dismiss employees unless the other partners objects)
 - v. insure the firm's goods
 - vi. employ a solicitor to defend the firm.

(4 marks for each correctly stated available power. Maximum of 4 to be graded. Sub-Total: 16 marks) (Grand Total: 34 marks)

- 13(a) Compare and contrast an *unlimited liability company* with a *company limited by guarantee.* (19 marks)
 - (b) State and explain three (3) duties of the subscribers to the Articles of Association. (15 marks)

Solution

a. In an unlimited liability company, the liability of members is not limited at all (3½ marks) whereas in a company limited by guarantee, each member undertakes to be liable to pay the company's debts <u>up a certain amount</u> to in the event of a winding up. (3½ marks)

Other comparisons are:

S/NO	UNLIMITED LIABILITY	COMPANY LIMITED BY
	COMPANY	GUARANTEE

1	It is a company formed for the purpose of doing business and making profit.	The company is not for the purpose of doing business but for promoting charitable or other similar objects and must not carry on business for
	A 10 10 10 10 10 10 10 10 10 10 10 10 10	rofit.
2	An unlimited liability company must	It must NOT have a share capital because it is established for
	have a share capital.	charitable pur ose.
3	The Memorandum of the company	The Memorandum must be
	does not need to be scrutinized and	scrutinized and approved by the
	approved by the Attorney General of	Attorney General of the Federation
	the Federation.	before it is re istered
4	The Unlimited liability company	A company limited by guarantee is
	sole purpose is to make profit and	not for profit making and if by error
	will be under pressure from the	or design it does so every officer and
	shareholders and Directors to	member who is aware of such fact
	achieve this objective.	will pay and discharge all debts and
		liabilities incurred in carrying out
		such business and in addition a fine.
5	Any property that remains after the	Any property that remains after the
	discharge of debts and liabilities of an	discharge of the debts and liabilities
	unlimited company is not transferred	of the company limited by guarantee
	to any company with similar object	being wound up is transferred to
	but remains the assets of the	another company with similar object
	shareholders/directors.	because that is the philosophy of the
		com an Le. charitable olfects.

(2 marks for each correctly stated distinction. Maximum of 3 extra to be graded per term. Sub-Total per distinction: 6 marks. Grand Sub-Total: 19 marks)

- b. The duties of the subscribers to the Articles of Association are to:
- i. pay for the shares for which they have subscribed
- ii. sign the articles of association
- iii. appoint the first directors (if not named in the articles)
- iv. usually to act as directors upon such an appointment

(Candidates are required to briefly explain any three of the stated duties. 2 marks for mentioning the duty. 2 marks for a brief but complete explanation. 1 mark for a complete example. Sub-Total per duty: 5 marks. Maximum of 3 duties to be graded in such ways.

Grand Sub-Total: 15 marks)

(Grand Total: 34 marks)

- 14(a) What are the four (4) remedies available to a principal who discovers his agent has accepted a bribe? (10marks)
 - (b) What is trading partnership? Explain any five (5) powers available to this set of partners. (24 marks)

Solution

- a) The four (4) remedies available to a principal who discovers his agent has accepted a bribe are as follows:
 - the principal can recover the bribe from the agent.
 - the principal can dismiss the agent without notice or commission.
 - the principal can sue the agent and third party for conspiracy to defraud where appropriate
 - the principal can exercise the rights to set aside the contract made with the third party.

(2½ marks for each correctly stated remedy. Total: 10 marks)

b) Trading partnership is one which the business of the firm involves buying and selling goods on its own account. (4 marks)

The partners in a trading partnership has the following powers; power to:

- sell goods or personal chattels of the firm
- purchase on account of the firm goods necessary for usually employed in the business
- receive payment of debts due to the firm and give valid receipts
- engage or dismiss employees unless the other partners' object
- insure the firm's goods
- employ a solicitor to defend the firm
- make accept or issue negotiable instruments
- borrow money on credit for the firm
- pledge personal property of the firm or deposit title documents of land so as to create equitable mortgage.

(2 marks each for mentioning any of the above powers. 2 marks each for any correct explanation under each power. Sub-Total per power = $3\frac{1}{2}$ marks. Maximum of 5 to be graded. Total: 20 marks.)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A530

BUSINESS AND ECONOMICS

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A530 - BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

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Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
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You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

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It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 60.21%

Highest Score: 81%

Lowest Score: 17%

Average Score: 56%

Breakdown Updates

Question 1

The question was well-worked upon and understood by all candidates. Most of them scored the full marks.

Question 2

Most candidates did not prepare for the concept required. Candidates should prepare for any aspect of the syllabus.

Question 3

The question is a direct one with above average performance by the candidates.

Question 4

It is an applied question with above average performance by the candidates.

Question 5

This was a cheap question and many candidates did well in it. Few candidates did not give good example.

Question 6

The question was very straight forward. Those who did not understand it performed poorly.

Question 7

Some of the candidates wrote off points but the average performance was good.

Question 8

It was well attempted. The success rate is very high.

Question 9

Most of the candidates who attempted the question did very well. The performance was good.

Question 10

Few candidates attempted the question and the performance was good and above average.

Question 11

It was attempted by majority of candidates. The performance was very poor.

Question 12

It was based on structure of business. Considerable number of candidates attempted it. Candidates' performance was above average.

Question 13

The question was well attempted and the pass rate is above 60%.

Question 14

The success rate of the question is quite commendable. About 70% of the candidates that attempted the question scored above average.

Chief Examiner's Comments on Overall Performance:

The overall performance was good but can be improved in future examination.

Chief Examiner's Suggestion on Improvement:

Candidates' should be supported by attending tutorial classes before sitting for the examination.

A530

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Enumerate any six (6) reasons for mergers and acquisitions of insurance companies in your country.

Solution

Some reasons for mergers and acquisitions in my country are:

- for geographical spread
- for economies of scale
- to acquire expertise in an area
- to have a larger capital base
- to be one-stop shopping for customers
- a friendly merger may be a defensive measure against a hostile take-over by an unwanted competitor
- for synergy (1 mark for each correctly stated reason. Maximum of 6 reasons to be graded. Total: 6 marks)
- 2. State and briefly explain any three (3) factors that can affect the supply of insurance.

Solution

The factors that can affect the supply of insurance are:

- **level of premium:** i.e. the higher the premium, the greater the chance of making a profit and the more willing underwriters are to offer policies.
- **costs:** as costs rises, the willingness to offer insurance policies falls as the profit margins are squeezed. The main costs are claims costs and falling interest rates.
- **level of capacity**: the higher the level of capacity, the lower the premiums are as competition to complete 'capacity budgets' intensifies and underwriters force premiums down.
- **reinsurance:** the higher the reinsurance costs, the higher the premiums charged by the direct insurer (cedant), as the cadent must cover the reinsurance costs and make a profit.
- **Uncertainty:** as claims are events susceptible to chance occurence, the uncertainty elements means that premiums can be underpriced for a given exposure. This will affect the willingness of the underwriter to supply insurance policies within the market space

(1 mark for each correctly stated factor. 1 mark for each correct explanation. Sub-Total per factor: 2 marks. Maximum of 3 factors to be graded. Grand Total: 6 marks)

3. List any three (3) advantages of the European/ECOWAS Single Currency (i.e the Euro/the ECO).

Solution

The advantages of the European/ECOWAS Single Currency (i.e the Euro/the single Euro currency are:

- settlement of cross- border rewards are faster and easier
- investment opportunities in the capital markets are easier is calculate
- prices are more transparent, allowing comparisons
- economic borders are split across countries as they are all tied is call others performance

(2 marks for each correctly stated advantage. Maximum of 3 advantages to be graded. Total: 6 marks)

4. Enumerate any six (6) characteristics of an insurance professional.

Solution

The characteristics of an insurance professional include:

- combines vast knowledge gained over many years with continuous assimilation of the newest data
- is consistent in detailed checking of own position and of cases that are encountered
- supports and conducts self within industry acceptable code of conduct
- encourages colleagues to aim continually for higher standards
- judges each case on its merits and offer the best solution
- accepts and enforces the highest standard
- maintain meticulous record
- supports the enforcement of (high) minimum standards
- participate in professional bodies like CIIN.
 (1 mark for each correctly stated characteristic. Maximum of 6 to be graded. Total: 6 marks)
- 5. Distinguish between objectives and strategies of an insurance company. State an example on each.

Solution

Objectives are medium to long-run targets determined by the board of directors. They can provide a sense of purpose and direction for the company. (2 marks) e.g. profit maximization of the company; to give the shareholders the best return they

can. (1 mark); while strategies are plans that are used to achieve stated objectives. The board of directors determines the company's strategy and responsible for implementing it. (2 marks) e.g. an insurance company has to decide whether it wants to write only general insurance, or only life assurance or both. (1 mark)

(Grand Total: 6 marks)

6. List six (6) examples of the types of market research information that can be extracted from an insurance company's database.

Solution

Types of market research information that can be extracted from an insurance company's database are:

- geographical distribution of customers
- volume of sales, by product, region or brother etc.
- success or failure of pricing and promotion strategies
- profitable niche markets
- effectiveness of sources of business (direct/ broker, advertising/ direct mail e.t.c.)
- targeted and segmented client types
- geodemographic data (1 mark for each correctly stated information. Maximum of 6 to be graded. Total: 6 marks)
- 7. Enumerate four (4) ways in which capital investment by insurance companies may contribute to a healthy economy of the nation.

Solution

The ways in which capital investment by insurance companies may contribute to a healthy economy of the nation are:

- insurance releases internal funds used for self-reinsurance
- insurance companies invest premium funds in industry via equity or bonds, thus funding industrial production
- insurance companies invest premium funds in Government gilts, thus financing infrastructure in the economy.
- insurance companies promote savings which are then re-invested in the stock market and company bonds
- insurance companies encourage entrepreneurs to take on the business risk and leave the insurable risk to insurance companies i.e. act as risk transfer mechanism.

(1½ marks for each correctly stated way. Maximum of 4 to be graded. Total: 6 marks)

8. Explain the three (3) types of profit usually cited in a company's profit and loss account.

Solution

The three (3) types of profit usually cited in a company's profit and loss account are:

- Gross Profit: is calculated by subtracting costs of sales from turnover
- **Operating Profit:** is equal to the firm's gross profit minus is other operating expenses
- Net Profit: is operating profit less tax and exceptional items.

 (1 mark for each correctly stated profit. 1 mark for each correct explanation of the profit. SubTotal per Profit: 2 marks. Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) There are some permissible items that can be combined to make up the share capital policy of insurance and reinsurance companies in order for those companies to be adjudged by NAICOM to have met up with the minimum regulatory capital requirement. List any four (4) of these items. (10 marks)
- (b) The demand and supply function of an insurance policy, where P = Price, is given as:

$$DD = 400 - 12P$$

SS = 80 + 4P

Calculate the quantity supplied.

(10 marks)

(c) You are given the following figures of ABC Insurance:

	N	
Turnover	4,000,000.00	
Loss of Sales	1,000,000.00	
Other Operating	800,000.00	
Expenses		
Net Interest	200,000.00	
Revived		
Taxation	600,000.00	

Determine the:

(i) Gross Profit

- (ii) Operating Profit
- (iii) Net Profit Before Taxation (iv) Net Profit After Taxation

(20 marks)

(2 marks)

(d) State five (5) functions of the board of directors in an insurance company. (10 marks)

Solution

- (a) The combination of share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020 could be from the following:
 - existing paid up share capital
 - cash payment for new shares issued
 - retained earnings
 - payment for new shares issued such as
 - o properties
 - o treasury bills
 - o shares
 - o bonds
 - share premium

(2½ marks for each correctly stated requirement. Maximum of 4 to be graded. Total: 10 marks)

(b) DD =
$$400 - 12P$$

SS = $80 + 4P$

At equilibrium Demand= Supply (2 marks) Therefore, 400 - 12P= 80+ 4P (1 mark) 16P = 400 - 8016P = 320(1 mark) P = 320/16 = 20(2 marks) When P = 20(1 mark) Q = 80 + 20(4) = 80 + 80(1 mark) = 160

Quantity Supplied = 160 units

(Sub-Total: 10 marks)

(c)	$\frac{\mathbf{N}}{\mathbf{N}}$	
Turnover	4,000,000	
Loss Cost of Sales	<u>1,000,000</u>	(2 marks)
Gross Profit	3,000,000	(3 marks)
Less Operating Expenses	800,000	(2 marks)
Operating Profit	2,200,000	(3 marks)

Add Net Interest Received	<u>200,000</u>	(2 marks)
Net Profit Before Taxation	2,400,000	(3 marks)
Less Taxation	600,000	(2 marks)
Net Profit After Tax	1,800,000	(3 marks)
	(Sub-Total: 20 marks)	,

(d) The functions of the board of directors in an insurance company are to:

- decide business strategies and objectives of the business policies
- decide what market to operate in
- plan ahead for the business
- appoint the highest-ranking employees
- run the company on behalf of the shareholders
- publish an annual report and a set of accounts.
 (2 marks for each correctly stated function. Maximum of 5 to be graded. Sub-Total: 10 marks)
 (Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

10. Fully discuss four (4) of the various options available to Government to correct a trade deficit.

Solution

The various options available to Government in order to correct a trade deficit include:

- Supply-Side Policies Option: this include the reduction in taxes to reward success and enterprise. By reducing taxes, there would be an invested incentives to work. Firms will also have a greater incentive to be efficient. It also include passing laws that weaken trade union power. By decreasing trade union power, the Government aims to remove the causes of inefficiency that were limiting international competitiveness in many organisations. By privatizing national industries, the government hoped that large sections of the economy would become efficient again. Lastly it could also involve deregulation and other policies designed to increase competition.
- **Deflate Domestic Demand Option:** in this instance, Government can expand domestic levels by cutting taxes and interest rates in an attempt to create jobs. By reducing demand, the government would hope to limit spending on imports.

- **Devaluation**: this occurs when government use economic policies that are designed to reduce the exchange rate. By reducing the value of the currency, imports appear more expensive whilst exports appear less expensive.
- Exchange Rates: this is the price of a currency expressed in terms of how much that currency can buy of another. The exchange rate affects different firms in different ways according to the nature of their business.
- **Trade Surplus Option:** this happens when a country's export insure is greater than their import expenditure. Therefore, if a country runs a trade surplus, more money will be entering the country than is leaving it and its wealth will be increased, employment levels are likely to be high, as a trade surplus increases the demand for export products produced within the country.

(4 marks for correctly stating the options. 2 marks for each correct explanation under each correctly stated option. Maximum of 2 complete explanations to be graded under each option. Sub-Total per option: 8 marks. Additional 2 marks for correct outlay and flow/presentation of points. Grand Total: 34 marks)

- 11(a) List and discuss five (5) areas of use of Information Technology (IT) in insurance marketing and distribution. (20 marks)
- (b) List three (3) examples of information technology network used in the Insurance Industry. (6 marks)
- (c) State the three (3) types of computer systems in use in business today.
 (3 marks)
- (d) Highlight any five (5) of the many main phases of an IT (information technology) project. (5 marks)

Solution

- (a) The areas of use of Information Technology (IT) in insurance marketing and distribution are:
 - **Decision Tree Analysis:** is a quantitative technique which assesses alternative courses of action, whilst applying probability values to elements each as profit and sales. Then the course of action leading is maximum profit or sales can be found.
 - **Modelling:** software exists to assess many combinations of constraints, such as that where a given set of resources exists. This statistical technique can be applied to see how the best option can be obtained from a given scenario. This is a tool for use in, say, assessing investment options.
 - **Trend Analysis**: this is a short-term quantitative statistical technique used for forecasting future activity, based on the assumption that past trends will continue to apply to future business.

- Sales Analysis: for an example, a company is split into several direct salesforce territories. Selling expenses are too high across the region. A lost/ sale ratio investigation will show which territories are responsible for this position. Additionally, it will be possible to determine optimum sales-free sizes based on the nature of business applicable, geographical limitation, and so further.
- Behavioural Analysis: if an organization feeds into its database details of
 past responses to initiatives to market they person insurance to mediumsize organizations. The details (e.g. size, management structure etc.) of a
 prospective client organization can be entered, a report generated
 containing information such as lively reactions to the service being offered,
 optimum packages to be included and financial considerations.
- Return on Investment: large insurance companies will seek to invest funds for profit, but must balance the decision to do so against the likely returns on underwriting business. Computer analysis will provide a thorough report on the best opinion for a given period, taking into account as many variables and constraints as may be needed.
- Impact: for launching of a new slogan nationwide on radio and television, the impact can be reported by a computer analysis.

(3 marks for correctly stating the area. 1 mark for any correct explanation under each correctly stated area. Maximum of 1 complete explanation to be graded under each area. Sub-Total per are: 4 marks.

Maximum of 5 areas to be graded. Sub-Total: 20 marks)

- (b) Examples of information technology network used in the Insurance Industry are:
 - the London Insurance Market Network (LIMNET)
 - the Reinsurance and Insurance Network (RINET)
 - World Insurance Network (WIN)
 (2 marks for each correctly stated example. Sub-Total: 6 marks)
- (c) Types of computer systems in use in business today are:
 - Mini Computers
 - Networks
 - Personal Computers

(1 mark for each correctly stated type. Sub-Total: 3 marks)

- (d) The many main phases of an IT (information Technology) project are:
 - business audit
 - flexibility study/ requirements analysis
 - systems analysis

- design
- development
- testing
- installation/implementation
- maintenance

(1 mark for each correctly stated phase. Maximum of 5 to be graded. Sub-Total: 5 marks) (Grand Total: 34 marks)

- 12(a) State the typical financial objectives of:
 - charities (i)

- (ii) small business
- (iii) public limited companies
- (iv) government departments (12 marks)

(b) Highlight the four (4) main stages in the budgeting process. (8 marks)

- For what purposes do the following group of stakeholders need (c) information about an organisation:
 - management (i)
- shareholders (ii)
- (iii) insurance companies

(10 marks)

(d) Mention the internal constraints that can mitigate against a business entity.

(4 marks)

Solution

- a. The typical financial objectives of:
 - charities are to generate a sufficient inflow of money to finance the (i) charity's intended activities
 - **small busines** is to generate what the owner considered to be a (ii) reasonable income for themselves
 - (iii) **public limited companies** are to generate profits that will satisfy shareholders
 - (iv) government departments are to generate sufficient cash flow pay for their costs, and to achieve the returns on capital prescribed by the government or to provide the services demanded by government by spending no more than allowed in the budgets. (3 marks for each complete and correctly stated objective. Sub-Total: 12 marks)
- b. The four main stages in the budgeting process are:
 - identify objectives (2 marks)
 - determine policies to achieve objectives (2 marks)
 - prepare and obtain approval for budgets (2 marks)
 - revise strategies in the light of budget variances to achieve objectives. (2 marks for each complete and correctly stated stage. Sub-Total: 8 marks)

c.

S/No	Stakeholder	Purpose	
1	Management	To see whether the organization meets its objectives (3 marks)	
	Shareholders	To see whether their organization is performing in what they consider to be a satisfactory way (3 marks)	
3	Insurance Companies	To check the adequacy of sums insured, to verify claims, to assess the suitability of a company as the investment. (4 marks)	

(Sub-Total: 10 marks)

- d. The internal constraints that can mitigate against a business entity are:
 - The quality of management
 - Employee motivation
 - Investment levels
 - New machinery
 - Investment purpose
 - New product development

(1 mark for each correctly stated constraint. Maximum of 4 to be graded. Sub-Total: 4 marks)

Grand Total: 34 marks.

- 13(a) State five (5) reasons why company accounts are analysed. (10 marks)
- (b) List any three (3) of the five standard categories of accounting ratios.

(6 marks)

- (c) State two (2) importance of liquidity for the financial well-being of a company. (6 marks)
- (d)i Define the term 'gearing'. (2 marks)
- ii Enumerate two (2) disadvantages of a high level of gearing in a company.

 (4 marks)
- (e) State the links between shareholders' funds, sales and profits (6 marks)

Solution

- (a) Company accounts are analysed for the following reasons. : To:
 - find out whether a company's performance meets certain targets

- compare the present performance of a company with its performance in the previous years
- compare the performance of a company with that of other companies
- compare the performance of different activities of a company
- decide whether or not to buy shares in a given company
 (2 marks for each correctly stated reason. Sub-Total: 10 marks)
- (b) The standard categories of accounting ratios are:
 - Profitability
 - Liquidity
 - Productivity
 - Gearing
 - Turnover or activity (2 marks for each correctly stated category. Maximum of 3 to be graded. Sub-Total: 6 marks)
- (c) The importance of liquidity for the financial well-being of a company are that:
 - a company must have enough cash to pay creditors at the right time
 - if the company's liquidity is insufficient, it may not be able to pay its bills on time
- this non-liquidity may lead to the company being declared insolvent. (3 marks for each completely stated importance. Maximum of 2 to be graded. Sub-Total: 6 marks)
- (d) (i) Gearing can be defined as the extent of debt financing in a company. (2 marks)
- (ii). Two disadvantages of a high level of gearing in a company are that:
 - a highly geared company has a lot of debt and thus will not be highly rated
 - the higher the level of gearing, the more volatile the profitability of the company will be over time.

(2 marks for each correctly stated disadvantage. Sub-Total: 4 marks)

(e) The links between shareholders' funds, sales and profits is that shareholders' funds are necessary to buy the equipment for production, (2 marks) which will make sales of the product possible (2 marks) and the sales will then (hopefully) generate the profits. (2 marks) (Sub-Total: 6 marks)

(Grand Total: 34 marks)

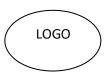
- 14(a) Insurance companies need long-term finance to succeed. Advise reason(s) why this is so. (2 marks)
- (b) Enumerate and explain fully the sources of long-term business finance.
 (32 marks)

Solution

- (a) Insurance companies need long-term finance to succeed because long-term finance is needed to buy fixed assets and other capital investment. (2 marks)
- (b) The sources of long-term finance are:
 - Long-Term Loans: most firms that borrow money on a long-term basis arrange this with a bank. It involves a loan agreement that sets out the duration of the loan and the interest rate to be charged. Banks also include details of the security being offered by the borrower in the event that they default on the loan. If they do default, the bank has the legal right to seize the asset named as collateral to recover their debt. Most banks use tangible fixed assets like land and property as collaterals.
 - **Debenture:** this is a fixed interest security issued by the firm that is secured against named assets owned by the firm. Accountants see a debenture as a type of loan capital since the payment made to debenture holder are based on the nominal value of the debenture and its fixed interest rate
 - **Share Capital:** firm issue two types of share capital in order to raise long-term finance ordinary shares and preference shares
 - **Ordinary Shares**: are also known as the company's equity with the following characteristics:
 - they carry voting rights at the company's AGM. They are the owners of the business. The board of directors are effectively stewards who run the business on behalf of the shareholders
 - they are not guaranteed a dividend payment. Ordinary shares tend to offer a viable return. When the profit is high, they will receive far greater rewards than preference shareholders or owners of debentures
 - they are the last in the line of creditors should the firm find itself in liquidation. There is no guarantee that the ordinary shareholder will receive their initial capital back once debenture and preference shareholders have been paid.
 - **Preference Shares:** are characterised by the following:
 - o they do not carry voting rights
 - o they get their name from the fact that the payment of a preference dividend takes priority over the dividend of ordinary shares.
 - they pay a fixed dividend to their owners. The size of this dividend is usually a percentage of the share nominal value.
 - o most preference shares are cumulative

- o if the company is forced to liquidation, the preference shareholders take priority over ordinary shareholders.
- **Retained Profit:** this has many advantages over both shared capital and loan capital as a source of business finance. The firm does not have to pay a rate on reinvested past profits. The main drawback is that profit may not be readily available.

(4 marks for correctly stated source. 2 marks for any complete and correct explanation. Maximum of 2 explanations to be graded under each stated source. Sub-Total per source: 8 marks. Maximum of 4 sources to be graded. Grand Total: 32 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A655

RISK MANAGEMENT

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

0136207538CHARTERED INSURANCE INSTITUTE OF NIGERIA

A655 – RISK MANAGEMENT INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 29.91%

Highest Score: 70%

Lowest Score: 12%

Average Score: 44%

Breakdown Updates

Question 1

The question is on crime hazards. It was popular among the candidates with over 95% of them attempting the question. Over 95% of those that attempted the question mentioned correct points/answer hence scored pass marks.

Question 2

All the candidates attempted the question. Over 98% mentioned correctly the number of stakeholders. However, few repeated same points whilst about 2% could not score pass marks.

Question 3

The question was to test candidates understanding of one of the popular risk management report in U.K. Majority mentioned the role of the report correctly.

Question 4

"Killer Risks" question is popular and used many times over 98% of the candidates attempted it and scored pass marks. They were able to mention.

Question 5

The question was attempted by majority of the candidates. Those that mentioned the legal and regulatory ways which was what the question was all about scored above average pass marks while others could not.

Question 6

About 30% of the total numbers of candidates that attempted this question scored above average pass mark (29 in number) while the remaining number could not enumerate any quality of a risk manager in critical period like recapitalisation.

Question 7

This question ought to be very easy for candidates to attempt and score pass marks in view of current trend all over the world on the negative effect of social media and details contained in the textbook. Over 90% of the candidates did not have correct understanding of the question hence were stating wrong answers. Close to 7% of them were able to remember the answers contained in the textbook and these scored average pass marks.

Question 8

It was noticed by the examiner that performance on this question was on the average. Only about 50% of the candidates scored above average pass mark on this question.

Question 9

The question was into two parts. First part was on trade associations in the industry. Total of 89 candidates out of 96 attempted this and all scored above average pass marks. The second part was application of theory to duties of risk manager, risk control and image, about 40% of the total numbered of candidates that attempted this question scored pass mark in this section and scored pass mark while the remaining 60% could not state the applications thereby scored below average pass mark of 50marks allocated.

Question 10

It was observed that over 50% of the entire candidates attempted this question however majority amongst them did not get full understanding thereby giving wrong answer/definitions to the terms specifically written out.

Question 11

It was observed by the examiner that candidates' performance was averagely okay as most of them that attempted the question scored above pass marks. Although some still scored below average pass marks.

Question 12

This question requires definitions of risk management and insurance respectively. Many of the candidates that rushed to answer the question did not understand this, hence had wrong approach from the beginning which caused them loss of marks. However, amongst those that tried to do justice to the question mentioned only the negative side and did not remember to write about the positive side of saving money meant or could have been spent on either insurance or put in place of risk management techniques by organisations, particularly rich and multinational organisations.

Question 13

This question is technical in nature however it has been used several times although not on regular basis. Majority attempted it. They were able to mention

all the points and explain the points convincingly, hence they scored above average pass marks.

Question 14

This question was to bring out in the candidate of risk management, risk distribution and effective transfer of same and minimised loss of revenue. Less than 10% of the total candidates attempted the question but none was able to secure average pass mark. There is need to repeat this question to get the candidates understanding of the concept.

Chief Examiner's Comments on Overall Performance:

There were diverse reasons deduced on the performances of the candidates by the pool of examiners but majority (about 80%) were of the opinion that the candidates rushed to write their answers before gaining good understanding of the questions hence, some of the answers provided were lopsided.

Chief Examiner's Suggestion on Improvement:

Since over 98% of the questions were lifted from the textbook, with close to 50% being word-for-word questions, candidates must be further educated on good way to approach examination questions – i.e. following instructions which most candidates do find difficult to follow; thorough preparations and understanding of questions before answering them. All these shall help both the candidates and the professional examination body in bringing out good and knowledgeable practitioners.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. List any six (6) crime hazards in a typical hazard catalogue.

Solution

The following are crime hazards in a typical hazard catalogue:

* Fraud * Hijacking * Malicious damage

* Violence/drug injection *Blackmail * Hacking * Product contamination * Rape * Duping

(1 mark for each correctly stated hazard. Maximum of 6 to be graded. Total: 6 marks)

2. Identify any six (6) stakeholder in terms of risk management in an organisation.

Solution

The stakeholder in terms of risk management in an organisation are the:

* Employees

* Suppliers

* Customers

* Regulators

* Media

* Investors

- * Industry players * Others that may be specific to individual organisation (1 mark for each correctly stated hazard. Maximum of 6 to be graded. Total: 6 marks)
- 3. State any three (3) important things that Turnbull Code require the Board of Directors of an organisation to understand.

Solution

The important things that Turnbull Code require the Board of Directors of an organisation to understand are:

- The nature and extent of the risks it faces
- The extent and categories of risks that it considers to be acceptable
- The likelihood of risks materializing
- The company's ability to reduce the incidence and impact on the business of risks that do materialize
- The cost/benefit of controls in relation to related risks.
 (2 marks for each correctly stated thing. Maximum of 3 to be graded. Total: 6 marks)
- 4. Define "killer risks" and give two (2) examples of this type of risks.

Solution

"Killer Risks" are those risks that have the potential to be so damaging as to destroy the entire organisation if it occurs. (3 marks)

Some examples of killer risks are:

- the loss of the regulatory approval or licence e.g. for Insurance Companies by NAICOM; for telecommunication firms by NCC; e.t.c.
- damaged credibility and brand or name and products
- failure of system that total operations depends upon e.g. in a factory total breakdown of production line or computers IT based organisation - processing software; e.t.c.
- breakdown or group death of human resources
- financial solvency recapitalization/other capital issues
- competitor strengthening
- loss of business or major accounts
- loss of financial control over an organisation
- organisation peculiars or specific killer risk, a silence or press release can cause killer risks

(1½ marks for each correctly stated example. Maximum of 2 to be graded. Sub-Total: 3 marks) (Grand Total: 6 marks)

5. Enumerate any two (2) ways by which the risk manager can ensure that the organisation conduct its affairs in a fit and proper manner.

Solution

The ways by which the risk manager can ensure that the organisation conduct its affairs in a fit and proper manner are to ensure that:

- laws are followed to avoid corporate manslaughter of the organisation
- regulatory directives are strictly adhered to
- the organization has adequate, effective internal controls i.e. having internal auditor in place
- (s)he encourages the use of external independent risk management auditor. (3 marks for each complete and correctly stated way. Maximum of 2 to be graded. Total: 6 marks)
- 6. Enumerate three (3) qualities expected of a risk manager to possess in any period of recapitalisation.

Solution

The qualities expected of a risk manager to possess in any period of recapitalisation are:

- Team Playing Qualities
- Professional worrier
- Specialist skills and experience
- Ability to always focus on the overall benefits to the organisation
- Ability to work well with compliance, treasury, legal and finance department and all heads of the department
 (2 marks for each correctly stated quality. Maximum of 3 to be graded. Total: 6 marks)

7. In the current digital age and worldwide use of social media, give three (3) actions/incidences that will not be favourable to an organisation if risk management is neglected.

Solution

In the current digital age and worldwide use of social media, some actions/incidences that will not be favourable to an organisation if risk management is neglected are:

- death and injury of key staff members
- loss of money or other valuables or investments
- loss of reputation confidence
- destruction of brand value
- loss of intellectual assets

(2 marks for each correctly stated action/incidence. Maximum of 3 to be graded. Total: 6 marks)

8. In the management of security exposures, mention any two (2) main types of security exposures that may be faced.

Solution

In the management of security exposures, the main types of security exposures that may be faced are:

- security of physical assets
- security of individual staff members
- security of information as it relates to Information technology
- security of information as it relates to information on paper
- security of information as it relates to word of mouth and conference calls security

(3 marks for each correctly stated exposure. Maximum of 2 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) In the Nigeria Insurance Market, there are organisations/trade associations which are involved in promoting ethical standards and professionalism. List any four (4) of these organisations. (10 marks)
- (b) You were appointed as a risk manager consultant to the Government of Ghana in 2017 for a period of 10 years at \$1,500,000.00 fee per annum. You are also aware that two (2) major suppliers of agricultural produce to Ghana have their dependency on Nigeria. In the second quarter of the year, Nigeria closed her land borders. The Government of Gambia then invites you to present papers on how the Country can escape similar fault tree challenges

- in view of its critical dependence on sourcing of any supply from any neighbouring country. Enumerate any four (4) issues your presentation will centre on. (20 marks)
- (c) Your consultancy firm has no competitors with the government of Ghana, can your firm still have significant and immediate impact if Ghana Government (as your service users) loses confidence in your firm? Justify your response with at least one (1) risk management based reasoning.
- (d) Due to internal changes, your company decides to begin operation and marketing her products in Gambia. Explain five (5) new rules that your company and its staff members will be required to comply with. (10 marks)

Solution

- (a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:
 - Nigerian Insurers Association (NIA)
 - Nigerian Council of Registered Insurance Brokers (NCRIB)
 - Institute of Loss Adjusters of Nigeria (ILAN)
 - National Insurance Commission (NAICOM)
 - Chartered Insurance Institute of Nigeria (CIIN)
 - Professional Reinsurance Association of Nigeria (PRAN)
 - Association of Registered Insurance Agents of Nigeria (ARIAN)
 (2½ marks for each correctly stated organisation/association. Maximum of 4 to be graded.
 Total: 10 marks)
- (b) As a risk manager consultant in the case study in the question, the following are the issues that candidates are required to state in their presentations:
 - failure in supply must be critically considered
 - does the supplier have one factory or more?
 - is there dependency on overseas suppliers?
 - is there a political risk in the country where raw materials come from?
 - what are the alternatives if a supply fails?
 - are those alternatives of adequate quality and can they arrive in time to meet critical business pressures?
 - who are the suppliers of critical items/goods? (5 marks for logical presentation and wrapping of the ideas together. 3 marks for each correct and completely stated issue. Maximum of 5 issues to be graded. Sub-Total: 20 marks)
- c. Yes, the firm still have significant and immediate impact if Ghana Government (as your service users) loses confidence in the firm (4 marks). This is

because part of risk monitoring and review is to have put in place constant check for lack of confidence or any circumstances that may harm relationship with service user so as to be able to make immediate adjustment when such arises. (3 marks for each correctly stated justification. Maximum of 2 to be graded. Sub-Total: 10 marks)

- d. Due to internal changes, the new rules that the company and its staff members will be required to comply with are:
 - new regulatory control i.e. Nigeria sudden closure of border
 - new legal environment
 - new political risks
 - new compensation culture for products and liabilities
 - different security needs
 - new customer behaviour patterns
 - exchange rate risks and currency conversion.

(2 marks for each correctly stated justification. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a) The role of an operational risk manager is wide and common, whilst excluding speculative risk management functions. In the light of this, explain the full role of the risk manager on:
 - (i) security
 - (ii) damage
 - (iii) employee and visitor protection
 - (iv) management of the risk transfer program; and
 - (v) business continuity risks.

(25 marks)

- (b) What are the two (2) roles of the risk manager with the Board of any profitoriented company? (4 marks)
- (c) What role does a regulator require the Chief Risk Officer (CRO) to perform with the board of any licensed insurance company in that country? (5 marks)

Solution

- a. The role of a risk manager on:
- (i) **Security** are:
 - for all types of physical asset:
 - o operations;
 - o information;
 - o people; and
 - o fraud.

(ii) Damage:

- to assets, including reputation from a variety of causes;
- to balance sheet and off balance sheet assets; and
- to revenue and cash flows

(iii) Employee/Visitor Protection:

- Compliance with health and safety regulations
- Other people (visitors) safety issues
- Environment

(iv) Management of the Risk Transfer Programme

- Management of insurance Portfolio
- The captive insurance company and/or other financial funding schemes

(v) Business Continuity

- Catastrophe risk assessments
- Business continuity planning
- Compliance with regulator
- Exercising staff and other resources to ensure awareness and preparedness (2½ marks for each correctly stated point. Maximum of 2 points to be graded under each point. Sub-total per point: 5 marks. Grand Sub-Total: 25 marks)
- b. The roles of the risk manager with the Board of any profit-oriented company are that the risk manager is responsible for:
 - implementing the risk philosophy of the company as set by the Board
 - any other role as specified/directed by the Board on risk management

(2 marks for each correctly stated role. Sub-Total: 4 marks)

- c. The role that a regulator requires the Chief Risk Officer (CRO) to perform with the board of any licensed insurance company in that country are that:
 - risk management department must be created and qualified and competent person must be appointed Chief Risk Officer/Risk Manager for the company
 - sit and work with board risk management committee
 - implement all risk management decisions of the board and report back at next meeting
 - submit and ensure that returns are sent to the Regular as-at when due (5 marks for any complete and correctly stated role. Sub-Total: 5 marks)

 (Grand Total: 34 marks)

- 11. Write a memo to your company secretary who had written a memo to you requesting for explanations on:
- (a) what risk management statement/risk policy statement is all about (14 marks)
- (b) what risk management statement should cover in an organisation (10 marks)
- (c) what difference(s) or similarity(ies) it has with annual declaration to NAICOM as required by the regulator? (10 marks)

Solution

- (a) Memo to company secretary
 - The statement is a published document designed to convey/communicate the risk management philosophy that has been developed
 - The statement is all about work of the risk department and how results expected can be achieved.

(Candidates are required to show the response in a correct memo format (From: 2 marks; To: 2 marks; Subject: 2 marks; Date: 2 marks) Then the contents: 2 marks on each correctly stated point. Maximum of 2 to be graded: Sub-Total: 6 marks. Grand Sub-Total: 14 marks)

- (b) The statement upon approval by the board will cover
 - the role and objectives of the risk management functions
 - how risks are to be identified, measured, monitored prioritized/monitored control through retention/financing by the organisation and or transferred
 - the lines of authority and responsibility
 - how risks are to be reported upwards and through to the board including board's role
 - the methods by which change is monitored within the organisation
 - any other content as may be directed by regulatory authority and enabling laws.

(The contents here 2½ marks on each correctly stated point. Maximum of 4 to be graded: Sub-Total: 10 marks)

(c) In Nigeria, risk policy statement is internal to organisation after approval by the entire management and same as in (b) mentioned above. However, the regulator NAICOM required a declaration statement on risk which need to incorporate majority of points in risk policy statement. In Nigeria, the risk management statement/declaration must be submitted annually to NAICOM whilst risk policy statement may be issued ones without any need to issue another one.

(5 marks for each complete and correctly stated point. Maximum of 2 to be graded .Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 12(a) Discuss fully, with at least four (4) points, the consequences when a multinational organization decides to absorb a level of loss without any structured risk management program or insurance. (22 marks)
- (b) Discuss three (3) options available to an organisation when setting out to control an unacceptable risk. (12 marks)

Solution

(a)

Risk Management can be briefly explained to be the identification, analysis and control of those risks which can threaten the operations, assets and other responsibilities of an organisation. This can be done by the use of insurance, which is a risk transfer mechanism that provides an economic vehicle for the pool pay some amount out of which the few that suffer losses will be paid through claim management services.

However, a multi-national organization can decide to absorb a level of loss without any structured risk management program or insurance. Some of the consequences of these are:

- occurrence of risk management expenditure that may not be economic
- the administrative and control costs of continually recycling the same monies to and from insurers are retained in the organisation
- cash is retained and used to produce value within the organisation
- risks are shared and owned by level of managers locally
- local ownership of risk encourages greater care
- there could be total absence of risk assessment and unknown or hidden exposures
- a group-wide decision on capacity to assets/absorb risk can have a disproportionate impact on smaller divisions within the multi-national.

(3 marks for each correctly stated opening remark on the question. Maximum of 2 to be graded - 6 marks.

4 marks for each complete and correctly stated consequences. Maximum of 4 to be graded. Sub-Total

Marks = 16 marks)

(Grand Sub-Total: 22 marks)

- (b) The options available to an organisation when setting out to control an unacceptable risk are to:
 - **reduce the risk:** i.e. the organisation put in procedures that remove an unacceptable concentration of risk
 - **retain the risk:** i.e. after taking stock of the risk, the organisation decides that if and when the worst-case damage occurs, such will not be

- sufficient to divert the organisation from its objectives and responsibilities, therefore the organisation decides to absorb the risk
- **transfer the risks:** the organisation decides to put the burden of the risk onto another party either through insurance, special fund creation for the purpose, to contracting parties, et.c.
- **contingency planning:** where the organisation:
 - prepare itself in advance when danger is anticipated backing up computer data or other critical data
 - put processes in place to ensure that crucial and urgent functions continue almost immediately and throughout after occurrence
 - prepares against computer failures, product recalls, kidnap, terrorism, fire weather damage, aggressive media attention, etc.

(2 marks for correctly each correctly stated option. 2 marks for each correct explanation. Sub-Total per option: 4 marks. Maximum of 3 options to be graded. Sub-Total: 12 marks)

(Grand Total: 34 marks)

13. You are aware of "alternative risk transfer", popularly regarded as non-traditional risk transfer options. Explain in details, any four (4) alternatives to insurance, which are available and which you will recommend as a risk advisor, for transferring the cost of risk to financial institutions by a multimillion naira categorised organisation.

Solution

Alternative risk transfer refers to a range of instruments that enable an organisation to transfer financial risk to a professional risk carrier, other than by way of a conventional insurance contract. The professional risk carriers in this case are the capital markets, rather than the insurance and reinsurance markets.

(3 marks for each correctly stated point/explanation. Maximum of 2 to be graded. Sub-Total: 6 marks)

The candidates should be able to give reasons why organisations have started the movement into these areas for transfers of very high value catastrophe risks. Some of these are:

- a recent string of very high catastrophe losses has exposed the inability of insurance industry to respond adequately.
- consequently, catastrophe capacity is at times not fully available, leading to widely fluctuating prices.
- the spread and scale of the capital markets means that catastrophe exposures can be spread over a wider capital source, instead of solely within the insurance and reinsurance markets.

 (4 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 8 marks)

Candidates are then expected to develop the following "alternative risk transfer" mechanisms in detail:

- derivatives
- catastrophe bonds
- catastrophe risk exchange
- loans
- put options

(5 marks on each correctly stated point (3 marks for mentioning the mechanism; 2 marks for the brief but concise explanation). Maximum of 4 points to be graded. Sub-Total: 20 marks)

(Grand Total: 34 marks)

14. Your facility manager requested from you, the risk manager, on where the consequences of risk can be transferred to, particularly to how it can be transferred to another organisation using the company's property/facilities through the use of terms within contracts that the company legal department will put in same (not the same as when risks were transferred through contract). Give your response with full explanation in a report form, copying your head of department.

Solution

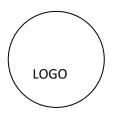
The following are ways by which the company's facilities can be transferred:

- lease for the use of property can give condition for continue payment of rent even if property is rendered not suitable because of fire or any other external cause
- penalty clauses can be invoked for delay delivery of goods
- one party can withhold fund in case of failure by the other party(ies) to fulfil certain condition
- a contract clause may define ownership of (intellectual) property
- it may be demanded that payments made within defined period and or insurance is arranged by one of the parties.

(Presentation of the report in a report format: 6 marks Correctly Copying the Head of Department: 3 marks Candidates are required to explain the stated ways.

5 marks for each correctly and completely explained point on the issue. Maximum of 5 points to be graded. Sub-Total: 24 marks)

Grand Total: 34 marks



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A735

LIFE ASSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A735 - LIFE ASSURANCE INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 13.66%

Highest Score: 62%

Lowest Score: 0%

Average Score: 42%

Breakdown Updates

Question 1

The question was intended to test the knowledge of the candidates with regard to the principles of annuity content when it is guaranteed. Majority of the candidates attempted the question probably because it is compulsory since more the 75% of the candidates that attempted the question failed to show understanding and thus scored poorly.

Question 2

The question relates to the underwriter's reaction to substandard cases where the proposer does not favour the payment of regular extra premium, rather a debt may be imposed. A lot of the candidates that attempted the question misunderstood debt to mean borrowing on the policy. The question also pointed at how under average cases can be treated by underwriter to make the business to be profitable. The performance was generally poor.

Question 3

The question was set to test the knowledge of the candidates on the effect of trust when it is included in life policy. The performance was impressive. About 55% of those that attempted the question scored above average.

Question 4

The question was based on how a with-profit policy works. It was attempted by almost all of the candidates. They showed very good understanding and hence the fairly high rate of passes in the question.

Question 5

The question tested the knowledge of the candidates about group life assurance and how it can be effected. Most of the candidates missed the concept of the contract thereby not scoring the allotted marks. It was really evident that the candidates were not well prepared or did not understand the question.

Question 6

The question sought to test candidates' knowledge on the need for family income policy. Performance was just average (49%) as they were only able to describe on the surface what the policy is about.

Question 7

The question is on how to appoint new trustees in replacement of an existing one. It is such a direct question which was why almost all the candidates that attempted the question understood it; which reflected in the pass rate.

Question 8

The question tested the understanding of candidates on ways in which ownership of a policy can change. It was a popular question attempted by almost all (80%) of the candidates. Scores were impressive.

Question 9

This is the main compulsory question that has a total score of 50 marks, it was therefore attempted by almost all the candidates. The performance was very poor especially among the candidates from outside Lagos. The reason may not be far reached. They seemed not well organised with some wasting a lot of time on providing irrelevant responses.

Question 10

The question is based on the effect of cancellation notice in life assurance contract. The overall performance of the candidates was not encouraging as less than 10% of the candidate attempted and even at that the pass rate was very poor. This can be linked to a lack of adequate preparation for the examination.

Question 11

A part III question intended to test the candidates' knowledge on life underwriting i.e. medical and non-medical factors which every good life underwriter is expected to be conversant with. Disappointingly, most of the candidates listed the points but could not explain the factors.

Question 12

The question centered on how a life policy can be altered. It was poorly attempted and even at that the response confirmed their lack of understanding of the topic.

Question 13

This is an applied question testing the candidates on their understanding of the principles of insurable interest; while candidates quickly appreciated that insurable interest would not apply. Most of them did not know when insurable

interest should apply in life assurance. The question was attempted by 80% but less than 50% scored above the pass mark.

Question 14

The question was based on how insurers should treat claims when death has arisen by suicide, with emphasis on the effects of the Suicide Act 1961 on insurance. The question was poorly attempted with less than 10% of the candidates attempting it due to lack of understanding.

Chief Examiner's Comments on Overall Performance:

The overall performance is rather poor 13.66%.

Chief Examiner's Suggestion on Improvement:

The candidates need to read and understand the coursebook well and seek tutorial aid in their preparation for future examinations.

- With regard to majority of the candidates, I will recommend that tutorial centres are created and they should utilize these to their advantages.
- The candidates must also show more interest and be prepared for the examination.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Explain the features of a guaranteed annuity, with a minimum of two (2) features.

Solution

Guaranteed annuity is an immediate annuity which is guaranteed to be payable for a stated minimum period, say 10 years, usually called the guaranteed period. In this annuity, if the annuitant dies during the guaranteed period, the balance of the guaranteed instalments will be payable to the estate. If the annuitant does not die within the guaranteed period, then the annuitant will be paid for life.

(3 marks for each correctly stated point. Maximum of 2 points to be graded. Total: 6 marks)

2(a) What are under-average lives? (2 marks)

(b) Briefly explain debt and how it can be used as a method of dealing with under-average lives . (4 marks)

Solution

- (a) Under-average lives are those proposers assessed by the underwriter as having a greater risk of death than the average and therefore should pay higher than the normal premium. (2 marks)
- (b) **Debt:** is one of the methods used in dealing with under average life in life assurance underwriting. It is a deduction from the sum assured in the event of earlier death of the policyholder imposed instead of charging extra premium for the extra risk. It could be in form of a decreasing debt will decreasing equally and if the policyholder survives the term, the full sum assured will be payable at maturity. Where the debt is fixed and the life dies before maturity date, the sum assured shall be reduced by amount of the debt.

(2 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks) (Grand Total: 6 marks)

3. If a trust includes a life policy, state any four (4) of the provisions often included in the trust deed.

Solution

If a trust include a life policy, the trust deed usually include some of the following:

- a covenant by the settlor to pay premiums
- a covenant by the settlor to restore the policy if it becomes void.

- a covenant by the settlor to revive or effect a new policy if the original policy lapses.
- a power for the trustees to pay premium out of the trust property.
- a power for the trustees to borrow to pay premiums
- powers for the trustees to surrender the policy, to convert it, or to exercise any other option in it.

(1½ marks for each correctly stated provision. Maximum of 4 provisions to be graded. Total: 6 marks)

4. Briefly enumerate/explain how a with-profits-life-policy works.

Solution

A with-profits-life-policy works in the following way such that after each successful transaction:

- at the end of every year, the life office will carry out valuation of the assets and liabilities of its life fund
- this will normally reveal either a surplus or a deficit. If a surplus is revealed, which is usually the case, part of the surplus will be allocated to the with-profits-policyholders in the form of an addition to the sum assured
- the addition is called a bonus or a profit
- this bonus or profit is usually reversionary which means, it is only payable at the same time as the sum assured, that is, either on death or maturity, whichever is earlier.
 - (2 marks for each correctly stated process. Maximum of 3 broken down steps to be graded. Total: 6 marks)
- 5. Enumerate in bullet points the complete process of how any group life assurance policy can be effected.

Solution

A group life policy can be effected as follows:

- submission of proposal by the interested group (or applicant) to a life office for a group life cover
- assessment by the insurer of the submitted proposal to determine the commensurate terms of placement of the proposal
- payment of the deposit premium and fulfilment of all other required communicated underwriting conditions
- effecting of cover by the life office and issuance of policy document on the contract stating all the terms and conditions of the policy
- release of the policy document to the representatives of the insured (earlier referred to as the interested group)

(Marks should be proportionately allotted to candidates covering the entire process and not one. Maximum allottable marks here is 6 marks)

6. How does a family income policy work with a basic life assurance contract?

Solution

A family income policy is a contract that provides a capital sum payable by instalments for a selected period to replace the income which the life assured would produce for their family if they were still alive. (1 mark)

The policy pays out an equal amount each year from the death of the life assured until the expiry date of the policy. (1 mark)

- the instalments can be monthly, quarterly or yearly
- a commuted value (lump sum) can be paid instead of the instalments
- the cover decreases over the term of the policy the nearer the life assured gets to the expiry date, the less will be the total of the instalments payable.

(2 marks for each correctly stated point of how the payment can be effected. Maximum of 2 points to be graded here. Sub-Total: 4 marks.

Grand Total: 6 marks)

7. List any three (3) conditions under which a new trustee can be appointed in replacement of an existing one.

Solution

A new trustee can be appointed in replacement of an existing one on the following conditions that if the existing referee:

- dies
- refuses to act
- desires to be discharged
- is unfit or incapable of acting (insanity or bankruptcy)
- is an infant or a minor.

(2 marks for each correctly stated condition. Maximum of 3 conditions to be graded. Total: 6 marks)

8. Ownership of a life policy can be changed in various ways. List any three (3) of such ways by which such a change can occur.

Solution

Ownership of life policy can be changed by the following ways:

- by absolute assignment
- mortgage
- trust
- bankruptcy

(2 marks for each correctly stated way. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Enumerate any eight (8) statutory functions of the National Insurance Commission as established by NAICOM Act 1997. (10 marks)
- (b) What are the three (3) significances of the use of a grant of representation for settling a life assurance death claim? (9 marks)
- (c) Explain in detail the two (2) types of grants that may be presented by claimants and the circumstances that may lead to the presentation of each.

 (13marks)
- (d) State how title can be proved by whom and with what documents in the following circumstances while claiming death benefits under a life policy:
 - (i) life of another policy
 - (ii) joint life first death policy
 - (iii) assigned policy
 - (iv) trust policy
 - (v) own life policy when the life assured died testate
 - (vi) own life policy when the life assured dies intestate. (18 marks)

Solution

- a) The statutory functions of the National Insurance Commission as established by NAICOM Act 1997 are:
 - establish standards for the conduct of insurance business in Nigeria
 - approve rates of premium to be paid in respect of all classes of insurance business
 - approve rates of commission to be paid in respect of all classes of insurance business
 - ensure adequate protection of strategic government assets and other properties
 - regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria
 - act as adviser to the Federal Government on all insurance related matters
 - approve standards, conditions and warranties applicable to all classes of insurance business
 - protect insurance policyholders, beneficiaries and third parties to insurance contracts
 - publish, for sale and distribution to the public, annual reports and statistics of insurance industry
 - liaise with and advice Federal Ministries, parastatals, statutory bodies and other government agencies on all matters relating to insurance

contained in any technical agreements to which the country is a signatory to

- contribute to educational programmes of the Chartered Institute of Nigeria and the West African Insurance Institute
- carry out other activities connected or included to its other functions. (1½ marks for each correctly stated function. Maximum of 8 to be graded. Sub-Total: 10 marks)
- b) The significances of the use of a grant of representation for settling a life assurance death claim are that it:
 - enables the Legal Personal Representative of the Estate of the deceased policyholder to prove their title to claim the benefits due on an own life policy.
 - enables the life office to obtain valid discharge from the legal personal representative of the deceased policyholder of an own life policy before settling a death claim.
 - provides certainty that the life office is paying to the right claimants.
 (3 marks for each correctly stated significance. Sub-Total: 9 marks)
- c) The two (2) types of grants that may be presented by claimants and the circumstances that may lead to the presentation of each are:

Grant of Probate of Will: here, the document is issued by the probate division of the High Court to the executors of the estate of the deceased person who died estate to prove the Will of the deceased person. The court usually attach a copy of the Will to the document with the court seal.

Probate of Will is presented to prove title to a death claim in the following situation where:

- the deceased died testate, i.e. wrote a Will before death.
- the Will is valid
- the testator named executors in the Will
- the life policy is mentioned in the Will by the deceased policyholder
- the executors are able and will to execute the Will.

Grant of Letters of Administration: here, the document is issued by the Probate Division of the High Court to the Administrator of the Estate of a deceased person who died without a valid Will (intestate).

Letters of Administration is usually presented in the following circumstances to prove title to a death claim where:

- the deceased died intestate
- the policy is listed in the letters Administration as part of the Estate of the policyholder

($3\frac{1}{2}$ marks for each correctly stated circumstance. $1\frac{1}{2}$ marks for each correct explanation under each stated circumstance. Maximum of 2 explanations to be graded. Sub-total per circumstance = $6\frac{1}{2}$ marks. Grand Sub-total: 13 marks)

Life of Another Policy				
By whom		Tho	assured	(11/, 1)
•	-			(1½ marks)
Document Required	-	The	policy document	(1½ marks)
Joint Life First Death				
By whom	-	Surv	rivor of the joint lives	(1½ marks)
Documents Required	-	The	policy document	(1½ marks)
Assigned Policy				
By Whom	-	Assi	gnee	(1 mark)
Document Required	-	(i)	Deed of Assignment	(1 mark)
•		(ii)	Policy Document``	(1 mark)
Trust Policy			·	
By Whom	-	Trus	tees	(1 mark)
Document Required	-	(i)	Trust Deed	(1 mark)
		(ii)	The Policy Document	(1 mark)
Own Life Policy when	the As	ssured	l Died Testate	
By Whom	-		cutors	(1 mark)
Document Required	_	(i)	Valid Will	(1 mark)
1		(ii)	Policy Document	(1 mark)
Own-Life Policy when	<u>l</u>	` '	·	
By Whom	-	Administration		(1 mark)
Document Required	-	(i) Letters of Administration (1 mark)		on (1 mark)
1		(ii)	Policy Document	(1 mark)
	(Grand S	` /	al: 18 marks)	,
	` (C	1	FO 1)	

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a) What is a cancellation notice in a life assurance contract? (4 marks)
- (b) What are the purpose of the cancellation notice in a life assurance contract? (20 marks)
- (c) List the four (4) circumstances in which life office does not have to send cancellation notice when it issues a new policy to a customer. (10 marks)

Solution

- a) The cancellation notice in a life assurance contract is a condition that explains to the contract parties the rights/procedures by which the contract can be canceled.

 (4 marks)
- b) The purpose of the cancellation notice is to draw (the policyholder's attention to the fact that the policyholder has a right to a change of mind and consequently withdraw from the contract.

 (6 marks)

The rule specified that:

- cancellation notices must be issued for all life assurance policies and life annuities
- the notice must be sent by post to the policyholder during the 14days immediately after the conclusion of the contract
- for industrial policies, the notice can be given to the policyholder instead of sending by post
- where the policyholder is a trustee acting on behalf of beneficiaries, the notice must also be sent to the beneficiaries
- if the Notice is sent out after the time limit the office cannot deduct any short fall on cancellation
- if a life office fails to send out a notice, the policy can be cancelled by the policyholder at any time within the first two years
- the notice must be clear, prominent, timely and comprehensive
- the notice must state
 - the right to cancel and when it begins and ends,
 - o the shortfall costs the policyholder may have to bear
- a cancellation form must be included for use if the policyholder decides to cancel the contract.

(3½ marks for any of the correctly stated point above. Maximum of 4 to be graded. Sub-Total: 14 marks)

Grand Sub-Total: 20 marks)

- c) Life office do not have to send cancellation notice when it issues a new policy to a customer in the following circumstances:
 - term assurance for less than 10 years or running after age 70 years
 - where there are no conversion or extension options
 - conventional income protection insurance
 - life policies for six (6) months or less
 - policyholders residing outside the country of issuance.
 (2½ marks for any of the correctly stated circumstance. Maximum of 4 to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

11(a) What is underwriting?

(4 marks)

- (b) What types of medical and occupational factors will the underwriter look out for in a life proposer? (6 marks)
- (c) List and describe any six (6) of each of the factors.

(24 marks)

Solution

a) Underwriting is the procedure of assessing a proposal and deciding whether to accept the risk and, if so, at what rate of premium, terms and conditions (2 marks). The underwriter will look out for medical factors that can cause premature death of the proposer, by illness or disease (1 mark). The occupation of proposer is also important to the underwriter to determine whether it presents a greater than average risks of death by disease or accident (1 mark).

(Sub-Total: 4 marks)

b. Some of the factors to look for are any of the following:

Occupational Factors
Oil Rig Workers
Trawlermen
Scaffolders
Underground Miners
Bomb Disposal Workers
Professional Boxers
Divers
Steal Erectors
Radioactive Handlers
Steeple Jacks

(1 mark for each correctly stated type of factor. Maximum of 3 to be graded under each segment. Sub-Total per segment: 3 marks. Grand Sub-Total: 6 marks) b. Candidates are required to describe any six (6) of the factors in (b) above under each segment.

(2 marks for each correct description. Maximum of 6 to be graded under each segment. Sub-Total per segment: 12 marks. Grand Sub-Total: 24 marks)

(Grand Total: 34 marks)

- 12(a) Explain an alteration to a life policy and how it is evidenced and recorded.

 (10 marks)
- (b) Other than the life assured or the assured, who else may need to give their consent to the request to alter a policy. (14 marks)
- (c) Give five (5) of the most common alteration requests to a life policy.

 (10 marks)

Solution

a) Alteration to a life assurance policy is a process whereby changes can be made to life policies at the request of the policyholder. (4 marks)

It is evidenced and recorded by the following actions:

- the policy wordings must have given the policyholder a right to make alteration otherwise, the life office has the right to decline the request (2 marks)
- the policyholder is required to apply to the office in writing for alteration, so also is any person who might be interested in the policy, for example, a mortgagee
 (2 marks)
- the policy will then be endorsed to show the alteration made and the record
 of the life office will be altered accordingly. (2 marks)

(Grand Sub-Total: 10 marks)

- b. Other than the life assured or the Assured, **any other persons** who have interest in the policy. (14 marks)
- c. Only substantive policies can be altered and five of the most common alteration requests are:
- change of premium frequency
- increase to sum assured
- decrease to sum assured
- extension of policy term
- reduction of policy term
- change of conversion options
- addition of a life assured
- removal of a life assured (2 marks for each correctly stated alteration. Maximum of 5 to be graded. Sub-Total: 10 marks). (Grand Sub-Total: 34 marks)

- 13. Alhaji Babatunde Hassan has nine (9) children, of which only one of them, a twenty-four-year-old, is a male. Alhaji Hassan has asked you for a life assurance contract on the life of the only male child (Ahmed) for his own benefit to show his special love for his only son.
- (a) Discuss the legal right of Alhaji Hassan with respect to insurable interest in the life of his only son. (10 marks)
- (b) Give two (2) complete examples of a situation where no insurable interest exists. (10 marks)
- (c) Explain with reasons, when insurable interest must exist in life assurance policy effected by one person on the life of another. (14 marks)

a. Alhaji Babatunde Hassan, as a parent has an obligation to love and take care of his children but that does not confer on him the legal right with regards to the principles of insurance interest to insure the life of this only son or any of his children for his own benefit. (4 marks)

Insurable interest exists only where there is a loss measurable in monetary terms. In the event of the death of his son, no quantifiable financial losses would be suffered by Alhaji Hassan - the father. (2 marks)

The love shown by him to his only son is only sentimental and it is of no financial value. (2 marks)

However, Babatunde has the unlimited insurable interest in himself to insure his life for the benefit of any of his children for example, in the area of their education.

(2 marks)

(Grand Sub-Total: 10 marks)

- b. Situations in which there exist no insurable interest are:
 - where a beneficiary under a Will does not have an interest in the testor. This is because the Will may be changed at any time and there is only a hope of benefiting. (5 marks)
 - where a child has no insurable interest in his parent; however it should be noted that a child has a right to be supported by his parent and vice versa.

 (5 marks)

(Grand Sub-Total: 10 marks)

c. Insurable interest need only to exist at the time of arranging the contract, (5 marks) but not at the time of a claim because life assurance is not a contract of indemnity (5 marks).

A contract of indemnity provides that the amount of claim payable at the time and the place of claim will be determined by the insured's actual financial loss in other to place the insured in the former position before the loss, subject to the adequacy of the sum assured (2 marks).

The above situation does not apply to life Assurance contract as it is impossible to equate life to a precise financial value to an exact financial compensation. Life Assurance Business is benefit contract (2 marks).

(Grand Sub-Total: 14 marks)

- 14(a) What special consideration should the underwriter give to claims where the cause of death is suicide? (24 marks)
- (b) What effect does suicide have on third party claims? (10 marks) Solution
- a. The candidate is expected to relate the effect of the Suicide Act 1961 to life claims as a result of suicide.

The special consideration that the underwriter should give to claims where the cause of death is suicide are as follows:

- before the suicide Act 1961, suicide committed voluntarily by a person of sound mind was a crime.
- it is also contrary to public for a person to benefit from his own criminal act. Therefore, no legal claim could be made by the estate of the life assured that diet by way of suicide.
- the 1961 Act abolished the rule that suicide was a crime but no mention was made about its effects on life assurance contract.
- the fundamental principles of insurance law that the insured cannot recover if by his deliberate act, cause the event insured against to happen still stand.
- however, the above principle will not apply if the life assured commits suicide whilst he is insane as it be said that he does not have the mental capacity to appreciate what he is doing, the estate of the deceased will be able to claim in such circumstances.
- if the policy contains a suicide clause which usually states that: if the life assured shall commit suicide during the specified period no claim will be payable
- if suicide is committed after the specified period, even if the life assured is of sound mind at the time, the assurer will be liable for the claim.

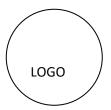
• this is because by having a suicide clause expressly excluding cover for a limited period it means the office is prepared to provide cover for the risk after that period.

The burden of proving that suicide was the cause of death is on the life office while noting that the major challenge here is that the coroner's finding and verdict are usually not conclusive proof of suicide.

(4 marks for each correctly stated point. Maximum of 6 points to be graded. Sub-Total: 24 marks)

b. The effect of suicide on third parties' claims is that most suicide clauses protect the interest of third party preserving the value of the policy for mortgages. However, where a life office can repudiate a claim on the grounds of suicide, both the legal personals representatives and all those claiming a share in the estate as beneficiaries or creditors are equally barred from the claim; including the trustees of a policy under trust.

(5 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A745

PRINCIPLES OF PROPERTY & PECUNIARY INSURANCES

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A745 - PRINCIPLES OF PROPERTY & PECUNIARY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

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In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 63%

Highest Score: 87%

Lowest Score: 23%

Average Score: 57%

Breakdown Updates

Question 1

A textbook question to test the candidates' knowledge of the technicality of the subject matter. It was well attempted. Candidates' performances were very good.

Question 2

A technical question to test candidates' knowledge of property underwriting. Good performance by the candidates.

Question 3

A textbook question to test candidates' knowledge of combined policies and their benefits. Performance was above average.

Question 4

A textbook question to test candidates' knowledge of who can present a risk to an insurer for underwriting purposes. Performance was very good.

Question 5

This is basically a technical knowledge of IBNR. Performance was above average.

Question 6

Technical question to test candidates' knowledge of extensions to professional indemnity policy. Performance was generally poor.

Question 7

An engineering question which relates to explosion and collapse in boiler. Performance was on the average.

Question 8

A textbook question on the candidates' knowledge of package policies. Candidates' performance was on the average.

Question 9

A compulsory question to test candidates' knowledge of consequential loss, declaration policies and premium adjustment. Candidates' performance was on the average.

Question 10

A technical question to test candidates' knowledge of the special perils/other categories. Performance was very high.

Question 11

This question was not too popular with candidates. It relates to cover available on additional cost of working item. Performance was very poor.

Question 12

This is a technical question on CAR (contracts)/CAR/EAR major differences. Candidates' performances were high.

Question 13

The question is to test candidates understanding of constructing contracts and the duties of each party. Performance was fair.

Question 14

This is a technical question to know the accounting record. Most of the candidates do not have a grasp of this knowledge. Their performance was very poor. Poorly attempted by candidates.

Chief Examiner's Comments on Overall Performance:

The overall performance was very good. This may be due to the limited number of candidates. Performance was 63%.

Chief Examiner's Suggestion on Improvement:

The candidates are advised to take the examination more seriously as questions relates to day-to-day activities in the insurance industry.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. What is first loss insurance? Give an example of any peril where this is popular.

Solution

A "first loss" insurance is on where the insured chooses to ask the insurer to provide cover up to an amount significantly less than the total value of the property insured actually at risk on the grounds that the total destruction by the perils to be insured is highly unlikely. Examples of perils where this is popular are storm, flood, escape of water, impact, accidental damage (other than fire and special perils) and theft.

(3 marks for the correct definition. 3 marks for any correctly stated example. Total: 6 marks)

2. As a prudent underwriter, under what three (3) headings can a property be insured?

Solution

The three (3) headings that property can be insured under are:

- building including landlord's fixtures and fittings
- machinery, plants and other contents
- stocks and materials in trade.

(2 marks for each correctly stated heading. Total: 6 marks)

3. List any four (4) benefits of combined policy to the insured?

Solution

The benefits of combined policy to the insured are:

- one proposal
- a single policy booklet or folder
- one premium is payable
- common renewal date for all covers
- easier references for day-to-day dealings with insurer and/or intermediary particularly on claims
- reduced premium level (at the option of the insurer)
 (1½ marks for each correctly stated benefit. Maximum of 4 to be graded. Total: 6 marks)
- 4. As an insurer, give four (4) examples of those who may present a risk to an insurer.

Solution

The examples of those who may present a risk to an insurer are:

broker

- proposer
- bank
- solicitor
- another insurance company
- insurance department of a large organisation. (1½ marks for each correctly stated benefit. Maximum of 4 to be graded. Total: 6 marks)
- 5. What is IBNR? Briefly state the basic theoretical knowledge known on this abbreviation.

IBNR is an acronym for Incurred but Not Reported claims i.e. the claim has occurred during the period of account but insurer has not been advised of the claim. A notional allowance is made and revised from time to time as more reliable data is available from record as they build up.

(3 marks for correct meaning of the acronym. 1½ marks for any other correctly stated point. Maximum of 2 points to be graded. Total: 6 marks)

6. Name any four (4) extensions of cover normally offered to various professions under professional indemnity insurance.

Solution

The extensions of cover normally offered to various professions under professional indemnity insurance are:

- libel
- slander
- loss of document
- breach of warranty of authority
- fee recovery
- legal defence costs
- wood infestation.

(1½ marks for each correctly stated benefit. Maximum of 4 to be graded. Total: 6 marks)

7. Define the following terms: explosion and collapse; as they each relate to boiler and pressure plants.

Solution

a) **Explosion:** is the sudden and violent rending of the pressure plant by force of internal steam or other fluid pressure (other than pressure of chemical action or ignition of the contents of ignited flue gases) causing bodily displacement of any part of the pressure plant together with forcible ejection of the contents. (3 marks)

b) **Collapse:** the sudden and dangerous distortion of any part of the pressure plant caused by crushing stress by force of steam or fluid pressure (other than pressure by chemical action or of ignition of the contents or of ignited glue gases)

(3 marks)

(Grand Total: 6 marks)

8. What is a package policy?

Solution

A package policy is a single contract designed to provide a very simplified and easily understood contract which offers a full package cover to a particular trade or occupation which will incorporate the following:

- fire and material damage
- consequential loss
- theft, money, glass
- goods-in-transit.

In other words, the full range of commercial covers under one policy and has only one set of policy terms, conditions, exceptions and warranties.

(3 marks for any correctly stated point. Maximum of 2 points to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Enumerate any eight (8) statutory functions of the National Insurance Commission as established by NAICOM Act 1997. (10 marks)
- (b) KYC Shopping Mall in Lagos has a fire policy with a monthly declaration condition. The sum insured under the policy is \$\frac{\textbf{N}}{200,000.00}\$. The rate is 0.225%. the policy has a 25% discount on the provisional premium.

Declarations	
Month	$\frac{N}{N}$
January	150,000.00
February	160,000.00
March	140,000.00
April	140,000.00
May	110,000.00
June	110,000.00
July	140,000.00
August	180,000.00
September	150,000.00

October	180,000.00
November	190,000.00
December	180,000.00

As the underwriter of this class of business, compute the following showing the workings:

- (i) what is the provisional premium?
- (ii) what is the annual premium?
- (iii) what is the additional/return premium?
- (iv) what is the percentage of the maximum return premium?

(12 marks)

(c) In the insurance year ended 31st December 2019, JDP manufacturing company suffered a Fire Loss at their premises. Based on the figure below, what loss settlement would you propose in respect of the loss?

		\mathbb{N}
i.	turnover in the last financial year prior to the loss	2,800,000.00
ii.	gross profit in the last financial year prior to the loss	840,000.00
iii.	standard turnover	2,300,000.00
iv.	cover is written on the sum insured basis and a 12-mon	th
	indemnity period	750,000.00
v.	turnover achieved during the indemnity period	1,700,000.00
vi.	Additional costs incurred during the indemnity period	
	which avoids a N500,000.00 reduction in turnover	250,000.00
vii.	Savings made during the indemnity period	70,000.00
	Trend (20%)	
		(28 marks)

Solution

- a) a) The statutory functions of the National Insurance Commission as established by NAICOM Act 1997 are:
 - establish standards for the conduct of insurance business in Nigeria
 - approve rates of premium to be paid in respect of all classes of insurance business
 - approve rates of commission to be paid in respect of all classes of insurance business
 - ensure adequate protection of strategic government assets and other properties
 - regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria
 - act as adviser to the Federal Government on all insurance related matters

- approve standards, conditions and warranties applicable to all classes of insurance business
- protect insurance policyholders, beneficiaries and third parties to insurance contracts
- publish, for sale and distribution to the public, annual reports and statistics of insurance industry
- liaise with and advice Federal Ministries, parastatals, statutory bodies and other government agencies on all matters relating to insurance contained in any technical agreements to which the country is a signatory to
- contribute to educational programmes of the Chartered Institute of Nigeria and the West African Insurance Institute
- carry out other activities connected or included to its other functions. (1½ marks for each correctly stated function. Maximum of 8 to be graded. Sub-Total: 10 marks)

```
b) i) Provisional Premium = Sum Insured x Rate - Discount
                                                                                (1 mark)
                            = 700,000.00 \times 0.225\% - 25\%
                                                                               (1 mark)
                            =450 - 75\%
                            = 450 - 112.5 = N337.50
                                                                               (1 mark)
ii) Sum Insured = \mathbb{N}1,830,000.00 \times 0.225\%
                                                                              (1 mark)
                     12
              = 152,500.00 \times 0.225\%
                                                                              (1 mark)
              = N343.13
                                                                              (1 mark)
iii) Return/Additional Premium = Annual Premium - Provisional Premium (1 mark)
                                   = N343.13 - N337.50
                                                                              (1 mark)
                                   = N5.62
                                                                              (1 mark)
iv) The percentage of the Maximum Return Premium is 33.33%.
                                                                              (3 marks)
                                 (Grand Sub-Total: 12 marks)
c) i) Rate of Gross Profit = Gross Profit x 100
                                                                              (1 mark)
                             Turnover
                            840,000.00 x 100
                                                                              (1 mark)
                            2,800,000.00
                        = 30%
                                                                              (1 mark)
ii) Reduction in Turnover = 2,300,000.00 + 20% - 1,700,000.00
                                                                              (1 mark)
                            = 2,760,000.00 - 1,700,000.00
                                                                              (1 mark)
                            = 1,060,000 * 30%
                                                                              (1 mark)
                            - N318,000.00
                                                                              (1 mark)
```

 $\fill 250,000.00$ incurred is higher than $\fill 150,000.00$; therefore, increase cost of working of $\fill 250,000.00$ is not justified. Therefore, only $\fill 150,000.00$ is economical. (1 mark) Savings = $\fill 170,000.00$ (1 mark)

		Summary	
		N	
Loss		318,000.00	(2 marks)
Increased Cost of Work	ing	<u>150,000.00</u>	(2 marks)
		468,000.00	(2 marks)
Less Salvage		<u>70,000.00</u>	(2 marks)
		<u>398,000.00</u>	(2 marks)
Adequacy of Sum Insur	ed		
₩2,800,000.00 + 70%	=	N 3,360,000.00	(2 marks)
30% of N 3,360,000.00	=	N 1,008,000.00	(2 marks)

Application of Average

> (Grand Sub-Total: 28 marks) (Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

10. A manufacturing company approaches Goodday Insurance Plc for a fire and special perils cover. As a reputable broker prospecting the proposer, educate the company on the four (4) categories of the special perils available, with a brief explanation and an example of each category.

Solution

Four (4) categories of fire and special perils available are:

- chemical:
 - explosion
 - spontaneous combustion
 - self-heating
- social:
 - o riot, civil commotion
 - o strikes, lockout workers, pressure taking part in labour disturbance

malicious damage

natural:

- o storm flood
- o earthquake, subterranean fire
- o subsidence, ground heave
- o landslide/slip

• miscellaneous:

- escape of domestic water
- o sprinkler leakage
- falling crafts
- o impact by road, rail, vehicles or animals.

(3½ marks for each correctly stated category. 3 marks for correct explanation of each category. 2 marks for correct explanation. Sub-Total per category: 8½ marks. Grand Total: 34 marks)

- 11(a) Explain the cover provided by an additional cost of working items and why it may be requested for by an insured (with not less than four (4) supporting explanations). (16 marks)
- (b) Explain the cover provided by increase in cost of working, give a scenarios based example, enumerate two (2) cost provision usually covered under this insurance type, stating the main advantage and the main disadvantage of this form of cover to a professional insured. (18 marks)

Solution

a) **Additional Cost of Working:** this additional cost of working cover provided as a part of gross profit is restricted by economic limit. This is expressed as an amount not exceeding the sum produced by applying the rate of gross profit to the amount of the reduction thereby avoided.

It can be referred to as spending no more than "one naira, to save a naira". However, there are some businesses that may require more than this to regain customers e.g. in a particular competitive market, a company may need to spend more than the economic limit to retain customers. Hence the need for the additional cost of working item.

This states that the insurance under this item is limited to additional expenditure necessarily and casually incurred for the sole purpose of avoiding or diminishing the reduction in turnover which but for the expenditure would have taken place during the indemnity period in consequence of the damage.

(4 marks for each complete and correctly stated point. Maximum of 4 points to be graded. Total: 16 marks)

b) Increase in cost of working only cover is used when a business can continue earning revenue despite the loss of premises. (4 marks)

An example may be a small firm of solicitors who can continue to act for clients and hence earn fees without premises. (4 marks). However, this would no doubt have to be short term and may be dependent on documents.

Increase in cost of working only, provide cost to continue the business for items such as:

- the cost of obtaining new premises
- the cost of staff to recreate record
- the additional rental costs of equipment.
 (2 marks for any correct and completely stated cost. Maximum of 2 to be graded. Total: 4 marks)

The main advantage of this cover is that it assists an insured to maintain their business in the event of damage, but without the additional premium associated with a full gross profit or revenue cover.

(3 marks)

One disadvantage, however is that of setting the sum insured. It may be that the insured find it difficult to set an adequate amount and it may be available to review it each year not just for inflation but the costs it may have to meet. (3 marks) (Grand Total: 34 marks)

- 12(a) Describe five (5) extensions in cover which can be provided in a "Contractors' All Risk (CAR) cover? (25 marks)
- (b) Describe two (2) major differences in cover between a Contractors' All Risk Policy (CA) and a "Machinery Erection All Risks Policy (EAR). (9 marks)

Solution

- a) Extensions in cover which can be provided in a "Contractors' All Risk (CAR) cover are maintenance which include damage to the permanent works during any maintenance or defective liability period:
 - maintenance
 - offsite storage
 - professional fees
 - debris removal
 - principal clause
 - public authority requirement
 - escalator clause
 - constructional plants, tools and equipment

- employees' tools and effects
- cover for damage to hired property in the events of an insured loss, you are covered for the value of the property destroyed and continuing hiring charges.

(Candidates are required to give brief explanation on any of these covers. 3 marks for stating the extension. 2 marks for any correctly explained stated cover. Sub-Total: 5 marks per cover. Grand Total: 25 marks)

- b) The major difference in cover between a Contractors' All Risk Policy (CA) and a "Machinery Erection All Risks Policy (EAR) is that:
 - the subject matter of a CAR policy is civil structures, whereas an EAR policy deals with machinery roles which need to undergo testing and commissioning
 - the need of breakdown needs a specific consideration at the commissioning stage in view of the interaction of parts with one another.
 - testing and commissioning works include:
 - testing of various kinds hydraulic, electrical, mechanical and pneumatic
 - o commissioning the initial operation
 - maintenance rectification of any defects manifested during maintenance period
 - o staff training
 - cooperation of the completed works. Works may be undertaken during the construction phase and also during phased handover.
 - Testing usually ceases when commercial operation begins.

(4½ marks for each correctly stated difference. Maximum of 2 differences to be graded. Sub-Total: 9 marks)

(Grand Total: 34 marks)

13(a) Describe briefly the two (2) main parties to a construction contract.

(14 marks)

(b) What are the duties of the parties?

(20 marks)

Solution

- a) The two (2) main parties to a constructive contract are the employer (3½ marks), who commissions the work (3½ marks); and the main contractor (3½ marks), who will employ sub-contractors to complete the works (3½ marks). (Grand Total: 14 marks)
- b) The duties of the parties are:
 - The contractor has a duty to complete the works, for the employer in accordance with contract

- The contractor has to indemnify the employer in respect of his legal liability to pay damages to third parties, in respect of the liability due to the employer's own negligence
- The contractor has to maintain suitable liability insurance to back up the indemnity given
- The contractor/employer has to maintain a joint named policy in respect of the works and materials
- The contractor is fully responsible for the care of the works and to insure the works
- The contractor is responsible for accidents and damages and also for the insurance of the works

(5 marks for each correct and completely stated duty. Maximum of 4 to be graded. Total: 20 marks each.) (Grand Total: 34 marks)

14. A newly established insurance company has offered you an employment to set up their General Business division. List and explain, in at least five (5) grouped detail, the accounting record you need to set up to enable you achieve the objectives of establishing the company.

Solution

In order to achieve the objective if establishing the company, the following accounting record need to be set up and candidates are required to not only mention them but also briefly explain the terms/phrases as it relates to being able to accomplish the objective of establishing the company:

- accounting systems which record per class of insurance
- premium received/receivable
- claims paid/reserved
- commission to intermediary
- administration costs
- profit or loss of the class
- statistical system which breaks down premiums and claims with the individual types of risk which are written in each class of insurance.

(3½ marks for correctly stating the accounting record to be set up. 3 marks for each correct explanation under each accounting record. Maximum of 5 to be graded. 1½ marks for sequential presentation of thoughts.)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A755

LIABILITY INSURANCE

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A755 - LIABILITY INSURANCE

INSTRUCTIONS TO CANDIDATES

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Part I 8 Compulsory Questions 48 marks
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Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

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It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 59.9%

Highest Score: 86%

Lowest Score: 12%

Average Score: 49%

Breakdown Updates

Question 1

The question was intended to test candidates' knowledge on professional negligence. A good percentage passed while few candidates that failed shows lack of understanding of the question.

Question 2

Candidates' performance was excellent here which shows their understanding of this question.

Question 3

The performance of candidates on 'defence cost' on liability policies was generally poor. This is probably due to lack of preparation by the candidates.

Question 4

Part (a) of this question was well answered; unfortunately, candidates showed lack of understanding in part (b) which is reinsurance.

Question 5

This question was on product recall policy and candidates' performances were excellent.

Question 6

Candidates were required to distinguish between common carrier and bailee. Generally, the performance was good.

Ouestion 7

This is the best answered question by the candidates. The question was on tort and negligence. Excellent performance by the candidates.

Question 8

This was a well attempted question as majority of the candidates had a grasp of the question; although there were come that mixed up their responses to the question.

Question 9

This is the compulsory question and it was intended to test candidates on many areas of liability viz the policies, contributory negligence, etc. Their performance was above average.

Question 10

This question was intended to test candidates on various topics. The questions were textbook questions and it was disappointing that their performance was not encouraging. This could be due to lack of preparation for the examination.

Question 11

Few candidates attempted this question with good performance recorded from many of them. Some candidates however displayed lack of understanding on various damages in liability insurance.

Question 12

One of the popular questions; with very good performances by the candidates.

Question 13

This question was intended to test candidates' knowledge on limitation of action. Candidates' performance was above average even though the questions was a textbook question.

Question 14

This question was intended to test candidates' knowledge on risk management and professional indemnity insurance. Candidates' performances were above average.

Chief Examiner's Comments on Overall Performance:

The overall performance was good. Forty-two candidates of seventy passed with a percentage of 60%.

Chief Examiner's Suggestion on Improvement:

With more dedication by the candidates, their performance will be enhanced.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. In professional indemnity insurance, what is professional negligence? **Solution**

Professional negligence is the error, omission, wrong advice, mistake, e,t.c. which is committed by people in professional practice in the course of their profession. Failure of people in professional practice to exercise high degree of skill and care will result in professional negligence.

(2 marks for each of the bolded point. Maximum of 3 points to be graded. Sub-Total: 6 marks)

2. Explain the following terms: (a) *res ipsa loquitor* and (b) minor. **Solution**

a) In an action for negligence, it is necessary for the plaintiff to prove the fact upon which the claim is based. The main principle is that "he who asserts must prove". However, there are situations where adequate information is not in the plaintiff's possession to discharge the burden of proof. The plaintiff will have to rely on the maxim "res ipsa loquitor" which means "the thing speaks for itself". This will shift the burden of proof to the defendant.

(1 mark for each of the bolded point. Maximum of 4 points to be graded. Sub-Total: 4 marks)

b) A minor is somebody under eighteen (18) years of age. A minor can sue or be sued only through their "next friend" i.e. somebody who represents the minor as plaintiff or defendant. It will normally be a parent or legal guardian.

(1 mark for each of the bolded point. Maximum of 2 points to be graded. Sub-Total: 2 marks) (Grand Total: 6 marks)

3. Briefly explain what you understand by the term "defence cost" in public liability insurance.

Solution

Defence cost is **covered by the operative clause of most liability policies**. Examples of defence costs are cost of investigating accident, legal costs incurred in representing or defending the insured at inquest and court, e.t.c. However, the condition is that these costs are only incurred with the consent of the insurer.

(2 marks for each of the bolded point. Maximum of 3 points to be graded. Sub-Total: 6 marks)

4(a) List any two (2) trigger events in use in liability insurance policies.

(4 marks)

(b) What is a layered programme?

(2 marks)

- a) The trigger events used in liability insurance policies are:
 - causation
 - occurrence
 - manifestation
 - claim made. (2 marks for each correctly stated event. Maximum of 2 to be graded. Sub-Total: 4 marks)
- b) A layered programme is a reinsurance arrangement where one insurer takes the primary layer and then different insurers offer cover for layers in excess of or over the primary insurer. This allows each insurer to write a layer and by building up the layers, the total amount of indemnity is reached. (2 marks)

 (Grand Total: 6 marks)
- 5. Enumerate any three (3) risks covered by product recall policy.

Solution

For a product recall policy, it implies that the product is already in the market after which it may have been discovered that it has serious defect(s) and needs to be recalled. The product recall policy provides the following cover:

- cost of withdrawing the product completely from the market
- cost incurred in having the defect corrected and replaced
- cost incurred in disposing or in the destruction of the defective product. (2 marks for each correctly stated cover. Maximum of 3 covers to be graded. Total: 6 marks)
- 6. Distinguish between "Common Carrier" and "Bailee".

Solution

(i) *Common Carrier:* a common carrier is someone who engages in the transportation of goods and plies for hire from one destruction to another, the liability of a common carrier is strict at common law and the defences that can be pleaded are acts of God, negligence of the customer, e..t.c.

(1½ mark for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 3 marks)

(ii) *Bailee:* a bailee is a person who has the custody of the property of another on the understanding that it is to be eventually returned to that person. Examples are motor garages, watch repairers, drycleaners, e.t.c.

(1½ mark for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 3 marks) (Grand Total: 6 marks)

- 7(a) List any three (3) important form of tort.
- (b) List the three (3) main prerequisite for an action in negligence.

a) The important forms of tort are: negligence; nuisance, breach of statutory duty; Reyland v. Fletcher, vicarious liability and defamation.

(1 mark for each correctly stated form. Maximum of 3 forms to be graded. Sub-Total: 3 marks)

- b) The three (3) main prerequisites for negligence are:
 - a duty of care recognised by law must be owned
 - the defendant must be in breach of that duty
 - the breach must have caused the damage or loss to the plaintiff.
 (1 mark for each correctly stated form. Maximum of 3 forms to be graded. Sub-Total: 3 marks)
 (Grand Total: 6 marks)
- 8. Enumerate and briefly explain the three (3) main sources of civil law. **Solution**

The three main sources of civil law are:

- Custom of the people and custom pertaining to a particular trade: it has been used to settle or resolving mercantile dispute among business people. Custom law has little relevance today.
- Common law: this is the most prolific source of civil law. It is based on the
 doctrine of binding precedent in which the decisions of the past court bind
 present courts.
- **Legislation:** parliament is another important source of civil law. It is the highest source of law and overrides the other two when there is conflict. Legislation is the most direct and efficient way of amending the law.

(1 mark for each correctly stated source. 1 mark for correct explanation. Sub-Total per form: 2 marks. Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) All members of the Chartered Insurance Institute of Nigeria are required to display some minimum standards of behavior in the discharge of their professional duties as set down in the code of conduct. List any five (5) of these standards.

 (10 marks)
- (b) Explain the scope of cover of any two (2) of the following classes of liability policies:
 - i. Employers' Liability Insurance
 - ii. Public Liability Insurance
 - iii. Product Guarantee Insurance
 - iv. Professional Indemnity Insurance.

(10 marks)

- (c) Explain the significance of the following cases:
 - i. Stone v. Bolton 1951
 - ii. Donoghue v. Stevenson 1932 (10 marks)
- (d) Explain the following in relation to insurance of liability
 - i. contributory negligence
 - ii. fair comment (10 marks)
- (e) List and explain any four (4) exclusions that are common to most liability policies. (10 marks)

- a) A member of the Chartered Insurance Institute of Nigeria is required to uphold the following standards of behavior:
 - act responsibly and with integrity in their professional activities at all times to their clients and the society as a whole
 - comply with the code of ethics, all relevant laws and other regulatory requirements and appropriate code of practice and codes of conduct
 - demonstrate professional competence by meeting the technical and professional standards commensurate to their level of qualification and position of responsibility and completing their duties with due skill, care and diligence
 - uphold professional standards in all dealings and relationships
 - respect the confidentiality of information acquired in professional and business relationships
 - apply objectivity in making professional judgments and in giving opinion and statements.

(2 marks for each correctly stated practice. Maximum of 5 to be graded. Sub-Total: 10 marks)

- b) (i) **Employer's Liability Insurance:** an employer's liability policy covers the legal liability of an employer for bodily injury or illness or death or disease sustained by an employee and which arises out of and in the course of employment occurring during the period of insurance within the territorial limit.
- (ii) **Public Liability Insurance:** a public liability insurance policy will indemnify the insured for the legal liability to third party for bodily injury or death and damage to property occurring in the period of insurance within the territorial limit. The policy will also cover cost and expenses incurred by the insured in defending any action provided the cost and expenses are incurred with the consent of the insurer.
- (iii) **Product Guarantee Insurance:** a product guarantee insurance will indemnify the insured against some risks which are not covered under a standard product

liability policy and in particular are those which relates to the failure of the product to fulfil its intended purpose. Specifically, the policy covers product repair and replacement, financial loss suffered by the insured arising from the defective product and cost incurred by the insured for withdrawing the defective product from the market.

(iv) **Professional Indemnity Insurance:** will indemnify the insured against their legal liability to pay damages to persons who have sustained financial loss arising from their own professional negligence or that of their employees in the conduct of their business. The policy will also pay claimant's costs and expenses occurring during the period of insurance within the territorial limits.

(2½ marks for each correctly stated explanation. Maximum of 2 explanation to be graded under each term. Maximum of 2 terms to be graded. Sub Total: 10 marks)

(c) (i) **Stone v. Bolton 1951:** this case is very important in explaining the tort of nuisance that for it to be actionable, it must connote something continuing. In other words, the act that constitutes interference to the plaintiff must have existed continuously. There must be frequency in the act of the plaintiff to constitute a state of nuisance. In Stone v. Bolton 1951, a ball was hit from a cricket ground struck the plaintiff who was walking along the nearby road. Evidence was adduced to show that six (6) balls had left the cricket pitch and landed on the road over a period of 28 years. It was concluded that there was no continuous state in the nuisance from the cricket pitch, hence the case failed.

(2 marks for each correctly stated explanation. Maximum of 3 explanations to be graded. Sub Total: 6 marks)

(ii) **Donoghue v. Stevenson 1932:** this is a leading case that provided solution to the question of "duty of care" in an action of negligence. For the plaintiff to succeed in an action in negligence, it must be shown that the defendant owes the plaintiff a duty of care. This case established that the manufacturer of a product owes a duty of care to the subsequent users.

(2 marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub Total: 4 marks)

Grand Sub Total: 10 marks

(d) (i) **Contributory Negligence:** this is one of the defences to an action in negligence case. Before 1945, it was a full defence i.e. if it could be shown that the plaintiff was partly to blame for the accident, they will recover nothing. This was amended by the Law Reform (Contributory Negligence) Act 1945 which stipulates that damages will be reduced to such an extent as the court thinks equitable.

(2½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub Total: 5 marks)

(ii) **Fair Comment**: is one of the defences to an action in defamation. Fair comment is popular with newspapers. It consists of the argument that the alleged defamatory statement was fair comment honestly made without malice, based on true facts and that it was a matter of public interest.

(2½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub Total: 5 marks)

Sub-Grand Total: 5 marks

- e) The exclusions common to most liability policies are:
-)i) Injury to employees' where cover is provided by employers liability policy
- (ii) ownership of motor vehicle, aircraft where cover is provided by motor and aviation policies
- (iii) advice given for a fee where cover is provided by professional indemnity policy
- (iv) damage to property where cover is provided by material damage insurance
- (v) war and radioactive contamination.

(Candidates are required to briefly explain each listed exclusion.

1½ marks for each correctly listed exclusion. 1 mark for correct explanation of the listed exclusion. Sub-Total for each exclusion = 2½ marks. Maximum of 4 exclusions to be graded.

Grand Sub Total: 10 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

10. Write short notes on each of the following:

(a)	Remoteness of damage	(6 marks)
(b)	Breach of warranty of authority	(6 marks)
(c)	Liability of hotel proprietor	(10 marks)
(d)	damnum sine injuria	(6 marks)
(e)	Wages declaration	(6 marks)

Solution

- (a) **Remoteness of Damage:** means the damage suffered is not foreseeable. When damage suffered is not foreseeable, then the damage is considered to be remote and the claimant may not be able to recover the full extent of his/her loss.

 (3 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 6 marks)
- (b) **Breach of Warranty of Authority:** this is relevant in professional indemnity insurance where an employee or agent acting on behalf of a principal exceed their authority whether express of implied. The employee or agent may have

acted in good faith on behalf of his principal and the principal will be liable accordingly.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 6 marks)

- (c) **Liability of Hotel Proprietor:** the liability of a hotel proprietor may be summarised as follows:
 - common law duty to see that guests do not suffer bodily injury or damage to their property as a result of negligence
 - contractual duty to use care to ensure that guests do not suffer bodily injury or disease of damage to their property subject to the terms of the contract
 - statutory duty which might arise under the terms of the Occupiers Liability Act.

At common law, a hotel proprietor is under a strict liability in respect of the guests. The only defences available to them are acts of God, or that the loss or damage or bodily injury resulted from the guest's own negligence.

(2½ marks for each correct and completely stated point. Maximum of 4 points to be graded. Sub-Total: 10 marks)

(d) **Damnum Sine Injuria:** this means harm done without the commission of a legal wrong. In tort, not all actions (or failure to take action) which causes injury or damage is actionable i.e. failure to take action in certain circumstances may not give right to a claim. For instance, there is no duty to save a person from drowning even if one can swim very well.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 6 marks)

(e) **Wages Declaration:** wages declaration is a condition in some liability policies especially employers' liability where the wage paid to employee is the base for the purpose of premium calculation. At inception of the policy, the wages or salary declared is often regarded as an estimate and provisional premium charged, it is a condition of the policy that at the end of the period of insurance, the insured must declare the actual wages/salary paid for the purpose of premium adjustment.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 6 marks)

(Grand Total: 34 marks)

- 11(a) In relation to liability insurance, explain what you understand by the following terms:
 - accrual of action

- ii. housekeeping
- iii. exemplary or punitive damages

(15 marks)

- (b) Explain the following provisions in relation to the duty of an employer to their employees:
 - i. safe system of work
 - ii. safe and suitable plant.

(10 marks)

(c) Enumerate and explain any three (3) ways by which the liability of a company director may arise. (9 marks)

Solution

a) i) **Accrual of Action:** relates to limitation of action which is the time limit which the law impose within which a plaintiff must bring his action. The general rule is that the limitation period commences from the date of accrual of the action. The date of accrual in contract is the date of the breach and in tort the date the injury or damage occurred.

(2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)

ii) **Housekeeping:** involves good management of the insured's premises and contract site, it involves training of employees (staff) on safety procedure. Good housekeeping involves cleaning the floor and office premises are properly maintained. housekeeping also entails good communication at all levels, safe working method and good supervision of employees.

(2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)

iii) **Exemplary or Punitive Damages:** these are damages awarded by the courts in addition to real damages. (5 marks)

(Grand Sub-Total: 15 marks)

- b) i) **Safe System of Work:** one of the important duties of an employer is to provide safe system of work to the employees. The employer must establish and enforce safe system of work that will guaranty safety and well-being of their employers. Safe system of work includes the following:
 - planning and co-ordination of work
 - well layout of plant and machinery
 - provision of protective clothing
 - provision of instruction, training and supervision

(2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)

- ii. **Safe and Suitable Plant:** another important duty of an employer to their employees is the provision of safe, suitable and necessary plant and equipment with which to do their job. The duty involves
 - providing them with sufficient plant and equipment
 - ensuring that plant is fit for the purpose and not defective
 - ensuring that plants are well maintained in good serviceable condition.
 (2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)

Grand Sub-Total: 10 marks

- c. The ways by which the liability of a company director may arise are as follows:
 - negligent advice or misstatement of the director in the course of his duty. This may result in financial loss to the company.
 - any act of the director which goes beyond the limit of the company constitution. Example is excessive borrowing, unauthorized payments etc.
 - failure of the director to disclose the full extent of his/her interest
 - negligent supervision and delegated responsibility
 - imprudent investment by the director.

(3 marks for each correct and completely stated way. Maximum of 3 ways to be graded. Sub-Total: 9 marks)

(Grand Total: 34 marks)

- 12.(a) "An occupier who brings onto and keeps on his land anything which is likely to cause damage if it"
 - i. complete the above statement

(6 marks)

- ii The above statement is about a rule. What is the name of the rule?
 (4 marks)
- iii. For the rule to apply, four (4) conditions must be met. List and briefly explain the four (4) conditions. (12 marks)
- b) Distinguish between the following pairs:
 - i. reinsurance and coinsurance
 - ii. frequency and severity
 - iii. bodily injury and personal injury.

(12 marks)

Solution

a (i) An occupier who brings onto and keeps on his land anything which is likely to cause damage if it *escapes* is *under strict obligation to prevent it escape* **and** *is liable for any damage caused as a result of its escape*.

(2 marks for each bolded phrase. Sub-Total: 6 marks)

(ii) The name of the rule is 'The rule of Ryland v. Fletcher.

(4 marks)

- (iii) The following four (4) conditions that must be met for the rule to apply are:
 - the occupier must bring the dangerous thing onto the land and accumulate it there
 - the thing that escapes is normally referred to as the dangerous thing. The test is whether it is likely to cause damage if it escapes.
 - the accumulation must be artificial rather than natural
 - there must be an escape of the dangerous thing beyond the boundaries of the defendant's land.

(Candidates are required to briefly explain each listed condition. 2 marks for each correctly listed condition. 1 mark for correct explanation of the listed condition. Sub-Total for each condition = 3 marks. Grand Sub Total: 12 marks)

b) i) Reinsurance/Co-insurance: Reinsurance is the system whereby one insurer shares (reinsure) with another part of the risk accepted. The company which reinsure (the ceding company) thus reduces it possible liability. Reinsurance is an essential tool of risk spreading. It offers a means of sharing risks to lessening the result of catastrophes. While co-insurance on the other hands is a process whereby two or more insurers share risk on percentage basis. The lead underwriter will issue the policy document and each insurer will sign against their proportion of the risk.

(2 marks for each correctly stated explanation per term. Sub-Total: 4 marks)

ii) Frequency/Severity: Frequency is concerned with risk as to how often a given event will happen. Organisations are faced with many loss exposures. While some of the loss exposures occurs very often some occurs occasionally. In our society, motor vehicle accident occurs very often on daily basis but this is not so with travelling by air. While severity is the impact which the occurrence or happening of an event will have. In other words, severity is the financial impact of an occurrence. For example, some event occurs often (motor accident) with less severity of impact while some events occur occasionally (air disaster) with high severity of impact.

(2 marks for each correctly stated explanation per term. Sub-Total: 4 marks)

iii) **Bodily Injury/Personal Injury:** most liability policies will operate to indemnify the insured for bodily injury arising from an accident caused by the negligent action of the insured. The injury must be physical and from visible means. However, it is now generally accepted that the term bodily injury will extend to include psychological injury such as mental anguish, stress, shock, e.t.c. While **personal injury** is non-injurious tort to a person such as wrongful arrest, malicious prosecution, discrimination, defamation e.t.c.

(2 marks for each correctly stated explanation per term. Sub-Total: 4 marks)
(Grand Sub-Total: 12 marks)
(Grand Total: 34 marks)

- 13(a) What do you understand by the term "limitation of actions"? (10 marks)
- (b) Within the meaning of limitation of action, explain what you understand by "date of knowledge". (5 marks)
- (c) What is the primary limitation period for claims involving:
 - (i) personal injury (ii) damage to property (5 marks)
- (d) The premium of Employers' Liability Insurance is usually subject to "adjustments". Briefly discuss. (8 marks)
- (e) Distinguish between legal liability and moral liability. (6 marks) **Solution**
- a) **Limitation of Action:** limitation of action imposes a time limit within which a plaintiff must bring his action and this is to avoid the court having to deal with stale claims where the parties' memory of the events is vague and witness are reliable. It is also to safeguards the defendant from the problem associated with defending a claim based on an incident which occurred a long time ago. (5 marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 10 marks)
- b) **Date of Knowledge:** the concept of date of knowledge was introduced to deal with cases of latent injury or disease. The plaintiff may not appreciate their plight or the seriousness of it until sometime after the incident itself. The date of knowledge is the date the plaintiff has the knowledge of the injury or disease and the identity of the defendant.

(2½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 5 marks)

- c) The primary limitation period for claims involving:
 - (i) **personal injury**: is three (3) years from the date or which the cause of action accrues or the date of knowledge (if later) of the person injured.

 (2½ marks)
 - (ii) **property damage:** is six (6) years from the date the cause of action accrues. It should be noted that any action not brought within the limitation period will be 'statute bar' and the court will not entrain it.

 (2½ marks)

(Grand Sub-Total: 5 marks)

d) The premium on employers' liability is usually subject to adjustment because the initial premium is based on estimates i.e. the premium rate is applied on the estimated annual earnings/salaries of the employees. Therefore, the policy requires the insured to make a declaration of actual earning/salaries at the expiry of each period of insurance. The premium will shall thereupon be adjusted by the insurer subject to the minimum premium chargeable for the risk being retained by the insurer.

(2 marks for each correctly stated explanation. Maximum of 4 explanations to be graded. Sub-Total: 8 marks)

e) **Legal Liability/Moral Liability:** Most liability policies provide indemnify against the legal liability of the insured for bodily injury, death, disease or illness as well or damage to property. Further, financial loss suffered by third party due to negligent act of the insured are covered. These heading of events are recognise by law and hence they are referred to as "legal" liability. Moral liability on the other hands do not involve events which are recognised by law and they may be actionable.

(3 marks for each completely and correctly stated explanation per term. Sub-Total: 6 marks)

Grand Total: 34 marks)

- 14(a) Briefly explain the three (3) ways by which an insured can control exposure to risk. (12 marks)
- (b) Explain the common causes of professional indemnity claims as related to the following:
 - (i) engineers (ii) surveyors; and (iii) auditors. (12 marks)
- (c) An employer may be liable to their employees for noise-induced injury. Briefly discuss. (5 marks)
- (d) What is the effect of the Insolvency Act 1986 on a company director.

 (5 marks)

Solution

- a) The three (3) ways by which an insured can control exposure to risk are:
 - **Eliminate:** it may be possible to eliminate risk by avoidance. If the loss exposure can be avoided then the probability of loss from that loss exposure is zero. Avoidance involves ceasing or never undertaking an activity so that possibility of loss occurring from the activity is eliminated.
 - **Reduce/Minimise:** risk exposure can be reduced or minimised i.e. the frequency of occurrence and the severity of impact. For example, good management control as well as education at work place may reduce the frequency of accident. Also, employment of an industrial qualified nurse will reduce the impact of injury at work place.
 - **Transfer:** the loss exposure can be transferred by purchasing relevant insurance. Transfer of risk involve transfer of the financial consequences of the loss exposure to an insurance company who will be willing to compensate or indemnify for losses insured against having received adequate consideration for the risk.

(2 marks for each correct and completely stated way. 2 marks for any correct explanation under each term. Sub-Total per term: 4 marks. Grand Sub-total: 12 marks)

b) The common causes of professional indemnity claim as it relates to the stated professions are:

- i) **Engineer:** the engineer may be legally liable for incorrect advice, error in design and negligent supervision of structural work. Engineer may be liable for incompetent design and supervision producing building unfit for human habitation.
- ii) **Surveyors:** surveyors owe a duty of care to their client for survey made on property and advice given. They will be liable for professional negligence arising from their professional duties. They will also be vicariously liable for the failure of one of its employees to exercise reasonable care in the discharge of their duties.
- iii) **Auditors:** auditors will be liable if their company suffer major financial loss through mis-management. Auditors should report on the accounts examined by them and state whether the balance sheet and accounts have been properly prepared. They will be liable for negligent error, omission or mistake in the discharge of their duty.

(2 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each term. Sub-Total per term: 4 marks. Grand Sub-total: 12 marks)

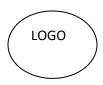
c) **Noise - Induced Injury:** an employer may be liable to their employees for noise-induced injury if any of the employer activities involve exposure to noise level exceeding the legally permitted levels. Long time exposure to excessive noise can cause permanent hearing damage. Employer must exercise their duty of care to their employees and should be aware that employees are exposed to high level of noise and take steps that will reduce or eliminate the hazard e.g. provision of protective devices such as ear muffs or plugs.

(2½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 5 marks)

d) The Insolvency Act 1986 is a major source of claims against a director of a company. Section 214 of the Act makes a director liable if he/she indulges in wrongful trading by permitting their insolvent company to continue trading until liquidation becomes inevitable. A director of a company is expected to take reasonable steps with a view to minimizing the potential loss of their insolvent company. When a director failed to act wisely, the Act permits the liquidator of an insolvent company to seek a personal contribution from the negligent director toward the deficiency of the company's assets. The extent of the contribution required from a director is a matter for the court's discretion in the light of all the circumstances.

(2½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 5 marks)

Grand Total: 34 marks.



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A765

MOTOR INSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A765 - MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 65%

Highest Score: 81%

Lowest Score: 17%

Average Score: 49%

Breakdown Updates

Question 1

The question was to test candidates' knowledge of motor trade insurance. Performance was average.

Question 2

The question was to distinguish between physical and moral hazards. Candidates demonstrated a good knowledge and they performed creditably well.

Question 3

The question was to test candidates' knowledge of "motorised caravans". Performance was very bad. It confused candidates that were not well prepared for the examination. They need to read and prepare better for the examination in future.

Question 4

The question was to test candidates' knowledge of modes of claim settlement in insurance. The candidates performed very well.

Question 5

The question was to test candidates' knowledge of subject matter of insurance and contract. Candidates displayed very good knowledge of the question and performed well.

Question 6

"New Car Benefit Clause" very few of them have good knowledge of the question. Candidates need to study and prepare well for future examination(s).

Question 7

The question was to test candidates' understanding of reinsurance and coinsurance. Candidates' performed very well with far above average performance.

Question 8

The question was to test candidates' understanding of "Immobile Property Agreement". Performance was just fair. Candidates need to study more and understand the question deeply.

Question 9

The question was to test candidates' understanding of trade organisation/associations in the insurance industry/ The candidates performed very well in the (a) part. The (b) part tested candidates' understanding of addition/deletion of vehicles from the schedule of the policy vis-a-vis notification by the insured. Performance was above average.

Question 10

Hazardous occupations vis-à-vis underwriting assessment and rating. Performance is only fair. Candidates need to read and study harder for future examination(s).

Question 11

Testing candidates' knowledge of the principles of insurance. Performance is fair. Candidates need to study more as performance is not too encouraging

Ouestion 12

The question was to test candidates' understanding of comparison between comprehensive covers. Performance is above average.

Question 13

The question was to test candidates' understanding of certificate of insurance visà-vis effective date. Candidates performed very well.

Question 14

The question was to test candidates' understanding of recital clause and operative clause. Most candidates who attempted this question failed it. There is need for the candidates to study more and prepare better for the examination.

Chief Examiner's Comments on Overall Performance:

Overall performance is above average. Yet candidates need to prepare better for future examination(s) and be more studious.

Chief Examiner's Suggestion on Improvement:

None.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Outline the three (3) different schemes under which Motor Traders could effect Road Risks Policies.

Solution

The three (3) different schemes under which Motor Traders could effect Road Risks Policies are:

- Named Driver Basis
- Trade Plate Basis and
- Points Basis.

(2 marks for each correctly stated scheme. Total: 6 marks)

2. Distinguish between physical and moral hazard. Give an example of each. **Solution**

Physical hazard has to do with the physical characteristics of the risks e.g. the type of vehicle, the district of use, e.t.c. while **moral hazard** has to do with the behavioural pattern or morals of the insured e.g. the insured that night crawls, or the insured who habitually disregard red lights, or the insured who drives against traffic e.t.c.

(2 marks for the definition of each term; 1 mark for each correctly stated example. Maximum of 1 example per term to be graded. Sub-Total per term – 3 marks. Grand Total: 6 marks)

3. Briefly describe "motorised caravans".

Solution

There is a group of vehicles, for which private car policies may be issued, even though strictly speaking, the vehicles are caravans and vans that were converted for private use only. Of course, with the development of multi-purpose vehicles (MPVs), private car definitions have been extended and the scope for insuring such vehicles is greater. Premiums for motorized caravans and MVPs will reflect the relatively high values of such vehicles.

(2 marks for every complete and correctly stated point. Maximum of 3 to be graded. Total: 6 marks)

4. What are the options open to a motor insurer when indemnifying an insured for loss or damage?

Solution

The options open to an insurer when indemnifying an insured for loss or damages are:

Repair the damage

- replacement of what is lost or damaged
- cash payment for the loss or damage
 (2 marks for each correctly stated option. Total: 6 marks)
- 5. Distinguish between the "subject matter of insurance" and the "subject matter of the contract".

Solution

The **subject matter of insuranc**e relates to any form of property or an event that may result in a loss or a legal right or in a form of a legal liability or the property or event insured against; while the **subject matter of the contract** relates to the financial interest which a person has in the subject matter of the contract.

(3 marks for the correct definition of each term; Total: 6 marks)

6. What is the thrust/wording of the "new car benefit" clause in a Private Motor Insurance Policy?

Solution

The thrust of the "new car benefit" clause in a private motor insurance policy is that if within six months of date of first registration as new in the insured's name, the vehicle is stolen and no recovered or is damaged and the cost involved in the repair will exceed 60% of the manufacturer's last price (including car tax and value added tax), at the time of loss or damage, the company will replace the insured car with a new car of the same make and model provided that a replacement car is available", subject to the consent of the insured and all legally interested parties of the vehicle. If a replacement car of the same make and model is not available, the insurer will pay the market value of the car and its fitted accessories and spare parts at the time of loss or damage.

(2 marks for each correct and completed stated thrust. Maximum of 3 to be graded. Total: 6 marks)

7. Distinguish between "reinsurance" and co-insurance" in motor insurance. **Solution**

Reinsurance is a means by which motor insurers insure against risks that are originally insured with them. This could be done by way of facultative or treaty arrangement. It is to ensure that the risk is well spread and in the event of a loss, the reinsurers indemnify the insurer. (3 marks)

While **co-insurance** is a method by which more than one insurer come together to jointly insure a risk. Each participating insurer is known as a co-insurer and each co0insuere takes a proportion of the risk. One of them is the leader who issues all relevant policies and endorsements. (3 marks)

(Grand Total: 6 marks)

8. What is the objective of the "Immobile Property Agreement" and how is liability apportioned under it?

Solution

The objective of the "Immobile Property Agreement" is to provide cover for damage to immobile property damaged of a company which is caused by a vehicle insured by another insurer. (3 marks)

Under this agreement and regardless of liability, 75% is apportioned to the motor insurer while 25% is apportioned to the property insurer. (3 marks) (Grand Total: 6 marks)

Part II Compulsory Question. This question carries 50 marks.

- 9(a) In the Nigeria Insurance Market, there are organisations/trade associations which are involved in promoting ethical standards and professionalism. List any four (4) of these organisations. (10 marks)
- (b) Reeler Nigeria Limited, a financial consultancy firm has a private car motor policy with Excellence Insurance Company Limited. There are twenty-seven (27) vehicles on the schedule of the policy and had been insuring with Excellence for over seven (7) years with a policy anniversary date of 2nd January.

During the year, the insured disposed off four (4) of the insured vehicles and bought three (3) new ones. One of the insured's vehicles was stolen at gun-point along Lagos-Badagry Express Road. The insured immediately notified the Insurers, lodging a theft claim of N2,500,000.00 and also reported at the police station. While processing the claim, the insurers were surprised to discover that the stolen vehicle was not on the schedule of the policy. on enquiry, it was confirmed that the insured actually disposed of four (4) vehicles and bought three (3) new ones but never informed the insurers.

- i As the claims manager of excellence insurance company limited, how would you handle the claim? (20 marks)
- ii If the insured had notified the insurers of the disposal of four (4) vehicles and the purchase of three (3) new ones, what cause of action would have been opened to the insurers? (14 marks)

(c) What vehicles constitute Mobile Retailers Vehicles and how are these type of vehicles covered by the underwriters? (6 marks)

Solution

- a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:
 - Nigerian Insurers Association (NIA)
 - Nigerian Council of Registered Insurance Brokers (NCRIB)
 - Institute of Loss Adjusters of Nigeria (ILAN)
 - National Insurance Commission (NAICOM)
 - Chartered Insurance Institute of Nigeria (CIIN)

(2½ marks for each correctly stated organisation/association. Maximum of 4 to be graded. Total: 10 marks)

b) i) The standard practice is that when an insured dispose of or purchase new vehicles, the insurer must be informed so that necessary action could be taken in terms of deleting the sold or disposed vehicles from the schedule of the policy and adding the new vehicles to the schedule of the insured policy, therefore, new set of endorsements, debit/credit notes would be issued.

In addition, cover only subsists on any vehicle that due premium was paid as at when due and for the period paid for – effective from the date of payment at the very earliest.

In the event of a claim, the insurers can only process claim(s) in respect of vehicle(s) that are on the schedule of the policy. since the insurers were not informed or notified of both the disposed and the newly purchased vehicles, the insurers could not have deleted the disposed vehicles or add the new ones.

Consequently, since the stolen vehicle was not on the schedule of the policy the claim would have to be repudiated abinitio.

(5 marks for mentioning underwriting procedures; 5 marks for mentioning the "no premium no cover rule; 5 marks for mentioning claim procedures; 5 marks for stating how the claim would/should be treated. Total: 20 marks)

ii) If the insured had notified the insurers of the disposal of four (4) vehicles and the purchase of three (3) new ones, necessary details of such vehicles i.e. registration number, chassis number, engine number, value, e.t.c. would have been provided and the policy so appropriately endorsed to reflect these changes. Necessary endorsement would also be raised taking into cognizance the relevant effective dates that the transactions actually took place.

The purpose of the endorsement is to ensure that the disposed vehicles are deleted while the new ones are added to the schedule of the policy.

If that were done, in the event of a claim on any of the vehicles, the insured would be adequately indemnified, in which case, the claim in respect of the stolen vehicle would have been admitted and processed by the insurers.

(5 marks for mentioning what would have been done assuming the insurers had been informed; 4 marks for stating the issuance of endorsement underwriting procedures; 5 marks for stating how the claim would/should be treated. Total: 14 marks)

c) Mobile Retailers Vehicles include ice-cream vans, shops and mobile canteens. Clearly, it is the ancillary risks which are likely to be greater and significantly higher than the pure motor risks.

Whilst by payment of an additional premium, a motor policy may be extended to cover fixtures, fittings and stock in trade, it is perhaps more beneficial to arrange a specific policy or such risks.

With mobile canteens, the risk of fire and explosion is greatly increased if there is cooking or eating inside the vehicle itself.

(2 marks for every correct and completely stated points. Maximum of 3 points to be graded. Total: 6 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a)i Enumerate five (5) categories of occupations that Motor underwriters may be wary in granting insurance cover to their vehicles. (20 marks)
- ii Give an insight into why some insurers accept some risks in those non-preferred categories. (6 marks)
- (b) Outline four (4) various methods of dealing with a motor proposal which contains unsatisfactory features that it is impracticable to accept such businesses on normal terms. (8 marks)

Solution

- a) i) The categories of occupations that Motor underwriters may be wary in granting insurance covers to their vehicles are:
 - members of the Armed Forces
 - professional entertainers

- betting shop proprietors
- private hirer
- public hirer
- owners if public houses
- tenants of public house (4 marks for each correctly stated category. Maximum of 5 to be graded. Total: 20 marks)
- ii) Some insurers accept some risks in those non-preferred categories either by virtue of a desire to secure some other pieces of businesses from the intermediary or insured (3 marks); and it could also be as a result of some mid-term changes in occupation. (3 marks).

(Sub-Total: 6 marks)

- b) The various methods of dealing with a motor proposal which contains unsatisfactory features that it is impracticable to accept such businesses on normal terms are:
 - imposition of policy excess
 - increase in premium
 - imposition of driving restrictions
 - reduction of cover
 - declinature.

(2 marks for each correctly stated category. Maximum of 4 to be graded. Sub-Total: 8 marks) (Grand Total: 34 marks)

- 11(a) Contribution is a corollary of indemnity. What is contribution and enumerate the five (5) conditions that must be present before Motor insurers will apply the principle of contribution? (19 marks)
- (b) Madam Ganiyat had been insuring her fleet of private cars with Honesty Insurance Company for some five (5) years. On the advice of one of her close friends, she decided to change her insurers. Her parents were opposed to this move but she decided to heed the advice of her friend. In your own opinion, supported with insurance principles and reasonings, explain any three (3) disadvantages embedded in changing her insurer? (15 marks)

Solution

a) Contribution is the right of an insurer to call upon others similarly but not necessarily equally liable to the same insured to share the cost of an indemnity payment. If an insurer has paid full indemnity, it can recoup an equitable proportion from other insurers of the risk.

(4 marks)

The contribution condition is applied by motor insurers where the following conditions are met:

- two or more policies of indemnity exist
- the policies cover a common interest
- the policies cover a common peril which gave rise to the loss
- the policies cover a common subject matter
- each policy must be liable for the loss.

(3 marks for each correctly stated condition. Sub-Total: 15 marks) (Grand Total: 19 marks)

b) Some of the disadvantages embedded in changing insurers, and which might likely cause her to change her mind are as follows:

- if an insured change because the present insurer's rates are high and not competitive, the new insurers could also jack up its premium rate after one or two years much higher than the previous insurer and then becomes uncompetitive
- loss of goodwill and loyalty built over the years
- the insured may require cover on another vehicle or for a particular use which the insurer would not normally grant to a new policyholder but to a client who has been with the insurer for many years
- losing the benefits derivable from a group scheme if the insured's vehicle had been hitherto insured under a group scheme with the older insurance. (5 marks for each complete and correctly stated disadvantage. Maximum of 3 to be graded. SubTotal: 15 marks)

 (Grand Total: 34 marks)
- 12(a) Outline three (3) major differences in cover between a comprehensive private car policy and a comprehensive commercial vehicle policy.

 (9 marks)
- (b) Enumerate on each type below, three (3) basic rating factors of insurance in common use for:
 - i. private motor; and
 - ii. commercial vehicle (goods carrying vehicles). (12 marks)
- (c)i Premium payment is the consideration for the risk borne by the insurers. Consequently, underwriters always try to ensure that they charge accurate and commensurate rates for risks borne by them. What are the principles behind an ideal rating system? (8 marks)
- ii What are the four (4) items that a "premium account" comprise of? (5 marks)

Solution

- a) The major differences in cover between a comprehensive private car policy and a comprehensive commercial vehicle policy are that for commercial vehicles policy, there will be:
 - no cover for accessories and spare parts unless attached to the vehicle
 - no personal effects cover
 - no personal accident benefits
 - higher levels of excess apply for your and inexperienced drivers and for windscreen claims

(3 marks for each correct difference. Maximum of 3 points to be graded. Sub-Total: 9 marks)

- b) The basic rating factors of insurance in common use for
- i) private motor, are:
 - vehicle type
 - proposer and other driver(s)
 - geographical area of use and/or garaging
 - use to which the vehicle will be put
 - cover required

(2 marks for each correctly stated factor. Maximum of 3 factors to be graded. Sub-Total: 6 marks)

- ii) commercial vehicle (goods carrying vehicles), are:
 - use
 - district
 - type/size of vehicle
 - policy cover
 - drivers

(2 marks for each correctly stated factor. Maximum of 3 factors to be graded. Sub-Total: 6 marks) (Sub-Total: 12 marks)

c) i) The adequate rating of risks can make the difference between profit and loss for an insurer. Setting too low a rate for a particular type of motor insurance risk will result in a loss for each policy written and, particularly, with the advent of computerized quotation system, such bargain will be found out, thus leading to a flood of similar non-performing business. Conversely, a higher rate than is warranted will lead to potentially profitable business going to a cheaper competitor. The process whereby the market place will seek out and exploit weaknesses in rating structures is known as "selection" and can destroy an account.

Rating is based on experience. Firstly, there is the experience of the market as a whole and secondly and perhaps more importantly, the experience of the particular insurer. In order to maximize the accuracy and therefore the benefits

of the latter, it is essential that data is held electronically in a format that will allow sophisticated analysis.

(2 marks for each correctly stated point. Maximum of 4 points to be graded. Sub-Total: 8 marks)

- ii) A "premium account" comprise of the following:
 - estimated claims cost
 - contribution to major losses
 - commission
 - expenses and profit.

(1½ marks each correctly stated content. Sub-Total: 5 marks) (Grand Total: 34 marks)

- 13(a) What does the expression "effective date" mean in relation to a certificate of insurance? (10 marks)
- (b) In what circumstance(s) would a duplicate certificate of motor insurance be issued? (10 marks)
- (c) An insured surrenders a duplicate certificate and asks for his policy to be cancelled. What considerations arise with regard to the original certificate.

 (14 marks)

Solution

a) "Effective date" is the actual date of commencement for the purpose of the relevant law (i.e. the Road Traffic Act). This is the date insurance cover commences and no loss would be entertained prior to the effective date of cover. Certificate of motor insurance and cover notes cannot be back-dated and may be issued only with effect from the commencement date of insurance. A certificate of insurance however will expire on the same day as the relevant policy.

 $(2\frac{1}{2}$ marks for each correctly stated point. Maximum of 4 points to be graded. Sub-Total: 10 marks)

b) A duplicate certificate of insurance would be issued if the insured loses the original certificate. Practice vary with insurers as some issue such duplicate certificate free of charge while some charge a stipend on it.

Duplicate certificate is issued after a written application by the insured is received by the insurer. In this application, the insured will express the circumstances of loss. In some instances, the letters are accompanied by sworn court affidavit to support it.

(2½ marks for each correctly stated point. Maximum of 4 points to be graded. Sub-Total: 10 marks)

c) When an insured surrenders a duplicate certificate and asks for his policy to be cancelled, the following. What considerations arise with regard to the original certificate.

Usually, insureds ask for cancellation of the policy, which is subject-matter of insurance i.e. the vehicle is no more. This occurs if the vehicle has been destroyed or sold to another person, in which case, ownership of the vehicle has changed. Insured can also ask for cancellation of the policy if he disagrees with the term of the policy with the insurers.

If a policy is cancelled, the insured must surrender the original certificate of insurance to the insurers within seven (7) days or make a statutory declaration to the effect that the certificate has been destroyed or lost. Failure to comply with these requirements is an offence under the Road Traffic Act.

(3½ marks for each correctly stated point. Maximum of 4 points to be graded. Sub-Total: 14 marks) (Grand Total: 34 marks)

- 14(a)i Distinguish between "recital clause" and "operative clause" of a motor policy. (14 marks)
- ii. Give examples of an ideal "recital clause" and "operative clause" of a motor policy. (10 marks)
- (b) What is the relevance of district as a rating factor in commercial motor insurance (goods carrying vehicle)? (10 marks)

Solution

a) i) Recital Clause:

- is the opening section of a motor policy
- it recites that there are two parties to the contract the insured and the insurer
- it also recites the circumstances under which the motor insurance contract has been made

 $(3\frac{1}{2}$ marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 7 marks) While the Operative Clause:

- is the insuring clause
- it states the scope of extent of cover granted by the policy
- it also enumerates the circumstances under which the insurers undertake to indemnify the insured

(3½ marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 7 marks)

ii) An example of:

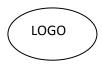
• recital clause is "whereas the insured has by a proposal any declaration dated as stated in the schedule, which shall be the basis of this contract; and is deemed to be incorporated herein as applied to the company for the insurance herein contained; and has paid or agreed to pay the premium as

- consideration for such insurance in respect of accident loss or damage occurring during the period of insurance" (5 marks)
- **operative clause is** "now this policy witneseth that in respect of accidental injury, loss or damage, occurring during the period of insurance or during any subsequent period for which the company may accept payment for the renewal of the policy and subject to the terms, exceptions and conditions contained herein or endorsed hereon". (5 marks)
- b) The relevance of district as a rating factor in commercial motor insurance (goods carrying vehicle) is in a similar way to private motor, the district in which the vehicle is normally garaged is the principal factor.

Additional premiums may be charged where it is evident that long-distance haulage work is to be undertaken and therefor the vehicle will be exposed overnight anywhere in the country.

Whilst the classification of districts will vary from insurer to insurer, it is clear that the larger conurbations will form the highest rated areas, rural areas being rated lower.

(5 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A770

PRINCIPLES OF MARINE INSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A770 - PRINCIPLES OF MARINE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

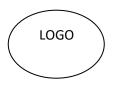
Chief Examiner's Summarised Statistics

Pass Rate: Not Appliable

Highest Score: Not Appliable

Lowest Score: Not Appliable

Average Score: Nil



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A780

AVIATION INSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
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- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A780 - AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

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It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 0%

Highest Score: 23%

Lowest Score: 23%

Average Score: 23%

Breakdown Updates

Question 1

The question was well understood by the candidate.

Question 2

This was a textbook question. It was poorly attempted which could probably be due to lack of preparation.

Question 3

This was also a textbook question which was perhaps not understood by the candidate.

Question 4

This question was well attempted by the candidate.

Question 5

Candidate may have had a mixed up. The answer supplied here was not well thought out. It is suggested that candidates should attend tutorial classes.

Question 6

The candidate did not understand the question. Very poor performance.

Question 7

The candidate did not understand the question. Very poor performance.

Question 8

Fairly attempted by the candidate, probably due to poor preparation.

Question 9

The question was poorly attempted. Class coaching will assist candidates in having better results.

Question 10

The question was not attempted at all.

Question 11

The candidate did not understand the question. Very poor performance.

Question 12

Very poor performance was also recorded here.

Question 13

The question was not attempted at all.

Question 14

Poor performance.

Chief Examiner's Comments on Overall Performance:

Candidates started brightly but faded off quite quickly as (s)he may not have been diligent in preparing adequately for the course.

Chief Examiner's Suggestion on Improvement:

I recommend classroom coaching and group discussion for all candidates planning to sit for this course. They should seriously consider attending tutorial classes to be able to perform well.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. List any three (3) documents which are required to be carried in an aircraft engaged in international navigation by Charter V of the Chigago Convention 1944.

Solution

The following are the documents that are required to be carried in an aircraft engaged in international navigation by Charter V of the Chigago Convention 1944:

- Aircraft's Certificate of Registration
- Aircraft's Airworthiness Certificate
- Aircraft's Licenses for Crew
- Logbook Requirements
- Radio Apparatus
- Passenger Manifest
- Cargo Manifest
 (2 marks for each correctly stated document. Maximum of 3 to be graded. Total: 6 marks)
- 2. Enumerate any three (3) main risk elements that an underwriter should consider when assessing a satellite risk?

Solution

The main risk elements that an underwriter should consider when assessing a satellite risk are:

- the technical complexity of the Satellite
- manufacturer's history at building the type
- manufacturing and testing programme
- heritage of the components and their respective manufacturers (2 marks for each correctly stated document. Maximum of 3 to be graded. Total: 6 marks)
- 3. In Aviation Insurance, what areas (or classes) will capacity be mostly affected as it relates to liabilities?

Solution

The areas (or classes) that capacity will be mostly affected as it relates to liabilities in Aviation insurance are:

- airlines hull values and airlines liabilities
- major aircraft manufacturer's liabilities
- airport liabilities (3 marks for each correctly stated are (or class). Total: 6 marks)

- 4. Under the Guadalajara Convention 1961, who is:
 - (a) a contracting carrier?
 - (b) an actual carrier?

Solution

Under the Guadalajara Convention 1961:

- a) a contracting carrier is the party who contracts with another party for the carriage of goods but who does not actually carry the goods but rather gets another party to carry the goods.

 (3 marks)
- b) **an actual carrier is** the party who carries out the transport operation of moving the goods. (3 marks)

(Grand Total: 6 marks)

5. Name and briefly explain the two (2) types of insurance liability cover available in respect of cargo.

Solution

The two types of insurance cover available in respect of cargo are:

- Cargo liability for which the insured is legally liable to pay for physical loss or damage to the cargo under the Warsaw convention or any other condition of carriage agreed to by the insured up to the limit specified.
- Cargo All Risks Insurance: where the insured does not have to be legally liable in order for a payment to be made. Cover is for "all-risks" of physical loss or damage.

(2 marks for each correctly stated type. 1 mark for each correct explanation under each type of cover. 1 explanation per type to be graded. Total: 6 marks)

- 6 (a) What are the standard hull deductibles applied to jet aircraft?
 - (b) What is the normal limit applied to the Personal Injury Endorsement Extension AVN 60.

Solution

- a) The standard hull deductibles applied to jet aircraft are:
 - US\$1,000,000.00 for wide-bodied aircrafts
 - US\$750,000.00 for hybrid aircrafts
 - US\$500,000.00 for narrow-bodied aircrafts

(1½ marks for each correctly stated deductible. Total: 4½ marks)

b) The normal limit applied to the Personal Injury Endorsement Extension AVN 60 is US\$25,000,000.00. (1½ marks)

(Grand Total: 6 marks)

7. Write out any six (6) documents required by lawyers as soon as possible after an aircraft accident.

Solution

The documents required by lawyers as soon as possible after an aircraft accident are:

- copy of completed passenger list or manifest with the nationalities of the passengers
- specimen passenger tickets, airway bills and condition of carriage
- passenger sitting plan if available
- passenger flight coupons with routing and baggage details
- names and addresses of passengers and their next-of-kin
- copy of the crew manifest
- copy of the aircraft's papers
- copy of any charter or inclusive tour contract
- copies of correspondence with the next of kin/legal representative
- copy of any group manifest and waybills for cargo
- copy of injured passengers and details of hospital/medical treatment.
 (1 mark for each correctly stated document. Maximum of 6 to be graded. Total: 6 marks)
- 8. Mention at least three (3) key advantages to a company which result from owning a captive.

Solution

The key advantages to a company which result from owning a captive are:

- captives have lower administration costs compared with those of the company
- captives' parent company will have the benefit of any investment income
- cost of insurance would more closely reflect the risk
- cover can be provided for risks which the traditional insurance market for not wish to insure.

(2 marks for each correctly stated advantage. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a)i. Is the position of the commissioner for insurance by appointment or by application? If by application, state the process. If by appointment, who does the appointment? (4 marks)
- ii. Aircraft registration is the responsibility of what agency of government in Nigeria? (3 marks)
- iii. To what agency must aircraft accidents be reported in Nigeria? (3 marks)

- (b) Eagle Air, a young promising Nigerian Airline, has insured its aviation operation in London for two (2) years through a recognised and licensed Broker in the London market.
- This year, the airline intends to expand its operation to include flights to i. Rwanda, Gambia, Cameroun, Ghana and the Republic of South Africa. Describe the placing process for this expansion in the London market. (20 marks)

ii Five (5) months after renewal, one of Eagle Air's plane crashed on an internal flight as it approaches one of the country's major airports, killing all passengers and crew on board. The insured has insurance cover for aircraft hull, airline liability and aviation hull risks,

Discuss both the insured's and the various insurers' liabilities for the loss of the aircraft and the death of the passengers. (20 marks)

Solution

a) i) It is by appointment. (2 marks) And the appointment is by the President/Commander-in-Chief of the Armed Forces. (2 marks) Sub-Total: 4 marks ii) Nigerian Civil Aviation Authority (NCAA) (3 marks) iii) Aircraft accidents in Nigeria must be reported to Accident Investigation Bureau (AIB).

(Grand Sub-Total: 10 marks)

b)

- The London broker will seek instructions for renewal probably about one or two months before expiry. At this stage, the insured or indigenous intermediary should provide the broker with details of the changes. (4 marks)
- The broker/insurer may well require the following details:
 - the new equipment being operated
 - details of contractual agreement
 - liability regimes i.e. EU2027/97
 - pilot details
 - value of risk both hulls and spares
 - liability limits required.

(4 marks)

(3 marks)

The broker will also need to review loss/premium statistics for the last 5 years ideally but since the airline has only been in operation for two years, then the review will be precisely for two years as per age of the airline.

(4 marks)

- The broker will then prepare a renewal slip and will seek to portray the airline and the new developments in a positive light to the proposed leader. Part of the broker's job is to choose security of an acceptable standard. The Broker will approach the existing lead insurer but may approach alternatives, if available and secure the terms of engagements of the insurer(s). (4 marks)
- The broker will probably use vertical marketing in order to achieve the lowest overall price with appropriate security. Vertical placements are those placements where other markets may insure at different premium rates.

 (4 marks)
- The Broker will advise the client of the terms and conditions, if acceptable, the go-ahead is given, the risk will be placed and confirmation will be given when concluded.

 (4 marks)
- The broker may well prepare the certificates of insurance on behalf of the insurer and will produce a cover note evidencing the terms. The broker will also produce a debit note showing the premium and payment terms.

(4 marks for each complete and correctly stated point. Maximum of 5 complete and correct points to be graded. Sub-Total: 20 marks)

b. **As far as the insured's liability goes**, a certain amount depends on the contractual provisions and who was responsible for providing insurance.

If the contractual provisions stipulate that the insured is responsible for insurance and/or the risk of all losses, then,

- i) the insured will be responsible for the loss of the aircraft
- ii) the insured could well be liable for the death of the passengers as one would need to consider whether strict liability should apply or not.

Reference to the terms of carriage would need to be made i.e, international carriage under the terms of any of the applicable conventions. In practice, if loss occurred whilst passengers are in the care and custody of an airline, the airline will be found liable and the local courts will also decide the level of any award(s) made in respect of deaths of passengers.

(5 marks for each complete and correctly stated point. Maximum of 2 complete and correct points to be graded. Sub-Total: 10 marks)

For the insurers' liabilities, the exact circumstances of the loss will need to be investigated i.e. is it a war loss, was it an act of terrorism or was it just an unfortunate accident. The exact circumstance will then determine the exact insurance policy that will be liable for the loss.

There can be challenges when there is doubt as to which policy will respond (hull/hull war). In addition, the circumstances will show if any policy condition was breached or which exclusion should apply and if there are any chances of subrogation.

Leaving aside conditions/exclusions and contractual arrangements as far as liability to passengers is concerned, whether the war write-back I clause AVN52 is included or not is a crucial issue.

(5 marks for each complete and correctly stated point. Maximum of 2 complete and correct points to be graded. Sub-Total: 10 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

10. In the context of aviation insurance, describe any five (5) of the discovery methods that are available for use in any eventful litigation process.

Solution

The discovery methods available for use in any eventful litigation process are:

- **interrogation:** these are written questions that one party asks another. They must be answered in writing and under oath within a certain period (usually 20/30 days). A party can object to the questions if there is a valid reason not to answer. (5 marks)
- **document production:** each party is allowed to request and inspect documents and other tangible items from other parties. Requests are in writing and documents must be produced to specified time frames.

(5 marks)

• **medical examination:** these may be requested by either party and would have to be consented to by the other party before being carried out.

(5 marks)

- **request for admissions:** any party can serve another with a written request to admit particular allegations. The served party must admit or deny within a specified time limit. (5 marks)
- **Deposition:** any party may demand that another party to the lawsuit appears for a deposition, which could be either a: (5 marks)
 - o **pre-trial conference:** this decides whether the case can be settled before it proceeds to full litigation in court or not. (5 marks)
 - o **trial:** this can be held in a State or Federal court. (2 marks)
 - o **appeal:** this can be held in a State or Federal court. (2 marks) (Grand Total: 34 marks)

- 11(a) Explain why underwriters consider that helicopters are a more hazardous underwriting risk than fixed winged aircrafts? (10 marks)
- (b) Explain the provisions of the EU Regulation2027/97 as it specifically applies to ticketing and advanced payments affecting EU air carriers. (16 marks)
- (c) Explain, using an example, what is meant by the "deep pocket theory" when used in relation to aviation liability losses. (8 marks)

Solution

- a) Underwriters consider helicopters to be more hazardous underwriting risk than fixed winged aircrafts because:
 - helicopters by their very nature are not aerodynamic. If the engine stops or the rotor blades stop turning, the helicopter will lose height rapidly. If there is a problem while the helicopter is flying, it will usually lead to major damage. Underwriters recognize this by adjusting the rating and by imposing a higher deductible which is usually applicable to all losses.

Another reason for helicopters being considered a great underwriting risk is that helicopters are often used in more hazardous situations and at lower altitudes than fixed winged aircraft. For example, in search and rescue, logging, e.t.c. (5 marks)

(Sub-Total: 10 marks)

b) Under EU Regulation2027/97, there is an obligation for community air carriers to make an advanced payment of at least 16,000SDRs (Special Drawing Rights) in the event of death to meet economic needs not later than 15 days from the identification of the person entitled to compensation. (6 marks)

Carriers selling or providing carriage in the community must provide written notice of the limits of liability applicable to the flight being sold. (5 marks)

In addition, carriers must make available to passengers at all points of sale, a summary of the main provisions regarding liability including time limits and the availability of special declarations for baggage. (5 marks)

c) "Deep pocket theory" when used in relation to aviation liability losses is generally taken to mean that the person who has the largest fund available pays the most of a liability award, irrespective of liability. (2 marks)

In most cases, this means the person with the largest awards made against them, not because they have caused the most damage but because they carry large limits under their liability policies. (3 marks).

For example, in the USA especially, there can be speculative litigation against the large airlines and manufacturers as some States have joint and several laws. This means that plaintiffs can recover damages from any liable defendants regardless of the degree of liability, the theory is that the defendant needs to recover the damages so the defendants that are in the best position to pay will have to make up for those who cannot. (3 marks for any correct and complete example like this one)

(Sub-Total: 8 marks) (Grand Total: 34 marks)

- 12(a) Explain "structured settlements" as it relates to benefits that may be to claimants and insurer in respect of aviation insurance. (12 marks)
- (b) State the provisions contained in the Montreal Convention 1999 relating to damage and delay to cargo. (12 marks)
- (c) You are the insurance manager for XY Airlines Company. One of the aircrafts while on a flight between countries within the EU was hijacked and flown to a country outside the EU. On landing, the aircraft sustained damages and several passengers were injured. Enumerate any three (3) information the surveyor will need to investigate on the claim. (10 marks)

Solution

a) It has sometimes been the case that after having received a large award, a claimant has spent the money inappropriately and not had enough left to meet their future medical and other requirements. To avoid such problems and to avoid the need for constant management of the settlement fund, the attorneys will arrange for the award to be used to purchase an annuity or similar instruments which will ensure that the claimant receives a regular income appropriate for their needs. Purchase of an annuity may be less expensive for insurers, than an outright settlement of the claim. There may also be tax advantages for the claimant.

(3 marks for each complete and correctly stated point. Maximum of 4 points to be graded. Total: 12 marks)

- b) The provisions contained in the Montreal Convention 1999 relating to damage and delay to cargo are:
 - there is an unbreakable limit of 19SDR's (Special Drawing Rights) per kilogram in respect of loss, damage or delay to cargo. The limit is strict as long as the loss or damage took place during the carriage by air. (4 marks)

- there is a requirement for an airway bill to be delivered which include the places of departure and destination. (4 marks)
- costs and interest can be awarded in addition to limits of liability. (4 marks) (Sub-Total: 12 marks)
- c) The information the surveyor will need to investigate are as illustrated below:
 - the appointed surveyor will need to investigate all aspects of the loss and the circumstances leading up to it and ensure that (s)he decide whether to pay for the loss or not.
 - The surveyor will obtain and check policy details and details of the insured to ensure that coverage was correctly in place at the time of the accident.
 - The surveyor will also look at the cause of the loss to ensure that this was correctly insured, hence the importance of looking at the geographical limits and hijacking coverage.
 - The surveyor will work with the local aviation authority to look at the loss, the background and the causes
 - The surveyor will also recommend whether they should be paid as a total loss or aircraft repairable and if any salvage to take into account.

(2½ marks for each complete and correctly stated issue to be investigated. Maximum of 4 issues to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 13. You are an insurance broker to an airport maintenance company who has been asked to review the liability insurances of a baggage handling company working airside at the airport.
 - (a) Define who an insurance broker is. (4 marks)
 - (b) List and briefly discuss any three (3) aviation exposures that the baggage handler needs to insure against. (15 marks)
 - (c) Discuss the wordings and clauses you would recommend to be used for these exposures. (15 marks)

Solution

a. An insurance broker, in most jurisdiction, is the agent of the client and as such, is subject to the general law as it applies to agents. In addition to the broker's duty to the client, the broker as a professional, has a common duty of care in English law, and in many jurisdictions elsewhere, to anyone who relies on the information provided by the broker.

(2 marks for every correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)

- b. The aviation exposures that the baggage handler needs to insure against are:
 - legal liabilities for bodily injury and property damage arising from their operations whilst working at the airport
 - liabilities from the operation of motor vehicles where there is a risk if collision with other vehicles, the very many types of airside equipment or even aircraft
 - exposure of damage to baggage or
 - exposure to interaction with members of the public in the course f the insured
 - exposure as a result of the contractual obligations arising from the contracts signed with the airports/concessionaires companies which indicates a minimum amount of insurance to be carried

(Candidates are required to briefly discuss any of the points mentioned above. 3 marks for correctly stating the exposures while 2 marks for complete and correct explanation on each point. Maximum of 3 exposures to be graded. Sub-Total per exposure: 5 marks. Grand Total: 15 marks)

c. The coverage for ground handling companies is very similar to airport liability coverage so the ARIEL Airport Owners and Operators' Liability Policy may be used. **(6 marks)** The standard clauses that would be added include the:

- War, Hijacking and Other Perils Exclusion Clause AVN 48B
- Extended Coverage Endorsement (Aviation Liabilities) AVN 52G
- Nuclear Risk Exclusion Clause AVN 71
- Noise Pollution and Other Perils Exclusion Clause AVN 46B

(3 marks for each correctly stated clause. Maximum of 3 clauses to be graded. Sub-Total: 9 marks)
(Sub Grand Total: 15 marks)
(Grand Total: 34 marks)

14(a)i Explain briefly why pilots buy loss of licence insurance. (2 marks)

- ii. Identify four (4) circumstances in which loss of licence policy coverage will usually terminate. (6 marks)
- (b) Describe briefly:
 - i. why an aviation insurer may wish to adjust the hull rate of an aircraft on which the value has been reduced? (6 marks)
 - ii. the method that insurers would use to calculate the new rate, using a simple example. (5 marks)
- (c) You are an insurance broker to a company tendering to run airport ground services that an airline has decided to contract out at a new destination airport. The services consist of passenger and baggage handling, aircraft line maintenance and towing and ramp services such as cleaning and catering.

You have been asked to write a report to the Company's Finance Director detailing the company's exposures and the risks if they accept this contract. Discuss the exposures you would identify to the Finance Director. (15 marks)

Solution

- a) i) Pilots buy loss of licence insurance because it provides a cash benefit to assist when such a pilot is unable to work in the event of a withdrawal of licence by the authorities while noting that it is required that aircrew must hold a valid licence in order to carry out their duties. (2 marks)
- ii) The circumstances in which loss of licence policy coverage will usually terminate if:
 - the insured person's employment ends
 - the insured person dies
 - payment is made by insurers for bodily injury or illness
 - the insured person undertakes flying which is more hazardous than usual unless previously agreed by insurers
 - the insured person undertakes active duties with any armed forces other than part-time training on a non-combat training
 - the insured person reaches retirement age.
 (2 marks for each identified circumstance. Maximum of 3 to be graded. Total: 6 marks)

b)

i) As an aircraft ages, it would be expected that the aircraft's value would reduce – because of new models being introduced onto the market and through natural depreciation. Therefore overtime, the amount that would be paid by an insurer in the event of a total loss would be expected to reduce as the aircraft agreed value decreases.

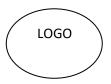
(3 marks for each correctly bolded phrase. Total: 6 marks)

ii) The method that insurers would use to calculate the new rate, using a simple example, is outlined below: as the element of premium needing to be set aside for repairs as a proportion of the total premium is higher as the agreed value reduces. Insurers have established a formula called the 70/30 formula. The formula is applied where a lower value does not produce enough premium to cover the increased risk of a total loss caused by the reduced value.

(3 marks for correctly stated formula. 2 marks for the explanation of the formula. Total: 5 marks)

- c) The identified exposures to be identified to the Finance Director are:
 - company's liability for bodily injury that may arise from their operations
 - company's liability for property damage that may arise from their operations
 - use of vehicles airside is strictly regulated, with drivers having to undergo instruction and be under the control of air traffic control outside certain well-defined areas
 - the very presence of many people working airside means that there is always a risk of human error

(Candidates are required to briefly discuss any of the points mentioned above. 3 marks for correctly stating the exposures while 2 marks for complete and correct explanation on each point. Maximum of 3 exposures to be graded. Sub-Total per exposure: 5 marks. Grand Total: 15 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A785

PRINCIPLES OF REINSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A785 - PRINCIPLES OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 54.16%

Highest Score: 94%

Lowest Score: 28%

Average Score: 53%

Breakdown Updates

Question 1

The question tested candidates' knowledge of retention and the candidates demonstrated a good understanding of the subject matter as 67.10% of them scored above average.

Question 2

The question tested candidates' knowledge of the Limitation Act 1960. Above 60% of the candidate got it correctly and was able to score full marks.

Question 3

The question tested candidates' knowledge of reinsurance brokers. Most of the candidates were able to clearly define who a reinsurance broker is but could not categorise the two main ways in which a reinsurance broker can be involved in a reinsurance transaction. Most candidates misinterpreted this question to mean the function of reinsurance broking.

Question 4

The question was intended to test candidates' knowledge of the effect of IT on reinsurance. Only 41% of the candidates scored above average. Most of the candidates could not state the three main areas as expected.

Question 5

About 54% of the candidates scored above average in this question. Those that interpreted the question correctly scored full marks. The question tested the candidates' knowledge of finite reinsurance - one of the alternative risk transfer (ART) mechanism.

Question 6

The question was intended to test candidates' knowledge of the main classes of marine reinsurance. Most of the candidates were able to list the classes but could not score the full marks because of their inability to fully state the attribute of the classes listed. Only 33% scored above average.

Question 7

The question tested candidates' knowledge of simple but logical calculation under the non-proportional reinsurance. About 70% of the candidates scored above average while those that understood the logic scored full marks.

Question 8

The question tested candidate's knowledge of basic principles of insurance. Although, most of the candidates got this correctly, some of them misinterpreted this to mean the functions of valid contracts. About 30% of the candidates scored above average while about 65% of the candidate scored full mark.

Question 9

The (a) part tested candidates' knowledge of permissible items in relation to NAICOM policy and guideline on share capital policy. The performance was woeful. Candidates need to get more familiar with NAICOM regulations and industry development. The part (b) tested candidates' knowledge of the purpose of reinsurance. Most of the candidates demonstrated good understanding of this; while the part (c) tested basic practical aspect of reinsurance on risk and loss apportionment. Overall, under this question, about 75% of the candidates scored above average.

Question 10

This question tested candidates' knowledge of one of the types of proportional reinsurance (quote share treaty). The performance was poor as candidates failed woefully; especially in the (b) aspect which has to do with circumstances where quota share is particularly appropriate. Only about 8% of the candidates scored above average overall in this question.

Question 11

Part (a) tested candidates' knowledge of the full meaning of EML and EPL. Most of the candidates demonstrated a good understanding of the two concepts. The part (b) tested candidates' knowledge of key factors relevant to rating process; performance here was very poor. Out of the 16 candidates that attempted this question, only three candidates scored above average.

Question 12

Part (a) intended to test candidates' knowledge of a valid contract; majority of the candidates got this correctly. The part (b) tested candidates' knowledge of reserves in reinsurance treaties. Out of the 16 candidates that attempted the question, only 6 scored above average representing about 38%.

Question 13

The part (a) intended to test candidates' knowledge of traditional markets and most of the candidates got this correctly. The part (b) intended to test candidates' knowledge of international centre for reinsurance and out of the five candidates who attempted the question, only three of them (i.e. about 60%) scored above average.

Question 14

Part (a) tested candidates' knowledge of portfolio transfer. Most of the candidates demonstrate good understanding of this. The part (b) was intended to test candidates' knowledge of reserve deposit. Most of the candidates could not give clear explanation of the term which denied them two opportunity of scoring full marks. The part (c) tested candidates knowledge of material information that a reinsurer will require from an insurer when placing a business on facultative basis. Most of the candidates could also not give a clear and technical response expected of a professional. In all, out of 17 candidates that attempted this question, only 7 candidates (representing about 41%) scored above average.

Chief Examiner's Comments on Overall Performance:

The general performance was average. Candidates can do better if they are more aggressive and detailed with their reading/preparation for the examination.

Chief Examiner's Suggestion on Improvement:

The candidates are advised to get more familiar with regulatory development and requirements. They are advised to be more thorough in their studying and should also practice past questions to get a feel of how to answer questions.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Mention any six (6) notable factors taken into account when an insurance company is deciding its retention.

Solution

The notable factors taken into account when an insurance company is deciding its retention are:

(i) assets (ii) capital (iii) free reserves (iv) size of portfolio (v) premium income (vi) profitability (vii) type of risks (viii) spread of risks (ix) size of losses (x) frequency of losses (xi) reinsurance cost (xii) reinsurance type (xiii) corporate strategy.

(1 mark for each correctly stated factor. Maximum of 6 to be graded. Total: 6 marks)

2. Under the Limitation Act 1980, how long does an insurer have to commence an action before the reinsurer can argue that the "cause of action" is time barred?

Solution

An insurer has **six years** from the **date the action "accrued".**(3 marks for each correctly bolded phrase. Total: 6 marks)

- 3(a) Who is a reinsurance broker? (2 marks)
- (b) In what ways can a reinsurance broker be involved in reinsurance transactions? (4 marks)

Solution

- a) A reinsurance broker is an intermediary between the reinsured and the reinsurer. (2 marks)
- b) A reinsurance broker can be involved in reinsurance transactions as an:
 - agent of the reinsured where he negotiates the reinsurance contract with the reinsurer. (2 marks)
 - agent of the two parties where he has underwriting authority on behalf
 of the reinsurer and at the same time, he acts on behalf of the reinsured to
 ensure that the risks are adequately placed. (2 marks)

(Grand Sub-Total: 4 marks) (Grand Total: 6 marks)

4. What are the three (3) main areas of reinsurance that IT (information technology) has affected?

Solution

The three (3) main areas of reinsurance that IT has affected are:

- data storage and administration
- transaction handling
- impact on underwriting

(2 marks for each correctly stated area. Total: 6 marks)

5. Mention any three (3) forms of finite reinsurance.

Solution

The forms of finite reinsurance are:

- fully funded: one-off premium
- fully funded: one-off premium partially withheld by client
- fully funded: regular premium
- contingent capital
- partially funded: regular premium.
 (2 marks for each correctly stated form. Maximum of 3 forms should be graded. Total: 6 marks)
- 6. Enumerate any three (3) main class of marine reinsurance.

Solution

The main classes of marine insurance are:

- hull (also called "time" account)
- cargo (also called "voyage" account)
- liabilities
- energy (also called "rig" account)
- war
- assumed reinsurance
- incidental non-marine and
- incidental aviation.

(2 marks for each correctly stated class. Maximum of 3 classes should be graded. Total: 6 marks)

- 7 (a) If on an M & D Account, the deposit premium is N30,000.00, minimum premium is N25,000.00 and adjusted premium is N24,000.00. What is the return premium due? (4 marks)
- (b) If the actual adjusted premium is N30,000.00, minimum and deposit premium is N35,000.00, what is the return premium due? (2 marks)

Solution

a) N30,000.00 minus N25,000.00 = N5,000

(4 marks)

b) Zero

(2 marks)

(Grand Total: 6 marks)

8. What are the legal principles of insurance which are applicable to the practice of insurance in Nigeria and globally?

Solution

The legal principles of insurance which are applicable to the practice of insurance in Nigeria and globally are:

- (i) Utmost good faith
- (ii) Insurable interest
- (iii) Indemnity
- (iv) Subrogation
- (v) Contribution
- (v) Proximate cause

(1 mark for each correctly stated principle. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) There are some permissible items that can be combined to make up the share capital policy of insurance and reinsurance companies in order for those companies to be adjudged by NAICOM to have met up with the minimum regulatory capital requirement. List any four (4) of these items. (10 marks)
- (b) The purpose of reinsurance is purely technical as it is a means used by a ceding company to reduce, from the point of view of possible material losses, the financial consequences resulting from the perils that it has accepted. State and fully explain any five (5) purposes of reinsurance.

(25 marks)

(c) A company has a net retention of N2,000,000.00 with a 50% quota share and a nine-line surplus treaty. The company has written a line of N50,000,000.00 in respect of which it has filled its proportional treaties and placed the balance facultatively. It suffers a loss of N30,000,000.00. How would the loss be allotted to the reinsurances? (15 marks)

Solution

- a) The combination of share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020 could be from the following:
 - existing paid up share capital
 - cash payment for new shares issued
 - retained earnings
 - payment for new shares issued such as
 - o properties

- treasury bills
- o shares
- o bonds
- share premium

(2½ marks for each correctly stated requirement. Maximum of 4 to be graded. Total: 10 marks)

- b) The various purposes of reinsurance are:
- (i) Risk Transfer: Insurance was developed to cover people for a risk that they could not avoid in order to protect them from the financial consequences of that risk and to put them in the same financial position that they were in immediately prior to the loss. In much the same way that an insurance company assume and cannot avoid risk, reinsurance is one of the options open to any insurance company in attending to its risks.
- (ii) Capacity Building: capacity is the financial amount that an insurance company retains in relation to the acceptance of insurance risks which an insurance company would consider in terms of the actual risks it has underwritten or the impact one event might have on the risks it has underwritten. Therefore, such company will assess its capacity on both a per risk and a per event basis. Since the company can only accept risks to a certain size, it would have been limited from taking large risk, however reinsurance provides the company with capacity to compete against other insurance companies by accepting much larger businesses that can be internally retained, which will then be ceded out, at a cost, through reinsurance.
- (iii) Stabilisation: neither the insured nor the direct insurer knows when a claim will occur or the eventual cost of the claim. Reinsurance helps the direct insurer to stabilise their loss levels by removing some of these uncertainties, notwithstanding the fact that insurance companies gave experience of handling losses and the fact that statistical techniques can assist in predicting these losses and their costs. This stabilization is similar to the benefit the insured achieves from insuring.
- **(iv) Portfolio Management:** the portfolio is the entire range of risks an insurance company might underwrite e.g. motor portfolio, fire portfolio, e.t.c. therefore portfolio management is very crucial. Reinsurance helps the direct insurer to manage its portfolio in such a manner that the profitability or otherwise of an insurance company is highly dependent on the manner of which it has managed its portfolio risks and has also been able to spread such risk round thus protecting its financial position.

- **(v) Confidence Building:** reinsurance assists in building confidence in the insurance industry by investors and insuring public, as it enables insurance companies exhibit its known prudence in ensuring that they maintain certain amount of their risk management in traditional vehicles, with the assurance that a number of uncertainties have been removed to through reinsurance. It also assist the insurance company itself to build confidence and be able to go after securing more businesses into its portfolio.
- (vi) Taxation Purposes: since insurance companies are taxed on their technical underwriting results, therefore unlike equity returns which are taxable, reinsurance premiums are already included and as such are tax deductible. This is a consideration for insurance companies that ware planning on how to resource their company for any potential losses that might arise from the portfolio.
- (vii) Risk Spreading: insurance have been known to be a mechanism by which the impact of loss is spread. Reinsurance also serve this purpose as it is a mechanism by which direct insurers can spread their losses to reinsurers. This is done in such a way that spread the potential impact of future losses and it assist in preventing the concentration of risk on the insurance company.
- (viii) New Product Development: reinsurance assist an insurance company to develop new products which the direct insurer might not have understanding or knowledge of, thereby protecting the insurance company's portfolio. For example, a motor insurer might want to expand into household business. In such an instance, reinsurance assist the motor insurer to come up with various household product, provide cover that would cushion the impact of adverse results that may occur in this new field, assist within staff training on the new product and also ensure that the new product is adequately priced.

(2 marks for each correctly mentioned purpose. 1½ marks for each correct explanation. Maximum of 2 explanations per purpose. Sub-Total per purpose: 5 marks. Maximum of 5 purposes to be graded.

Grand Sub-Total: 25 marks)

```
c) c) Loss apportionment would be: Gross Loss of \pm 30,000,000.00
                                                                             (3 marks)
Net Retention:
                     4% of <del>N</del>30,000,000.00
                                                        N 1,200,000.00
                                                                              (3 marks)
Quota Share:
                     4% of <del>N</del>30,000,000.00
                                                        N 1,200,000.00
                                                                             (3 marks)
Surplus:
                     72% of <del>N</del>30,000,000.00
                                                 =
                                                        N21,600,000.00
                                                                              (3 marks)
Facultative:
                     20% of N30,000,000.00
                                                        N 6,000,000.00
                                                                             (3 marks)
```

(Grand Sub-Total: 15 marks) (Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a) Define the "quota share treaty" (4 marks)
- (b) Explain any five (5) circumstances where the use of quota share is particularly appropriate. (30 marks)

Solution

- a) Quota Share Treaty is an **obligatory ceding treaty** where **the ceding company has to cede a fixed percentage of all their risks** and the **reinsurer is obliged to accept all the cessions made**, usually **subject to a maximum amount any one cession**. (1 mark for each bolded phrase. Sub-Total: 4 marks)
- b) The following are some of the circumstances where the use of quota share is particularly appropriate:
 - where a newly formed company needs a sufficiently large per risk capacity to enable it to attract business, particularly in a market that has an excess of existing capacity. However, it may not have the capital base to support the size of acceptances required, nor the experience or reputation to develop a presence in an established market. A quota share treaty will provide operating capacity whilst enabling the insurer to fix its net retention at a level that matches its capital base. The reinsurer would prefer a quota share arrangement with greater opportunity to participate in the underwriting of each policy and to obtain an understanding of how the new business would be handled. As the company grows, the percentage of its retention can be increased which allows a certain amount of expansion within existing arrangements. This also provides continuity in its reinsurance security which is important, particularly in the first few years of a company's development.
 - where the risks are homogeneous (i.e. similar risks and relatively uniform sums insured for example, household). Quota share treaties are useful where volumes are high as the administration of the reinsurance is relatively simple and cost effective when compared to other types. This is especially true if the type of business is written via a number of small branch offices or agents. The ease of operation of this type of reinsurance, again, may make quota share arrangements attractive to new or small companies with staff of limited experience administering their reinsurance programmes.
 - where the cash flow of a ceding company is a major factor which influences the ceding company's choice of reinsurance because in general,

- quota share treaties carry the highest percentages of ceding commission compared with other types of proportional reinsurance arrangements.
- where a company wishes to expand its portfolio of inwards reinsurance business but this may only be achievable by giving some of its own business away by some form of reciprocal exchange. Quota share treaties provide an efficient method of effecting such transfers.
- where an established insurer (and its reinsurers) may have experienced a period or series of poor results under other less all-embracing reinsurance arrangements. As a temporary expedient, a sign of good faith and to seek to maintain its reinsurance capacity, a quota share treaty may be arranged to restore the balance. With this type of reinsurance there can be no selection of the risks ceded to reinsurers. Therefore, if the original account is profitable this may be a preferred method of maintaining faith with reinsurers.
- where there ceding company is with a large insurance group operating on a world-wide basis, the 'sharing' of business by subsidiary companies within the group organisation can be a way of diluting the effects of losses in any one part of the organisation without losing the overall benefits of the premium income from the business concerned.
- where the company is in need of financial assistance in order to cover a large cost, such as increase in production (financing of costs and of the reserve for unexpired risks). For example, an insurer has launched a new insurance offering directors' and officers' cover. It is proving extremely successful and the capital backing allocated for it is quickly becoming exhausted. The insurer could allocate more capital but that would take capital away from other areas of the company. However, if they added a quota share, for example, a 33.33% quota share would allow them to write a third more business using the same existing capital base.

(4 marks for each correctly and fully stated circumstance. 2 marks for any additional point stated under the circumstance. Sub-Total per Circumstance: 6 marks. Maximum of 5 circumstances to be graded. Grand Sub-Total: 30 marks)

(Grand Total: 34 marks)

11(a) What is the full meaning of EML and EPL?

(4 marks)

(b) Under a treaty account, there are detailed and key factors which are relevant to the rating process and by which premiums might be arrived at, although insurers use different methods when calculating their premiums. Enumerate and briefly explain any five (5) of these factors. (30 marks)

Solution

a) EML – Estimated Maximum Loss and EPL – Estimated Probable Loss (2 marks each. Grand Total: 4 marks)

- b) The detail and key factors that are relevant to the rating process by reinsurers are as follows:
 - Original Underwriting Limits of the reinsured with emphasis on the basis of these limits (sum insured or EML). If it is on an EML basis, the minimum factor that is applicable must be provided
 - Claims Experience: the number of years for which claims history is available depends upon the length of time that the reinsured has been writing the particular class of business in question. For risk and working covers, at least five years' experience figures would usually be expected and this would be considerably longer for catastrophe protections. The detail required consists of both the premium income protected for each year as well as a profile of the amount and frequency of losses which would have affected the cover. Any loss amounts should be defined as to whether they are before or after the application of the proposed treaty deductible.
 - Nature of the Account: the reinsurer will expect that during the requested period of the reinsurance cover the reinsured's underwriting policy will not materially alter, except if agreed by both parties. However, it may be that the current portfolio is changing in comparison to previous years owing to amendments to the company's management policy and/or the needs of the original insureds. Any such changes should be allowed for in the calculation of the current price to be applied.
 - Effect of Inflation: the existence of inflation in an economy results in increases in property values and the cost of repairs etc., which in turn results in an increase in the average size of claims. Loss details should be made available, not only of the losses that have actually exceeded the deductible, but also of those claims in previous years that are within, for example, 75% of the deductible. Similar losses in future years may result in losses attaching to the proposed reinsurance.
 - Currency Fluctuations: where the limits and deductibles of a proposed cover are expressed in one currency and significant amounts of the original business to be protected are in different currencies (as in the case of a world-wide portfolio) variations in rates of exchange may seriously affect the size and number of losses attaching to the reinsurance. Excess of loss reinsurances are rated generally at the beginning of the reinsurance period. Therefore, any upward or downward movement in exchange rates

- would alter burning cost calculations and these movements cannot be satisfactorily predicted in advance. In such circumstances, the use of a currency conversion clause (see chapter 8 on 'wordings') will limit any adverse effects on the cover.
- Risk Profiles: an analysis of the risks within a portfolio of business which
 groups the policies, aggregate sums insured and applicable premiums into
 specified bands should be made available. Such a profile of the risks to be
 protected should reveal the number and nature of the risks (i.e. domestic,
 commercial or industrial) which may be expected to produce the normal
 size and frequency of loss to risk or working excess of loss covers.
- Catastrophe Perils: the extent to which a portfolio of business is exposed to natural catastrophic perils must be considered. Any significant exposure should be reflected in the final rate calculated and particular attention paid to the geographic spread of the business. Aggregate sums insured should be available for every identified geographic or seismic zone, again split by the nature of the original policies, for example, domestic, commercial and industrial
- **Underlying Protections:** with catastrophe protections, the existence and extent of any underlying proportional or risk excess of loss should be considered. Any such covers reduce the reinsured's net retained losses arising out of any one event and consequently reduce a catastrophe reinsurer's potential exposure to loss.
- **Number of Reinstatements**: the amount of reinsurance provided by each cover may be limited or restricted, particularly in the case of 'catastrophe' types of protection. The contract of reinsurance may provide a number of reinstatements and in the event of a valid claim, additional premiums may be due to replace the amount of cover 'used up' in the claim.
- Amount of Cover Requested: has an effect on the final rate to be quoted: this consideration varies depending on the relationship between the size of the deductible and the level of anticipated exposure that reinsurers have assumed. If the total amount of cover required is being layered, the extent to which a reinsurer is (or wishes to be) involved in more than one layer is considered in the calculation of the final premium.
- **Relationship with the Reinsured**: the majority of excess of loss covers are arranged on an annual, twelvemonth basis. This gives the reinsurer an automatic opportunity to review the basis of cover and the contractual

terms and conditions. However, contracts may be arranged on a continuous basis, with tacit renewal at anniversary date, giving the reinsured and reinsurer the opportunity to build and maintain a long-term working relationship.

• **Quality of the Business**: it may be that because of the desirability of the business being offered, the final rate quoted reflects a reluctance to participate on the cover except at terms that are specifically advantageous to the reinsurer.

(3 marks for each correctly stated factor. 3 marks for each correctly stated point under each factor. Maximum of 1 point to be graded under each factor. Sub-Total for each factor - 6 marks. Maximum of 5 factors to be graded. Grand Sub-Total: 30 marks)

(Grand Total: 34 marks)

- 12(a) Apart from consideration, mention any other five (5) requirements, that a contract of reinsurance must have for it to be regarded as a legally valid contract. (10 marks)
- (b) Majority of treaties are subject to the establishment and accounting of reserves.
 - i What are the transactions involved in these accounting processes? Enumerate any four (4). (12 marks)
 - ii Enumerate any four (4) reasons why reserves are a very important aspect of such account? (12 marks)

Solution

- a) The other requirements that a contract of reinsurance must have for it to be regarded as a legally valid contract are:
 - an offer
 - an acceptance
 - certainty
 - an intention to create legal relations
 - lack of illegality
 - doctrine of privity
 - utmost good faith (uberirima fides)
 - insurable interest.

(2 marks for each correctly stated requirement. Maximum of 5 to be graded. Total: 10 marks)

- b) i) The transactions involved in these accounting processes are:
 - bringing premiums forward from the previous accounting period
 - bringing claims forward from the previous accounting period
 - releasing reserves previously held by the reinsured

- carrying premium forward to the subsequent accounting period
- carrying claims forward to the subsequent accounting period; and
- payment of interest on any reserves being released
 (3 marks for each correctly stated transaction. Maximum of 4 to be graded. Total: 12 marks)
- ii) Reasons why reserves are a very important aspect of such account are that reserves:
 - are entered in the annual accounts and thus have a direct effect on the profit/loss of the company
 - serve for estimating the results of the current year
 - are required to determine correct premiums rates by looking at the development of the claims reserves over time
 - provide a signal to the underwriting department on rehabilitation measures required to be made
 - affect the experience of the reinsurance treaties
 - may have fiscal consequences if falsely estimated or established at the wrong level
 (3 marks for each correctly stated transaction. Maximum of 4 to be graded. Total: 12 marks)
- 13(a) What is a traditional concept of a market? (2 marks)
- (b) There are a number of factors that allow the successful development of an international centre for reinsurance. Enumerate and briefly explain any eight (8) of these factors. (32 marks)

Solution

- a) A traditional concept of a market is a place where someone wh0o has a need can go to find someone else who might be able to meet that need. (2 marks)
- b) The factors that allow the successful development of an international centre for reinsurance are:
 - **Political Stability:** reinsurance is a long-term product. Both buyers and sellers of the product want to bure that the market will not change out of all recognition in the future. For example, a government might want to nationalise the entire industry.
 - **Geographical Location:** for an international reinsurance market to be successful, it must have access to not only its own internal insurance markets but also to any neighbouring foreign insurance markets. With the development of information technology, actual physical geographical

- location has reduced in part compared to access to the information superhighways.
- Quality Transport System: the market must be easily accessible by foreign insurers (for example good air-links to other countries) and reasonable internal travel arrangements available within the city in which the market operates.
- Developed Communication Systems: communication systems have become more vital with the development of the internet. A considerable amount of reinsurance business is transacted using telecommunication lines and links need to be secure and readily available to ensure business success.
- **Highly Qualified Personnel:** there must be a pool of specialised staff available to service the industry. This means the underwriters as well as the support staff such as claims and accounting personnel. This allows easy entry into the market for new reinsurers to purchase staff from the existing pool of talent.
- Office Space at Competitive Prices: the cost of office space in the central business district of a city can sometimes be prohibitive, if available, and has in the past prevented the development of some markets. However, with the use of information technology (IT) the impact of these costs can be marginalised.
- Multi-Lingualism: the reinsurance market must be able to converse with
 its clients and understand the information being sent to them. This means
 that some translation facility into an acceptable language must be available
 within the market.
- Stable Legal and Regulatory Environment: the courts and regulatory authorities must be acceptable to the clients of the reinsurance market and this includes the need for a legal framework adapted to the sector. For example, English law has built up a large background of developed reinsurance law and is recognised as a choice of law for disputes. The regulatory authorities must be recognised as being sound and not allowing reinsurers to set up without sufficient resources to provide security. This relates to the long-term aspect of the reinsurance industry in that reinsurers must be available to pay losses sometimes many years after the contract originally incepted.

- **Liberal Attitude by Authorities:** the authorities must allow the growth of the sector without imposing too many restrictions in terms of bureaucracy and taxation.
- Quality Family Life: quality of family life has become more important in recent years, especially for forward looking companies which are looking to locate into a market. Companies consider whether they can look after the well-being of their staff including their families' health, safety and educational needs.
- **Time Zone:** with the advances in telecommunications, this has had less impact. However, staff do not want to be working unsociable hours in the office for long periods of time. In a reinsurance market, staff need to be available to supply answers when their clients require them. Therefore, generally there needs to be some overlap in the time zones between the relevant markets, so that direct communication is at least sometimes available.
- **Foreign Presence:** a country's own reinsurers do not solely dominate the market. A strong foreign presence allows the development of international reinsurance rather than a strong concentration on the domestic market only.
- **Developed Financial Centre:** with the advent of alternative risk techniques, the location of a strong market is of advantage to insurers looking for different ways of handling their risks away from the traditional reinsurance placements. The location of a developed financial centre also provides an additional source of clients and a possible additional source of capital when looking to set up in or expand into a market.
- **Strong National Industry:** the strength of the national industry of a country can help the development of the reinsurance industry. For example, the growth of the German reinsurance industry was possible mainly due to a strong domestic insurance industry.
- **Centralisation:** if there is limited competition from other cities in the country or other cities in nearby countries, this is a distinct advantage in attracting reinsurers to a market
- **Tight Economic Controls:** reinsurers are interested in a relatively stable economy. Strong inflation has an adverse effect on rate estimation and influences the estimation of other costs such as office space and staffing costs.

- **Strong Currency:** as a result of their long-term relationships, reinsurers do not want to be in an economy where the currency is under constant threat of devaluation. This makes it very difficult to establish a reasonable perspective for long-term business.
- Good Arbitration Arrangements: most reinsurance contracts (especially treaties) contain arbitration clauses as opposed to using litigation; therefore, insurers and reinsurers are interested in centres that can provide an experienced pool of arbitrators and defined techniques of arbitration. Although arbitrations can be conducted anywhere, there is a desire to locate them in the location where the insurance companies' offices are situated.

(2 marks for each correctly stated factor. 2 marks for any correct and fully stated explanation under each factor. Maximum of one explanation to be graded under each factor. Sub-Total per factor – 4 marks. Maximum of 8 factors to be graded. Grand Sub-Total: 32 marks)

(Grand Total: 34 marks)

- 14(a) Mention three (3) circumstances under which transfer of portfolio can arise. (6 marks)
- (b) Describe "a loss reserve deposit" in detail. (13 marks)
- (c) List and explain any three (3) material information a reinsurer would require from an insurer when placing a business on facultative basis.

 (15 marks)

Solution

- a) The circumstances under which transfer of portfolio can arise are:
 - where the reinsured wants a new treaty to assume the portfolio of business in force at the inception of the treaty, or a new reinsurer to assume the portfolio from a retiring reinsurer
 - where there is an option, usually open to the reinsured only, to withdraw premiums and outstanding losses upon termination.
 - where the entire treaty is on a clean cut basis
 - a treaty on underwriting year basis may also provide for the closing of each year after a specified period and the transfer of any subsisting liability into the next open year.

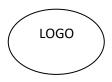
(2 marks each of every correctly explained circumstance. Maximum of 3 to be graded. Sub-Total: 6 marks)

b) A loss reserve deposit is an amount held by the reinsured in a bank account quite often on a letter of credit basis as a reserve against the reinsurer going insolvent and not being able to pay the reinsurance claims. It is based on the claims reserves held by the insurance company but is paid into an account by the reinsurer who will get the interest but it is not allowed to take the money out again without the prior agreement of the reinsured.

(4 marks each of every correctly explained point. Maximum of 3 to be graded. Sub-Total: 12 marks)

- c) The various material information a reinsurer would require from an insurance when placing a business on facultative basis are:
 - i) details of the insured
 - ii) class or classes of the business to be covered
 - iii) risk profile
 - iv) general experience
 - v) claims experience
 - vi) applicable experience

(2 marks each for every correctly stated information. 2 marks for every correct explanation under each stated information. Maximum of 4 factors to be graded. Sub-Total: 4 marks per information. Grand Sub-Total: 16 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A825

APPLICATION OF REINSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A825 - APPLICATION OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 28.56%

Highest Score: 62%

Lowest Score: 30%

Average Score: 43%

Breakdown Updates

Question 1

The question was intended to test candidates' knowledge of equalization provisions. The performance was poor as only one candidate scored average (3 marks) in the question.

Question 2

The candidates demonstrated good understanding of the subject matter as 85% of the candidates scored average and above.

Question 3

The question tested candidates' knowledge of one of the types of reinsurance and the attempt was very good as 71% of the candidates scored the full marks.

Question 4

The question tested candidates' knowledge of company's assessment of its reinsurance needs. The attempt was not impressive as only 42% of the candidates scored above average.

Ouestion 5

The question attempted to test candidates' knowledge of some clauses in reinsurance claims. Only about 42% of the candidate demonstrated a good understanding of the clauses.

Question 6

The question tested candidates' knowledge of contribution of claims department to data gathering. The performance was poor as none of the candidates scored above average.

Question 7

The performance was poor as only two candidates scored above average. Most of the candidates wrote on factors to be considered in choosing reinsurance brokers and not in changing reinsurance brokers.

Question 8

The question tested candidates' knowledge of changes in price of reinsurance on insurer's retention decision. Only one candidate got this correctly and scored the full marks.

Question 9

Part (a) Tested candidates' knowledge of permissible items that could be combined to make up the share capital policy of insurance and reinsurance companies according to NAICOM. The performance was very poor. Candidate needs to get more familiar with NAICOM regulation and current affairs in the industry. Candidates demonstrated a good understanding of profit commission and items fund in a typical profit commission as tested in parts (b) and (c). The part (d) was practical/application of reinsurance which tested candidates' knowledge of how to prepare a profit commission statement. The performance was average. 29% of the candidates scored above average.

Question 10

This question was not included.

Question 11

The question tested candidates' knowledge of claims reserve. Most of the candidates demonstrated good understanding of the reasons why insurance companies have claims reserve but could not explain the main types of claims reserves. Only one candidate scored above average in this question.

Question 12

Part (a) of the question tested candidates' knowledge of profit commission of treaties arranged on a clean cut basis. Most of the candidates could not differentiate items included in profit commission of treaties arranged on clean cut basis from that arranged on underwriting year basis. Most candidates scored less than average in the question. The part (b) tested candidates' knowledge of factors which rating agencies use to assess a company's claims paying ability. Most of the candidates scored below average in this question as only 16% of them scored above average.

Question 13

The question tested candidate's knowledge of alternative dispute resolution (ADR). Only 4 candidates attempted the question and none of them scored above average. Most of them were able to list the types of ADR but could not explain them.

Question 14

The (a) part of the question tested candidates' knowledge of non-proportional treaty reinsurance as well as combination of several classes of liability business in one treaty. Only three candidates attempted this question with just one of them scoring above average. Most of the candidates failed woefully on the (b) part. They demonstrated lack of understanding of this concept.

Chief Examiner's Comments on Overall Performance:

The general performance is not good. Only two candidates scored above the pass mark which represented about 29%.

Chief Examiner's Suggestion on Improvement:

Candidates are advised to get familiar with the regulatory provisions and development in the market. They also need to pay more attention to their coursebook and thoroughly read and understand all the chapters. Lastly, since the course is application of reinsurance, it is important the candidates take the practical aspect of the course serious.

A825

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. What are equalization provisions? Name any three (3) classes of insurance business to which they apply?

Solution

Equalization provisions are special claims provisions which are made in addition to any normal provisions for known claims, including allowances for claims incurred but not reported.

The provisions apply to the following classes of insurance businesses:

- property damage and corresponding proportional treaty reinsurance business.
- consequential loss and corresponding facultative and proportional treaty reinsurance business.
- marine and aviation and corresponding treaty reinsurance business
- non-proportional treaty reinsurance in relation to property and consequential loss
- credit insurance
- nuclear risk.

(3 marks for definition and explanation of the provision. 1 mark each for 3 correct classes. Maximum of 3 classes to be graded. Total: 6 marks).

2. Differentiate between "deposit premium" and "minimum and deposit premium".

Solution

A deposit premium is an agreed amount of money to be paid, on account, by the reinsured and which will be subject to adjustment at the end of the contract. If the final adjusted premium is less than the deposit premium, the reinsurer would be obliged to return to the reinsured the difference between the actual premium and the deposit premium paid. Any amount that is greater than the deposit will be payable to reinsurers as an additional premium.

Minimum and Deposit Premium: is an amount of premium that has been agreed to be both the deposit and minimum premium required by the reinsurer. If the adjusted premium results in a figure greater than the minimum and

deposit premium, then additional premium will be due to reinsurer but if the adjusted premium is less than the minimum and deposit (M&DP), the reinsured will not be entitled to any return of premium.

(3 marks each; 6 marks in all)

3. Enumerate four (4) circumstances where facultative reinsurance arrangement may be used by a direct office.

Solution

Facultative reinsurance might be used:

- when the risk falls outside the treaty scope
- if the sum insured exceeds the treaty limit
- for hazardous risk i.e. if the risk may be of such a nature that the reinsured may not want to cede to treaty.
- For special risks i.e. if the insurer writes a specialist class of business
- where a large industrial risk is reinsured on a layered basis with a large deductible retained by the insured.

($1\frac{1}{2}$ marks each for 4 correct uses, 6 marks in all)

4. List four (4) types of information that the reinsured assemble in order to assess its reinsurance needs?

Solution

The types of information usually consist of the following

* Portfolio analysis

* Territorial scope

* Limitations of acceptance

* Risk profiles

* Premium income

* Acquisition costs

* Claim experience

(1½ marks each for each correct type of information. Maximum of 4 to be graded. Total: 6 marks in all)

- 5. Explain briefly what is meant by the following clauses:
 - (a) "follow the fortune" clause
 - (b) "claim control" clause and
 - (c) "claim cooperation" clause

Solution

- (a) **Follow the fortune:** means that the claims follow the underlying settlement provided it was done in a proper and businesslike fashion and falls within the terms and conditions of the reinsurance contracts
- (b) **Claims control clause**: means that the reinsurer would assist the original insurer as to the next steps (for example, appoint a surveyor or any other experts that may be required. The reinsurer would, in effect step into the original underwriter's position and handle the case.

(c) **Claims cooperation clause:** means that the original insurer agrees to involve the reinsurer in the handling of a claim but all decisions are ultimately made by the original insurer.

(2 marks for each correct explanation. Total: 6 marks)

6. How does the claims department contribute to the claims data gathering process?

Solution

The claims department assembles claims data for facultative and per risks treaties, using this data in analysing results by type of class/risk.

(2 marks each for the bolded points. 6 marks in all)

7. What factors should a reinsured consider in changing reinsurance brokers? What disadvantage might there be for a reinsured changing brokers?

Solution

The reinsured must carefully **consider whether the price differential is worth the time and cost involved** when changing reinsurers especially when the reinsured has already established a healthy credit balance with its existing reinsurers as a result of several years of good experience (3 Marks). The disadvantage that might be there for a reinsured changing brokers are that **it may lead to the risk of loss of loyalty, stability and security.** (3 Marks) (6 marks in all)

8. How might changes in the price of reinsurance affect an insurer's retention decisions?

Solution

Changes in the price of reinsurance might affect an insurer's retention decisions if the cost of reinsurance is high i.e. in a hard market, an insurer's retentions are, in general increased. In a soft market, when cost of reinsurance is lower, an insurer will usually retain less.

(2 marks for each of the bolded points, 6 marks in all)

Part II Compulsory Question. This question carries 50 marks.

- 9(a) There are some permissible items that can be combined to make up the share capital policy of insurance and reinsurance companies in order for those companies to be adjudged by NAICOM to have met up with the minimum regulatory capital requirement. List any four (4) of these items. (10 marks)
- (b) What is "profit commission? and what type of reinsurance arrangement is it usually applicable to? (4 marks)

- (c) List the items usually found in a typical profit commission statement of a programme arranged on underwriting year basis. (6 marks)
- (d) OriyomiMobo Insurance Company Plc has a marine cargo surplus treaty reinsurance arrangement that cover its marine cargo insurance portfolio. The programme is arranged on underwriting year basis.

The following are extracted from the treaty programme

❖ Period of Reinsurance: 01/01/2018 to 31/12/2018

❖ Ceding commission @ 32.5%❖ Profit commission @ 35%

Losses carried forward till extinction

❖ Management expenses @ 7.5%

Reinsurance Security:

❖ Green Reinsurance plc @ 40%

❖ Blue Reinsurance Corporation @ 35%

❖ Red Reinsurance Limited @ 25%

The quarterly renditions are as stated below:

	Premium Ceded	Claims Paid/Recovered from Reinsurers (₩)
Q1	56,460,062	NIL
Q2	48,828,974	1,117,397.79
Q3	97,076,769	1,238,018.00
Q4	103,395,773	13,962,728.70

Information:

Treaty share of Outstanding loss as at 31/12/2018:	N 23,132,840.00
Treaty share of Outstanding loss as at 31/12/2017:	₩ 2,217,208.00
Estimated Gross Premium Income for 2018:	₩350, 000,000.00

Required:

- i. Prepare the Marine cargo surplus profit commission statement for 2018 underwriting year and determine the profit/loss on the account. (24 marks)
- ii. Apportion the profit commission (if any) among the participating reinsurers showing clearly your workings. (6 marks)

Solution

- a) The combination of share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020 could be from the following:
 - existing paid up share capital
 - cash payment for new shares issued
 - retained earnings
 - payment for new shares issued such as
 - o properties
 - o treasury bills
 - o shares
 - o bonds
 - share premium

(2½ marks for each correctly stated requirement. Maximum of 4 to be graded. Total: 10 marks)

b) **Profit Commission:** is the reward given to the reinsured by the reinsurer(s) for providing profitable business. It amounts to sharing of profits of a particular treaty. It is Payable in addition to commission. It is applicable to Proportional treaties and rarely seen on Non-Proportional Treaties or Facultative business.

(4 Marks)

- c) Items found in a typical profit commission statement of programmes arranged on underwriting year basis includes:
 - Items of Income: i.e. premium ceded to reinsurers (1st 4th Quarter) of the year in question. (1 Mark)
 - Items of Outgo: i.e.
 - Commission paid by the reinsurers.

(1 Mark)

o Management expenses.

(1 Mark)

o interest on person

(1 Mark)

Claims paid by the reinsurers (offset and cash call).
 Outstanding loss as at 31st December for the underwriting year in

question.

(1 Mark)

o Deficit (if any) from previous underwriting year.

(1 Mark)

(Total: 6 marks)

d) i)

	Profit Commission Statement	1 Mark

COMPANY:	Oriyomi Mobo Insurance Company Limited	1 Mark
TREATY CLASSS	Marine Cargo Surplus - U/Year 2018	1 Mark
PERIOD	31-Dec-18	1 Mark
	2018	
Income		
Premium	305,761,579	1 Mark
Total Income	305,761,579	1 Mark
Outgo		
Reinsurance Commission @32.5% of N305,761,579	99,372,513	2Mark
Losses Paid	16,318,144	2 Mark
Outstanding Losses	23,132,840	2 Mark
Management Expenses@ 7.5% of N305,761,579	22,932,118	2 Mark
Total Outgo	161,755,616	2 Mark
PROFIT/LOSS= TOTAL INCOME - TOTAL OUTGO = N305,761,579 - N161,755,616.00	144,005,963	2 Mark
Profit Commission as at 31.12.2018 @35%	50,402,087.19	6Marks
	(Total Marks: 24 marks)	

PROFIT COMMISSION APPORTIONMENT	AMOUNT DUE FROM		
• Green Reinsurance Plc @ 40% of N50,402,087.19 = N20,160,834.88	20,160,834.88	2 Marks	
• Blue Reinsurance Corporation @ 35% OF N50,402,087.19 = N17,640,730.52	17,640,730.52	2 Marks	
		2 Marks	
• Red Reinsurance Limited @ 25% OF N50,402,087.19 = N12,600,521.80	12,600,521.80	2 Marks	
Total Profit Commission due from reinsurers	50,402,087.19		
Grand Sub-Total: 6 marks			

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 11(a) There are various reasons why insurance companies have claims reserve. State any five (5) of such reasons. (25 marks)
- (b) Name and explain any two (2) main types of claims reserves. (9 marks) **Solution**
- a) The reasons for claims reserves include:
 - claims reserves are entered in the annual accounts. This means they are reported to the shareholders and, have a direct effect on the profit or loss of the company.
 - claims reserves serve in estimating the results in the current year. This gives clear indication of the profit or loss of any one account or particular area generated for the company.
 - claims reserves are required in order to determine correct premium rates. By looking at the development of the claims reserves over time, underwriters can assess whether they are charging sufficient premium in order to cover the expected losses on an account.
 - claims reserves provide a signal to the underwriting department should rehabilitation measure be required. This could mean timely adjustment of

- the premium for ongoing business or even termination of the policy, or it could mean excluding some classes of business from reinsurance treaty because they are causing the most losses.
- claims reserves affect the experience of the reinsurance treaties. The more premium that has to be maintained for loss reserves, the less is available for investment income.
- claims reserves may have serious fiscal consequences should they be falsely estimated or established at the wrong level.
 (5 marks for each correctly stated reason. Maximum of 5 to be graded. Sub-Total: 25 marks)
- b) The main types of claims reserves are:
 - **Individual Case Reserve** for indemnity and expenses on a particular case. This is usual for excess of loss contracts and sometimes, for proportional reinsurance in large loss situation. This type of reserve occurs on accounts with large occasional losses for example, property excess of loss contracts.
 - **Bulk Reserves:** this may be maintained on an individual treaties or whole accounts. These will be assessed on the basis of the development of the claims on these accounts over time. With bulk reserving, some considerations must be taken in identifying the large claims that impact on the account for the reinsurer's own reinsurance programme.
 - Incurred but not reported (IBNR) claims reserves: this amount is an additional reserve to the existing claims reserve. It is added to compensate when claims have not yet been reported to the insurer or reported to the insurer and not yet passed on to the reinsurer, either because they are currently below the deductible or the insurer has denied liability.
 - Incurred but not enough reported (IBNER) claims reserves: are claims reserves on the claims where the insurer may not have placed sufficient value on the claim that they have reported. For example, they may not have included their own legal fees when assessing the reserve, which may have significant impact on a loss.

(2 marks for each correctly stated type. 2½ marks for every complete and correct explanation stated. Maximum of one explanation per type. Maximum of 2 types to be graded. Sub-Total per type: 4½ marks. Grand Sub-Total: 9 marks)

(Grand Total: 34 marks)

12(a) Enumerate items that are included as "income" in a typical profit commission statement of treaty arranged on clean cut basis. (10 marks)

- (b)i) List the three (3) factors rating agency uses to assess a company's claim paying ability and itemize those areas to be considered under each of these factors. (6 marks)
- ii) Explain three (3) elements under each of these factors. (18 marks) Solution
- (a) Items of "income" in a typical profit commission statement of treaty arranged on clean cut basis include:
 - Premiums included in the account for the reference year (3½ marks)
 - + unearned premium reserve at the end of the preceding year (3½ marks)
 - + outstanding loss reserve at the end of the preceding year (3 marks) (Sub-Total: 10 marks)
- (b) The three (3) factors, and their elements, that rating agency uses to assess a company's claim paying ability are:
 - assessment of the company's financial strength:
 - amount of capital and the company's ability to access capital
 - o quality and effectiveness of its reinsurance programme
 - adequacy of technical reserves
 - o quality and spread of investments
 - o liquidity
 - assessment of its' operating performance
 - profitability
 - o sources of business, nature of premiums and investment income
 - o all aspects of its management experience and associated objectives
 - assessment of its' market profile
 - risks associated with the classes and territories in which the business is written
 - o competitive market research
 - o general and financial management
 - o underwriting and claims management
 - exposure to event risks

(2 marks for each correctly stated factor. 2 marks for each correctly stated elements under each factor. Maximum of 3 elements to be graded under each factor. Sub-Total: 8 marks per factor. Grand Sub-Total: 24 marks)

(Grand Total: 34 marks)

- 13(a) What is Alternative Dispute Resolution (ADR). (4 marks)
- (b) Discuss any six (6) main forms of Alternative Dispute Resolution (ADR).

 (18 marks)

- (c) State the four (4) occasions when the ADR is not appropriate (12 marks) **Solution**
- (a) Alternative Dispute Resolution differs from formal dispute resolution procedures in that there is no judge or arbitrator. The parties arrive at a solution or accommodation which may not always reflect the true legal standings of the parties, but will be a solution that all parties can accept. ADR proceedings have the status of 'without prejudice' settlement discussions which will not be held binding until all parties agree. (4 Marks)
- (b) The various forms of ACR we have include:
 - Negotiation: this involves solving problems by direct negotiation. This is
 the commonest way of resolving problems. It is only if negotiation breaks
 down that a problem becomes a dispute and some other means of reaching
 a settlement is required.
 - **Mediation:** The parties select an independent third party who will assist them in arriving at a solution. The mediator will discuss the problem with both parties in open session; and privately with each in so called caucus session, and in shuttle diplomacy.
 - **Conciliation:** This is described as a process like mediation but in which the actual conciliator will produce a recommended solution if the parties do not themselves form one.
 - Expert evaluation/early neutral evaluation: the parties agree to appoint a mutually acceptable expert in the field of the dispute and to abide by the expert's opinion. Loss adjusters have recently developed an expertise in such a role. Early neutral evaluation is where the facts are put before a neutral party, generally a retired judge or Senior Advocate who reviews the issues and renders a determination.
 - Mini-trial or executive hearing: here presentations are made to a panel of senior executives of the disputing parties, chaired by a neutral third person. This panel will arrive at a conclusion as to how settlement should be effected.
 - **Mediation/arbitration:** This is an American term to describe contractual conciliation, but in which the process is enforced by authorizing the mediator/conciliator ultimately to make an arbitration award (which would then be enforceable in the courts).

(2 marks for each correctly stated form. 1 mark for each correctly stated explanation under each form. Maximum of 1 explanation to be graded under each form. Sub-Total: 3 marks per form.

Grand Sub-Total: 18 marks)

- (c) The four (4) occasions when ADR is not appropriate are:
 - where an issue of principle is involved which necessitates a public and binding precedents
 - where a case turns solely on legal issues, or where credibility of one of the parties or witnesses plays a key role
 - where emergency injunctive relief is needed
 - where there is infact no genuine wish to settle.

(3 marks for correctly stated occasion. Total: 12 marks)
(Grand Total: 34 marks)

- 14(a) Non-proportional treaty data may be broken down into two distinct, but inter-related parts, namely premium and claims items. Highlight and discuss any four (4) of the premium items. (16 marks)
- (b) State three (3) advantages and three (3) disadvantages of combining several classes of liability business in one treaty. (18 marks)

Solution

- (a) Premium items in non-proportional treaty include:
 - Minimum premium
 - Deposit premium
 - **Premium rate:** where the contract is adjustable, the contract premium rate will be a percentage of the reinsured's applicable protected premium income or a burning cost rate which is calculated based on loss experience under the treaty and is normally subject to minimum and maximum percentage.
 - **Reinsurance brokerage:** this is the percentage of the gross reinsurance premium and is commonly in the range of 5 to 15%. It is usually 10% in Nigeria market.
 - Instalment dates for the payment of deposit premium
 - **Terms of trade dates:** reinsurers usually allow the reinsured an amount of time to pay the installment of premium, being terms of trade.
 - **Premium payments dates:** the reinsurer should record the date when each premium instalments is actually received.
 - Reinstatement premium basis and the number of reinstatements: the basis of calculating the reinstatement premium should be recorded

including the percentage of the original premium payable for each reinstatements and whether it will be proportionate to the limit reinstated. (2 Marks for each correctly stated item. 2 marks for any correct explanation under each item. Sub-Total per item: 4 marks. Maximum of 4 items to be graded. Total: 16 marks)

b) The advantages of combining several classes of liability business in one treaty include:

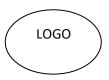
- in many cases, the reinsurance requirements are similar across the classes, thus one treaty for all classes seems sensible.
- ease of administration; calculation and payments of instalments, adjustments etc.
- it allows small companies in particular to include within their main treaty, classes too small to warrant separate reinsurance treaties.
- the insurer maintains flexibility by purchasing different limits under excess of loss treaties for different classes.

(3 marks for each correct advantage. Maximum of 3 advantages to be graded.

Total: 9 marks)

The disadvantages of combining several classes of liability business in one treaty include:

- the insurer is unable to split reinsurance costs accurately between departments.
- a common retention level applies to all classes for excess of loss cover. this can be less appealing for an insurer if its combined account is dominated by motor business. the motor account would be able to sustain high reinsurance retention amount compared to other classes.
- it is more difficult for the reinsurer to exercise underwriting judgment since the results of different classes are obscured.
- different classes of business may end up subsidising one another.
 (3 marks for each correct disadvantage. Maximum of 3 disadvantages to be graded. Total: 9 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A930

INSURANCE BROKING

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A930 - INSURANCE BROKING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 66.67%

Highest Score: 64%

Lowest Score: 27%

Average Score: 51%

Breakdown Updates

Question 1

There was a printer's error in the question as instead of the word "firm", the word "ship" was typed. In this case, the chief examiner used his discretion to grade the question based on correct analysis as provided by the candidates. Over 70% of candidate passed the question based on the word word "ship".

Question 2

The question was well answered by the candidates and about 75% scored good marks in the question.

Question 3

This is a practical question on money laundering and less than 50% of the candidates answered the question correctly.

Question 4

Majority of the candidates did not understand the question and different answers were provided by the candidates. The pass rate was very low - about 25% of the candidates had good marks.

Question 5

This was a direct question on sources of information on business research and over 80% of the candidates answered the question correctly.

Question 6

This question was well answered by the candidates and good marks were earned by the candidates.

Question 7

The question was on the definition of a contract certainty which was poorly answered. Less than 40% of the candidates answered the question correctly.

Question 8

The question was not well answered and observation was that majority at the candidates did not understand the question. The pass rate here was low.

Question 9

Incidentally over 80% of candidates did not know the statutory duties of NAICOM which was the part (a) of the question. However, generally based on the other components of the question, over 60% passed the question.

Ouestion 10

About 50% of the candidates understood the question and performed very well. The pass rate was averagely okay.

Question 11

The question was on broker's security committee and it was poorly attempted by candidates. Less than 30% of candidates who attempted it passed.

Question 12

This was a question on identifying the insurance principles, which is a certificate question but only 50% of candidates attempted the question correctly.

Question 13

The question was well attempt and the pass rate is above average.

Question 14

The question was averagely attempted and the pass rate was okay.

Chief Examiner's Comments on Overall Performance:

The general performance is adequate with over 80% of candidates passing the paper. However, it is sad to note that advanced level candidates could not state insurance principles correctly (question 12).

Chief Examiner's Suggestion on Improvement:

Candidates should ensure to prepare more adequately for the examination by studying deeper and applying themselves to more rigorous understanding of what has been studied.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Mention four (4) features you would expect to find in a large broking slip. **Solution**

The features expected to be found in a large broking slip are:

- a management structure to control branch organisations
- client servicing segmented by both trade groups such as retailers, pharmaceutical companies and insurance classes such as Professional Indemnity, Aviation, Marine, e.t.c.
- head office functions such as human resources, legal, public relations and marketing, IT and so on
- back offices to deal with London marketing processing
- total staff headcounts over ten thousand
- representation in as many countries as possible/practicable
- the ability to offer a wide range of risk assessment facilities
- expertise to provide solution from carries in the fields of alternative risk transfer and capital market.

(11/4 marks for each correctly stated feature. Maximum of 4 to be graded. Total: 6 marks)

2. Enumerate six (6) constituent parts of the marketing environment.

Solution

The constituent parts of the marketing environment are:

- the internal organisation of the company
- competition
- distribution to customers
- the supply chain
- the world and domestic economic climate
- socio cultural factors affecting & influencing customers
- the political climate
- regulation
- consumerism
- other global issuing e.g. threat of terrorism etc.
- issues specific to the insurance sector

(1 mark for each correctly stated part. Maximum of 6 to be graded. Total: 6 marks)

3. What are the three (3) principal offences identified in the money laundering regulations?

Solution

The three (3) principal offences identified in the money laundering regulations are:

- failure to report knowledge or suspicion of drug laundering acquired in the course of a trade or profession
- a tipoff a suspect that a report is being made
- to possess, use or acquire the proceeds of drug trafficking in the knowledge that they are such proceeds

(2 marks for each correctly stated offence. Total: 6 marks)

4. Explain, with three (3) distinct points, the implications of a broker holding money as an agent of an insurer.

Solution

Holding money as an agent of the insurer is commonly referred to as "risk transfer" as the insurer bears the risk of money being lost if the holding firm fails to transfer the held money, which could be premiums, claims money or premiums refunds. This confers benefits to the client since they no longer face the risk of the broker's insolvency.

Where a broking firm is holding money as an agent, the firm must not agree to hold money as agent without a written agency agreement with the insurer stating that:

- claims and refunds of premiums are held as agents of the insurer
- insurer wishes to confer authority on the firm to settle claims and make refunds.

The implications are as explained inline above.

(2 marks for each correctly stated explained point. Maximum of 3 to be graded. Total: 6 marks)

5. List six (6) sources of information on a business when conducting initial research.

Solution

Sources of information on a business when conducting initial research are:

• the internet

- the annual report and accounts
- directories of business
- credit reference agencies
- subscription database
- analysts' reports
- insurers may be willing to provide information
- some brokers use telephone canvassing techniques
- defining what TCF means for their business
- a gap analysis of their capability
- an action plan
- defining accountability
- setting appropriate measures
- implementing the plan

(1 mark for each correctly stated source. Maximum of 6 to be graded. Total: 6 marks)

6. Enumerate six (6) features that a broker should consider when assessing an insurer.

Solution

- 1) The features that a broker should consider when assessing an insurer are:
 - quality of service
 - breadth of coverage
 - flexibility
 - innovation
 - credit facilities
 - capacity
 - geographical spread
 - claims service
 - support and sales literature
 - technical advice and specialist expertise
 - price
 - survey and risk control
 - continuity
 - reputation and experience
 - brokerage
 - financial security

7. What is the market definition of contract certainty? **Solution**

Contract certainty is achieved by the **completion and final agreement of all terms** (including signed down lines) **between the insured and insurers before inception**. (3 marks for each of the bolded phrases. Total: 6 marks)

8. Enumerate three (3) advantages of fee-based remuneration for brokers. **Solution**

The advantages of fee-based remuneration for brokers are:

- fees are much more certain and therefore allow more predictable budgeting and forecasting
- fees are absolute, transparent and are most likely to meet the requirements of FSA
- fees reflect directly he work the broker does for the client
- fees create a framework within which the broker can charge for additional services
- fees align brokers with other professionals such as lawyers, accountants and investment bankers that have always charged fees.

(2 marks for each correctly stated advantage. Maximum of 3 to be graded. Total: 6 marks)

Part II Compulsory Question. This question carries 50 marks.

- 9(a) Enumerate any eight (8) statutory functions of the National Insurance Commission as established by NAICOM Act 1997. (10 marks)
- (b) Enumerate and briefly explain any five (5) constituent parts of the marketing environment. (25 marks)
- (c) Concisely explain the term "white labelling". (10 marks)
- (d) What do you understand by "nominated loss adjuster clause" in an insurance policy? (5 marks)

Solution

- a) The statutory functions of the National Insurance Commission as established by NAICOM Act 1997 are:
 - establish standards for the conduct of insurance business in Nigeria
 - approve rates of premium to be paid in respect of all classes of insurance business
 - approve rates of commission to be paid in respect of all classes of insurance business
 - ensure adequate protection of strategic government assets and other properties
 - regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria
 - act as adviser to the Federal Government on all insurance related matters
 - approve standards, conditions and warranties applicable to all classes of insurance business
 - protect insurance policyholders, beneficiaries and third parties to insurance contracts
 - publish, for sale and distribution to the public, annual reports and statistics of insurance industry
 - liaise with and advice Federal Ministries, parastatals, statutory bodies and other government agencies on all matters relating to insurance contained in any technical agreements to which the country is a signatory to
 - contribute to educational programmes of the Chartered Institute of Nigeria and the West African Insurance Institute
 - carry out other activities connected or included to its other functions. (1½ marks for each correctly stated function. Maximum of 8 to be graded. Sub-Total: 10 marks)

b) The constituent parts of the marketing environment are:

- the internal organisation of the company
- competition
- distribution of customers
- the supply chain
- the world and domestic economic climate
- socio-cultural factors affecting and influencing customers
- the political climate

- regulation
- consumerism
- other global issues such as the threat of terrorism
- issues specific to the insurance sector.

 (Candidates are required to enumerate them (3 marks each) and briefly explain the terms
 (2 marks for each good and correct explanation). Sub-Total per enumerated part: 5 marks.

 Maximum of 5 to be graded. Sub-Total: 25 marks)
- (c) White labelling describes those circumstances where an insurance product may be designed and negotiated by a broker working with an insurer but is branded or badged with another name, normally that of a retailer or other distributor of an insurance product. At the moment, this type of activity is largely confirmed to products aimed at retail customers such as extended warranty for domestic appliances or pet insurance. An example from the commercial sphere might include breakdown cover for leased property(ies).

(5 marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Total: 10 marks)

c) The "nominated loss adjuster clause" is a clause in the policy that empowers the broker to appoint a loss adjuster while arranging the cover for the risk.

(5 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a) Prior to the new normal after COVID-19, there existed various intermediaries traditionally involved in placing insurance business. List four (4) of those intermediaries. (4 marks)
 - (b) Enumerate and briefly explain six (6) roles of the Broker in risk management of any prospect/client. (30 marks)

Solution

- (a) Prior to the new normal after COVID-19, the various intermediaries traditionally involved in placing insurance business are:
 - full time insurance brokers, agents and consultants and others

- part time agents, consultants and others
- travel agents, airlines and tour operators
- property companies, landlords and managing agents
- professionals, such as solicitors and surveyors
- retailers and motor traders
- banks, building societies and other financial institutions
- newspapers and magazines. (1 mark for each correctly stated intermediary. Maximum of 4 to be graded. Sub-Total: 4 marks).
- (b) The roles of the Broker in risk management of any prospect/client are:
 - risk identification survey and subsequent discussions
 - property loss prevention and control
 - business interruption analysis
 - product liability hazard analysis
 - employee safety
 - fire engineering design and consultancy
 - loss analysis and projection
 - assessment of maximum possible and probable loss values
 - self-insured fund and captive management
 - contingency planning, programme design
 - programme monitoring
 - crisis management
 - post-loss surveys
 - innovative risk-transfer programme design.

(Candidates are required to enumerate them (3 marks each) and briefly explain the terms (2 marks for each good and correct explanation). Sub-Total per enumerated part: 5 marks.

Maximum of 6 to be graded. Sub-Total: 30 marks)

- 11(a) Explain what you understand by brokers' security committees. (4 marks)
 - (b) Briefly describe three (3) of the challenges faced by brokers' security committees. (15 marks)
 - (c) What are the critical issues that arise when an insurer is removed from the classification list? (15 marks)

Solution

a) Brokers' Security Committees are committees that generally comprise of permanent staff who have the necessary experience and qualifications in the analysis of insurers' accounts, and in particular the techniques that may be used to improve the look of their numbers. Practitioners from the business who are involved in both placing and claims will join them. They will also be supported by other functions, such as the legal team. Some firms have an executive committee that makes policy decisions and meets less frequently. An operational committee supports this and will deal with the majority of 'routine' decisions.

(4 marks)

- b) The challenges faced by brokers' security committees are:
 - undue commercial pressure from within the broking firm to admit particular insurers to the classification list.
 - whilst the committee has to be aware of commercial considerations, it has to balance this with the longevity of the insurer.
 - These committees also have to rely on the integrity of the information obtained both publicly and in confidence, and there is little they can do when they receive information that is deliberately falsified.
 - logistical and resource challenges in obtaining and managing quality, upto-date information.
 - There is also the concern that an adverse decision by a security committee might cause an insurer to get into trouble, or get deeper into trouble than might otherwise have been the case had no action been taken.
 - There are cultural differences in attitudes between different countries. In a large and complex firm there will be different behaviour around the world.

(5 marks for any correctly stated challenge. Maximum of 3 challenges to be graded. Sub-Total: 15 marks)

- c) The critical issues that arise when an insurer is removed from the classification list are:
 - the insured faces great uncertainty and will look to the broker for advice on whether it should continue until expiry, cancel and arrange alternative cover or contingent insurance.
 - the broker will be reluctant to give explicit advice as they will wish to avoid any suggestion that the claims are being guaranteed.
 - the above can lead to accusations that when the Committee is most needed to give advice, it cannot for fear of exposing the broker to liability for future claims.

(7½ marks for any correctly stated issues. Maximum of 2 issues to be graded. Sub-Total: 15 marks) (Grand Total: 34 marks)

- 12(a) i) How many insurance principles do we have? (1 mark)
 - ii) List all the insurance principles. (6 marks)
 - iii) Discuss three (3) of these principles. (15 marks)
 - (b) Enumerate six (6) fundamental duties of a broker when placing a risk.
 (12 marks)

Solution

a) i) There are six (6) insurance principles.

(1 mark)

- ii) The principles are:
 - * Insurable interest * Utmost Good Faith * Indemnity

 * Proximate Cause * Contribution * Subrogation
 (1 mark for each correctly stated principle. Sub-Total: 6 marks)
- iii) (Candidates are required to discuss any three. 2½ marks for each correct and complete point. Maximum of two (2) points per principle. Sub-Total per Principle: 4 marks. Grand Sub-Total: 15 marks)
- b) The fundamental duties of a Broker when placing a risk are:
 - where necessary, obtaining a completed proposal form
 - obtaining and presenting claims expenses
 - obtaining other information
 - surveys
 - presenting information to insurers
 - analysing the merits of different terms

- presenting and explaining terms to the client
- instructions to the insurer
- cover notes and policy documentation, invoicing and credit terms.
 (2 marks for each correctly enumerated duty. Maximum of 6 to be graded. Sub-Total: 12 marks)
 (Grand Total: 34 marks)
- 13(a) What do you understand by the phrase "prospect generation"? (4 marks)
 - (b) Enumerate and briefly discuss six (6) methods of prospect generation.

 (30 marks)

Solution

- a) **Prospect generation** is the art of using a well organised, disciplined technique, deployed simply at achieving exceptional results with targeted groups and eventually converting them to clients with the aim of having repeat sales; and referrals, from them. (4 marks)
- b) The following are methods of prospect generation:
 - **Networking:** personal introductions are a potent source of new business. Brokers as a group tend to be sociable and gregarious individuals who are able to mix well and this generate contacts with prospective clients. Some brokers also employ door-openers who may be either full-time employees or working on retainers or commission.
 - **Referrals:** from existing clients are very valuable. Broking is about service and relationships. A genuine recommendation will generate a "warm" as opposed to a "cold" prospect. Equally effective is the maintenance of good relationships with existing clients who change jobs. Often they will move to new firms with the specific task of making changes and this needs to be harnessed in the broker's favour.
 - **Following Individuals**: although this technique is important, it has a great disadvantage of suffering from the weakness of unpredictability and inconsistency. In order to generate a good flow of new business prospects, a broker has to adopt a more active approach rather than simply following individuals up for enlarged businesses.

- Mail-Shots: this is now more frequently used, by sending out marketing
 emails to prospective clients, to reach the younger generations who are
 more electronic in outlook. The major challenge with this method is
 ensuring the mails are sent to the right recipients and ensuring that they
 are read by the intended recipient.
- Cold Calling: is normally done over the phone, as it has been realised that simply "knocking on doors" is inadequate as a means of selling commercial insurances. A decision-maker will be much more likely to accept a phone call rather than an unexpected visit. Many brokers now employ specialist companies to make the first contact for a finder's fee. Then, the broker will make a visit to establish the specific requirements for the risk.
- Cross-Directorships: are another avenue which can yield success but which also have to be handled carefully, a broker has to be sure of both their relationship with the director of an existing client and also that director's position on another business entity's board. It also requires some basic research work to be done to make it effective.
- Advertising: is likely to have limited application for most brokers beyond the use of relatively low-cost media such as trade-specific publications, newspapers and directories such as yellow pages, TV advertising, apart from the expense, as generally an insurable medium for the message that a broker wishes to get across. The same would generally an unsuitable medium for the message that a broker wishes to get across. The same would generally be true of national newspapers although consideration can be given to specialist supplements. Larger brokers nay of course use TV and the national press plus magazines with high business readership as the basis for "image bulding" campaigns. Even these firms have to think hard about the cost benefits.
- **Seminars/Conferences:** are generally a medium-cost method provided they offer a good proportion of delegates that are buyers as opposed to competitors and other service providers.

• **Market Research:** Use specialist contractors to conduct detailed research in prospective clients' attitudes to risk and insurance.

(3 marks for each correctly stated method. 2 marks for a complete and correct explanation of the method. Sub-Total per method: 5 marks. Maximum of 6 methods to be graded. Grand Sub-Total: 30 marks)

(Grand Total: 34 marks)

14(a) How are smaller firms generally organized?

(10 marks)

(b) Concisely enumerate six (6) factors that affect the operations of brokers.

(24 marks)

Solution

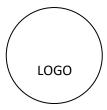
a) Smaller firms are generally organized as explained below: in such firms, which constitute the numerical majority of brokers in the country of practice, a formal management structure is unnecessary (5 marks). The principals will devote all their energies to the production of business and client relations, delegating administration to an office manager or managers who will control the remaining staff members (5 marks).

(Grand Sub-Total: 10 marks)

- b) The factors that affect the operations of brokers are:
 - market cycles cause volatility of income and upset clients
 - the challenges presented by new regulation
 - clients and competition exert pressure on fee income
 - expenses have a habit of growing faster than revenue
 - in practical terms, the western economies particularly the co-called "anglo-saxon" economies are over-supplied with both insurance capacity and brokers resulting in premium volatility and intense competition for business and staff
 - competition from new sources such as banks, internet-only insurers, supermarkets, utilities, mainly in the expected markets of personal lines, such as private motor but non encroaching on smaller commercial business
 - greater risk retention by larger clients
 - fees that are often lower than the brokerage that would have been paid.

 (4 marks for each complete and correctly stated factor. Grand Sub-Total: 24 marks)

 (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A935

MANAGEMENT

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A935 - MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 47.25%

Highest Score: 77%

Lowest Score: 26%

Average Score: 50%

Breakdown Updates

69% pass rate. The question was fairly attempted.

Question 2

56% pass rate. Fair attempt. A better preparation will improve performance.

Question 3

94% pass rate. Marketing mix is a popular question among candidates.

Question 4

88% pass rate. Straightforward and well attempted.

Question 5

100% pass rate. Candidates were well familiar with sources of raising fund in organisation.

Question 6

100% pass rate. Good attempt by the candidates.

Question 7

13% pass rate. Candidates not familiar with intellectual abilities of a leader as traits.

Question 8

31% pass rate. Difficult for candidates to separate hygiene facts from instruction factors of Herzberg.

Question 9

19% pass rate. The B part on Job Analysis was poorly attempted generally. The question is technical but direct to understand if candidates study harder.

Question 10

81% of candidate's attempted question. Pass rate is 31%. The (b) part on call centres was poorly attempted. In other parts, residual knowledge was applied instead of the technical.

Question 11

69% of candidates attempted the question. 36% pass rate. Part (a) of the question is technical but candidates got it wrong. Probably for lack of in-depth study.

Question 12

44% of candidates attempted the question. Pass rate is 29%. Those who attempted the question did not attempt the part (a).

Question 13

50% of candidates attempted the question. Pass rate is 0%. The question is supposed to be friendly enough but unfortunately no candidate provided the correct answer.

Question 14

56% of candidates attempted the question. Pass rate is 67% which is a good attempt. Candidates appeared familiar with the question on strategy.

Chief Examiner's Comments on Overall Performance:

Overall pass rate is 47%. With highest score as high as 77%, questions appeared fair enough for more serious candidates.

Chief Examiner's Suggestion on Improvement:

Candidates need to study harder.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. State the three (3) components of a business.

Solution

The three components of a business are:

- Material resources
- Financial resources
- Human resources

(2 marks for each correctly stated component. Total: 6 marks)

2. State any three (3) areas of "Government Interest" as a stakeholder in a business.

Solution

The areas of "Government Interest" as a stakeholder in a business are:

- tax revenue
- openness
- new job creation
- introduction and adoption to new technologies
- compliance to laws.

(2 marks for each correctly stated area. Maximum of 3 to be graded. Total: 6 marks)

3. Enumerate the six (6) elements in the concept of marketing mix.

Solution

The six (6) elements in the concept of marketing mix are: Product; Place; Price; People; Promotion and Process.

(1 mark for each correctly stated element. Total: 6 marks)

4. State the three (3) levels of information within an organisation.

Solution

The three (3) levels of information within an organisation are:

- strategic
- tactical and
- operational.

(2 marks for each correctly stated style/feature. Total: 6 marks)

5. State any three (3) sources of raising funds for an organisation.

Solution

The sources of raising funds for an organisation are:

- share capital
- bank loans
- internal funding and
- government funding.
 (2 marks for each correctly stated source. Maximum of 3 to be graded. Total: 6 marks)
- 6. Enumerate any six (6) groups of people interested in the financial information of an organisation.

Solution

The groups of people interested in the financial information of an organisation are:

- directors and managers
- employees
- general public
- tax authorities
- financial analysts
- regulators
- competitors
- competitors' shareholders
- creditors
- lenders

(1 mark for each correctly stated group. Maximum of 6 to be graded. Total: 6 marks)

7. State three (3) of the intellectual abilities of a leader under leadership traits.

Solution

The intellectual abilities of a leader under leadership traits are:

- logical thinking
- linguistic ability
- intelligence
- abstract reasoning
- judgement.

(2 marks for each correctly stated group. Maximum of 3 to be graded. Total: 6 marks)

8. Give any three (3) of the five (5) examples of Herzberg's hygiene factors.

Solution

The five (5) examples of Herzberg's hygiene factors are:

- company policy and administration
- supervision
- salary
- relationships
- working conditions.
 (2 marks for each correctly stated example. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) In the Nigeria Insurance Market, there are organisations/trade associations which are involved in promoting ethical standards and professionalism. List any four (4) of these organisations. (10 marks)
- (b) Enumerate any five (5) basic information required under "job analysis" with at least two examples on each of the information. (20 marks)
- (c) "Person Specification" identifies the attributes of the person to be looked for at the interview. State five (5) of the attributes. (10 marks)
- (d) Manpower planning is often confused with succession planning. State, by way of definition, the difference(s). (10 marks)

Solution

- a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:
 - Nigerian Insurers Association (NIA)
 - Nigerian Council of Registered Insurance Brokers (NCRIB)
 - Institute of Loss Adjusters of Nigeria (ILAN)
 - National Insurance Commission (NAICOM)
 - Chartered Insurance Institute of Nigeria (CIIN)
 - Professional Reinsurance Association of Nigeria (PRAN)
 - Association of Registered Insurance Agents of Nigeria (ARIAN)

(2½ marks for each correctly stated organisation/association. Maximum of 4 to be graded. Total: 10 marks)

- b) The basic information required under "job analysis" are:
 - the skills needed for the job e.g. ability to manage a team, good communication skills, knowledge of the use of computer, team work, e.t.c.

- the knowledge requirements of the job e.g. customer service experience, office management experience, people management experience, e.t.c.
- the competencies required for the job e.g. planning and organisation, leadership, developing others, problem solving, change management, e.t.c.
- attributes of the successful candidates e.g. positive, confident, tactful, polite, assertive, e.t.c.
- requirements for retaining information e.g. customer information, office processes, product knowledge, IT passwords, e.t.c.
- procedures within the job e.g. health and safety, data protection, management reports, performance management and appraisals.
- Task areas within the job e.g. people management, customer management, customer liason, e.t.c.

(3 marks for each correctly stated information. 1 mark for each correctly stated example.

Maximum of 2 examples to be graded. Sub-Total per information = 5 marks. Maximum of 5 information to be graded. Grand Total: 25 marks)

- c) The "Person Specification" attributes to be looked for at the interview are:
 - physical makeup
 - educational attainment
 - business attainment
 - general intelligence
 - special aptitudes e.g. computing skills
 - interests
 - disposition e.g. ability to relate well with others
 - circumstances e.g. flexibility to work overtime.

(3 marks for each correctly stated attribute. Maximum of 5 to be graded. Grand Total: 15 marks)

d) **Manpower planning** is the act that helps to determine the numbers and skills of the people the organisation will need in order to achieve its strategic goals; while **succession planning** is the act that helps to ensure continuity and growth in the management of the business by ensuring that successors for key positions in the future are identified and developed.

(5 marks for each complete and correct definition. Total: 10 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a) Identify four (4) reasons for the rapid growth of telephone business today.

 (12 marks)
 - (b) Call centres are used to handle a range of customer related issues. State and briefly explain any three (3) of the four (4) uses. (15 marks)
 - (c) There are two (2) types of customers: external and internal customers. Define each type and state the correlation of the service delivery by the organisation between the two. (7 marks)

Solution

- a) The reasons for the rapid growth of telephone business today are:
 - people now have less time
 - consumers have found it easier
 - consumers have found it quicker
 - consumers have found it referable
 - consumer expectations have grown, they now want quick service and are less tolerant to slow service
 - companies have found it a cost effective way of doing business.

 (3 marks for each correctly stated reason. Maximum of 4 to be graded. Total: 12 marks)
- b) The four (4) uses of call centres are:
 - telesales: whereby sales agents will fulfil sales roles over the telephone
 - **telemarketing:** whereby customers are made aware if the firm's products and services
 - customer support: whereby callers can contact for help on technical or service issues
 - **automated services:** whereby customers can start and complete a transaction like transferring money or checking balances or resolving common challenges.

(3 marks for correctly stated use. 2 marks for correct explanation. Sub-Total: 5 marks.

Maximum of 3 uses to be graded. Grand Total: 15 marks)

c) External Customers are those who are not on the company's payroll. They generate income for the business and must be given top priority at all times. Internal customers are this people who work for the organisation.

The correlation on service delivery by the organisation is that if suppliers of internal services do not serve their internal customers well, the chances are that the external customers will not be served well either.

(2 marks for each correct definition. 3 marks for the correctly stated correlation. Total: 7 marks)
(Grand Total: 34 marks)

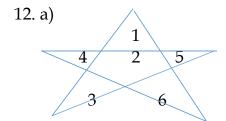
- 11. a) There are some common mistakes made in the interview decision-making process popularly referred to as "effects". State and briefly explain any five (5) of these "effects". (20 marks)
- (b) Enumerate three (3) reasons internal promotion is considered the cheapest and safest source of recruitment. (6 marks)
- (c) Identify any four (4) key steps in succession planning. (8 marks) **Solution**
- a) Some common mistakes, popularly referred to as "effects", made in the interview decision-making process are:
 - **primary effect:** putting too much emphasis on the information gained in the first few minutes of the interview.
 - **expectancy effect:** forming an expectation of a candidate from prior information e.f. application form.
 - **confirmation seeking bias effect:** asking questions to confirm initial biases or impressions
 - halo/horns effects: rating candidates either in a consistently positive or negative light
 - **contrast effect:** decisions affected by previous candidates seen and decisions already reached
 - **personal liking bias effect:** selecting candidates because the interviewer likes them
 - clone effect: preferring candidates who are similar to the interviewer.

 (2 marks for each correctly stated effect. 2 marks for each correct and complete explanation.

 Sub-Total per effect: 4 marks. Maximum of 5 to be graded. Grand Total: 20 marks)
- b) Reasons why internal promotion is considered the cheapest and safest source of recruitment are:
 - there is less need for orientation and training when an existing staff member is recruited
 - there is a pre-existing familiarity between the recruited staff and other staff members

- there is an internally verifiable track record of achievements
- the high costs of external recruitment agencies are avoided.
 (2 marks for each correctly stated reason. Maximum of 3 to be graded. Total: 6 marks)
- c) Some key steps in succession planning are:
 - identify the key jobs necessary to achieve strategic goals
 - identify the extent to which the jobs will change
 - identify the performance factors critical to success in these jobs e.g. skills, qualification, experience, e.t.c.
 - establish current key players
 - prepare an inventory of the skills and abilities
 - identify a time-scale before current key players will leave the organisation
 - establish a means of identifying current skills of potential successors and their potential to develop new skills.

(2 marks for each correctly identified way. Maximum of 4 to be graded. Total: 8 marks)



Dr. John Adair has suggested a 5-pointed star as a useful framework for effective communication Discuss the six (6) parts of the star. (24 marks)

b) State five (5) barriers to effective communication in an organisation.
(10 marks)

Solution

- a) The framework for effective communication as suggested in the 5-pointed star by Dr. John Adair are:
 - 1 = the communicator: i.e.
 - the personality, appearance, preparation beforehand and fluency are factors that can affect effective communication
 - the perception of the communicator held by those to whom the communication is being done with
 - 2 = the aim of communication: i.e.

- simply to exchange views, to achieve action, to obtain understanding, to bring about change, to attain personal acceptance, to achieve commitment
- the communicator must be clear in their preparation as to the key aim of the communication

• 3 = the receiver's reaction to the message: i.e. this

- may be conditioned by their economic or social circumstances i.e. their job, work group expectations, upbringing, previous experience, religion, e.t.c
- o the communicator, to be effective, will need to be aware of these factors and take them into account in determining their approach.

• 4 = the content or substance:

- if the recipient is insecure, the motive of communication becomes suspicious
- o presentation is important
- it is preferred to present a communication in small easy digestible bits

• **5 = the method:** i.e.

o choosing the right method for the recipient. For example, it could be written or face-to-face, e.t.c.

• 6 = the situation: i.e.

- could be physical, psychological and time factors need to be considered if communication is to be effective
- inappropriate or uncomfortable seating, poor temperature,
 telephone interruptions will all contribute to communication failure.

(2 marks for each correctly stated framework. 2 marks for each correct and complete explanation. Sub-Total per framework: 4 marks. Grand Total: 24 marks)

- b) The barriers to effective communication in an organisation are the challenges of:
 - size
 - natural reserve/fear/lack of confidence
 - lack of knowledge
 - language barrier
 - time
 - training
 - grapevine

- non-recognition of the need to tell
- inability to listen.

(2 marks for each correctly stated challenge. Maximum of 5 to be graded. Total: 10 marks) (Grand Total: 34 marks)

- 13(a) Leading can be a lonely business. Discuss four (4) ways that leaders can help themselves to perform better. (16 marks)
 - (b) Mention three (3) things to be done each in organising a formal business meeting room and in maintaining the momentum of a meeting. (18 marks)

Solution

- a) Leaders can help themselves to perform better by doing the following:
 - **use the boss:** ensure that you sit done together to review your success criteria and how you are doing.
 - encourage frank feedback from others: ask others at all levels from time
 to time how they see you and your performance and how they think you
 could improve.
 - **develop a support network:** get together with other leaders formally or informally to discuss common challenges
 - **monitor stress levels:** realise when stress is having adverse effect and do something about it.

(2 marks for each correctly stated way. 2 marks for each correct and complete explanation. Sub-Total per way: 4 marks. Grand Total: 16 marks)

- b) The things to be done
- i) in organizing a formal business meeting room are:
 - have comfortable upright chairs and a large enough table for people to spread their papers
 - try a square, round or oval table than a long thin rectangular one
 - have two flip chart stands and space all-round the walls to hang flip charts if necessary
 - ensure no disturbances occur during the meeting.
 (3 marks for each correctly stated point. Maximum of 3 to be graded. Total: 9 marks)

and ii) in maintaining the momentum of the meeting are:

- take short breaks at regular intervals as people do not concentrate fully more than about one hour at a stretch. A five-minutes break buys another hour's concentration
- use creativity techniques such as brainstorming if the ideas are drying out
- change the norm that people should sit down during meetings. Stand up and walk around; this can be very stimulating

have cold drinks easily available.

(3 marks for each correctly stated point. Maximum of 3 to be graded. Total: 9 marks)
(Grand Sub-Total: 18 marks)
(Grand Total: 34 marks)

14(a) Define strategic management.

(3 marks)

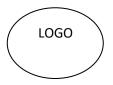
(b) Discuss the five (5) stages of a strategic planning model.

(25 marks)

- (c) Mention any two (2) advantages of the strategic planning model. (6 marks) **Solution**
- a) **Strategic Management** is the formulation and implementation of a general plan for the way the organisation will deploy its competence and resources in order to achieve its overall objectives. (3 marks)
- b) The five (5) stages of a strategic planning model are:
 - Stage I: this is where the analysis of some of the external factors stated below are carried out i.e. social environment, technological environment, economic environment, competition, political environment, legal environment and environmental threat and opportunity profile (ETOP).
 - Stage II: here is the internal analysis of performance measures, finance, organisation structure, human resources, SWOT analysis.
 - **Stage III:** here I the strategy formulation of business roles, mission and vision statements, strategic direction, main objectives, critical success factors, overall plan, general plan for functional units and contingency plans
 - **Stage IV:** here is the organisation and implementation inclusive of the allocation of material and human resources and budgets.
 - **Stage V:** here is the control, monitoring, re-appraisal and evaluation of the whole process.

(2½ marks for each correctly stated point under each correctly identified stage. Maximum of 2 points per stage to be graded. Sub-Total per stage: 5 marks. Grand Total: 25 marks)

- c) The advantages of the strategic planning model are:
 - it provides a structure for formulating goals and objectives
 - it simplifies complex processes
 - it acts as a checklist for the organisation
 - it identifies areas if disagreements.
 (3 marks for each correctly stated advantage. Maximum of 2 to be graded. Total: 6 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A940

FINANCE AND ACCOUNTING

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A940 - FINANCE AND ACCOUNTING

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Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 40%

Highest Score: 62%

Lowest Score: 39%

Average Score: 51%

Breakdown Updates

Question 1

The question tested candidates' knowledge of accounting items on the balance sheet. The question was well attempted by almost all the candidates. Over 90% of the candidates scored above average.

Question 2

This question tested candidates' knowledge of accounting items on profit and loss account. The performance was above average.

Question 3

The question tested the knowledge of the candidates on the heading of financial accounts. While the question was widely attempted, only about 60% scored 100% of the available marks.

Question 4

The question tested candidates' knowledge of group accounts. All the candidates attempted the question. The average pass rate here was 80%.

Question 5

The question tested the candidates' knowledge on how conversant they are with annual financial reports. All the candidates attempted the question. The pass rate was 60%.

Question 6

The question tested candidates' knowledge of income statement or profit and loss account. All the candidates attempted the question but the pass rate was just 20%.

Question 7

The question tested candidates' knowledge of the differences between financial accounting and management accounting. The question was well attempted. The pass rate here was 100%.

Question 8

The question tested candidates' knowledge of relevant and irrelevant costs in management accounting. Most of the candidates attempted the question but the pass rate was just 40%. This indicates that candidates need to study more in this area.

Question 9

The question tested candidates' knowledge of the provisions of CAMA as well as the interpretation of financial accounts and accounting ratios. The question was well attempted but the pass rate was zero.

Question 10

This is the best attempted and the passed question. The attempt rate and pass rate was 100%. The question also tested the candidates' knowledge of the uses of financial statements as well as the test of solvency margin.

Question 11

The question tested candidates' knowledge of the conditions under which the court of law or the regulator could interfere in the operations and the going concern of an insurance company. 80% of the candidates attempted the question but the pass rate was zero.

Question 12

This is a general question requesting candidates to write short notes of certain terms in relation to types of capital. Only one candidate attempted the question and passed making the pass rate 100%.

Question 13

This question tested candidates' knowledge of shares' underwriting and shares' listings. 20% of the candidate's attempted the question and the pass rate was 100%.

Question 14

This question tested candidates' knowledge of the insurance market intermediaries. 80% of the candidates attempted the question and the pass rate was 50%. This is a testing of candidates' knowledge of the industry market.

Chief Examiner's Comments on Overall Performance:

The candidates performance indicated lack of adequate preparation as many of the candidates applied residual knowledge instead of displaying understanding of the concepts tested as most of the questions were poorly answered.

Chief Examiner's Suggestion on Improvement:

Candidates are advised to study harder and ensure that every aspect of the syllabus is covered.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Solu	A debit balance represents and and tion
an	asset, an expense and a loss.
	(2 marks for each correctly stated term. Total: 6 marks)
2.	A credit balance is and and
Solu	tion
a li	ability, an income and a profit.
	(2 marks for each correctly stated term. Total: 6 marks)
3	and together with a variety of explanatory notes
	and notes giving more details are known as the final account.

Solution

..,Profit and Loss Account (Income Statement)... and ...Balance Sheet (Statement of Financial Position) ...

(3 marks for each correctly stated term. Total: 6 marks)

4. All subsidiaries of company are required to be excluded in a consolidation, with certain exemptions. List any three (3) of these exemptions.

Solution

The exemptions are if:

- inclusion is not material for giving a true and fair view
- severe long term registration substantially hinders the parent company's rights over the assets or management of the subsidiary
- necessary information cannot be obtained without disproportionate expense of undue delay
- the interest of the parent company is held exclusively for resale and the subsidiary has not previously been consolidated
- the activity of the subsidiary(ies) is so different from those of the other group undertakings as to make inclusion incompatible with the true and fair view.

(2 marks for each correctly stated exemption. Maximum of 3 to be graded. Total: 6 marks)

5. The Directors' report as appeared in the annual reports and accounts of a company contains some elements or activities. Enumerate any three (3) of these elements or activities.

Solution

The elements/activities that the Directors' report as appeared in the annual reports and accounts of a company contains are:

- changes in asset values, directors' shareholding and other interest, contribution for political and charitable purposes
- acquisition by a company of its own shares or a change on them
- employment, training and advancement of disabled persons
- health, safety and welfare of work of employees
- involvement of employees in the affairs, policy and performance of the company.

(2 marks for each correctly stated element/activity. Maximum of 3 to be graded. Total: 6 marks)

6. List three (3) commonly found items under the "net operating expenses" of income statement of an insurance company.

Solution

The commonly found items under the "net operating expenses" of income statement of an insurance company are:

- acquisition costs
- change on deferred acquisition cost
- administrative expenses
- reinsurance commissions and profit participation

(2 marks for each correctly stated item. Maximum of 3 to be graded. Total: 6 marks)

7. Define financial accounting and management accounting. Outline two (2) differences between the two terms.

Solution

Financial accounting is the aspect of accounting that is concerned with the provision of information to parties outside the organization. (1 mark)

Management accounting is the aspect of accounting that is concerned with the provision of information to parties within the organization. (1 mark)

The differences between the two terms are:

S/No	Financial Accounting	Management
		Accounting
1	Historical	Futuristic
2	Guided by Act/Statute	Not regulated by law
3	For external parties	For internal parties

(1 mark for each correctly stated difference. Maximum of 2 differences to be graded under zach term.

Sub-Total: 4 marks)

(Grand Total: 6 marks)

8. Mention any three (3) types of cost that are relevant to decision making in accounting.

Solution

The types of cost relevant to decision making in accounting are:

- relevant costs
- sunk costs
- opportunity costs
- incremental costs.

(2 marks for each correctly stated cost. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) i) Section 331 of CAMA stipulates that sufficient record of a company shall be kept for four (4) reasons. Mention these four (4) reasons.

 (8 marks)
 - ii) In addition, CAMA requires that if the business of a company involve dealing in goods, the accounting record shall contain three (3) additional items. Outline any two of these three (3) items.

(2 marks)

(b) The following are the financial statements of New World Insurance Plc for the year ended 31st December 2018.

Income Statement for the Year Ended 31st December 2018

	N ′000.00	№ ′000.00
Sales (Revenue)		99,500
Cost of Sales:		
Opening Inventory	15,000	
Materials	25,500	
Labour	16,000	

Factory Overheads Depreciation Closing Inventory Gross Profit	20,500 4,500 (15,500)	66,000 33,500
Expenses: Selling and Administration Finance Cost (Interest) Profit before Tax Taxation Profit after Tax	12,400 _3,500	15,900 17,600 6,500 11,100
Statement of Financial Position as at 31st l Non-Current Assets: Property, Plant and Equipment	December 2018 N'000.00	N'000.00 76,500
Current Assets: Inventory Trade Receivables Bank TOTAL ASSETS	15,000 17,000 _5,000	37,500 114,000
Equities: Ordinary Share Capital Retained Profit	45,000 10,500	55,500
Non-Current Liabilities: Loan Current Liabilities: Trade Payables Others TOTAL LIABILITIES	23,500 13,000	22,000 36,500 114,000

You are required to calculate the following:

- i) Gross Profit Percentage
- ii) Net Profit as Percentage of Sales
- iii) Current Ratio
- iv) Acid (or Quick Asset) Ratio
- v) Trade Receivable Collection Period (in weeks)
- vi) Inventory Turnover

- vii) Shareholders' Equity Ratio
- viii) Return on Assets
- ix) Return on Equity
- x) Return on Capital Employed.

(40 marks)

Solution

- a) i) The four reasons why Section 331 of CAMA stipulated that sufficient record of a company shall be kept are to ensure that:
 - financial position of the company can be disclosed with reasonable accuracy at any time
 - directors can prepare the financial statements in conformity with the law
 - entries can be made from day-to-day of money received and spent by the company, and the matters for which they have occurred
 - a record of the assets and liabilities of the company are maintained.

 (2 marks for each correctly stated reason. Sub-Total: 8 marks)
- ii) Three additional items that CAMA requires that if the business of a company involve dealing in goods, the accounting record shall contain are:
 - statement of inventories held by the company at the end of each financial year
 - statement of inventory taken, from which any such statement if inventory mentioned above has been or is to be prepared
 - except for retail sales, statement of all goods bought and sold, showing the buyers and sellers of the goods in sufficient details to enable them to be identified.

(1 mark for each correctly stated item. Maximum of 2 to be graded. Sub-Total: 2 marks)

b)

i) Gross Profit Percentage =
$$\frac{33,500,000.00}{99,500,000.00}$$
 x 100% = 33.7%

ii) Net Profit as Percentage of Sales =
$$\frac{17,600,000.00}{99,500,000.00}$$
 x 100% = 17.7%

iii) Current Ratio =
$$\frac{\text{current asset}}{\text{current liability}} = \frac{37,500,000.00}{30,500,000.00} = 1.03:1$$

iv) Acid (or Quick Asset) Ratio =
$$\frac{\text{current assets - inventory}}{\text{current liability}} = \frac{37,500,000.00 - 15,500,000}{36,500,000.00} = 0.6:1$$

Trade Receivable Collection Period (in weeks) (on the assumption that all sales are credit sales) v) = Average Weekly Credit Sales = 99,500,000.00 = \$1,913,462.00No of weeks it takes for trade receivables to pay = trade receivable Average weekly credit sales = 8.9 weeks = 9 weeks approximately= 17,000,000.001,913,462.00 Inventory Turnover = vi) cost of sales average inventory where cost of sales = \$33,500,000.00 and average inventory = opening inventory + closing inventory = 15,000,000.00 + 15,500,000 =+15,250,000.00Therefore, inventory turnover = 33,500,000.00 = 2.215,250,000.00 vii) Shareholders' Equity Ratios = owners' equity x 100% total assets = 55,500,000.00 x 100% = 48.7% 114,000,000.00 Return on Assets = profit before interest and tax x = 100%viii) total assets = 21,100,000.00x 100% 18.5% 114,000,000.00 ix) Return on Equity = profit after interest and tax x = 100%owners' equity = 11,100,000.00 x 100% 20% 55,500,000.00 Return on Capital Employed = profit before interest and tax \times 100% x) Capital employed where capital employed = owners' equity + long term loan = 55,500,000.00 + 22,000,000.00 = 77,500,000.00Therefore, Return on Capital Employed = = 21,100,000.00= 27.2%x 100% 77,500,000.00

(4 marks for each correctly calculated item (i.e. 2 marks for correctly stated formula; 1 mark for steps shown,
1 mark for final answer. Grand Sub-Total: 40 marks)
(Grand Total: 50 marks)

Part III Answer THREE of the following FIVE questions. Each question carries 34 marks.

- 10(a) There are many interested parties in the financial statement of an insurance company. List four (4) of the interested parties and state their respective areas of interest. (16 marks)
 - (b) i) Define the term "solvency margin. (3 marks)
 - ii) Explain three (3) different ways that solvency margin can be calculated. (15 marks)

Solution

a) The interested parties in the financial statement of an insurance company and their respective areas of interest are as tabulated below:

Interested Party	Areas of Interest
Shareholders	* return on their investments i.e. profits, dividends, capital
	growth
	* stability of the company, its solvency and whether there
	may need for it to raise extra capital
	* future profitability of the company, including the type and
	spread of its business
Policyholders	* stability of the company including its solvency margin as a
	guarantee of its ability to meet the obligations to them
	* whether they are getting value for money or if the
	premiums include undue profit margins
Investment	* performance of the company's shares which depends on
Analysts and	market perception of the future and is influenced by, among
Commentators	other factors, types and spread of business, profitability,
	distributable reserves, dividend policy, management policy
	and ability as well as general economic trends.
Reinsurance	* soundness of the company's underwriting
Security	* security of the company as shown in the solvency
Advisors	* durability of the company
	* strength of any group to which the company belongs.
Other Insurers	* underwriting and profit comparisons
	* marketing policy and developments
Internal	* efficiency and profitability of the company as a whole
Management	

	* efficiency and profitability of their own departments or
	areas of influence
	* future planning
Staff	* profitability of the company (particularly where profit
	sharing exist)
	* security of the company, including possibilities of takeover
	* ability of management
	* future plans

(2 marks for each correctly stated party. 1 mark for each correctly stated area of interest. Maximum of 2 areas of interest to be graded under each party. Maximum of 4 parties to be graded. Sub-Total per party: 4 marks. Grand Sub-Total: 16 marks)

b) Solvency margin is the excess of the value of (an insurer's) assets over the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulation.

(1 mark for each bolded and coloured phrase. Sub-Total: 3 marks)

- ii) The three (3) different ways that solvency margin can be calculated are:
 - Net Asset (Solvency Margin)
 - **Annual Premium Income**
 - Actual Solvency Margin
 Required Solvency Margin
 - Premium Written in the Year

Net Assets at end of the Year

(3 marks for each correctly stated way. Sub-Total: 9 marks) (Grand Total: 34 marks)

- 11(a) The Regulator may exercise the power of intervention on the affairs of an insurance company in certain circumstances. Clearly outline six (6) of those circumstances. (18 marks)
 - (b) The Court may order the winding up of an insurance company as any other company. State any four (4) reasons why this may happen. (16 marks)

Solution

- a) The court may order the winding up of an insurance company as any other company for any of the following reasons:
 - if the company so resolves by special resolution
 - if the company does not commence business written a year of incorporation

- if the number of members is reduced below two (2)
- if the company is unable to pay its debts (where a creditor applies)
- if the court is of the opinion that it is just and equitable that the company should be wound up
- the company has failed to satisfy an obligation imposed by any of the Insurance Companies Act
- the company has failed to keep or to produce proper accounting record and he is unable to ascertain its financial position
- if it is expedient in the public interest that the company should be wound up.

(3 marks for each correctly stated reason. Maximum of 6 to be graded. Sub-Total: 18 marks)

- b) The Regulator may exercise the power of intervention on the affairs of an insurance company in certain circumstances. Some of these circumstances are:
 - if it considers it desirable for protecting policyholders or potential policyholders against the risk that the company may not be able to meet its liabilities
 - if it appears that the company has failed to meet a statutory obligation
 - if it appears that the company furnished misleading or inaccurate information
 - if the regulator is not satisfied with the adequacy of reinsurance arrangement
 - if there exists a ground on which the regulator would be prohibited from issuing an authorization if it were applied for
 - if it appears to the regulator that there has been a substantial departure from any plan or forecast submitted
 - if the company has ceased to be authorized to effect contracts (or certain classes of contracts).

(4 marks for each correctly stated reason. Maximum of 4 to be graded. Sub-Total: 16 marks)
(Grand Total: 34 marks)

12. Write short notes on all of the following:

a)	Debentures	(5 marks)
b)	Preference Shares	(4 marks)
c)	Ordinary Shares	(5 marks)
d)	Unsecured Loan Stock	(4 marks)
e)	Cumulative Preference Share	(4 marks)
f)	Participating Preference Share	(4 marks)

- Redeemable Preference Share g)
- h) Convertible Preference Share

(4 marks) (4 marks)

Solution

- a) **Debentures:** these are financial instruments normally issued by companies to raise funds. They are secured by a charge on specific assets of the company or by a floating charge over all the assets or by both. Trustees are appointed to represent the debenture holders and they are responsible for ensuring that the terms of the trust deed causing the issue of the debentures are observed.
 - (2½ marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 5 marks)
- **b**) **Preference Shares:** these are part of the share capital of the company. They are not loans to the company. The shareholders have precedence over ordinary shareholders in respect of dividends or capital repayments. They are not creditors of the company and have no absolute right to a dividend.
 - (2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)
- c) **Ordinary Shares:** these are part of the capital of the company. Ordinary shareholders have no security for their investment but share in the ownership of the company, in its successes and in its failures. In case of winding up, all creditors will be fully repaid before shareholders get anything at all.
 - (2½ marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 5 marks)
- d) **Unsecured Loan Stock:** these are similar to debentures but have no specific security. Holders must rely on the standing of the issuing company. In the event of failure to meet the terms of issue, stockholders would rank as unsecured creditors. It can be convertible. (2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total:4 marks)
- e) **Cumulative Preference Share:** in the event of a dividend not being paid in one or more years, the arrears are accumulated and paid out before any dividend on ordinary shares is declared. (2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)

f) Participating Preference Share: normal dividends are paid on those shares up to the set rate in priority to ordinary dividends. The share will carry additional shares of profit related to ordinary dividends declared.

(2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total:4 marks)

- Redeemable Preference Share: at a fixed date or within a fixed period, exact details will be defined when the shares are first issued.
 Redemption can only be financed from accumulated distributable profits or out of the proceeds of a new share.
 (2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total:4 marks)
- h) Convertible Preference Share: under this type of shareholding, it provides for an option of conversion to ordinary shares at a set price at a future date or dates.

(2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total:4 marks) (Grand Total: 34 marks)

- 13(a) Although prospectus all look the same, there are four (4) ways in which an issue can be made and the shares listed for the first time. List and explain these four (4) ways.

 (16 marks)
 - (b) Write short notes on all of the following:

i)	underwriting	(5 marks)
ii)	bonus issues	(4 marks)
iii)	right issues	(4 marks))
iv)	takeover bids.	(5 marks)

Solution

- a) The four (4) ways in which an issue can be made and the shares listed for the first time are through:
 - an offer for sale: here, a third party usually an issuing house, acting as a principal, purchases shares from the vendors and offers them for sale to the public, inviting subscriptions at a fixed price. As a variation, in the "offer for sale" method, the company itself or a third party acting on behalf of the company offers the shares to the public. This is very rare and it is called a "prospective issue".

- **an offer by tender:** in this instance, the price at which the shares are offered is not fixed, but the public is invited to offer to subscribe, naming the price that it will pay.
- **placing:** in this method, the majority of the shares are "placed" or sold by the stockbrokers to a number of investors (usually institutions) prior to advertising the prospectus, however the market-makers are usually offered a proportion of the issue so that they can make a market. The prospectus gives the terms of the placing. Prospectus has to be published before dealings can start.
- **introduction:** in this instance, the shareholdings of the company are sufficiently widespread for the stock exchange not to require arrangement of the shareholdings, Prior to the commencement of the dealings in the shares. Here, there is a prospectus in order to give information about the company to the public but no invitation to the public to subscribe for the shares. After the Stock Exchange has granted the quotation, dealings can begin.

(2 marks for each correctly stated way. 1 mark for each correct and complete explanation under each stated way. Maximum of 2 to be graded. Sub-Total per way: 4 marks. Grand Sub-Total: 16 marks)

- b) i) **underwriting:** most new issues of shares are underwritten by the issuing house(s) oragnising the issue in order to ensure full subscription. If the issue is sizeable, underwriters may pass on much risk to the sub-underwriters, usually the "institution". Underwriters and sub-underwriters are paid commissions. (2½ marks for each correctly stated point. Maximum of 2 marks to be graded. Sub-Total: 5 marks)
- ii) **bonus issues:** companies may make a bonus of ordinary shares whereby the present holders of ordinary shares receive a further allocation without any payment being requested of them. The issue will take the form of a number of shares per share already held e.g. three for one bonus issue where the shareholder receives three new shares for every one held already.

(2 marks for each correctly stated point. Maximum of 2 marks to be graded. Sub-Total:4 marks)

iii) **right issues:** in a right issue, new shares are offered to existing shareholders at a price which is somewhat less than the present market price. Shareholders can either purchase the new shares offered or can sell their "right" in the market. Only if the shareholder subscribes to the new issues will his voting position be preserved.

(2 marks for each correctly stated point. Maximum of 2 marks to be graded. Sub-Total:4 marks)

iv) **takeover bids:** these are often accomplished by the acquiring company issuing its own shares to the shareholders of the company being acquired in return for their shares in that company that is being taken over in terms of monetary compensation for the shares, based on the current market prices.

(2½ marks for each correctly stated point. Maximum of 2 marks to be graded. Sub-Total: 5 marks) (Grand Total: 34 marks)

- 14(a) Define the terms "brokers" and "agent" as they relate to the insurance profession. State the four (4) differences between brokers and agents.

 (12 marks)
 - (b) Outline seven (7) functions of trade associations of insurance intermediaries. (14 marks)
 - (c) List and explain four (4) classes of insurance intermediaries in the UK Market. (8 marks)

Solution

a) **Brokers** are persons who act, with complete freedom, as to their choices of undertaking bring together with a view to the (re)insurance risks, persons seeking (re)insurance undertakings, carry out work preparatory to the conclusion of contracts of (re)insurance and, where appropriate, assist in the administration and performance of such contracts, in particular, in the event of a claim. (2 marks for any correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks) **Agents** are persons instructed under one or more contracts, or empowered, to act in the name and on behalf of, or solely on behalf of, one or more insurance undertaking in introducing, proposing and carrying out work preparatory to the conclusion of, or in concluding, contracts of insurance, or in assisting in the administration and performance of such contracts, in particular - in the event of a claim. (2 marks for any correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)

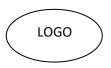
S/No	Brokers	Agents
1	They are independent	They are not independent
2	They are professionally	They may not be professionally
	certified and must be	competent
	professionally competent	
3	They receive a higher rate of	They receive lower commission rate
	commission	
4	They are the client's agents	They principally represent the
	_	insurers

- b) The functions of trade associations of insurance intermediaries are:
 - representation
 - advice
 - support for members
 - members' promotion
 - training support
 - dealing with complaints from the public on advisory basis and general advice on technical matters
 - publicity; advertisement and public relation.
 (2 marks for each correctly stated function. Maximum of 5 to be graded. Sub-Total: 10 marks)
- c) The different classes of insurance intermediaries in the UK Market are:
 - Lloyds' Brokers: any insurance placed with an underwriter at Lloyds must be arranged through a Lloyds broker who will almost certainly be regulated with IBRC. They must be registered and are subject to stringent financial and professional requirements.
 - Cash and Credit Agents: cash agents merely introduce business to their principal but do not collect premiums. They are afterwards paid a lower rate of commission than credit agents, Credit agents include brokers, collect premiums on behalf of their principals and usually settle them monthly or quarterly on account.
 - Industrial Assurance Agents: the term "agent" is this content is a misnomer. Industrial Assurance agents are in fact employees remunerable partly by salary and partly by commission. They are employed by industrial life assurance companies and collect premiums on industrial life policies by calling frequently at the home of policyholders usually once a month.
 - Bank and Building Societies: in recent years, there has been an extension
 of the financial services offered by banks and building societies who now
 act as insurance intermediaries. The banks have gone so far as to establish
 insurance broking companies as separate entities.

- Insurance Companies Employees: insurance companies employ staff to obtain business directly from the prospective policyholders. This may be direct sales staff. They are called representatives, inspectors, consultants. They may be on salary basis, commission basis or both. They are subject to control, regulation and training on their employers.
- Other Agents: these are diverse in nature and size. They vary from large
 professional firms estate agents, solicitors, accountants, e.t.c. They often
 bring substantial amount of business to the small garage proprietors
 selling an occasional motor policy as agent of the company. Their
 opportunity to sell insurance is secondary to their main activities.

(1 mark for mentioning the class. I mark for explaining the mentioned class. Sub-Total per class: 2 marks. Grand Sub-Total: 8 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT A945

MARKETING

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2020 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A945 - MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

The paper carries a total of 200 marks distributed as follows:

Part I 8 Compulsory Questions 48 marks
Part II 1 Compulsory Question 50 marks
Part III 3 Optional Questions 102 marks.

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

Where a question is split into parts (a), (b), etc, marks for each part are only shown if they are split unevenly between the parts and you should spend your time in accordance with the allocation.

In attempting the questions, you may find it helpful in some places to make rough notes in the answer booklet. If you do this, you must cross through these notes before you hand in the booklet.

It is important to show each step in any calculation, even if you have used a calculator.

Answer each question on a new page. If a question has more than one part leave several lines blank after each part.

Chief Examiner's Summarised Statistics

Pass Rate: 44%

Highest Score: 80%

Lowest Score: 14%

Average Score: 47%

Breakdown Updates

This question tested the candidates' knowledge of processes of marketing strategy. Majority of the candidates did not display the understanding of the question, hence they provided wrong answers.

Question 2

The question tested the candidates for perfect competition. The performance was encouraging as above 80% of the candidates scored the maximum marks in the questions. Candidates are advised to keep this up in the future examination(s).

Question 3

Majority of the candidates who attempted this question did not display an understanding of concept of pricing of insurance products. The overall performance was below 40%. Candidates are advised to take this aspect of the syllabus very seriously when preparing for future examination(s).

Question 4

The question tested candidates' knowledge on the reasons why marketing strategies may fail. The question was well understood by the candidates as majority of the candidates attempted it. Good performance was above 70%.

Question 5

The examiner tested candidates' knowledge about new product development. Over 90% of candidates attempted the question and although more than 50% of them scored above average pass rate, it was observed that candidates are not conversant with their coursebook as the question was directly lifted from their coursebook. Candidates are advised to take every aspect of the syllabus very serious in their future examination.

Question 6

The question tested candidates' knowledge of the disadvantages of employing external marketing consultants. It was observed that few candidates understood this particular question. About 45% performed well in the question. Candidates are advised to take this part of the syllabus very serious.

Question 7

The question tested the key questions that managers should ask before choosing the location for a static or building-based business. More than 60% of the candidates missed the answer to this question. The average pass rate was less than 40%. Candidates should note that the only way to performance well in this examination is to cover every aspect of the syllabus.

Question 8

Most of the candidates did not understand the question. About 90% of candidates that attempted the question got it wrong. The average performance was less than 10%. Candidates are advised to take every aspect of the syllabus very serious.

Question 9

Almost all the candidates understood and answered the questions satisfactorily. The average performance in this question was above 80%.

Question 10

The question tested candidates' knowledge about titles that describe the roles that various members of staff might play in the delivery of insurance services; sales promotion as well as typical sales promotions objectives. The average performance was above 50% with some misinterpretation being noticed in some of the answers provided by some of the candidates.

Question 11

On part (a), almost all the candidates attempted this question and more than 60% were able to answer it correctly. The average performance here was above 70%. The part (b) question was on market positioning by insurance companies. Majority of the candidates scored above 60% in the question; and the part (c) question was well attempted. Overall, the candidates' average performance was above 65% in this question.

Question 12

The question was well understood and answered by the candidates. The average performance above 70%.

Question 13

This question tested the candidates' knowledge of marketing communication. Being an optional question, it was widely avoided. Less than 20% of the candidates attempted the question. It is observed that the candidates are not conversant with the concept. The average performance was about 40%.

Question 14

Candidates performed very well under the part (a) as they displayed an understanding of the concept tested. The average performance was above 70%. In part (b), majority of the candidates could not use diagram to explain distribution channels, hence the performance was very poor. The average performance here was about 40%. For the part (c), candidates performance was quite encouraging as they displayed the understanding of the concept tested. The average performance here was above 70%.

Chief Examiner's Comments on Overall Performance:

It was observed that the candidates did not prepare very well for the examination. The questions which were direct were very poorly answered, which resulted in the global low pass rate earned.

Chief Examiner's Suggestion on Improvement:

Candidates are advised to study harder. It will be difficult for candidates to pass the examination without having studied/covered every aspect of the syllabus.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. A marketing strategy will typically give an account of the way in which an organisation will use the means and resources it has available for marketing to achieve the main aims defined in its corporate strategy. This will include six (6) processes. Enumerate the six (6) processes.

Solution

The six (6) processes that a marketing strategy will be used to achieve the main aims defined in its corporate strategy are to have:

- marketing objectives
- marketing budget
- detailed plans relating to all market research activities
- detailed plans relating to advertising and promotion activities
- detailed plans relating to sales activities
- detailed evaluation of achievements.

(1 mark for each correctly stated process. Total: 6 marks)

2. Where perfect competition exists in a market, certain conditions prevail. Mention three (3) of such conditions.

Solution

The conditions that prevails where perfect competition exists in a market are:

- there is a large number of both buyers and sellers in the market
- no single buyer or seller is large enough to influence market price
- all products and services offerings are identical
- there are no barriers to entering or leaving the market
- all buyers and sellers have full knowledge of the marker conditions.
 (2 marks for each correctly stated condition. Maximum of 3 to be graded. Total: 6 marks)
- 3. The pricing of insurance products is important for two fold economic reasons. List the two (2) reasons.

Solution

The two reasons why the pricing of insurance products is important are:

- the price of insurance has a direct impact on the amount of revenue the insurer earns and affects its profit margin
- the price of insurance affects the volume of insurance policies sold, since price is one of the features that a potential consumer will consider when

deciding which insurance product to buy and which insurance provider to buy from.

(3 marks for each correctly stated process. Total: 6 marks)

4. Like military campaigns, marketing strategies can also fail for many reasons. Mention any three (3) of such reasons.

Solution

The reasons why marketing strategies can fail are:

- if and when overall corporate objectives are not communicated across to those who are supporting the achievement of those objectives at operational level
- when there are insufficient resources to carry out the overall strategy at an operational level
- when those who are carrying out strategy at an operational level choose not to follow the guidelines for the overall strategy
- when changes in the business environment mean that the marketing strategies are no longer relevant.
 - (2 marks for each correctly stated reason. Maximum of 3 to be graded. Total: 6 marks)
- 5. There are three primary categories of new product development. Outline the three (3) categories.

Solution

The three (3) primary categories of new product development are:

- major innovations representing major new markets such as conducting insurance business entirely on the internet
- start-up businesses which provide new and innovative ways of addressing the current needs of customers. For example, by providing competitively priced direct insurance
- new offering for the existing market allowing organisations to cross-sell a new offering to their existing database clients.
 (2 marks for each correctly stated condition. Maximum of 3 to be graded. Total: 6 marks)
- 6. There are no hard and fast rules about employing external marketing consultants, but there are commonly identified advantages and disadvantages. Outline any three (3) of those disadvantages.

Solution

The disadvantages of employing external marketing consultants are:

• they take time to understand fully the client's businesses and challenges

- they are often expensive
- they can tend towards being academic rather than practical
- they may not take as much interest in the medium-term to long-term consequences of their work as in-house staff members would
- it may be more difficult to communicate with them than in-house staff members.
 - (2 marks for each correctly stated condition. Maximum of 3 to be graded. Total: 6 marks)
- 7. Each business model scenario has different marketing implications for the organisation, so there are some key questions that managers should ask before they choose the location for a static or building-based business. Enumerate three (3) of these questions.

Solution

The key questions that managers should ask before they choose the location for a static or building-based business are:

- should the service be delivered at a single site or through multiple outlets?
- what type of transaction will best suit the customers?
- how would a change in the type of interaction affect the service quality?
- can suitable intermediaries be used to achieve multiple outlets? (2 marks for each correctly stated condition. Maximum of 3 to be graded. Total: 6 marks)
- 8. Centralization of scales promotion materials can generate scale economies as well as higher quality, based on accumulation of learning. However, these materials need to take account of local differences. List three (3) of those local differences.

Solution

The local differences that centralization of scales promotion materials need to take account of in order to generate economies of scales are:

- sales force
- customer service
- training
- advertising media.

(2 marks for each correctly stated condition. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Enumerate any eight (8) statutory functions of the National Insurance Commission as established by NAICOM Act 1997. (10 marks)
 - (b) For the purpose of marketing, and apart from being grouped as "hard" in the spectrum of product and service offerings, goods can be classified according to the expected length of their lives and to whether they are intended for the consumer market or the industrial market. Enumerate and explain the three (3) most common classifications of goods. (18 marks)
 - (c) State, briefly explain in writing and articulate with the aid of a diagram, the four (4) main phases of product life cycle. (22 marks)

Solution

- a) The statutory functions of the National Insurance Commission as established by NAICOM Act 1997 are:
 - establish standards for the conduct of insurance business in Nigeria
 - approve rates of premium to be paid in respect of all classes of insurance business
 - approve rates of commission to be paid in respect of all classes of insurance business
 - ensure adequate protection of strategic government assets and other properties
 - regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria
 - act as adviser to the Federal Government on all insurance related matters
 - approve standards, conditions and warranties applicable to all classes of insurance business
 - protect insurance policyholders, beneficiaries and third parties to insurance contracts
 - publish, for sale and distribution to the public, annual reports and statistics of insurance industry
 - liaise with and advice Federal Ministries, parastatals, statutory bodies and other government agencies on all matters relating to insurance contained in any technical agreements to which the country is a signatory to

- contribute to educational programmes of the Chartered Institute of Nigeria and the West African Insurance Institute
- carry out other activities connected or included to its other functions. (1½ marks for each correctly stated function. Maximum of 8 to be graded. Sub-Total: 10 marks)

b. The three (3) most common classifications of goods are:

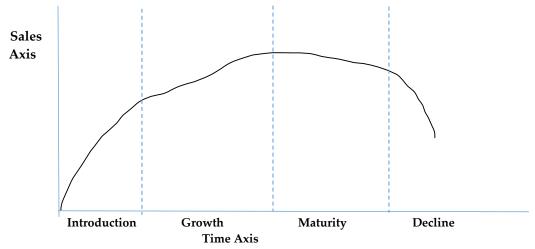
S/No	Classification	Explanations
1	Fast Moving Consumer	* these are general household consumables
	Goods	* examples are items such as milk, tea, washing
		powder, e.t.c. It includes all products that are
		found in an everyday shopping basket
		* they are typically low or moderately priced
		* they are purchased regularly and frequently
		* they are purchased from retail outlets.
2	Consumer Durables	* these have longer life than the fast moving
		consumer foods
		* examples could be electrical domestic
		appliances
		* they are bought less frequently
		* they require greater financial outlay
3	Industrial Goods	* these are bought for use in the production of
		other goods and services
		* examples are office equipment and
		stationeries
		* they are distributed through agents and sales
		people
		* they can be sub-divided into raw materials
		and partly finished materials
		* they may be consumables or capital goods

(2 marks for each correctly stated classification. 2 marks for any correctly stated explanation. Maximum of 2 explanations to be graded per classification. Sub-Total per classification: 6 marks.

Grand Sub-Total: 18 marks)

- c) The main phases of product life cycle are:
 - **introduction phase:** here, the product or service is introduced to the market. Sales revenue are normally low, while both consumers and

- distributors become aware of the product and decide whether or not to adopt it.
- **growth phase:** here, there is a rapid acceptance of the product or service and a dramatic increase in revenue is experienced. This is sustained by improved distribution, product development and even price reduction.
- maturity phase: here, the market opens up to more and more competitors as it gradually reaches maturity, copy-cat products are available; sales and profit are still high but cost of maintaining business could still be high, increased competition also puts pressure on the profit margin.
- **decline phase:** this is marked by fall in sales which could be due to introduction of superior substitutes, attractively priced competition, shift in consumer taste, values and beliefs, e.t.c.



(2 marks for each correctly stated phase. 1 mark for each correctly stated explanation under each phase. Maximum of 2 explanations to be graded per phase. Sub-Total per phase: 4 marks. Grand Sub-Total: 16 marks.

6 marks for each correctly drawn and labelled graphical representation i.e. 1 mark each for correct labelling of phases, the correctly drawn dotted lines and solid line. Sub-Total: 6 marks.

Grand Sub-Total: 22 marks) (Grand Sub-Total: 50 marks)

Part III Answer THREE of the following FIVE questions. Each question carries 34 marks.

10(a) What are the flour (4) titles that describe the roles that various members of staff might play in the delivery of insurance services to customers. Enumerate and explain the four (4) titles. (16 marks)

- (b) How do insurers differentiate themselves from one another. List any three (3) of those ways. (6 marks)
- (c) In any insurance product or service offering, there are sales promotions. List, three (3) typical objectives of sales promotions and three (3) types of sales promotions. (12 marks)

Solution

- a) The flour (4) titles that describe the roles that various members of staff might play in the delivery of insurance services to customers are:
 - contactors: they are the members of an insurance organisation who have frequent or regular customer contact and are typically heavily involved with environmental activities e.g. sales people and customer service representatives.
 - modifiers: they are people who have frequent contact with the customers but are not really involved in its formal marketing activities e.g. receptionists, credit controllers and switchboard personnel. They need to understand the organisation marketing strategy.
 - **influencers:** they are likely to take part in formal marketing activities. They have little or no customer contact e.g. staff members in charge of product development.
 - **isolateds:** they are the various support function, which neither have frequent customers contact nor a great deal to do with conventional marketing activities e.g. purchasing, personnel and accounts departments. They need to be trained on the marketing strategy of the organisation.

 (2 marks for each correctly stated title. 2 marks for any complete and correct explanation. SubTotal per title: 4 marks) Grand Sub-Total: 16 marks)
- b) Insurers differentiate themselves from one another by:
 - variations in premium
 - variations in the scope of cover offered
 - varying commission rates to intermediaries
 - variations in the policyholder's participation in the risk (via excess, franchise and/or deductibles)
 - use of no claim discounts and other incentives
 - claims handling speed and accuracy
 - use of discretionary payment of claims that fall outside strict policy conditions.

(2 marks for each correctly stated condition. Maximum of 3 to be graded. Sub-Total: 6 marks)

- c) The typical objectives of sales promotions are:
 - increase sales
 - counteract competitor activities
 - encourage repeat purchases
 - encourage affiliated purchases (e.g. special offers for introducing friends)
 - induce a trail purchase
 - encourage payment in advance.
 (2 marks for each correctly stated condition. Maximum of 3 to be graded. Sub-Total: 6 marks)

Types of sales promotions are:

- price reductions
- coupons
- vouchers
- competitions
- special functions
- free gifts

(2 marks for each correctly stated condition. Maximum of 3 to be graded. Sub-Total: 6 marks)
(Grand Sub-Total: 12 marks)
(Grand Total: 34 marks)

- 11(a) Formulating and implementing a marketing strategy is a four-step process that shares some attributes with developing a business plan for an organisation. List and outline the components of the four (4) steps.
 - (16 marks)
 - (b) The process of market positioning by insurance companies involve five (5) main steps. State these five (5) steps. (10 marks)
 - (c) Show by the aid of a diagram, the Boston Consulting Group (BCG) matrix.

 (8 marks)

Solution

- a) The components of the four (4) steps in formulating and implementing a marketing strategy in the four-stage process for an organisation are:
 - Step I: Establishing the Corporate Context
 - o stating the corporate mission or vision statement
 - identifying corporate objectives
 - Step II: Analysis of the Internal and External Environment
 - o carrying out a marketing audit
 - o carrying out a SWOT analysis
 - o using research to make some key assumptions.

Step III: Formulating a Marketing Strategy

- o establishing marketing objectives
- o establishing marketing strategies
- o predicting expected results
- o identifying contingent and alternative strategies

• Step IV: Implementation, Control and Evaluation

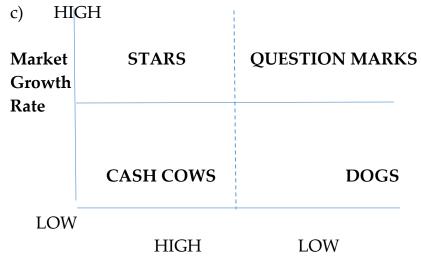
- resource allocation
- o budgeting
- o action plans
- o monitoring.

(2 marks for each correctly stated step. 2 marks for any correctly stated explanation under each correctly stated step. Maximum of 1 to be graded under each correctly stated step. Sub-Total per step: 4 marks)

(Grand Sub-Total: 16 marks)

- b) The five (5) main steps in the process of market positioning by insurance companies are:
 - determining the levels of the positioning
 - identifying the key attributes which impact on selected segments
 - locating those attributes on a positioning map
 - evaluating other positioning options
 - implementing the new position strategy.

(2 marks for each correctly stated condition. Sub-Total: 10 marks)



Market Share

(1 mark for each correctly labelled bolded word/phrase above. ½ mark for each un-bolded word above. Sub-Total: 8 marks)

(Grand Total: 34 marks)

- 12(a) Messages can be transmitted in a wide range of ways most of which fall into one of five (5) categories. List and give two (2) examples of each category.

 (15 marks)
 - (b) Mention and briefly explain the seven (7) categories of marketing messages according to their objectives and styles. (14 marks)
 - (c) Mention the five (5) approaches that can be taken by public relations practitioners to develop a public relations programme. (5 marks)

Solution

a) Messages can be transmitted on a wide range of ways most of which fall into one of five (5) categories. The categories and their examples are:

Category	Example	
Face-to-Face	Personal selling, seminars, conferences, meetings.	
Telecommunications	Telephone, fax, video conferencing.	
Media		
Printed Media	Brochures, direct surface mails, letters.	
Broadcast Media	Television advertising, radio advertising,	
	interviews, features.	
Electronic or New Media	Worldwide web, emails, WhatsApp, Instagram	

(1 mark for correctly listed category. 1 mark for each correctly stated example. Maximum of 2 examples to be graded under each category. Sub-Total for each Category: 3 marks. Grand Sub-Total: 15 marks)

- b) The seven (7) categories of marketing messages according to their objectives and styles are:
 - **connotative:** messages dealing with feelings and relationship are often appealing to receivers to make decision based on their lifestyle.
 - **denotative:** messages are more lateral and factual. Most descriptive advertisings for products are in this category.
 - **rational:** this aim at showing that the product or service will deliver to the receiver the benefits wanted by the target audience.
 - **emotional:** this emphasize the good feelings that will come from using a product or service.
 - **fear based:** here, appeals are used to persuade customers to buy the products as a way of avoiding some unpleasant outcome that they fear.
 - moral: here, appeals are used mostly by organisations concerned with social issues, such as anti-drug groups, anti-smoking groups and antidrink-and-drive campaigners.

- humorous: here, they often attract attention and create a positive attitude towards the communicator of the marketing message. This appeal is very effective for low-involvement products like tea, detergents and soft drinks.
 (1 mark for correctly listed category. 1 mark for each complete and correct explanation. Sub-Total for each Category: 2 marks. Grand Sub-Total: 14 marks)
- c) The five (5) approaches that can be taken by public relations practitioners to develop a public relations programme are:
 - publications
 - events
 - media stories
 - exhibitions and displays
 - sponsorship of charitable causes, arts or sport events.

(1 mark for each correctly stated approach. Sub-Total: 5 marks) (Grand Total: 34 marks)

- 13(a) As its most basic level, a brand is made up of all the marketing elements that can be trademarked. Enumerate any four (4) examples of these marketing elements with an example each. (12 marks)
 - (b) Brands normally make use of a range of communication activities. With examples, list any four (4) of such communication items/activities.

(10 marks)

(c) Outline four (4) advantages of employing external marketing consultants. (12 marks)

Solution

- a) Some examples of the marketing elements that makes up a brand's trademarks are:
 - advertising e.g. displaying the brand logo, slogans and symbols
 - sales promotions e.g. using the brand image in a special offer
 - sponsorship e.g. using the brand image at major sponsored events
 - websites e.g. using the brand prominently in all web screens
 - publicity and print media e.g. establishing the brand styles on brochures.

(2 marks for each correctly stated element and 1 mark for any correctly stated example under the element. Sub-Total: 3 marks. Grand Sub-Total: 12 marks)

- b) The examples of communication items/activities normally used by brands are:
 - logos
 - symbols
 - slogans

- packaging
- signage

(2½ marks for each correctly stated item/activity. Maximum of 4 to be graded. Sub-Total: 10 marks)

- c) The advantages of employing external marketing consultants are that they:
 - often have more specialized skills and experience than in-house staff
 - are objective
 - can be used temporarily to solve temporary marketing challenges
 - often sell their skills on the basis of finite lump sum
 - can apply experience gained from past similar situations to the matter at hand.

(3 marks for each correctly stated advantage. Maximum of 4 to be graded. Sub-Total: 12 marks) (Grand Total: 34 marks)

- 14(a) Three (3) main types of international distributions channel are available to a product or service provider. Mention and explain the three (3) types.

 (15 marks)
 - (b) Enumerate and show by way of diagrams, the three (3) ways of structuring international distribution. (15 marks)
 - (c) What major assumption does a standardised international marketing strategy make about marketing skills? (4 marks)

Solution

- a) The three (3) main types of international distributions channel available to a product or service provider are:
 - a wholly or partly owned joint venture or local subsidiary: one way of carrying out distribution in foreign markets is for the organisation to set up its own subsidiary in each foreign market or to buy all or part of an existing foreign company in order to take advantage of the distribution facilities.
 - a domestic-based intermediary with specialization in the organisation's foreign markets: the advantage for a domestic producer who uses a domestic intermediary in its own country to handle overseas marketing is that the domestic intermediary will be close to the producer in geographical tern and all things being equal, close proximity will promote greater communication.
 - an overseas based intermediary working in the organisation's foreign market: a domestic provider of goods and services may decide to deal directly with intermediaries in a foreign country. This brings the domestic

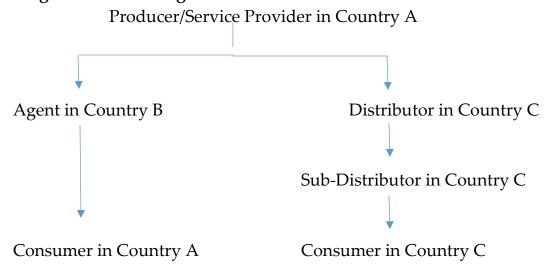
producer closer to the foreign market. It is important in the area of gathering market information about the market.

(3 marks for each correctly stated type and 2 marks for any correctly stated explanation under the correctly stated type. Sub-Total per type: 5 marks. Grand Sub-Total: 15 marks)

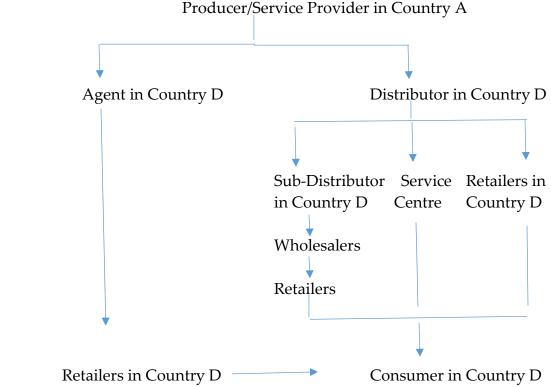
- b) The three (3) ways of structuring international distribution are:
 - Direct Marketing and Sales to End Users of the Product or Service:

From Producers/Service Providers — Direct Marketing — to User

Marketing and Sales through Wholesalers and Distributors:



• Marketing and Sales through Local Retailers:



(2 marks for each way. 3 marks for each correct diagram. Sub-Total per correctly stated way: 5 marks. Grand Total: 15 marks)

c) The major assumption that a standardized international marketing strategy make about marketing skills is that it assumes that marketing skills and knowhow can be transported across countries as-it-should be i.e. assumes that much can be gained through the standardization of marketing. If this assumption is taken to the extreme, it would mean that the firm will be marketing the same product at the same price, using the same channels, sales and advertising programmes throughout the world. (4 marks)