

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO;2	DON'TS Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)	
Start studying for the next diet early (from November/December for April diets and May for October diets)		
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

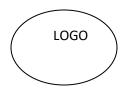
(ILAN); clinigeria.com (CIIN)

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 DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D01 INSURANCE PRACTICE AND REGULATION

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.
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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

D01 - INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 46.14%

Highest Score: 65%

Lowest Score: 33%

Average Score: 48%

Breakdown Updates

Question 1

The question was intended to test candidates' knowledge of current affairs in the Insurance Industry. Attempt was good (90%) but performance was very poor (below 20%). Candidates need to get conversant with current changes in the industry and are encouraged to read insurance journals and CIIN newsletters for better performances.

Question 2

The question was intended to test candidates' knowledge of policy terms and conditions. Attempt was good (100%) but performance was extremely poor (below 10%). Candidates need to know more about policy terms and conditions and the needs for those terms and conditions.

Question 3

Overall attempt of candidate's (100%) and their performances were very good (95%). The question was intended to test candidates' knowledge on the difference between cover note and certificate including the relevant Act.

Question 4

The question was intended to test candidates' knowledge of insurance brokers' dual role as intermediaries. Attempt was good (100%), while the overall performance was well above (75%). Adequate preparation and being conversant with current affairs is recommended for improved performances.

Question 5

The question was intended to test candidates' knowledge on the operations of common pool in marine insurance. Attempts were good (97%), but performance was below 20%. Adequate preparation and extensive reading (with tutorial class attendance) is recommended for improved performances.

Question 6

The question was intended to test candidates' knowledge of capital requirements (solvency margin) in the insurance industry. This question is part of the compulsory questions hence attempt was 100% but performance was extremely poor (20%). Candidates need to read other industry journals and coursebooks extensively for better performance.

Question 7

This question is part of the compulsory question hence attempts was 100% but overall good performance was below 50%. The question was intended to test candidates' knowledge of life assurance terms and practice. Candidates need to read the coursebook very well and attendance of tutorial class is recommended for better performances.

Question 8

The question was to test candidates' knowledge in types of life assurance and it was a compulsory question. Attempt was 100% and performance was above 70%. Candidates need to get more involved in life assurance policies operations and claims handling for better performance.

Question 9

This question was intended to test candidates on the stakeholders in the insurance operations and their differences. Candidates need to know all the stakeholders in the insurance operations and their different roles for better performance.

Question 10

The question was intended to test candidates' knowledge on the various distribution channels in insurance and their advantages. This was a compulsory question and the performance was above 80%. Adequate preparation and extensive consultation with coursebook for better performance is recommended.

Question 11

The question was intended to test candidates' knowledge in underwriting principles of various classes of insurance. Overall attempt was 100% but general performance was extremely poor (less than 20%). Candidates must read and prepare very well and attend tutorial classes for better performance.

Question 12

The question was intended to test candidates' knowledge in reinsurance practice, rules, types and procedures. The question is compulsory and attendant is 100%,

however overall performance is below 30%. Candidates need to get acquainted with technical knowledge of reinsurance terms and attend tutorial classes for better performance.

Question 13

The overall performance is 81% while all the candidates attempted the question because it was a compulsory question. The question was intended to test candidates' general knowledge of claims procedure and handlings. Candidates need to read extensively coursebook and attend tutorial classes for better performance.

Question 14

The question was intended to test candidates' knowledge of general complaints and its advantages and the roles of underwriters. Attempts were 100% but performance was below 25%. However for better performances, candidates need to prepare adequately and attend tutorial classes.

Question 15

Attempts on this question was 40%. The general performance is 50%. However, the candidates understood the difference between permanent health insurance and industrial life assurance; in part b, majority of the candidates listed the types of liability correctly while in part c, some of the candidates could not mention the exclusion under professional indemnity correctly. Adequate preparation is recommended for better performance.

Question 16

The question was intended to test candidates' knowledge and understanding of the difference between theft and larceny. Attempt was generally poor and performance was also poor. Less than 10% of the candidates attempted this question. Adequate preparation and proper reading of coursebook is recommended for better improvement.

Question 17

84% of the candidates attempted the question and performance was about 75%. The question was intended to test candidate knowledge of features of insurable risks; while part b and c questions tested the candidates on the differences between pure and speculative risks – which were answered correctly. Overall performance was good. Adequate preparation is recommended for better performances.

Question 18

35% of candidates attempted this question, while there was an average of 80% good performance. The question was intended to test candidates' knowledge of scope of cover of standard fire policy and special perils extensions. However, in part c, the candidates failed to explain the term outsourcing. Adequate preparation is recommended for better/improved performance.

Chief Examiner's Comments on Overall Performance

Overall performance is 50%.

Chief Examiner's Suggestion on Improvement

Candidates' should prepare early and adequately by studying the coursebook extensively and attends tutorial classes.

Part I

Answer ALL questions in Part I. Each question carries 10 marks.

- 1(a) What is the name of the successor of Alhaji Muhammed Kari as the head of National Insurance Commission of Nigeria? (2 marks)
- (b) What was his designation for the position when initially appointed?

(2 marks)

- (c) Who is the current President of the Nigerian Council of Registered Insurance Brokers? (2 marks)
- (d) Who is the current Chairman of the Nigerian Insurers Association?

(2 marks)

(2 marks)

(e) Who is the current President of the Chartered Insurance Institute of Nigeria? (2 marks)

Solution

- a) Mr. Sunday O. Thomas
- b) Acting Commissioner for Insurance (2 marks)
- c) Dr. (Mrs.) Bola Onigbogi (2 marks)
- d) Mr. Ganiyu Musa (2 marks)
- e) Sir Muftau Oyegunle

(2 marks)

(Grand Total: 10 marks)

- 2(a) What are the main purpose and main feature of policy exclusions and conditions? (4 marks)
- (b) List any three (3) common policy conditions in any general insurance policy wordings. (6 marks)

Solution

(a) The main purpose and feature of policy exclusions and condition is for insurer to avoid arguments at the time of claim. The policy exclusions and condition spell out what is cover under the policy and the main exclusions.

(4 marks)

- (b) The common policy conditions include:
 - conditions stated: that the insured will comply with all the terms of the policy
 - notification condition: states that the insured will notify insurance of any change in risk
 - claim conditions: what procedures to follow in the event of claim

- arbitration conditions: what procedures to follow in the event of nonagreement on amount of claim (not liability)
- Also, policy conditions are classified into three categories:
 - o condition preceded to contract [i.e.] implied conditions
 - conditions subsequent to the contract e.g aberration to risks, premium adjustments, and notification condition
 - conditions precedent to liability: this is related to claims, and must be complied with if there is to be valid claims.

(2 marks for each correctly stated condition. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 3(a) What is the name of the Act (and Year) that gave rise to the use of the cover note? (2 marks)
- (b) Enumerate the use and importance of a cover note. (6 marks)
- (c) What does a certificate of insurance confirm which a cover note does not? (2 marks)

Solution

- (a) The use of cover note is in accordance of Road Traffic Act 1988. (2 marks)
- (b) It is used as a temporary cover for 15 days grace period (3 marks). It's importance is to ensure that there is no lapse in cover at any time before the permanent certificate of insurance is issued by the insurer after payment of premium

(3 marks).

(Sub-Total: 6 marks)

(c) A certificate of insurance **confirms** that a valid covers exist against the insured third party liability, injury/health the third party while the insured vehicle is in use.

(2 marks)

(Grand Total: 10 marks)

4. List any four (4) circumstances that an insurance Broker can play a dual role as an intermediary.

Solution

An insurance broker can play a dual role as an intermediary in the following circumstances:

- when the broker is explaining the policy terms as the agent of the insurer
- when the broker collets the premium on behalf of the insurer
- when the broker passing on a claim payment to the insured after execution of discharge voucher
- when the broker is advising on the cover required

- when the broker assists the client to complete a proposal form
- when the broker is advising the insured on how to make claim.
 (2½ marks for each correctly stated circumstance. Maximum of 4 circumstances to be graded.
 Grand Total: 10 marks)
- 5. Briefly discuss, with a minimum of four (4) points, the components and operations of the common pool in marine insurance.

Solution

The operation of a common pool started in the early days of marine insurance, where various merchants having goods carried on a particular ship agree to voyage, to make contribution to any member who suffered a loss during voyage, after the loss has taken insurance company gather together people who wants insurance protection and set up to operate a pool and takes contribution in forms of insurance premium from many people, and settle losses of few. This idea of common pool works because only few people will suffer losses within a year.

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

6. List any four (4) reasons/fundamentals for calculating capital requirements (solvency margin) for insurance operators in any insurance market.

Solution

The essence of capital adequacy requirement for insurance operators in Nigeria is to help to create a stable insurance market, and to protect consumers and policy holders. The risk of significant market stability, and policy holder loss as a result of insurance company failures will be reduced with adequate capital base.

The fundamental for calculation of capital (solvency margin) is the difference between the admissible assets and admissible liabilities the residue remaining is the solvency margin. Also, to ascertain the adequacy of capital bases, the assets and liabilities must be properly valued, and to ensure consistency, regulator like NAICOM gives guidelines as to valuation of firms' ad assets and liabilities, and what type of assets are allowed to make up affirm regulatory capital.

Also, regulations tend to use a risked based approach regulation governing the rules of solvency capital adequacy of insurance operator.

(2½ marks for each correctly stated fundamental point. Maximum of 4 points to be graded. Grand Total: 10 marks)

7. Briefly explain the terms "contingent assurance" and "more than one life" under life assurance contract.

Solution

Contingent assurance is a life assurance policy which provides for payment of the sum insured on the death of one life if that takes place during the lifetime of another (5 marks). More than one life is a life assurance policy effected on the life of more than one person, the sun assured being payable, either on the death of the first life, or on the death of the last survivor (5 marks). (Grand Total: 10 marks)

- 8. Explain briefly the following products:
 - (a) industrial life assurance; and
- (b) ordinary life assurance.

Solution

- (a) **Industrial Life Assurance** is designed for low income earners, who cannot afford the conventional endowment policy, and premium are paid in instruments like weekly, monthly at the policy holder home, however industrial life assurance is very expensive to maintain due to the door to door collections, and little premium involved. (5 marks)
- (b) **Ordinary Life Assurance** is a conventional life assurance policy that involves payment of premium on yearly, half-yearly, quarterly, and monthly basis, and sum insured is reasonable, and premium can be paid either through direct debit on the monthly basis or annually. (5 marks). (Grand Total: 10 marks)
- 9. What groups comprises the general structure of any insurance market. Give an example of each stated group.

Solution

Structure of any insurance market comprises of insurers, buyers and the intermediaries.

- **The buyers:** i.e. the insured e.g. commerce, industry, public authorities, and individuals
- **The intermediaries:** are Lloyd's broker, brokers, agents, consultants, loss adjusters, e.t.c.
- **The insurers:** life company, general insurance company (Non-life), composite company and reinsurers.

(2 marks for each correctly stated group except intermediaries which earn 3 marks. 1 mark for each correctly stated example).

(Grand Total: 10 marks)

10. List the four (4) advantages of direct sales in the distribution channels of insurance business.

Solution

The advantages of direct sales channel to insurer are: -

- low acquisition cost since there is no commission payable
- closer contact with customers which gives opportunity of cross selling
- exploits modern, efficient marketing, and processing tools such as call centres i.e. channel, and web centres, internet, e.t.c.
- attracts higher retention rate at renewal.

 $(2\frac{1}{2}$ marks for each correctly stated advantage. Total: 10 marks)

11. Are the basic principles of underwriting considered when underwriting main classes in general business insurance the same? Justify your answer with at least two (2) points.

Solution

The basic principles of underwriting vary from one class of business to another (4 marks); and it greatly influence the general approach and flexibility of underwriters as justified below:

- completion of proposals from which can be done online; and thereafter insurer will verify the information given on the personal forms (4 marks).
- for some personal line insurance, insurer delegate authority to brokers to accept simple risks on their behalf and issue policies, such as products like house-holders and motor (4 marks).

(Grand Total: 10 marks)

12. Enumerate the two (2) main forms of reinsurance showing the sub-division under each (if applicable).

Solution

Two main forms of reinsurance are:

- Facultative Reinsurance (3 marks).
- Treaty Reinsurance (3 marks).:
 - Proportional and Non-Proportional Treaty
 - Proportional Treaty: (1 mark).
 - Quota Share (½ mark) and Surplus Treaty (½ mark)
 - Non-Proportional Treaty (1 mark).
 - Excess of Loss (½ mark) and Stop Loss (½ mark).
 (Grand Total: 10 marks)

13. Mention any four (4) factors that limit the amount to be paid in settlement of claim under General Insurance business.

Solution

The factors that limit amount to be paid in general insurance business are:

- sum insured or limit indemnity.
- nature of cover.
- adequacy of cover.
- excess or franchise.
- deductibles.
- application of average clause.

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

- 14(a) Explain the meaning of "complaint" in insurance practice. (4 marks)
- (b) List any two (2) reasons why "complaints" can be justified as a good behavior to insurance firms. (6 marks)

Solution

- a) Complaint in insurance practice is any expression dissatisfaction whether written, or oral, whether justified, or not. (4 marks)
- b) "Complaints" can be justified as a good behavior to insurance firms for the following reasons:
 - complaints are valuable feedback from customers that is available to insurance company in order to take step to improve services
 - insurance companies handle compliant as feedback effectively to avoid bad negative publicity from the public
 - complain also represent opportunity for direct personal contact with the customer, and a chance to rebuild trust, and enhance customer loyalty.
 (3 marks for each correctly stated reason. Maximum of 2 to be graded. Sub-Total: 6 marks)
 (Grand Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

- 15(a) Clearly distinguish between cover under Permanent Health Insurance (PHI) and cover under Industrial Life Assurance. (15 marks)
- (b) Enumerate any five (5) types of liability insurance. (10 marks)
- (c) List any two (2) exclusion(s) under professional indemnity policy. (5 marks) **Solution**
- a) Cover under **Permanent Health Insurance (PHI)** is designed to provide benefits for those who may become disabled for longer period or those who change occupation to a lower grade due to accident and illness. The policy is also referred to as long term disability insurance, and cover cease at age 55 years or maximum of 65 years. Premium Payment here is at the instance of the policyholder and not by the insurer; while cover under **Industrial Life Assurance** is designed to provide cover for low income earners who cannot afford to pay premium for conventional policy and premium payment is at the instance of the insurer through regular visits to collect premium from the policyholders.

(4 marks for the correct description of how cover is provided; $3\frac{1}{2}$ marks for correctly stating how premium is collected. Sub-Total per Term = $7\frac{1}{2}$ marks; Grand Sub-Total: 15 marks)

- b) The different types of liability insurances are:
 - Employers Liability Insurance
 - Public Liability
 - Product Liability
 - Professional Indemnity
 - Directors and Officers Liability.

(2 marks for each correctly stated type. Sub-Total: 10 marks)

- c) The exclusions under professional indemnity policy are:
 - confiscation
 - war risks, riot and strike
 - connivance of the insured employee
 - intentional misconduct; and
 - deliberate action which leads to negligence.

(2½ marks for each correctly stated exclusion. Maximum of 2 exclusions to be graded. Sub-Total: 5 marks) (Grand Total: 30 marks)

- 16(a) Explain the term "theft" as contained in the Theft Act 1968. (6 marks)
- (b) Differentiate between "theft" and "larceny" covers in insurance. (10 marks)
- (c) List the two (2) basic exclusions under Theft/Burglary Insurance policy.
 (10 marks)
- (d) List any two (2) other insurance related services that are rendered by insurance companies to customers. (4 marks)

Solution

- a) 'Theft' according to the Theft Act 1968 is that "a person is guilty of theft if he dishonestly appropriates property belonging to another with the intention of permanently depriving that other of it ... and thief and steal will be construed accordingly". (6 marks)
- b) Larceny, which can be explained to be a policy cover for theft without a proof of forcible exit and/or entry. This cover can only be a buy-back as an extension of the standard theft/burglary policy. This is because the standard theft/burglary policies require forceful exit and entry before a valid claim can crystalise; while also noting that under the standard policy, larceny is a clearly stated exclusion. Under standard theft/burglary policy, larceny is an exclusion because there would not be forcible exit and entry on occurrence.

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

- (c) Two basic exclusions under Theft/Burglary Insurance policy are:
 - loss as a result of connivance/deliberate act of the insured employee or household
 - damage as a result of connivance/deliberate act of the insured employee or household
 - loss which does arise from forcible entry or exit.
 - damage which does arise from forcible entry or exit.
 (5 marks for each correctly stated exclusion. Maximum of 2 exclusions to be graded. Sub-Total:
 10 marks)
- (d) Other insurance related services that are rendered by insurance companies to customers are:
 - risk management consultancy
 - claim management consultancy
 - disaster recovery service.

(2 marks for each correctly stated service. Maximum of 2 services to be graded. Sub-Total: 4 marks)
(Grand Total: 30 marks)

- 17(a) Enumerate five (5) common features of insurable risks. (15 marks)
- (b) Distinguish between pure risk and speculative risk. Give an example of each. (8 marks)
- (c) Differentiate between physical hazards and moral hazards with examples. (7 marks)

Solution

- a) The common features of insurable risks are:
 - the risk must be pure in nature e.g. risks that result in a loss to the insured e.g. fire, flood, collision, e.t.c.
 - the risk must be determinable i.e. it must be possible to quantify the loss in financial terms
 - the risk must be fortuitous i.e. random rather than inevitable. Wear and tear is inevitable and may not be insured, however for life assurance cover death is inevitable, but the timing is fortuitous.
 - they must have insurable interest i.e. there must be a recognised relationship between the insured and the loss. e.g. ownership of a house/property, the existence of insurable interest differentiates insurance contract from gambling, e.t.c.
 - homogeneity i.e. the risk must be homogenate. There must be a large number of exposures to similar risk in order to create a common pool
 - the risk must be independent i.e. the risk must be independent of each other, in order to prevent a single event affecting a large number at the same time, to prevent catastrophe loss.
 - the risk must not be against public policy e.g. insuring the benefit of the crime

(3 marks for each complete and correctly stated feature. Maximum of 5 to be graded. Sub-Total: 15 marks)

(b) **Pure risk** is a type of risk that cannot be controlled and has two outcome: complete loss or no loss at all i.e. the risk that has the likelihood of occurring e.g. fire, flood, and losses from natural causes; while **speculative risk** is a type of loss that can result into either a loss or a gain, and the outcome is already known or predicable e.g gambling, e.t.c.

(3 marks for each correct explanation/definition. 1 mark for each correct example. Sub-Total per term = 4 marks. Grand Sub-Total: 8 marks)

(c) **Physical hazards** relate or attach to the subject matter of insurance e.g. in property insurance, it could be the nature of construction of a building; or whether there is fire extinguisher in the building or not, e.t.c. while **moral**

hazards relate to attitude of the insured or the proposer rather than to the subject matter of the insurance e.g. the behavior of the proposer, whether the insured lack duty of care, or he is a regular claimant.

23 marks for each correct explanation/definition. 1½ marks for each correct example. Sub-Total per term = 3½ marks. Grand Sub-Total: 7 marks)

(Grand Total: 50 marks)

- 18(a) Briefly discuss the scope of cover under standard fire insurance policy.

 (5 marks
- (b) List any ten (10) additional perils and extension of cover usually included to a standard fire insurance policy. (10 marks)
- (c) Briefly explain the term "outsourcing" as it relates to insurance operations and list any two (2) aspects of insurance operations that can be outsourced.

 (15 marks)

Solution

- a) The scope of cover under standard fire policy is loss or damage to property caused by fire, lightning, or explosions, where such explosion is caused by gas or boilers not used for any industrial purpose. (5 marks)
- b) The additional perils and extension of cover usually included to a standard fire insurance policy are:

(1 mark for each correctly stated exclusion. Maximum of 10 to be graded. Sub-Total: 10 marks)

c) Outsourcing in insurance is the act whereby an insurance company, while seeking to focus on its 'core business' and reduce costs, engages external partners/specialist providers to assist with managing a range of its none core insurance who should be able to do them more efficiently.

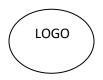
Some insurance related services that can be outsourced are:

- sale of insurance policies of agents or insurance brokers, and ancillary services relating to those sales
- reinsurance cession
- independent advisory and consultancy services
- loss adjusting services

- independent audit review
- medical examination by assigned medical and health clinics and centres
- market information services
- purchase of goods and commodities
- repair and maintenance of fixed assets
- maintenance and support of licensed software
- specialized recruitment and procurement of specialized training
- employment of contract or temporary personnel
- common network infrastructure
- banking services
- printing services
- transportation services
- mail and courier services
- cleaning services
- utilities and telephones.

(4 marks for each correct and completely stated explanation under the explanation of the term. Maximum of 2 points to be graded. Sub-Total: 8 marks. 3 ½ marks for each correctly stated operation. Maximum of 2 to be graded. Sub-Total: 7 marks. Grand Sub-Total: 15 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D04 BUSINESS PRACTICE

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- ♣ 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.
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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

D04 - BUSINESS PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all the 20 compulsory questions, which carries 10 marks each, the paper carries a total of 200 marks.

You are strongly advised to attempt ALL the 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: 21.5%

Highest Score: 76%

Lowest Score: 09%

Average Score: 39%

Breakdown Updates

Question 1

Some candidates who understood the question obtained full marks while others did poorly. Overall performance was below average.

Question 2

Candidates showed proper understanding of the question and hence has a good overall performance.

Question 3

Candidates failed to differentiate between the concepts. Many candidates did well in the (b) part.

Question 4

The performance was poor on the two parts.

Question 5

Many candidates mixed up the diagrams in the question, this shows there was no proper understanding of the question.

Question 6

This is an averagely understood question. Those who understood it performed well in it while those who did not scored low marks.

Question 7

The question tested candidates' knowledge on the roles of non-managerial staff. Candidates performed well and overall performance was impressive.

Question 8

Candidates that attempted the question performed well.

Question 9

It was well attempted and understood. Performance was average.

Question 10

This is a direct question from the coursebook and performance was average. It revealed that candidates did not study the coursebook very well.

Question 11

The part (a) was direct from the textbook and it had above average performance. However, the (b) part which was applied had below average performance by the candidates.

Question 12

This was attempted by about 95% of the candidates. The performance was average.

Question 13

Most candidates did not understand the question. Only about one third of the candidates performed well.

Question 14

A fairly good question with average passes.

Question 15

It tested candidates' knowledge of some terminologies. Candidates performed below average. Most candidates did not have a knowledge of these simple terminologies.

Question 16

The success rate was about 20%. Majority of the candidates misunderstood the purpose of market for constrains expectations of product/service.

Question 17

The overall performance was average. Almost about half of the candidates did not understand the question.

Question 18

There was evidence that candidates did not study for 18(a). Candidates are advised to read wider and harder in future. Performance was just average.

Question 19

The question was well understood. About 98% of the candidates passed. Performance is encouraging.

Question 20

Most candidates did not understand the question. Part (a) was particularly difficult for them. The overall performance was below average.

Chief Examiner's Comments on Overall Performance:

The performance was poor generally.

Chief Examiner's Suggestion on Improvement:

Candidates' should read the coursebook and do a thorough study to prepare for future examination(s).

D04 - BUSINESS PRACTICE

1. 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.

Solution

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)

- 2(a) Enumerate three (3) of the four (4) factors that determine the way a business is structured. (6 marks)
- (b) List the four (4) principal legal structures of business organisations.

(4 marks)

Solution

- a) The factors that determine the way a business is structured are the:
 - size of the business
 - desired life of liability for its owners in the event of its failure
 - relationship between the partners (if any) in the business
 - attributes aim of the owners of the business (2 marks for each correctly stated factor. Maximum of 3 to be graded. Sub-Total: 6 marks)
- b) The four (4) principal legal structures of business organisations are:
 - sole traders
 - partnerships

- company limited by shares
- company limited by guarantee

(1 mark for each correctly stated structure. Sub-Total: 4 marks)
(Grand Total: 10 marks)

- 3(a) Define the following terms:
 - (i) economy and (ii) economics. (6 marks)
- (b) Distinguish between "for-profit" and "not-for-profit" organisations, stating an example on each. (4 marks)

Solution

a) **Economy** is the complex of human activities underseen with the profit and concerned with the production, distribution and consumption of goods and services; while **economics** deal with efficiency issues, such as helping managers to identify how to maximize profit by making the test use of their resources; *or economics* is the social science concerned with the production, distribution, consumption of goods and services, and the analysis of commercial activities of society.

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

b) **For-profit organisations** exist to make profit for their shareholders by selling goods or services to their customers e.g. brokers, insurance companies whereas **not for profit organisations** exist to provide good and services, while keeping within the funds allocated to them by their funders e.g. trade unions, universities, e.t.c.

(2 marks for each correct explanation. Sub-Total: 4 marks) (Grand Total: 10 marks)

- 4(a) What do you understand by the term "business ethics"? (4 marks)
- (b) Enumerate any three (3) reasons why ethical issues are important in managing an insurance company in any country. (6 marks)

Solution

a) Business ethics means the standards and conduct that a company or business sets for itself in its dealings within the organisation and outside - within the business and social environment. It concerns the application of moral principles and how individual conduct themselves in social affairs.

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

b) Some reasons why ethical issues are important in managing an insurance company in any country are:

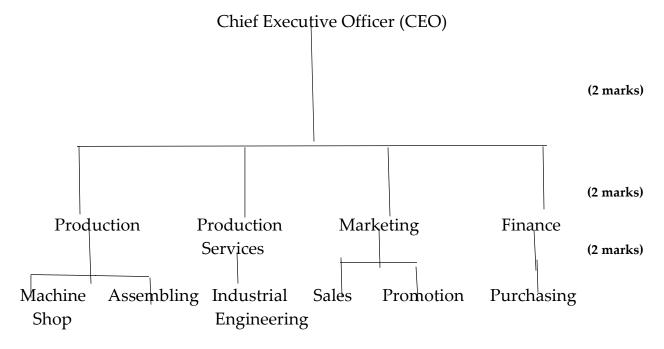
- large organisations have revenue which is often more than small ones, therefore, how these companies use their wealth can have implications for the wellbeing of the countries in which they operate
- consumers and consumers groups now increasingly judge organizations by the way they handle ethnical and environmental issues
- as strategic business decisions are partly determined by the culture influences of societies, cultural factors can affect the moral thinking of managers
- responsibility angle, and power are closely in the work. Senior managers
 in large companies will take a decision which may affect the community
 positively or otherwise.

(2 marks for each correctly stated reason. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

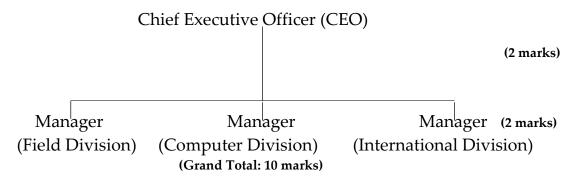
5. With the aid of a diagram, distinguish between functional design and divisional design organisation structure.

Solution

The Functional Design



The Divisional Design



6. Enumerate any five (5) main characteristics of a project team.

Solution

The characteristics of a project team are:

- the teams are units created to cope with a highly unstable business environment
- it reflects a close identification with the aliments' needs
- they are temporary structures formed to deal with a particular task or problem
- the team are to consolidate technical expertise rather than to reflect any notion of management literacy
- the teams are usually created to deal with specific client's account.
- work may be organised around several teams and each of them handling different challenges.

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

- 7. Identify two (2) roles each of the following non-managerial staff in an insurance company:
 - (a) Recruitment Manager
- (b) Training Officer/Manager
- (c) Technical Underwriter
- (d) Accountant.

Solution

(a) Recruitment Manager: identify recruitment needs conduct job analysis handle job advertisements interview candidates (b) Training Officer/Manager Identify training needs Plan and coordinate training needs

obtain references.	
(c) Technical Underwriter	(d) Accountant
 provide technical advice 	Handling accounting needs including
on product underwriting	budget
 rate technical skills 	Expenditure reporting
	 Preparing end of the year accounts.

(1½ marks for each correctly stated role. Maximum of 2 to be graded per term. Sub-Total per term: 2½. Grand Total: 10 marks.)

- 8(a) Enumerate and briefly explain the two (2) strategic areas where knowledge management is applicable. (6 marks)
- (b) State the four (4) main steps of making decisions. (4 marks) **Solution**
- (a) The two (2) strategic areas where knowledge management is applicable are:
 - Codification Strategy: here, the knowledge management centres on the computer. The knowledge is carefully codified and stored in databases, where it can be accessed and used easily by appropriate employees.
 - **Personalization Strategy:** is where knowledge is closely tied to the person who developed it and is shared mainly through direct person-to-person contact.

(2 marks for stating the area. 1 mark for correct explanation of the stated area. Sub-Total: 6 marks)

- (b) The four (4) main steps of making decisions are:
 - understand why decision must be taken
 - prior consideration and discussion of the options
 - taking the most appropriate decision
 - review.

(1 mark for each correctly stated step. Sub-Total: 4 marks) (Grand Total: 10 marks)

9. In most countries, it is a regulatory requirement for insurance companies to provide annual returns and annual accounts (or financial statements). Enumerate, with two (2) and three (3) examples respectively, what is contained under each of these requirements.

Solution

Annual Return	Annual Account
Company's Directors	Profit and Loss Account
• Company's	 Balance Sheet Signed by a Director
Shareholders	 Auditor Report Signed by the Auditor

• Company's Capital	Share	 Director's Report signed by a Director or the Company Secretary
		 Chairman's Statement

(2 marks for each correctly stated item. Maximum of 2 to be graded under annual return and 3 to be graded under annual account. Grand Total: 10 marks)

10. Distinguish between a company's "memorandum of association" and "article of association".

Solution

A **memorandum of association** is a document in a format specified by regulations which set out a limited company's name, object and registered office. It also states that the liability of the members is limited and specifies the maximum amount of capital the company may raise and its division of shares of a fixed amount.

A company's **articles of association** contain the regulations for the running of the company's internal affairs. They contain the main provision covering the relationship between the shareholders and the company, as well as moderating the balance of power between the shareholders themselves.

 $(2\frac{1}{2}$ marks for each correctly stated explanation. Maximum of 2 per term. Sum-Total per term: 5 marks. Grand Total: 10 marks)

- 11(a) List the two reasons for classifying some information as confidential in an organisation.
- (b) Enumerate two (2) implications to an organisation for staff to be working from/at home by its members of staff.

Solution

- (a) The two reasons for classifying some information as confidential in an organization are that the information might cause:
 - the organisation harm, especially from competitors if it fell into the wrong hands
 - an individual harm or embarrassment. (2½ marks for each correctly stated reason. Maximum of 2 per term. Sub-Total: 5 marks.
- (b) The implications to an organisation for staff to be working from/at home by its members of staff are:
 - lack of security of the computers record in that the manager or the supervisor cannot see what is going on

- there will need to be precautious against unauhorised use of company equipment and assess of the company's record by unauthorised persons
- effective controls and audits need to be established and put in place for any home worker.

(2½ marks for each correctly stated implication. Maximum of 2 per term. Sub-Total: 5 marks.) (Grand Total: 10 marks)

- 12(a) What do you understand by the "financial statements of an organisation"?

 (4 marks)
- (b) State any two (2) distinct components of a company's financial statement and explain their purposes. (6 marks)

Solution

(a) The financial statements of an organization are intended to show "true and fair views" of the economic activities of the organisation and are available not just for shareholders, but for anyone who wishes to inspect them. They are produced within a highly regulated legal framework to enable fair comparisons to be made on the financial position of different organisation, whatever they are in the same industry or not.

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

- (b) The components of a company's financial statement are:
 - **the profit and loss account:** which shows the financial position of a company as a result of transaction during the accounting period
 - **the balance sheet**: which shows at a particular point in time the company's assets and liabilities and the shareholders' funds
 - cash flow statement: which shows the sources and uses of cash and are a useful indirection of a company's liquidity and solvency

(2 marks for each correctly stated component. 1 mark for correct explanation. Maximum of 2 components to grade. Sub-Total per component: 3 marks. Grand Sub-Total: 6 marks.)

(Grand Total: 10 marks)

- Write short notes on any two (2) of the following:
 - (a) Financial Accounting (b) Solvency Margin
 - (c) Principle of Double-Entry.

Solution

a) **Financial Accounting:** describes a general business discipline which consist of a series of technical and procedures that are used to identify, measure, record and communicate financial information about an organization to a range of

people who may be interested with. In this sense, financial accounting refers to information which has to be made available in the published accounts.

- b) **Solvency Margin:** is a strong indication of an insurance company's strength and reserves, the protection afforded to creditors and, ultimately its ability to pay claims to the customers.
- c) **Double-Entry Principle:** shows the two-fold effect by requiring each transaction to be entered in the books of account. This reflects that the business receives and gives values. For example, if an insurer sells an insurance and receives cash from a customer, it has to give services in return.

(2½ marks for each correctly stated explanation. Maximum of 2 explanation to be graded per term. Maximum of 2 terms to be graded. Sub-Total per term: 5 marks. Grand Sub-Total: 10 marks.)

14. Concisely summarise what you understand by the planning and control cycle.

Solution

The planning and control cycle are as highlighted below:

- organisation make initial aims and objectives, assumption and predictions
- these are formalised into detailed plans and budgets anticipated results
- as the financial period develops, and throughout the period, actual performance is compared with the plan.
- corrective action is taken as necessary to attend the targeted result
- this is in the form of a cycle, that is, an ongoing and repetitive exercise. (2 marks for each correctly stated process in the cycle. Total: 5 marks)
- 15(a) Explicitly define any two (2) of the following terms:
 - (i) Management Accounting
- (ii) Budget

(iii) Variance

(6 marks)

(b) What is the major difference in the structural requirements between financial accounting and management accounting? (4 marks)

Solution

- a) (i) **Management Accounting**: document that looks at present financial performance and projects forward to the future to enable managers make sound decisions relating to the business. It is for internal use only.
- (ii) **Budget:** for individuals or department will show allocated funds or resources and their financial objectives, expressed in terms of income and expenses. It is usually concerned with relatively short periods of time, up to a year.

- (iii) **Variance**: variance arises where there is a difference (positive or negative) between the anticipated or actual results at the end of a budgeting period.

 (2 marks for each correctly stated explanation. Sub-Total: 6 marks)
- b) **Financial Accounting:** is highly structured around the accounting equation, while **management accounting** can be formulated in different ways to suite many purposes.

(2 marks for each correctly stated explanation. Sub-Total: 4 marks) (Grand Total: 10 marks)

16(a) State four (4) purposes of market research.

(8 marks)

(b) List the two (2) most common methods commonly used to collect market information for data analysis. (2 marks)

Solution

- a) The purposes of market research are:
 - develop marketing plan
 - identify target markets
 - formulate marketing strategy
 - control market operation
 - monitor the success of products or services.
 (2 marks for each correctly stated purpose. Maximum of 4 to be graded. Sub-Total: 8 marks)
- (b) The two (2) most common methods commonly used to collect market information for data analysis are:
 - questioning
 - observation

(1 mark for each correctly stated method. Sub-Total: 2 marks) (Grand Total: 10 marks)

- 17(a) What are the four (4) critical areas that the "people part" of marketing mix should address? (8 marks)
- (b) List one advantage and one disadvantage of "personal selling". (2 marks) **Solution**
- a) The four (4) critical areas that the "people part" of marketing mix should address are:
 - * staff level
- * manpower planning
- * duty rosters
- * training and development.

(2 marks for each correctly stated area. Sub-Total: 8 marks)

b)

Advantages	of	Personal	presentation is flexible
Selling			 has immediate effect
Disadvantage	of	Personal	 it is very expensive
Selling			, -

(1 mark for each correctly stated advantage & disadvantage. Sub-Total: 2 marks) (Grand Total: 10 marks)

- 18(a) In a workplace, list and briefly explain the two (2) types of effective feedback. (8 marks)
- (b) Enumerate any two (2) distinct phases of the appraisal process. (2 marks) **Solution**
- a) The types of effective feedback in a workplace are:
 - **reinforcement:** this identifies job-related behaviours and performance that contribute to individual, group or organizational goals and encourages the individual to repeat and develop them.
 - redirection: this identifies behaviors and performance that do not contribute to individual, group or organizational goals, and helps the individual to develop alternative tactics.

(2 marks for each correctly stated feedback. 2 marks for correct explanation under each stated feedback. Sub-Total per feedback: 4 marks. Sub-Total: 8 marks)

- b) The distinct phases of the appraisal process are:
 - assessing the individual performance
 - agreeing the assessment
 - identifying the training and development needs
 - setting objectives.

(1 mark for each correctly stated phase. Maximum of 2 to be graded. Sub-Total: 2 marks) (Grand Total: 10 marks)

19. Identify any four (4) indications of a weakening corporate culture which could lead to poor organisational health of an organization.

Solution

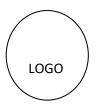
The indicators of a weakening corporate culture which could lead to poor organisational health of an organization are:

- diminished productivity
- increased employee sabotage of company property
- increased absenteeism
- increased expressions of grievances against colleagues and managers

- strikes, work-to-rule and lockouts.
 (2½ marks for each correctly stated indicator. Maximum of 4 to be graded. Total: 10 marks)
- 20(a) State and explain the three (3) components of motivation. (6 marks)
- (b) In motivation, the adoption of an effective people approach is essential. State four (4) benefits of this approach. (4 marks)

Solution

- a) The components of motivation are:
 - direction: i.e. what a person is trying to do
 - effort: i.e. how hard a person is trying
 - persistence: i.e. how long a person is trying
 (1 mark for correctly stated component. 1 mark for correct explanation. Sub-Total per component: 2 marks. Sub-Total: 6 marks)
- b) In motivation, the benefits of an effective people approach are:
 - reductions in recruitment and training costs
 - efficiency gains through retention of skilled and experienced people
 - it will enable customer service tool to be increased
 - it will favourably impact the bottom line (i.e. profitability).
 (1 mark for correctly stated benefit. Sub-Total: 4 marks)
 (Grand Total: 10 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D05 INSURANCE 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.
- ♣ 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

D05 - INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 39.91%

Highest Score: 74%

Lowest Score: 0%

Average Score: 37%

Breakdown Updates

Question 1

The question was to test the candidates' knowledge of what goes on in the insurance industry. Attempt was (90%) but performance was below average (45%). Main reason for poor performance could be due to the fact the candidates did not keep tab with events in the industry. Candidates are advised to read journals, newspapers and publications by the Institute designed to update them of what goes on in the industry.

Question 2

This is to test candidates' understanding of the concept of waiver as it relates to insurers. Attempt was good (100%) performance was poor (30%) candidates did not prepare adequately for the examination. Common error noticed was the tendency of candidates to write long story leaving the substance. Adequate preparation is recommended. The question in that part of the examination paper does not require long introduction. It is supposed to be a short-note question requiring direct answers.

Question 3

The question was to test the understanding of the latin maxim and the exceptions, thereto. There was 80% attempt and performance was above average (55%). Common error was with the exceptions. Candidates did not have a good understating of what the exceptions are. Adequate preparation is recommended. Candidates are advised to seek tutorial assistance in their preparation for future examinations.

Question 4

This question dealt with statutory exceptions to the doctrine of privity of contract. Attempt was good (98%) but performance was just 45%. Many did not state the impact of the two statutes but diverted mainly to the concept of privity of contract which was not the focus of the question. Candidates are to read and understand the coursebook for future examination. Tutorial aid should also be sought.

Question 5

The question was to test candidates' knowledge or understanding of the control an insurer has over the insurance money paid to the insured. Attempt was good (90%) but performance poor (40%). Reason for this could be that candidates did not read the coursebook well. Many discussed the concept of indemnity generally. It is recommended that candidates should prepare well for future examination(s).

Question 6

The question required the candidates to list the rules for interpreting insurance policies. 70% attempted the question. Performance was 10%. Common error candidates showed that they did not understand the requirements of the question. This might be that they did not prepare well for the examination. Candidates are urged to prepare adequately for future examination.

Question 7

The questions was intended to test the candidates' knowledge of how the doctrine of indemnity could be affected by certain types of insurance policies. They were required to discuss two of such policies briefly. 80% attempted the question but only 50% performed well. Common error was the fact that candidates wrote a lot of irrelevant things. The question required them to briefly discuss and not tell story. Candidates are urged to stick to the wording of the question asked them in future.

Question 8

The question required candidates to explain the doctrine of subrogation. It was a popular question as over 90% attempted the question performance was slightly above average. Candidates defined the doctrine well but did not understand the three key elements of the doctrine. Candidates are urged to prepare well for future examination(s).

Question 9

The question required candidates to explain what is meant by "contribution condition". Attempt was 80%; over 50% of this performed averagely while above 20% performed excellently. Overall, performance was good but there is still room for improvement. Adequate preparation is key.

Question 10

The question was meant to test the candidates' knowledge of the principles of law laid down in the case as it relates to the law of contract. Attempt was over 90% but good performance was less than 10%. Common error was that majority did not state the principles. This could be that candidates did not read cases or pay attention to important cases in the coursebook. It is advised that candidates

should identity and study important cases that lay down important legal principles. While they are not expected to read all cases, they should be able to identify and understand important ones.

Question 11

The question was to test the candidates' knowledge of the tort of trespass and its relevance to insurance. Attempt was good (over 90%), many got the definition right but could not discuss the relevance of insurance to the tort. Only 50% performed well. The lack of understanding of tort in general could be the reason why candidates could not discuss the relevance of insurance to it. Proper and indepth understanding of the coursebook is required for an overall good performance in this course.

Question 12

This question was designed to make the candidates define the tort of negligence and test the application of the definition to a hypothetical scenario in the question. Attempt was above 90%; performance was not encouraging, the mistake of many was the inability to demonstrate the practical application of the definition. Reason for this could be due to lack of adequate preparation. Candidates are urged to seek tutorial aids for future examination(s).

Question 13

The question was intended to see if candidates understood the doctrine of waiver in law and what would constitute waiver on the part of the insurer. Attempt was above 90% but performance was below average. Candidates did not understand the simple textbook question. Reason could be lack of adequate preparation. Every aspect of the coursebook is important and should be read and understood for good result to be obtained.

Question 14

This is a textbook question to test how a general contract could be ended by operation of law not by acts of the policies. Attempt was 90%; good performance was close to 80%. Notwithstanding, there is room for improvement.

Question 15

A three-in-one question (part a -c) which was meant to test the comprehensive knowledge of the insurance concept of insurable interest. Over 90% attempted this question and they performed very well. Over 70% of the 90% that attempted part b and c passed to have a 100% score.

Question 16

This question was meant to test candidates' knowledge of what would constitute improper or undue influence in contractual relationship. Attempt was over 90%; performance was 100% for the first part but performance in the second part was low. The reason for this was because candidates could not properly apply general principles in part (b) to practical aspect in the (b) part. Candidates should seek proper tutorial aids to be able to do this.

Question 17

The question was meant to test the candidates' understanding of how the courts will likely interprete ambiguities in insurance policy. Over 90% attempted the question. Above 50% was recorded. Common error noticed was that candidates did not understand the topic very well and therefore were unable to give or satisfy the requirements of the question. Adequate preparation is the answer.

Question 18

The question was meant to test candidates' knowledge of the meaning of a local custom; and how and when it will constitute a valid or legal source of law. Attempt was about 50%. 80% of those who attempted the question passed it. Reason why some failed was because of their inability to state and explain the conditions to be fulfilled before a local custom would be taken as a good source of law. Adequate preparation is recommended for future good performance.

Chief Examiner's Comments on Overall Performance:

The overall performance is poor – less than 40%; perhaps, the COVID-19 pandemic disturbed the candidates in their preparation for the examination. However, the trend has always been like this. It is clear now that tuition centers need to be established to teach future candidates.

Chief Examiner's Suggestion on Improvement:

Awareness of the existence of tuition center to be created amongst the candidates and they should be encouraged to attend them.

Part I

Answer ALL questions in Part I. Each question carries 10 marks.

- 1(a) What is the name of the successor of Alhaji Muhammed Kari as the head of National Insurance Commission of Nigeria? (2 marks)
- (b) What was his designation for the position when initially appointed?

(2 marks)

- (c) Who is the current President of the Nigerian Council of Registered Insurance Brokers? (2 marks)
- (d) Who is the current Chairman of the Nigerian Insurers Association?

(2 marks)

(e) Who is the current President of the Chartered Insurance Institute of Nigeria? (2 marks)

Solution

- a) Mr. Sunday O. Thomas (2 marks)
 b) Acting Commissioner for Insurance (2 marks)
 c) Dr. (Mrs.) Bola Onigbogi (2 marks)
 d) Mr. Ganiyu Musa (2 marks)
 e) Sir Muftau Oyegunle (2 marks)
 - (Grand Total: 10 marks)
- 2(a) What is "waiver by Estoppel"?

(4 marks)

(b) Enumerate any three (3) actions that will constitute a "waiver of warranty" by an insurer? (6 marks)

Solution

- a) **Wavier by Estoppel:** is when an insured in breach of a warranty cannot enforce the contract unless he can prove that the insurers have by their word or conduct indicated that they, the insurers, do not intend to rely on the breach as a defense to avoid the liability under the contract. (4 marks)
- b) The following actions will constitute a waiver of warranty on the part of an insurer:
 - knowing the breach, the insurer issued or renewed the policy
 - knowing the breach, the insurer accepted further premium
 - knowing the breach, the insurer advised the insured for further prevention
 - knowing the breach, the insurer resisted the claim on the ground other than breach of warranty

• knowing the breach, the insurer gave the insured 30 days' "Notice of Cancellation" under a cancellation clause instead of treating the contract as having ended automatically.

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

(Grand Total: 10 marks)

What does the term 'delegatus non potest delegare' mean? List any four (4) exceptions to this general rule?

Solution

The term 'delegatus non potest delegare' means that an agent cannot further delegate the authority donated to him by his principal. He must render personal service to his principal. (2 marks)

The exceptions to this general rule are:

- if there is express agreement allowing delegation
- where the right to delegate can be or is implied e.g. carrying out of routine clerical tasks
- delegation is allowed by custom of the trade
- necessity may dictate delegation
- for proper performance of the agency task, delegation may be permitted or excused

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

(Grand Total: 10 marks)

- 4. Briefly discuss the impact of the following statutes on the common law doctrine of privity of contract:
 - (a) Fires Prevention (Metropolis) Act 1774
 - (b) The Third Parties (Rights Against Insurers) Act 1930.

Solution

a) Fires Prevention (Metropolis) Act 1774: The doctrine of privity of contract restricts the right to enforce terms of a contract only to parties to it. No one outside of the contract is allowed under the doctrine to claim any right or suffer any detriment. However, under the Fires Prevention (Metropolis) Act 1774, in its section 83, a person who has a legal or equitable interest in buildings e.g. a tenant/lessee, mortgagee or a person who has exchanged contract is allowed to effectively compel the owners or their insurers to reinstate the property if it is damaged or destroyed by fire. In this way, a third party can influence the way in which the claim will be settled.

(1½ marks for each complete and correctly stated point. Maximum of 4 to be graded. Sub-Total: 5 marks)

b) The Third Parties (Rights Against Insurers) Act 1930: This Act attempts to correct the injustice the victim of a motor accident whose wrongdoer becomes bankrupt in case of an individual or insolvent or liquidated in case of a corporate entity, before the victim could recover any damages. In insolvency or bankruptcy proceedings, such a victim will have to contend with other creditors. In this way, the victim may or may not get anything. Based on the common law of Privity of Contract, the accident victim would not be able to make a direct claim from the wrong doer's insurers. By the provision of this Act, the victim is now given the right to bring an action against the liability of insurers for adequate compensation.

(1½ marks for each complete and correctly stated point. Maximum of 4 to be graded. Sub-Total:

5. In a vast majority of cases, the method of providing indemnity under an insurance contract will be money payment to the insured. Can the insured spend the money as may be paid by the insurer as he, the insured, wishes? Concisely justify your answer.

Solution

Indemnity is provided in any of the following ways – replacement, reinstatement, repair and cash/money payment (2 marks).

Where payment of money is made by the insurer to the insured, the insured does have the right to spend the insurance money as he wishes - for other purpose for which the money was paid (2 marks).

However, the insured may be required to apply the money for the purpose it was paid because of the insured relationship with a third party e.g. lease agreement, mortgage deed, terms of hire purchase agreement, e.t.c. (2 marks).

Where the insured refuses to reinstate, this may affect the amount of claim settlement. If he fails to reinstate, claim will be made or settled on the basis of ordinary indemnity less deduction of wear and tear which will be made and this will affect the claim (2 marks).

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

6. Enumerate the common law rules for interpreting insurance policies.

Solution

The common law principles for interpreting insurance policies are as follows:

- Ordinary Meaning
- Technical or Legal Meaning (Golden Rule)
- Contextual Meaning
- Contra Proferentem Rule

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

- 7. Briefly discuss how the following affect the doctrine of indemnity:
- (a) Agreed Value Cover/ Valued Policy

(4 marks)

(b) Partial Losses Under Valued Policies

(6 marks)

Solution

- a) **Agreed Value Cover/Valued Policy:** This is indemnity operating in a modified form. By it, in the event of the risk or peril insured against happening, a particular sum, pre-agreed and fixed at the outset of the insurance will be paid regardless of the actual value of the property for example. Unlike what was decided in the case of *Jabbur v. Custodian of Isreali Absentee Property* to the effect that indemnity claim is one for unliquidated damages, the case of valued policy is liquidated, known from the onset. The object of valued policy is to avoid dispute as to the value of the property at the time of loss. It is a cover often employed where the property is unique or a type for which there is a limited market e.g. works of art, vintage cars under it, the insurer must pay the agreed value regardless of the actual value at the time of loss even if they have reason to prove that the value has depreciated since the insurance opened. (2 marks for each complete and correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)
- b. **Partial Losses Under Valued Policies:** In the case of total loss under a valued policy, the insurer pays the agreed irrespective of whether the valued has depreciated or appreciated in the case of partial loss, the rule established in the case of Elcork v. Thompson (1949) shall apply. The rule is to the effect that the insured who suffers a partial loss under an agreed value policy shall get a proportion of the agreed values which is equivalent to the degree of deprecation in actual value caused by the loss (partial loss)

(3 marks for each complete and correctly stated point. Maximum of 2 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 8(a) Explain what you understand by the term "subrogation". (4 marks)
- (b) Enumerate two of the three (3) circumstances under which subrogation right will arise. (6 marks)

Solution

8. Subrogation is a doctrine in favor of the insurers developed in order to prevent the assured from recovering more than an indemnity. It is an insurance doctrine where the insurer stands in the position of the insured, after indemnifying the insured on the loss, to recover its outlay from the negligent party.

(2 marks for each complete and correctly stated point/example scenario. Maximum of 2 to be graded. Sub-Total: 4 marks)

- b. Subrogation right will arise in the following circumstances:
 - in tort
 - in contract
 - by Statute

(3 marks for each correctly stated circumstance. Maximum of 2 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 9(a) What do you understand by contribution condition? (2 marks)
- (b) Why is the contribution condition usually stated in an insurance policy document? (2 marks)
- (c) List any three (3) examples of contribution conditions used in insurance contracts. (6 marks)

Solution

a) Contribution condition is a clause that sets out how the loss is to be met if the insured has another insurance policy which covers the same loss. This is to disallow the common law rule that permit the insured to be able to claim against the insurer in any order and for such proportion of the loss.

(2 marks for any complete and correctly stated point. Maximum of 1 to be graded. Sub-Total: 2 marks)

b) The contribution condition is usually stated in insurance policy to address situations where an insured has two or more policies in respect of the same subject matter with different insurers. However, a contribution condition like "escape clause" may be contained in the policies. This clause forbids the insured from taking out another policy without the consent of the insurers. The question is which of the insurers will be liable to settle claim in the circumstance as in the scenario?

(2 marks for each complete and correctly stated point. Maximum of 1 to be graded. Sub-Total: 2 marks)

- c) The Contribution conditions used in insurance contracts are:
 - escape clause
 - other non-contribution clause
 - more specific insurance clause
 - rateables proportion clause

(2 marks for each correctly stated contribution. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 10(a) What are the principles established of the case of Hadley v. Baxendale (1854) with respect to the law of contract? (4 marks)
- (b) Mr. Alvin requested a boiler required in his laundry firm from a supplier of boilers who delivered the boiler 22 weeks late. Mr. Alvin lost profit in the 22 weeks and also lost a lucrative contract from his local government as a result of the lateness to supply the boiler. Discuss the chances of success for Mr. Alvin as he contemplates a court action against the supplier. (6 marks)

Solution

- a) The principles established in the case of *Hadley v. Baxendale* had to do with remoteness of damage and caution in the law of contract (4 marks). The principles are as follows:
 - the defendant will only be liable for loss/breach and therefore damages if it can:
 - reasonably be considered as arising naturally according to the usual course of things from the breach
 - reasonably be supposed to have been in the contemplation of the parties at the time they made the contract.

(2 marks for any correctly stated point, Maximum of 1 to be graded. Sub-Total: 2 marks) (Grand Sub-Total: 4 marks)

b) A defendant will only be liable for breach of contract and be indemnified for it if the resulting loss arises naturally from the breach or the loss was reasonably foreseeable as a possible consequence of the breach (3 marks). In *Victoria Laundry (Windsor) v. Newman,* the Court held that in circumstances as presented by the scenario by the museum, a claimant will be able to recover damages from the boiler suppliers for the loss of profit arising from the ordinary use of the boiler but will not be able to recover for loss of profit arising from loss of lucrative government contract. This is because the former loss was foreseeable whilst the latter was not. From the foregoing, Mr. Alvin will be able to recover damages for the loss of profit only and not for missing the local government contract (3 marks).

(Sub-Total: 6 marks) (Grand Total: 10 marks) 11(a) What is "trespass"?

(4 marks)

- (b) Briefly discuss the relevance of insurance to the tort of trespass. (6 marks) **Solution**
- a) Trespass is an unjustifiable direct and intentional interference with the person, land or goods of another which is actionable per se (2 marks). It may be to a person, goods or land of another (2 marks).

(Sub-Total: 4 marks)

b) The relevance of insurance to the tort of trespass is that trespass as a tort has limited relevance to insurance because insurance deals with "fortuitous" and accidental events. Trespass is an intentional civil wrong. This being so, insurance will not cover the consequences of a direct act willfully willed into existence. However, some insurance policies do specifically cover the risk of trespass to the property of third parties. Even at that, such policies would not cover damage caused deliberately.

(2 marks for each complete and correctly point. Maximum of 3 points to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

12(a) Define the term "negligence" in insurance.

(3 marks)

- (b) State the case (with year) that validates the definition in (a) above. (2 marks)
- (c) Dr. Isaac is newly inducted medical doctor. He injured a baby during the process of delivery. The doctor has said he should be excused from the liability because he is a new medical doctor from whom such should be expected and that the skill he exercised in the delivery process was what he possessed and he therefore was not negligent. Did Dr. Isaac owe the injured baby a duty of care and what is the standard of the duty of care if he owed the baby one? Justify your answer(s) using the factors that will make a claimant to establish a successful action in negligence. (5 marks)

Solution

a) Negligence is the omission to do something which a reasonable man(1 mark), guided upon these considerations which ordinarily regulate the conduct of affairs, would do (1 mark), or doing something which a prudent and reasonable man would not do (1 mark).

(Sub-Total: 3 marks)

b) Blyth v. Birmingham Waterworks Company (1856).

(2 marks)

c) In Lchgelly Iron and Cool Co. v. McMullan, it was held that negligence means more than heedless or careless conduct, whether it is omission or commission, it properly connotes the complex concept of duty breach and damage suffered by the person to whom the duty was owed.

It also follows that before liability will occur in negligence, three things must be present. These three things are:

- duty of care must be owed
- breach of the duty must occur and
- the breach must result in the damage(s)

The standard of duty and care is an objective one and not subjective e.g. it is the standard of a consultant pediatrician that will be used to judge the doctor under the case study under review. For example, in *Wilsher v. Essey Health Authority*, a junior hospital doctor was held liable for negligent medical treatment which injured a pre-mature baby. His inexperience was held to be no defence.

Based on the foregoing authority, Dr. Isaaac will be liable in negligence, (1 mark for each complete and correctly stated point. Maximum of 5 to be graded. Sub-Total: 5 marks) (Grand Total: 10 marks)

- 13(a) What is "ratification" in an agency relationship? (2 marks)
- (b) Enumerate any three (3) conditions for its operation in law? (6 marks)
- (c) What is the overall implication of the doctrine when it is successfully called in aid? (2 marks)

Solution

- a) Ratification is a process of creating an agency relationship retrospectively. The agent claims he carried out an assignment or task for his principal who gave approval to it after. (2 marks)
- b) Ratification is not automatic and the following conditions must be present before it can operate in law:
 - the agency must purport to do the unauthorised act on behalf of the principal and not for his own benefit
 - the principal must be the person the agent had in mind at the time of the act
 - at the time of ratification, the principal must have all knowledge of the circumstances relevant to the act or must have waived further inquiry
 - the principal must have existed and had the contractual capacity to do the act at the time it was done
 - ratification must take place within a reasonable time
 - void or illegal acts cannot be ratified
 - the whole contract must be ratified
 - the ratification relates back to the date on which the unauthorised act was done by the agent

(2 marks for each complete and correctly stated condition. Maximum of 3 to be graded. Sub-Total: 6 marks) c) The overall implication of the doctrine when it is successfully called in aid is that it relates back to the date on which the authorized act was done by the agent.

(2 marks)

(Grand Total: 10 marks)

14. List any two (2) ways by which a general contract (not insurance contract) can be discharged by operation of law.

Solution

A general contract, not insurance contract, will be discharged or ended by operation of any of those laws (or a combination) law as follows:

- **merger:** i.e. a simple contract is replaced by a specialty contract (deed) which incorporates all the terms of the previous contract. The old one is effectively absorbed into the new one.
- **By death.** The death of a person will end a contract of personal service. Rights and duties under other contracts survive for the benefit or otherwise of the estate of the diseased person
- **Bankruptcy:** when a person is bankrupt, trustee in bankruptcy may be appointed who takes over the rights possessed by the bankrupt. The trustee takes over his right and can sue for the debts sue to the bankrupt (5 marks for each correctly stated way. Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

15(a) What are the four (4) key elements of the doctrine of insurable interest?

(8 marks)

- (b) When is insurable interest required in the following?
 - (i) Life assurance
- (ii) Marine insurance

(iii) Other insurances

(12 marks)

(c) Can an insurer waive the requirement of insurable interest in an insurance contract? Satisfactorily justify your response. (10 marks)

Solution

- a) The four key elements of the doctrine of insurable interest are:
 - a subject matter of insurance
 - policyholder to have an economic or financial interest in the subject matter of insurance
 - the said interest must be a current, not merely an expectancy
 - the said interest must be legal.

(2 marks for each correctly stated element. Sub-Total: 8 marks)

- b. Insurable interest is required in:
- i) **Life Assurance:** Insurable interest is required at the inception. However, no need to prove insurable interest at the time of death or maturity of the policy. For example, see *Dalby V The India and London Life Insurance Company*. This is because life insurance premiums are fixed at the beginning of the contract according to probable life expectancy of the person whose life is insured. Furthermore, many life insurance policies are often really savings plans in which the insurance element is small in relation to insurance content. So, the non- requirement of insurable interest at the time of loss makes for flexibility in transactions involving life policies.
- ii) Marine Insurance: Insurable interest is required at the time of loss. Section 6, Marine Insurance (1906). No requirement for it to exist at the inception. Section 6 of the Act further requires that subject matter of marine insurance to be insured 'lost or not lost'. The insured could recover under a marine policy even if he acquired his interest after the loss has occurred, unless he was aware of the loss and the insurer was not. The foregoing principles are applicable because in marine trade, cargo frequently changes ownership in the course of transit. When this happens, the marine policy is assigned to the new owner along with other documents that form part of the transfer of title/ownership. The insured is therefore protected even though he acquired his interest in the goods sometime after the policy was affected.
- iii) Other Insurance: The principles in marine insurance apply here including non-marine property pecuniary and liability insurances. Insurable interest is required at the time of loss because these are indemnity insurances that pay out only when the insured suffer a loss. What is required at the inception is for the insured to have a reasonable expectation of acquiring an interest in order for the contract not to be termed a wager.

(2 marks for each correctly stated point. Maximum of 2 points to be graded per insurance type. Sub-Total per type: 4 marks. Grand Sub-Total: 12 marks.)

c) It is a requirement of a valid insurance contract that insurable interest be present in the insured. However, the insurer could waive this requirement in the following circumstances not relate to the Marine Insurance Act 1906 or Life Insurance Act 1774. Examples are polities on goods. (see *Williams V Baltic Insurance Association of London*).

In case of Marine and Life politics, the requirement cannot be legally waived, but this does not mean that the insurer cannot issue such policies where there is doubt about the existence of an interest. The drawback of such is that such policies would not be enforceable in the Court. Commercial reasons may dictate that policies be issued where it would be difficult to prove insurable interest. Examples are "PPI" policies where marine insurers would agree to dispense with insurable interest. Also, life policies are often issued where strictly no insurable interest exists.

(2½ marks for each correctly stated point. Maximum of 4 points to be graded. Sub-Total: 10 marks.)
(Grand Total: 30 marks)

- 16. How can "improper pressure" destroy the validity of a valid general contract. (10 marks)
- (b) Sis. Dorcas joined a religious order. She gave the sum of N7,000,000.00 to its head in accordance with the order's rule of poverty over a period of 8 years. Six years after leaving the order, she seeks to sue the order to recover her money. Advise Sis. Dorcas on her proposed court action. (10 marks)
- (c) The Manager of a musical band made each of the group to sign a contract assigning the copyright in all their compositions for a period of ten years over to him. Review if the assignment can stand in law. (10 marks)

Solution

- a) The validity of a contract may be destroyed by improper pressure amongst other factors. **Improper Pressure is when** a party to a contract improperly pressurised the other party to enter into a contract. Improper Pressure is however, not a hard bargain or hard selling techniques. It will usually take the form of duress and undue influence. A party will enter into a contract because of duress if he is forced or threatened to enter into the contract. It is duress if the policy is property or business interests are threatened as well. Today, any threat to commit a legal wrong is now regarded as duress when what is threatened is not in itself illegal. e.g. when a blackmailer threatens to expose the truth about his victim. The effect of duress is to invalidate the contract one it is discovered. Undue Influence is subtle persuasion employed by a party to lure the other to enter into, the contract. The law has classified some relationship which will give rise to an inference of undue influence. Those relationship are:
 - * Parent/Child
- * Doctor/Patient
- * Solicitor/Client
- * Religious Leader/Follower

Once a party is able to prove that the contract is manifestly to his/ her disadvantage, the Court will support such a party and leave the other party to rebut the presumption that he exercised undue influence on the party complaining.

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

b) The law presumes that certain relationships will give rise to undue influence! Those relationships include that of a religious leader and his follower, amongst others. Where it is proved that a religious leader or organisation exercised undue influence of the follower to induce the contract, the follower should avoid the contract within a reasonable time. In *Allcard v. Skinner*, the claimant joined a religious order whose leader she gave a sum to in line with the order's rule of poverty. Six years after the claimant left the order, she sought to recover her money. It was held that although the money was obtained through undue Therefore, Sis. Dorcas will be advised not to proceed on any court action as there is precedence of a like case which her own case would most likely be determined with.

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

c) Undue Influence can invalidate a seemingly valid contract if it can be established that the contract is not really explicable on ordinary motive by the party complaining. The law will presume undue influence in the contract of a superior and his subordinate where the subordinate complains of unfairness. In *Clifford Davies Management V Wea*, the manager of a rock band made each member of the group sign a contract assigning the copyright in all their compositions for a period of ten years over to him. It was invalid as undue influence had been exercised. Going by the foregoing, the contract or assignment cannot stand in law.

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

(Grand Total: 10 marks)

- 17(a) What are the two (2) categories of "principle of interpretation" which the courts use to interpret the words of policy documents when resolving disputes arising out of insurance contracts? (4 marks)
- (b) Outline any of the five (5) common law rules of interpretation of the words in insurance policy documents. (10 marks)

- (c) How can ambiguities in an insurance policy be resolved by the courts? (4 marks)
- (d) How can inconsistencies and contradictions in the policy document be resolved by the courts? Justify your response with at least three (3) points.

 (12 marks)

Solution

- a) The two (2) categories of "principle of interpretation" which the courts use to interpret the words of policy documents when resolving disputes arising out of insurance contracts are:
 - Statutory rules; and
 - Common law rules.

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

- b) The common law rules of interpretation of the words in insurance policy documents are:
 - literal rule (i.e. ordinary meaning)
 - golden rule (technical or legal meaning)
 - mischief rule
 - Noscitur a sociis (a word may be known by the company it keeps)
 - Ejusdem generis (general words which follow specific words are taken as referring to things of the same kind as two specific words)
 - Expressio unius est exclusio aterius specifying one thing implies the exclusion of other things that are not specified.
 (2 marks for each correctly stated rule. Maximum of 5 to be graded. Sub-Total: 10 marks)
- c) Ambiguities in an insurance policy can be resolved by the courts **through the contra preferentem rule.** This means that the disputed clause or words will be construed against the drafter of the document. (4 marks)
- d) Inconsistencies and contradictions in the policy document can be resolved by the courts as follows:
 - printed words will prevail over words handwritten or typed. This is so because it is presumed that parties intended to use a standard form to meet their particular needs
 - where there is contradiction between a proposal which is made on the "basis of the contract" and the "terms of the policy document" which is issued later. The policy document will take precedence being the final and formal expression of the agreement
 - express terms of a contract will overrule implied terms.
 (4 marks for each correctly stated way. Sub-Total: 12 marks)

(Grand Total: 30 marks)

18. Define local custom and concisely explain the conditions that are required to be fulfilled before it can be upheld as a legally binding source of law.

Solution

Local custom is a minor source of law. It is the long-established custom of a people in a particular area which gives the people rights which the law will support.

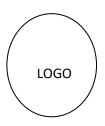
(5 marks)

For the law to affirm such customs as a binding source of law, the custom must fulfill the following conditions:

- **immemorial existence:** the custom must have been with the people from the beginning of 'legal' memory fixed as year 1189
- **continuity**: the custom must have been observed continuously meaning that the right to observe it must have existed continuously.
- **Reasonableness:** the custom must not be unreasonable. Reasonableness or otherwise of a custom will be decided by the court
- **Certainty:** custom must be certain and clear as to the activity or right it seeks to establish
- **peaceful user:** the custom must have been observed and exercised peacefully, openly and as of right with force or threat
- **compulsion:** the people affected by the custom must recognize it as binding upon all of them and the custom must not be inconsistent with another custom
- **not contrary to statute**: statutory law will prevail over local custom that is inconsistent with it.

(3 marks for each correctly stated condition. 2 marks for correct explanation. Sub-Total for each condition: 5 marks. Maximum of 5 to be graded. Sub-Total: 25 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D10 COMMERCIAL INSURANCE PRACTICE

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.
- ♣ 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

D10 - COMMERCIAL INSURANCE PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 50%

Highest Score: 51%

Lowest Score: 0%

Average Score: 26%

Breakdown Updates

Question 1

Candidates obtained full mark on this question. Performance was excellent.

Question 2

Candidates did not understand this question hence performance was very poor.

Question 3

Overall performance in this question was bad. Candidates did not understand the question.

Question 4

It was a display of lack of understanding hence the poor performance.

Question 5

Performance was good, an evidence of good understanding of the question.

Question 6

The theft improvement recommendation was quite understood, hence the good performance which reflected in the above average performance.

Question 7

The candidates did not show great understanding of this question, although one obtained 40% of the allocated mark.

Question 8

There was no good performance here as the candidates failed to explain the importance of warranty and "accidental damaged peril".

Question 9

This question was not understood by the candidates; therefore, complete achievable marks could not be obtained. Performance was not encouraging.

Question 10

This question was well understood and full marks obtained. Performance was excellent.

Question 11

This question was of average performance as candidates were able to explain how to calculate basic rate(s) for liability insurance of different trades and business.

Question 12

The question was not understood by the candidates, hence the poor performance.

Question 13

Candidates displayed good understanding of the question. They obtained more than average mark.

Question 14

The performance here was poor as candidates failed to state the risks caused under product recall and the exclusions under contractors' insurance policy.

Question 15

No candidate attempted this question.

Question 16

Candidates obtained 40% of the mark here. This showed lack of understanding of the question. All points required were sparingly supplied.

Question 17

Candidates scored over 60% of the marks allocated. It was a question well-understood hence the good performance.

Question 18

No candidate attempted this question.

Chief Examiner's Comments on Overall Performance:

We recorded overall performance of over 50%. More could have been achieved if our candidates had put in more effort towards passing the subject.

Chief Examiner's Suggestion on Improvement:

I suggest regular communication with candidates which is aimed to remind them of the need to study the coursebook thoroughly so they can seamlessly pass the course at a sitting.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. 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.

Solution

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

* properties

* treasury bills

* shares

* bonds

• share premium

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

- 2. Enumerate any two (2) information on each of the following headings/sections of a typical combined policy proposal form:
 - (a) asset protection
- (b) revenue protection
- (c) legal liabilities
- (d) motor.

Solution

The following information are the usual heading s/sections of a typical combined policy proposal form:

1 / 1			
Asset Protection	* Material Damage	* Computers	* Theft
	* Glass	* Business All-Risk	* Money
Revenue	* Business Interruption	* Book Debt	
Protection	* Loss of license		
Legal Liability	* Employers Liability	* Public Liability	
	* Product Liability	* Commercial Legal P	rotection
Motor	* Type of Cover	* Details of Vehicle	
	* Type of Use of the Vehicle		
	* Age, Experience, Claims and Accidents		

(1¼ for each correctly stated information. Maximum of 2 to be graded per term. Sub-Total per term: 2½ marks. Grand Total: 10 marks)

3. A commercial segmented product provides for the insurance and risk management of many types of business like the master traders' combined policy. Carefully state any four (4) requirements that must be present in order to meet the specific needs of this type of motor traders' policy.

Solution

The requirements that must be present in order to meet the specific needs of the stated type of motor traders' policy are:

- asset protection cover: to protect customers vehicle as business own stock of vehicles held for sale or use by business
- revenue protection cover: resulting from an interruption at the premises of a motor vehicle manufacturer or component manufacturer.
- public liability cover: resulting from the servicing and sales of goods
- motor covers for vehicles: when taken off the premises whether these are customers vehicles being tested, new vehicles being test driven by prospective buyers, the business own vehicle being used to collect parts or by the director.
- engineering cover: for plant and equipment such as receivers, lifting tables, breakdown cranes, trolley jacks, some of which will require statutory inspection.

(2½ marks for any correctly stated requirement – whether explained or not. Maximum of 4 to be graded. Total: 10 marks)

4. You received a proposal form from a hotel owner, Mr. Shittu Buade, requesting for a combined policy for his hotel. Carefully itemize any four (4) risks that will be under consideration when assessing the risk of the business location and state the options open to you in deciding the risk generally.

Solution

The risks that will be under consideration when assessing the risk of the business location and options open in deciding the risk generally are:

Risks	* Flood Risk	* Subsidence Risk
	* Mechanical Damage Risk	* Theft Risk
	* Limited Assess to the Pren	nises Risk
Available	* Reject or decline the risk altogether	
Options	* Accept the risk, exchanging one or two perils	
	* Offer the cover but at a higher than normal rate	

(2½ marks for each correctly stated risk and option. Maximum of 2 each to be graded. Total: 10 marks)

- 5(a) State any two (2) examples of other policy exclusions that are not general exclusions found in a typical commercial policy. (4 marks)
- (b) What are the three (3) main benefits of using "day one average" basis to decide the sum insured of an asset? (6 marks)

Solution

Some other policy exclusions that are not general exclusions found in a typical commercial policy are:

- Marine Risk: excluded under asset protection section as such risks are more specifically insured under a separate policy.
- Explosives e.t.c.: explosives, gold ballies, works of art that require specialist underwriting skills, and if insurable, will probably be covered under a separate specific policy
- **E-Commerce Risk:** damage by computer virus, unauthorized hacking or denial of service attack, are just a few of the e-commerce types of risks that may be excluded.

(2 marks for each correctly stated exclusion, whether explained or not. Sub-Total: 4 marks)
b) The three (3) main benefits of using "day one average" basis to decide the sum insured of an asset are:

- it is easier for the proposer to arrive at a declared value figure and not the sum insured
- the inflationary protection increase is usually provided at a modest charge
- the pro-rata condition of average is applied to the declared value figure and not the sum insured.

(2 marks for each correctly stated benefit. Sub-Total: 6 marks)
(Grand Total: 10 marks)

6. You are aware that a surveyor has been given an assignment in respect of a premise to be insured for theft risks. Enumerate, and briefly discuss, any two (2) of the theft risks improvement recommendations you would like to see in the surveyor's report,

Solution

The theft risks improvement recommendations to be seen in the surveyor's report are as enumerated and briefly explained below:

 Perimeter of the Site: the underwriter will look at the adequacy of the fences, walls and gates with a view to improving the security and making it as difficult as possible with reasons, that will restrain thieves from gaining access. Such improvements will include factory watch/ neighbor/

- host watch/ form watch, closed circuit television in open areas, guards with or without dogs and effective lightning
- **Building Itself:** recommendations on installation of intruder alarm systems, CCTV, neighborhood watch teams, audio monitoring, video recording, physical security, doors, windows and locks complying with certain standards, e.t.c.
- Target Points Within the Building: recommendations in ensuring that there are strong rooms, safes and there is the use of lockdown plates.

 (2 marks for correctly stated generic recommendation. 1½ marks for each correct explanation or example. Maximum of 2 explanations to be graded per recommendation. Maximum of 2 recommendations to be graded. Sub-Total per recommendation: 5 marks. Grand Total: 10 marks)
- 7. Briefly list any four (4) reasons why businesses/business owners should maintain a business interruption policy.

Solution

The following are reasons why businesses/business owners should maintain a business interruption policy:

- it is designed to provide cover for damage to business assets-buildings, machinery and stock, to ensure that there should be enough money available to repair/replace damaged assets following a loss.
- it aims at replacing lost income/ profit which have been achieved by the business if the interruption to the business had never happened.
- during the interruption, the business is of risk from losing orders/ customers losing income/ profit, having to continue to pay salaries and wages as well as ongoing cost and expenses such as rent, insurance etc.
- the business interruption policy is achieved by continuing to pay that part of the ongoing costs and expenses which cannot be paid out of the reduced income, making up the shortfall in net profit, and pay for extra costs incurred in order to prevent or reduce the loss in income such as cost of provisional repairs e.t,c.

 $(2\frac{1}{2}$ marks for each complete and correctly stated reason. Maximum of 4 to be graded. Total: 10 marks)

- 8(a) Business interruption cover is subject to property damage warranty. Explain the importance of the warranty. (6 marks)
- (b) Briefly discuss the phrase "accidented damage perils". (4 marks)

Solution

a) The warranty stipulates that for there to be a valid claim under the policy, there must be in place, an asset protection policy, and liability must be admitted for a claim in respect of damage to property, to succeed in the Business Interruption claim(2 marks). The importance of the warranty is to protect the BI insurers by ensuring that sufficient funds are available to rebuild or repair the premises after an insured event has occurred as this helps to avoid or reduce the extent of the business interruption loss (4 marks).

(Grand Sub-Total: 6 marks)

b) "Accidental Damage Perils": is the cover provided on perils covering accidental damage to the pipes and cables which extend from the building to the public mains. The exclusion under the cover are lack of maintenance, wear and tear, normal settlement or shrinkage, faulty workmanship/ design and defective materials.

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

(Grand Total: 10 marks)

9. There are factors that would influence the underwriter to load the basic rate of a business interruption insurance policy. List any five (5) of these factors.

Solution

The factors that would influence the underwriter to load the basic rate of a business interruption insurance policy are:

- reinstatement period of the building
- any special building requirements
- specialized processes or machines
- specialized work force
- availability of replacement stock/ raw materials
- the number of customers.
 (2 marks for each correctly stated factor. Maximum of 5 to be graded. Total: 10 marks)
- 10(a) Explain what is meant by liability insurance policies. (2 marks)
- (b) Enumerate any four (4) generic types of liability insurance policies.

(8 marks)

Solution

a) Liability insurance policies are policies of insurance contracts that provide protection against financial consequences of being held legally liable for a loss or damage. (2 marks)

- b) The generic types of liability insurance policies are:
 - * employer's liability
- * public liability
- * product liability

- * professional indemnity
- * director's and office's liability
- * environmental liability
- * legal costs and expenses

(2 marks for each correctly stated type. Maximum of 4 to be graded. Sub-Total: 8 marks) (Grand Total: 10 marks)

11. Rates are calculated fairly accurately for the majority of liability risks. Explain any four (4) factors which influences the calculation of basic rates for liability insurance of different trades and businesses.

Solution

The factors which influences the calculation of basic rates for liability insurance of different trades and businesses are:

- the size of the wage roll or turnover e.g. discounts for larger risks or minimum premiums for smaller risks
- specific hazards e.g. working with heat
- claims experience of the proposer and the proposed risk e.g. discounts for good experience and loading for bad experience
- favourable features such as risk management, health and safety initiatives undertaken by the proposer, quality assurance accreditation, e.t.c.
- any increase in the limit of indemnity. (2½ marks for each correctly stated factor. Maximum of 4 to be graded. Total: 10 marks)
- 12(a) List the five (5) types of motor vehicle policies that are available in commercial insurance.
- (b) Enumerate the five (5) covers under the basic Road Traffic Act motor policy. **Solution**
- a) The five (5) types of motor vehicle policies that are available in commercial insurance are:
 - * Road Traffic Act (RTA) only * Third Party * Third Party, Fire and Theft
 - * Comprehensive
- * Contingent Liability Cover

(1 mark for each correctly stated type. Sub-Total: 5 marks)

- b) The five (5) covers under the basic Road Traffic Act motor policy are:
 - legal liability to third parties for death or injury unlimited in amount
 - damage to third party property
 - emergency treatment payments
 - legal cost for defending an action
 - cover abroad.

(1 mark for each correctly stated cover. Sub-Total: 5 marks) (Grand Total: 10 marks) 13. Name any five (5) extensions or additional benefits provided under the basic commercial vehicle policy.

Solution

The extensions or additional benefits provided under the basic commercial vehicle policy are:

- * increase in the limit of indemnity under the third-party property damage
- * passenger liability
- * indemnity to hirers
- * indemnity to principal
- * loss of use

* loss of value

- * temporary replacement of vehicle
- * uninsured loss recovery
- * breakdown assistance cover

* legal helpline.

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

- 14(a) Enumerate any five (5) risks covered in a product recall insurance.
- (b) List any five (5) specific exclusions peculiar to contract/works under the contractor's insurance policy.

Solution

- a) The risks covered in a product recall insurance are:
 - * malicious product tampering
- * extortion
- * accidental contamination
- * defect

* cost of recall

* consequential loss

* consultant fees

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

- b) The specific exclusions peculiar to contract/works under the contractor's insurance policy are:
 - * penalties

* existing property prior to contract

* defective property

- * errors or omissions in design
- * loss or damage after completion
- * damage for external structures that are not part of the contract
 (1 mark for each correctly stated exclusion. Maximum of 5 to be graded. Sub-Total: 5 marks)
 (Grand Total: 10 marks)

Part II Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

- 15. Premiums for commercial vehicle risks are rated appropriately to ensure that the insurers have enough funds to build reserves, meet expenses, pay commission and pay reinsurance costs. Briefly explain, with two (2) points each, how the following motor insurance risks are rated:
 - (a) hire cars

- (b) agricultural vehicles
- (c) buses and coaches
- (d) bulldozers
- (e) motor traders' policies.

Solution

Hire Cars	* rate for hire cars (public and private) vary tremendously	
	* most insurers use an area basis in conjunction with private	
	car type group rating system and the vehicle value	
Agricultural	* rates for comprehensive cover may be based on the value of	
Vehicles	the vehicle	
	* the basic policy will cover up to a maximum amount with	
	any excess being charged as additional premium	
	* the rating system vary from insurer to insurer	
Buses and	* rates vary according to the number of passengers that the	
Coaches	vehicle is designed to carry and the district of use	
	* if the value of the vehicle exceeds a pre-determined	
	maximum value, an additional premium will be charged	
Bulldozers	* a flat premium is charged	
	* higher rates will be charged for hired-out bulldozers	
Motor Traders'	* the use of point basis where different aspects of the risk	
Policies	attracts points. The premium is then calculated on a set of	
	monetary amounts per point	
	* named drivers is used for small businesses	
	* trade plates basis is used	
	* internal risks - for this, third party/damage basis may be	
	rated on capacity of the premises for private cars per mille and	
	rate per mille on salary and wages.	

(3 marks for each correctly stated point. Maximum of 2 points to be graded under each term. Sub-Total per term: 6 marks. Grand Total: 30 marks)

- 16(a) Explain "occurrence triggers" as used under product liability and public liability policies. (3 marks)
- (b) Concisely explain limits of liability under:
 - (i) employers' liability insurance; (ii) public liability insurance; and
 - (iii) product liability insurance. (27 marks)

Solution

- a) Occurrence triggers means that the insurance responds to an event, giving rise to a legal liability to the insured, which must occur during the period of insurance.

 (3 marks)
- b) Limits of Liability under:
- i) **Employers Liability Insurance:** is the maximum amount that the insurer will pay in respect of damages awarded to the claimant. This can cover costs and expenses incurred with written consent and the limit of liability refers to each insured event; with no restriction on the number of insured events during any one period of insurance.

(4 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 8 marks) ii) **Public Liability Insurance:** is the maximum that the insurer will pay for any occurrence or accident that is covered by the policy, a series of events, consequent on or attributed to one source i.e. the original cause. The limit of liability here could also refer to each insured event with no restriction on the number of insured events during any one period of insurance. This limit applies to damages awarded to the claimants and when in relation to any single event, it must be carefully selected by the insured.

(3 marks for each correctly stated point. Maximum of 3 points to be graded. Sub-Total: 9 marks)

iii) **Product Liability Insurance:** is the maximum that the insurer will pay for any occurrence or accident that is covered by the policy. The limit applies to damages awarded to the claimant as the insurers pays the costs and expenses incurred. It is also done on an aggregate basis such as the supply of a defective batch of articles or contaminated foodstuff.

(5 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 10 marks) (Grand Total: 30 marks)

- 17. The asset section of the proposal form of a typical commercial policy will make reference to the following asset types:
 - (a) Frozen foods/refrigerated stock (b) Goods-in-Transit
 - (c) Machinery/Plant Breakdown (d) Tenants Improvements
 - (e) Money.

Discuss what is intended to be covered under each of the peril/risk/item listed above.

Solution

a) Frozen Foods/Refrigerated Stock: this covers for accidented loss to food in refrigeration units due to deterioration or contamination caused by changes in temperature due to breakdown, failure of electricity supply and leakage of refrigerant fumes. Cover is provided under the combined policies.

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

b) **Goods-in-Transit:** the cover is for accidental damage to the proposer's own goods while in transit. The cover is usually available automatically as part of the package policy with modest limits and it is restricted to carriage by the insureds own vehicle. The combined policy does provide an optional section for goods in transit.

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

c) **Machinery/Plant Breakdown:** this is provided under the time policy or specified perils policy or the all risks policy. The wider cover for this is provided as engineering cover or full mechanical or electrical breakdown cover.

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

d) **Tenants Improvements:** the cover is intended for those alterations and improvements which a tenant often undertakes when moving into an empty building. This item will be used where the proposer is the tenant and does not own the building. Cover includes new fixtures and fittings such as shelving, e.t.c. All these will be covered under the tenants' policy but the shell of the building will be insured under the landlord's policy.

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

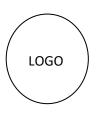
e) **Money:** this is provided under the money policy and it includes money on the premises during working hours, money in safe out of business hours, money in transit, money in the custody of collectors and money on contract sites.

(3 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 6 marks) (Grand Total: 30 marks)

- 18(a) Concisely explain the liabilities under a standard "theft insurance cover". (20 marks)
- (b) Outline any five (5) of the main exclusions in a typical theft insurance policy. (10 marks)

Solution

- a) The liabilities under a standard "theft insurance cover" are:
 - the policy provides cover for damage caused by theft happening in the premises and does not cover property in the open
 - the cover extends to include insured property which is destroyed or damaged during theft
 - if the damage is the result of an attack which is purely malicious, the policy does not cover for such as it should be settled more appropriately under the malicious damage element of the riot, civil commotion and full malicious damage peril
 - losses from shoplifting would not be covered since it does not include forcible entry and exit.
 - (5 marks for each complete and correctly stated point. Maximum of 4 to be graded. Sub-Total: 20 marks)
- b) The main exclusions in a typical theft insurance policy are:
 - the open yard or surrounding areas
 - while the premises are empty or unused
 - by fraud or dishonesty
 - audio or visual equipment
 - tobacco, wines and spirits
 - computer hardware and software
 - money, gold, silver and jewelry.
 (2 marks for each correctly stated exclusion. Maximum of 5 to be graded. Sub-Total: 10 marks)
 (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D11 PERSONAL INSURANCE PRACTICE

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

D11 - PERSONAL INSURANCE PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 61.53%

Highest Score: 78%

Lowest Score: 27%

Average Score: 53%

Breakdown Updates

Question 1

The question tested regulatory knowledge. About 80% attempted. More than 60% of the candidates performed poorly. Majority erroneously stated Section 50 of the Act as a motor insurance provision instead of provision on no premium no cover.

Question 2

This question was on marketing mix. More than 90% of the candidates performed very well. Nearly every candidate attempted the question.

Question 3

The question was on testing candidates' knowledge on law cases that relates to insurance practices. All the candidates attempted it but not up to 20% passed it.

Question 4

A very popular question on proposal form. Everybody attempted it and all the candidates passed it.

Question 5

The first part of the question was on indemnity which was attempted by all the candidates and more than 80% of them passed. The second part was on unfair term in consumer contract regulation which was poorly attempted by the candidates less than 10% passed.

Question 6

The question was to test candidates' knowledge on definition of money outside of cash and bank notes. It was attempted by all the candidates. More than 60% of the candidates passed it, although some candidates erroneously included lottery voucher.

Question 7

The question was on sporting equipment. All the candidates attempted it but many poorly answered it as it was misunderstood as exclusion under fire.

Question 8

The question was on the definition of building in perspective. Nearly all the candidates attempted it. 50% got above average score.

Question 9

This question was on the information in renewal notice. All the candidates attempted it. 50% performed well using residual knowledge from practical experience.

Question 10

The question was on covers provided for a standard loss of rent insurance. About 80% of the candidates that attempted the question did not understand the question.

Question 11

The question was on types of policy under travel insurance. About 70% of the candidates attempted the question but only 50% were able to state the answer correctly.

Question 12

The question was to test candidates' knowledge on how an insurer or insured can cancel a policy. Less than 20% of the candidates passed the question.

Question 13

The question was to test candidates' knowledge on the content of a motor insurance certificate. It was attempted by all the candidates and more than 80% of them passed it.

Question 14

The question was on the disadvantages of facultative and the similarity between quota share and surplus treaty. More than 70% of the candidates performed well.

Question 15

The question was on rating factor on private motor insurance. Nearly all the candidates scored high marks on this. Less than 10% of the candidates answered the (b) part on Nigeria legislation correctly.

Question 16

Over 90% of the candidates avoided this question, probably because of the (b) part.

Question 17

The question was on reinsurance terminologies. More than 90% scored very high among the candidates that attempted it. More than 80% attempted the question.

Question 18

Most candidates avoided this question as only about 10% of them attempted it. Those that attempted it performed poorly.

Chief Examiner's Comments on Overall Performance:

The global performance is worrisome although it was above average as 61.53% of the candidates passed. There was shallow knowledge of the course as most of the answers were not deeply answered.

Chief Examiner's Suggestion on Improvement:

Candidates should be able to perform better if they give themselves to deeper study and attendance of tutorial classes.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks

1. In Nigeria, what is the provision of section 50 (1) of the Insurance Act 2003?

Solution

Section 50 (1) of the Insurance Act 2003 provides that the receipt of an insurance premium shall be a condition precedent to a valid entrant of Insurance and there shall be a no risk unless the premium is paid in advance. (10 marks)

2. Enumerate and briefly explain, without stating any example, five (5) of the six variables which make up the marketing mix.

Solution

The variables of marketing risk are:

- **Price or Premium:** is the consideration for the risk the insurers are bearing
- **Product:** is the policy that insurers sell to the public
- **Promotion:** is the mechanism that is put in place to inform the public of the availability and the benefits of the insuring product
- **Place (Distributions):** is concerned with the distribution and logistics involved in making the product or service available
- **People:** is an essential element in the production and delivery of services. The quality of service is largely determined by the quality of and behavior of the organization's staff
- Process: is the procedures, routines and policies which are used to deliver
 a service to customers determine how customers will perceive the
 organization e.g. call centers

(1 mark for each correctly stated variable. 1 mark for correct explanation. Maximum of 5 variables to be graded. Total: 10 marks)

3. State the facts of the case in *Hetherington V. Lancashire and Yorkshire Accident Insurance Company* (1909). Also state the principle behind this case.

Solution

In Etherington V. Lancashire and Yorkshire Accident Insurance Company (1909), the insured fell from his horse and suffered some injuries which forced him to lie in cold and damp condition, whereby he contacted pneumonia and died. It was held that he died as a result of an accident and not a disease. The claim under the personal accident policy therefore succeeded.

(2 marks for each stated fact of the case. Maximum of 3 facts to be graded. Sub-Total: 6 marks) The principle is proximate cause. (4 marks)

(Grand Total: 10 marks)

4. Most insurers' proposal forms include general questions. Enumerate any five (5) of these general questions and briefly state on each, one reason, why insurers ask each of the stated questions.

Solution

General questions in a proposed form and reasons why insurers ask them are:

- **name of the proposer:** insurers ask or to check the existence of other policies held by the proposer with the company
- address: to enable the insurer communicate with the insured and to know the risk address
- **occupation:** some occupations are regarded as additional hazard by insurers. e.g. money lenders
- **date of birth:** most insurers give discount for people over a certain age. e.g. above 60 years
- **convictions:** it can reveal adverse moral hazards and insurers must consider the acceptance of a convicted person carefully.
- **claims or loss history:** trend will show carelessness or otherwise of the insured
- previous insurance history: if proposer has had insurance declined or accepted on special terms can lead insurers to investigate reason(s)

(1 mark for each correctly stated question. 1 mark for correct explanation. Maximum of 5 to be graded. Total: 10 marks)

- 5(a) What is indemnity and why are life and personal accident policies not contracts of indemnity? (6 marks)
- (b) What are the four (4) features of the unfair terms in Consumer Contracts Regulations 1994. (4 marks)

Solution

a) **Indemnity:** is the exact financial compensation sufficient to place the insured in the same financial position after a loss as they enjoyed immediately before it occurred. Life and personal accident policies not contracts of indemnity because life and body cannot be measured in monetary terms.

(3 marks for each complete and correctly stated point. Sub-Total: 6 marks)

- b) The four (4) features of the unfair terms in Consumer Contracts Regulations 1994 are:
 - the regulator applies to the term of contract which have not been individually negotiated
 - contracts terms must be expressed in plain language
 - an unfair term is not binding on the consumer

• unfair term is defined as one that caused significant imbalance to the parties' right and to the detriment of the customer.

(1 mark for each correctly stated feature. Sub-Total: 4 marks) (Grand Total: 10 marks)

6. Money section under a household policy defines money more than cash and bank notes. State five (5) other items that the definition includes as money.

Solution

The other items that the definition includes as money are:

- cash and bank note
- cheques
- postal orders
- bankers' drafts
- current postage stamps
- savings stamps and certificates
- telephone cards
- premium bonds
- luncheon vouchers
- gift token
- travel ticket

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

7. Household policy can cover sport equipment. List any five (5) of the popular exclusions applicable to this cover.

Solution

The popular exclusions to sport equipment insurance are:

- damage to sports equipment whilst it is being used
- vehicle, watercraft and aircraft
- non-specialist sports clothing
- property more specifically insured by another policy
- property help or used for any profession, business or employments
- camping equipment
- equipment for certain hazardous pursuits. e.g. skiing, parachuting, e.t.c. (2 marks for each correctly stated exclusion. Maximum of 5 to be graded. Total: 10 marks)
- 8. The term building is specifically defined in the policy wording and will typically include the main structure of the insured's home. List four (4) other things that can be included in the definition or description.

Other things that can be included in the definition or description of a building are:

- swimming pool, tennis courts, garden walls patios, terraces, fences, gates, paths and drives
- oil and gas tanks, septic tanks and cesspits
- out buildings used for domestic purposes
- fixtures, fitting and decorative finishes.
 (2½ marks for each correctly stated description. Maximum of 4 to be graded. Total: 10 marks)
- 9. Enumerate any four (4) information that a renewal notice will usually contain.

Solution

The information that a renewal notice will usually contain are:

- renewal date of the policy
- any amendment to the sum insured and a request to check if the sum insured is adequate
- any change(s) to the policy cover or excesses
- a reminder to the insured of their duty to disclose any material facts which have changed since the last renewal date
- guidance on what to do to renew the policy.
 (2½ marks for each correctly stated information. Maximum of 4 to be graded. Total: 10 marks)
- 10. List explicitly any two (2) covers provided for in a standard loss of rent insurance.

Solution

The insurance covers provided for in a standard loss of rent insurance are:

- ground rent repayable by the insured for a maximum of two years
- loss of rent for any part of the premises not occupied which has become uninhabitable
- the reasonable cost of alternative but similar accommodation whilst the
 premises are uninhabitable as a result of an insured peril
 (5 marks for each correctly stated cover provided. Maximum of 2 to be graded. Total: 10 marks)
- 11. What are the two types of policy available under a travel insurance? Briefly explain them.

The two types of policy available under a travel insurance:

- **single trip:** cover must be arranged each time a trip is undertaken. Cover is usually for a maximum of three months.
- **annual policy:** cover is automatically provided for all trips undertaken within a twelve-month period. A limit per trip of between 31 and 45 days usually applies.

(3 marks for each correctly stated type. 2 marks for correct explanation. Sub-total per type: marks. Grand Total: 10 marks)

12. Briefly and separately summarise how an insurer and an insured can cancel a motor policy.

Solution

An insurer and an insured can cancel a motor policy as follows:

- **Insurer:** Insurer can decide to cancel policy they must send seven days' notice by recorded delivery letter to the policy holder. They undertake to give proportionate (pro-rata) return premium for the unexpired period. Insurer seldomly use this right. Certificate must be returned.
- **Insured:** If the policy holder wishes to cancel the policy, the motor certificate must be returned to the insurer provided no claim has occurred during the current period of insurance. The insurer will allow return premium using short period rate.

(2½ marks for each correct explanation. Maximum of 2 to be graded under each term. Sub-Total per term: 5 marks. Grand Total: 10 marks)

13. Mention any five (5) information that a motor insurance certificate usually contain.

Solution

Information that a motor certificate usually contain are:

- certificate number
- registration number or description of the vehicle
- name of the policyholder
- effective date
- expiry date
- persons or classes of person(s) entitled to drive
- limitation as to use
- statue governing the issuance of the certificate (2 marks for each correctly stated information. Maximum of 5 to be graded. Total: 10 marks)

- 14(a) Enumerate any two (2) disadvantages of facultative insurance. (6 marks)
- (b) What is the main similarity between a "surplus treaty" and a "quota share treaty". (4 marks)

- a) The disadvantages of facultative reinsurance are:
 - insurer is unable to accept the risk until the underwriter has obtained reinsurance
 - the negotiation involved can be time consuming
 - the reinsurance has to be negotiated at each renewal.
 (3 marks for each correctly stated disadvantage. Sub-Total: 6 marks)

b. The main similarity between surplus and quota share treaty is that both are proportional treaties. (4 marks)

(Grand Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

- 15(a) There are various rating factors commonly used when underwriting private motor insurance. Enumerate five (5) of these factors and explain how the underwriter apply each one in the rating of the product. (25 marks)
- (b) The major significant piece of legislation in United Kingdom in respect of motor insurance is the Road Traffic Act 1988. What is the most important statute in respect of motor insurance in Nigeria? (5 marks)

Solution

- a. The rating factors for Private Motor Insurance are:
 - the performance of the vehicle through its power to weight ratio
 - the likely cost of repairing accident damage
 - the age of the vehicle
 - the value of the vehicle
 - the cover required
 - age of the driver
 - the occupation of the driver
 - accident and loss history of the driver
 - conviction history of the driver
 - drivers' disabilities
 - familiarity of the driver with the road

(Candidates are required to explain any of the stated factor. 3 marks for correctly stating the factor. 2 marks for correct explanation. Sub-Total per factor = 5 marks. Maximum of 5 to be graded. Grand Sub-Total: 25 marks)

b. Motor vehicle (third party Insurance) Act 1945 is the principal legislation on motor insurance in Nigeria.

Sub-Total: 5 marks

(Grand Sub-Total: 30 marks)

- 16(a) What cover is provided under delay baggage extension? (10 marks)
- (b) What are the facts of these two cases:
 - (i) Gale V. Motor Union Insurance Co. Ltd (1928) and
 - (ii) Loyst V. General Accident Fire and Life Assurance Corporation Ltd (1928)? (8 marks)
- (c) Explain the four (4) instances when facultative reinsurance is commonly used in commercial insurances. (12 marks)

Solution

a) The cover provided under delayed baggage extension is that this extension covers the cost of essential items of clothing and toiletries as a result of delay of baggage for a minimum period after the time at which it should have arrived. It is usually for twelve (12) hours.

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

- b) i) Gale held a motor union policy which indemnified any relative or friend who may drive the insured car provided the relative or friend is not insured under any other policy.

 (4 marks)
- ii) Loyst held a motor policy with the General Accident Fire Assurance Corporation under which he was covered in respect of third-party risk, while driving a car not belonging to him provided there was no other insurance in respect of any such car whereby the insured may be indemnified. Loyst, while driving Dale's car had an accident which resulted into claim being made by third party. Loyst made a claim under both policies but both insurers repudiated liability. It was held that each insurer should pay half of the claim. (4 marks) (Grand Sub-Total: 8 marks)
- c) The four circumstances when is facultative reinsurance is commonly used are:
 - when the insurer's treaty is full
 - the risk falls outside the terms of the treaty
 - the risk of an unusual kind
 - when the risk whilst within the treaty parameters is exceptionally heavy and the insurer does not want to risk jeopardizing the treaty experience.

 (3 marks for each correctly stated circumstance. Sub-Total: 12 marks)

(Grand Total: 30 marks)

- 17(a) Explain the following reinsurance terminologies:
 - (i) Reinsurer
- (ii) Ceding Office
- (iii) Cession
- (iv) Retention

(v) Retrocession

(20 marks)

(b) What are the four (4) implied duties that are on an insured person on the happenings of a loss which might give rise to claim? (10 marks)

Solution

- a. i) **Reinsurer:** a company which accepts some of the risk underwritten by another insurer.
- ii) **Ceding Office:** the insurer which places reinsurance with a reinsurance company.
- iii) Cession: the amount of reinsurance passed by the insurer to the reinsurer.
- iv) **Retention:** the amount of risk which an insurer retains for their own account, so that in the event of a loss, the loss will not exceed the company's limit for that class of risk
- v) **Retrocession:** reinsurers can reinsure the amount of risk they give away as retrocession.

(Candidates are required to explain the term and also give an example at the very least. 2 marks for correct explanation. 2 marks for each correctly stated example. Sub-Total per term: 4 marks. Grand Sub-Total: 20 marks)

b. The four implied duties of an insured person on the happenings of a loss which might give rise to claim are:

- act as though they were uninsured and try to minimise the loss
- advice appropriate authorities
- not to hinder the insurer in the investigation of their claim
- prevent the loss from spreading.

(2½ marks for each correctly stated duty. Sub-Total: 10 marks) (Grand Total: 30 marks)

18(a) Explain "laid up benefits" in motor insurance.

(12 marks)

- (b) Elaborate on avoidance of "certain terms and right of recovery condition".

 (12 marks)
- (c) What is the specified motorcycle insurance?

(6 marks)

Solution

a) Laid-up Benefits: if a vehicle is to be laid-up for at least 28 consecutive days, and it is not due to damage for which a claim has been made under the policy. Cover may be reduced and an allowance will be made at next renewal. The certificate of motor insurance must be returned to the insurer and the allowance will be calculated from the day the certificate is received. If the car is insured

against loss or damage by fire and theft, this part of cover will remain in force while the vehicle is laid up. Pro-Rata credit is given from the day the certificate is not returned. Loss of use due to damage for which a claim has been made under the motor policy is not covered.

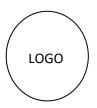
(3 marks for each correctly stated point. Maximum of 4 points to be graded. Sub-Total: 12 marks)

b) Avoidance of Certain Terms and Right of Recovery: this condition gives the right to the insurer to sue the insured or negligent party for any amount which the policy does not cover but which they have been forced to pay because of the law of the country which the accident occurred. Under a motor policy the insurer has obligation to meet any claim which fall within the motor vehicle (Third Party Insurance) Act 1945, irrespective of the contravention or exclusions. Insurer has the right to recover their outlay from the insured or the person who incurred their liability. In reality it may be a difficult task to obtain money from the policy holder or anyone else who has been in breach of a policy term and/or condition.

(3 marks for each correctly stated point. Maximum of 4 points to be graded. Sub-Total: 12 marks)

c) **Specified Motorcycle Insurance:** this is a method where a driver is insured for a particular motorcycle, if their motorcycle is say more than 100cc engine capacity than the insurer will allow drive other motorcycle extension but if the capacity of the motorcycle is less than 100cc, generally 'any driver' policy would be issued meaning their other driver can drive it but with no driving other motorcycle extension meaning that the policy holder cannot drive other motorcycles.

(2 marks for each correctly stated point. Maximum of 3 points to be graded. Sub-Total: 6 marks) (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D12 LONG TERM BUSINESS

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

D12 - LONG TERM BUSINESS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 0%

Highest Score: 44%

Lowest Score: 44%

Average Score: 44%

Breakdown Updates

Question 1

The candidate answer to this question suggests that the candidate is not acquainted with the 2003 Insurance Act. It was zero performance.

Question 2

The candidate recorded a zero performance and this points to the fact that (s)he did not prepare adequately for the examination.

Question 3

This was another zero performance. The candidate lacked understanding of the question.

Question 4

The candidate did not understand the question hence performance was abysmally low. A very disheartening performance.

Question 5

The candidate's response to this question suggests poor preparation for the examination. Performance was woeful.

Question 6

Performance was good as the candidate showed great understanding of the question.

Question 7

There was no attempt by the candidate to answer this question. It seems that the question on how to deal with lapsed cases/policies was strange to the candidate.

Question 8

The candidate avoided this question. This suggests that the candidate lacked understanding of the Policies of Assurance Act 1867.

Question 9

Performance on this question was slightly above average. The candidate understood the question and this reflected in the score.

Question 10

The candidate displayed brilliance on this question as (s)he obtained the full mark allotted to the question.

Question 11

The candidate displayed good knowledge of the pension scheme operating in Nigeria. Performance was above average.

Question 12

This question was well understood as the candidate obtained the full marks allotted to the question.

Question 13

Performance here was 100% as the candidate displayed well-rounded knowledge of the question.

Question 14

The candidate performed well on this question as there was an understanding of the question as seen in the earned score.

Question 15

The question was not attempted by the candidate.

Question 16

The candidate obtained over 70% of allotted scores on this question. This showed an understanding of the question.

Question 17

The candidate did not understand this question.

Question 18

The candidate did not attempt the question.

Chief Examiner's Comments on Overall Performance:

It was only one candidate that did the examination. Overall performance is below the pass mark, hence the 0% pass rate.

Chief Examiner's Suggestion on Improvement:

I want to believe that the candidate did not cover the entire syllabus/coursebook during preparation hence the lopsided performance. The Institute should continuously encourage candidates to cover the entire coursebook before examination to ensure passing the examination at first attempt.

Part I

Answer ALL questions in Part I. Each question carries 10 marks

1. In Nigeria, what is the provision of section 50 (1) of the Insurance Act 2003?

Solution

Section 50 (1) of the Insurance Act 2003 provides that the receipt of an insurance premium shall be a condition precedent to a valid entrant of Insurance and there shall be a no risk unless the premium is paid in advance. (10 marks)

2. The Financial Services (Distance Marketing) Regulation 2004 set common minimum standards for information, which must be disclosed to customers of financial services before a distance contract becomes binding on a consumer. Enumerate any five (5) items that must be disclosed to such customers.

Solution

The items that must be disclosed to customers before a distance contract becomes binding on such a consumer are:

- authorize body
- total price to be paid for the service plus a specific cost for distance communication
- cancellation right
- law applicable
- complaints and compensation arrangement (2 marks for each correctly stated item. Total: 10 marks)
- 3. Premiums for investments and pension policies are deposits for which life and pension companies must return together with interest at maturity. Kindly enumerate any five (5) of the globally acceptable principles that apply to such deposit taking.

Solution

The globally acceptable principles that apply to such deposit taking

- * financial prudence * market conduct * customer's interest

- * relations with regulators.

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

- 4(a) The Financial Services Authority in a bid to deal with money laundering produced a comprehensive guidance note for each sector of the industry. State the industry that the following guidance notes are applicable to:
 - (i) The Red Book
- (ii) The Yellow Book
- (iii) The Green Book.

(6 marks)

(b) According to Insurance Conduct of Business (ICOB) rules, there are no cancellation in certain policies. Name any two (2) policies that have no cancellation rights. (4 marks)

Solution

- a) i) **The Red Book:** this is for mainstream bank, lending and deposit taking business.
- ii) **The Yellow Book:** this is for wholesale, institutional and private client investment business.
- iii) **The Green Book:** this is for insurance and retail investment business. (2 marks for each correct explanation. Sub-Total: 6 marks)
- b) The policies that have no cancellation rights are:
 - travel policies
 - policies lasting less than one month
 - policies where performance has already been completed
 - price protection life policies for six months or less.
 (2 marks for each correctly stated policy. Maximum of 2 to be graded. Sub-Total: 4 marks)
 (Grand Total: 10 marks)
- 5(a) What documents are required for the payment of surrender value in the following policies:
 - (i) endowment policy
- (b) mortgage policy

(4 marks)

(b) List and explain three (3) methods of providing benefits under the final salary pension scheme. (6 marks)

Solution

a) The documents required for the payment of surrender value in the following policies are:

i) Endowment Policy	Policy document and		
	discharge voucher		
ii) Mortgage Policy	Policy document,		
	counter signature and		
	discharge voucher		

(1 mark for each correctly stated document. Maximum of 2 to be graded per term. Sub-Total: 4 marks)

- b) The three methods of providing benefits under the final salary pension scheme are:
 - **Fixed Pension Approach:** where a fixed amount of pension at retirement is paid in exchange of the transfer value.
 - Added Years Arrangement: this is adopted when the receiving scheme grants the number of years exact to the future service pension needed to reproduce the fixed pension offer. This applies to public sectors.
 - **Money Purchase Approach:** here, the incoming transfer value is used to buy money purchase benefit. At retirement the accumulated fund is turned into benefits. This is used by private sectors.

(1 mark for each correctly stated method. 1 mark for correct explanation. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 6(a) Outline two (2) types of claims or payouts available under long term contracts. (2 marks)
- (b) What documents are required to prove title before a claim is paid in long term contracts regarding the following:
 - (i) Life of another
- (ii) Own Life policy
- (iii) Trust policy
- (iv) Assigned policy.

(8 marks)

Solution

- a) The types of claims or payouts available under long term contracts are:
 - morbidity claims
 - mortality claims
 - surrender claims. (1 mark for each correctly stated type. Maximum of 2 to be graded. Sub-Total: 2 marks)

b) The documents required to prove title before a claim is paid in long term

contracts regarding the following are:

Life of Another	Production of policy document
	Grant of probate or grants of letters of administration.
Own Life	Production of policy document. Grant of probate or grant
	of letter of administration.
Trust Policy	Production of the policy document
	Trust document
Assigned Policy	Production of policy document.
	Deed of assignment.

(1 mark for each correctly stated document. Maximum of 2 to be graded per term. Sub-Total per term: 2 marks. Grand Sub-Total: 8 marks)

(Grand Total: 10 marks)

7. Explain the procedure that life offices have designed to investigate policies which fall into arrears of premium payment.

Solution

The procedure that life offices have designed to investigate policies which fall into arrears of premium payment are:

- life insurer will send letters to be areas quoting the amount in arrears and pointing out the consequences of non-payment
- if the assured pays the premiums, the policy continues
- if the areas are not paid and the policy has no surrender value, it lapses and the office would go off risk
- if the areas are not paid but has a surrender value the non-forfeiture provision supply and the policy may be made paid-up.

 (2½ marks for each correctly stated procedure. Total: 10 marks)
- 8. The Policies of Assurance Act 1867 imposes some obligations on life offices. Carefully state any four (4) of these obligations.

Solution

The obligations imposed on life offices under the Policies of Assurance Act 1867 are:

- the Act stipulates that everyone to whom a policy is assigned to must serve a notice of assignment on the life office giving details of the assignment
- the assignee cannot claim from the office until they have served notice. the act provides that every life policy must show the office principal place of business where notice can be served
- when served a notice the office must on request, and for a fee, supply a written acknowledgement of the receipt of the notice. the acknowledgement is then conclusive evident of receipt of the receipt
- the office must have a system for recording the notice of assignment to enable it to comply with the act and also pay the right person when a matter arises
- a notice of assignment does not prove the assignee ownership and relevant deed of assignment will have to be produced when a policy payment is required.

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

- 9(a) How do qualifying policies become paid-up? (3 marks)
- (b) Explain how appointment is made in place of
 - (i) death of a trustee; and (ii) retiring of a trustee. (7 marks)

- a) Policies can become paid up in the following ways:
 - either under premium provisions where premiums are unpaid
 - at the request of the policy holders where it is tested as an alteration. Here, the office will require completion of the appropriate letter of authority and the policy will be endorsed to show the reduced from the assured.

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

- b) (1) The appointment of trustee replacement are:
- (i) **on the death of a trustee:** it may be necessary to appoint another. The original trust may specify who has the right to do this (usually the settler). If there is no such specification, the surviving trustee or the legal representative of a sale trustee or the lest trustee to die, here the power to appoint replacement(s). A deed or application needs to be completed.

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

(ii) **on retiring of a trustee replacement:** a trustee who no longer wishes to continue in the role may retire by the use of a deed of retirement. The retire trustee may or may not essential to be replaced depending on the number of the remaining trustee trustees, or where the trustees and (any) appointer agree. The Trustee Act 1925 also provides for the appointment of replaced trustee in certain circumstances. The trust deed may also give the settlor the right to appoint new trustees at a given time.

(2 marks for each correctly stated way. Maximum of 2 to be graded. Sub-Total: 4 marks) (Grand Total: 10 marks)

10. Enumerate any four (4) factors that underwriters consider before requesting for evidence of health and other specials treatment in a group life assurance scheme?

Solution

The following are some factors that underwriters consider before requesting for evidence of health and other specials treatment in a group life assurance scheme:

- age or advanced age of members of the group.
- occupations (hazards for example) the group is engaged in
- lives who were ill at the start of the scheme but who now want to join
- all lives where the group is small, say, less than 20
- lives for whom an exceptionally high sum assured, maybe disproportional to be ordered is required.

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

- 11(a) Explain the type of pension scheme in operation in Nigeria's organized private sector. (6 marks)
- (b) Define a pension scheme.

(2 marks)

(c) What is the minimum rates of contribution in the public sector in Nigeria as at 1st October 2020. (2 marks)

Solution

a) The type of pension in Nigeria's private sector is called the defined contribution. Under the scheme, contribution rates are defined from the outset and it enables every contributor to know the size and extent to his or her pension assets in their retirement savings account (RSA) at any given time.

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

- b) A pension scheme is defined as a pension paid to the member directly by the scheme out of assets. Pension fund administrators pay out programmed withdrawal as pensions; while insurance companies pays out annuity as pension after a member of the pension scheme buys from either of the institution. (2 marks)
- c) The minimum rate of contribution in the public sector in Nigeria as at 1st October 2020 is 8% employee and 10% employer. (2 marks) (Grand Total: 10 marks)
- 12(a) Outline the main asset types available for investors to take advantage of in a financial investment environment.
- (b) What role does each of the asset play in financial investments? **Solution**
- a) The main assets types available for investors to take advantage of in a financial investment environment are:
 - * Cash Deposits
- * Fixed Interest Securities

* Equities

* Properties

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

- b) The role each asset types play in financial investments are:
 - **deposit:** this is good for the production of capital, at least in normal terms and normal terms and over shorter periods, are safe haven when times are bad economically
 - **fixed interest security:** this is good for secure levels of normal income, with some scope for capital gains if interest rate falls. They are usually less volatile equipment
 - **equities:** this is good for long-term rest growth of capital or income, although the risk of loss is higher than either fixed interest securities or cash deposits.

(2½ marks for each correct explanation. Maximum of 2 to be graded. Sub-Total: 5 marks) (Grand Total: 10 marks)

- 13(a) What is:
 - (i) a single-tied agent; and (ii) an independent financial adviser.
- (b) What will motivate an individual or company to buy long term products? **Solution**
- a) i) a single tied agent: this is an appointment representative of one product provider (insurance company) (2½ marks)
- ii) an independent financial adviser: this is an independent agent with assess to the whole market or a whole segment of it. IFA can use a panel of product provides. (2½ marks)
- b) The following will motivate an individual or company to buy long term Products:

* motivation

* protection

* income

* investment

* advice.

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

14. When considering a life assurance proposal, the underwriter will look for medical factors affecting longevity. Enumerate ten (10) of those medical factors required to be disclosed by the assured which underwriters will normally probe further on.

Solution

The medical factors required to be disclosed by the assured which underwriters will normally probe further when considering a life assurance proposal under longevity are:

* Heart Disease

* Circulatory Disease

* Obesity

* Digestive System Disease

* Cancer

* Liver Disease

* Eye Disease

* Tropical Disease

* Diabetics

* Respiratory Disease

* Kidney Disease

* Glandular Disorders

* Disease of Nervous Systems

* Mental Disorders

* HIV/AIDS

(1 mark for each correctly stated factor. Maximum of 10 to be graded. Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

15. Explain the reasons behind life offices close examination of cause of death stated on medical certificates of cause of death (MCCD).

Solution

The reasons insurers like note of cause of death shown on the death certificate are given below:

- to ensure that the life assured did not die as a result of some activity that was excluded from the cover provided by the policy.
- to ensure that the life assured did not hide some materials fact that could have affected the underwriting and acceptance of the risk. Non-disclosure of material fact could be a sufficient ground to avoid and void the policy.
- to ensure that if there is fraudulent non-disclosure, the client will have no legal rights to recover premium.
- to ensure that the life assured or his legal representative does not benefit from the policy if death is by suicide.
- to reveal in case the place is expressly excluded from the policy.

 (Candidates are required to FULLY explain the stated summarised points above. 3 marks for each correctly stated point. Maximum of two complete points per reasons. Sub-Total per reason = 6 marks. Grand Total: 30 marks)
- 16(a) Explain reassurance of life assurance contracts. (6 marks)
- (b) State and explain the four (4) reasons for reassurance by life offices. (24 marks) **Solution**
- a) Reassurance of life assurance contracts are:
 - reassurance is a transfer mechanism whereby a company having assume risk from the public, transfer such risk to the reassures in return for premium payment
 - the insurer who will accept the original risk is called 'direct insurer' and the insurer which provide the reassurance is called the 're assurer'
 - the re-assurer pays commission to the direct office for business passed on to it
 - insurer takes out further insurance to protect themselves against having to cover the whole of a risk.
 - it assists life assurance industry by helping officers to avoid wide range fluctuations in underwriting results from year to year.
 (3 marks for each correctly stated explanation. Maximum of 2 explanations to be graded. SubTotal: 6 marks)

- b) The reasons for reassurance by life offices are:
 - Death Strain: for every policy issued, a life office builds up financial reserve from the premium which it receives. The aim is that the reserve will be sufficient to meet any eventual claim, gives normal mortality experience. If the life assured should die at a much earlier age than expected, or if there is a particularly high sum assured, the reserved will not be sufficient to meet the claim. The shortfall is called sum at risk and fund this shortfall is called death strain. Clearly, it is desirable for the office to have its death strain covered by reassurance.
 - New Business: this is the situation where administrative other courts associates with the production and processing of a new business including commission payable to the intermediary exceed premium received. This will be a problem for offices which has not been transacting life business for every long as they will not have had the chance to build up other reserves on which they can draw. A claim required by a life office of this stage could prove difficult to find and so they will reassure a substantial proportional of its business. In the early years of operation, it may assure the whole of the deaths strain, it is better to absorb the death strain on a new business by using reserves on other policies. The problem of new business strain may also affect established offices. A need for reassure can arise when such an office seeks to enter a new sector of the market or launch a new product.
 - **Retention:** to protect itself, a life office will place a limit on the sum of the assured which it is willing to cover on any one life. This is called retention limit. There may be different limits for different types of life cover according to a number of citizens such as placing a lower limit for old lives, or a lower limit for sustained lives.
 - Stability: reassurance provide life office with financial stability and insulting them against the degree inheritance in large claims or an unexpected run/series of claims. This have a number of implications. First, the stability gained is important in building public confidence in the office. Any hint that an office will have any difficulty in paying claims could lead to business rapidly draining away seconds, reassurance will bring about public safety. Without reassurance death strain or business strain or new business strain might reduce to office ability to pay until it reaches a stage where it had to default on claims.

(3 marks for each correctly stated reason. 1 ½ for each correct explanation under each reason. Maximum of 2 to be graded per reason. Sub-Total per reason = 6 marks. Grand Sub-Total: 24 marks) (Grand Total: 30 marks)

17. Extract of a mortality rate table of an endowment policy is as follows:

Age/Term	6	9	15	20	25	30
21	21.00	21.99	28.02	28.09	29.01	29.92
27	30.01	30.34	30.62	30.83	35.09	38.88
36	39.09	40.02	40.52	40.89	40.90	40.99
42	45.31	45.36	45.64	52.82	46.77	50.21
50	60.01	61.77	61.91	63.09	64.01	65.01
66	65.09	66.02	66.92	67.00	67.09	68.03

Additional Information

(i) Waiver of Premium Rate: 1.75 per mille
 (ii) Administration Fee: \$\frac{\text{\tilde{\text{\te}\text{\texi{\text{\text{\text{\text{\text{\text{\text{\texi{\texi{\texi}\text{\texi{\texi{\texi{\texi{\texi{\texi{\texi{\texi}\texi{\texi{\texi{\texi{\texi{\t

(iv) Conversion Rate Factor: Half Yearly (0.510) and Monthly (89.65)

Your agent submitted an application from a factory worker (machine operator) aged 36 years. He wants waiver of premium and double accident benefit incorporated in his policy. The proposal has \$\frac{\text{N}}{10,000,000.00}\$ sum assured and a durational term of 25 years.

Calculate the:

- (a) half yearly premium payable; and
- (b) the monthly premium payable.

Solution

a) Proposer Age: 36 Sum Assured: N10,000,000.00

Term: 25 years Admin Fee: N1,000.00

Occupation Loading: Nil Waiver of Premium: 1.75 per mille

Double Accident Benefit: 2 per mille Life Rate: 40.90 per mille

Monthly Conversion Factor: 89.65 Half Yearly Conversion Rate: 510

Calculating Annual Premium First:

Sum Assured x Rate on the Proposer's Age (2 marks)

Plus: Admin Fee
(1 mark)
Plus: Loading of Waiver Premium and Double Accident Benefit
(1 mark)
10 000 000 Y 40 00 - 400 000
(2 mark)

 $10,000,000 \times 40.90 = 409,000$ (2 marks)

1000

Waiver of Premium = $\underline{10,000,000} \times 1.75 = 17,500$ (2 marks)

1000

Add Admin Fee Annual Premium= Therefore, Half Yearly Premium = Annual premium X Conversion Factor 1000 (1 mark) 447,500 (1 mark) 447,000 X 0.510 1000 N228.23 OR Half Yearly Premium = Annual premium X Conversion Factor 1000 (1 mark) 1000 (1 mark) OR Half Yearly Premium = Annual premium X Conversion Factor 1000 (1 mark) (1 mark) Annual premium X Conversion Factor 1000 (1 mark) 1000 (1 mark)	Double Accident Benefit=	$10,000,000 \times 2 =$	20,000	(2 marks)		
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Therefore, Half Yearly Premium = $ \begin{array}{rcl} & & & & & & & \\ & & & & & & \\ & & & & &$	Add Admin Fee		<u>1,000</u>	(2 marks)		
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Half Yearly Premium =						
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Therefore,					
$= \underbrace{\frac{447,000}{1000}}_{1000} \times 0.510 \qquad (1 \text{ mark})$ $= \underbrace{N228.23}_{OR} \qquad (5 \text{ marks})$ $= \underbrace{\frac{447,500}{1000}}_{1000} \times 510 \qquad (1 \text{ mark})$ $= \underbrace{\frac{447,500}{1000}}_{1000} \times 510 \qquad (1 \text{ mark})$	Half Yearly Premium =	Annual premium X Conversion Factor				
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N 1990 995 99	=	<u>447,500</u> X 510		(1 mark)		
= NI228 225 00 (5 montes)		1000				
- 1\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	=	N228,225.00		(5 marks)		

(N.B: The rate of 0.510 was stated in the question hence the first calculation above. The 510 rate is also used as shown in the second calculation above because that is what it should be. Either one is graded).

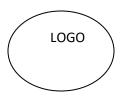
b) Monthly Premium =
$$\frac{\text{Annual Premium}}{1000}$$
 X Conversion Factor
$$\frac{1000}{1000}$$
= $\frac{447,500}{1000}$ X 89.65
$$\frac{1000}{1000}$$
= $40,118.38$ (5 marks)

18. If a policyholder can no longer afford to pay premium, the policy may be made paid-up. Fully explain how this is usually done.

Solution

If a policyholder can no longer afford to pay premium, the policy may be made paid-up in the following ways:

- if a policyholder can no longer afford to pay premium, they may request that the policy be made paid-up
- this means that no further premiums are payable and cover continues at an appropriate reduced level
- only substantive policies (endowment and whole life assurances) can be made up
- the reduced paid-up sum assured will normally bear some relations to the number of premiums actually paid as opposed to the total originally payable
- the office will require completion of appropriate letter of authority and proof of title to makes this alteration and the policy will be endorsed to show the reduced sum assured
- if a qualifying policy is made paid up within ten years, or three quarter of the term if sooner there will be a subsequent chargeable event on termination (debt, mortality or surrender), certain part surrenders and part assignments, assignment for money worth and on policy loans of non-commercial rate of interest
- it is possible for the policy to become paid up if premium provisions allow this to happen automatically when premium become outstanding
- the normal procedure on unit linked policies is for the sum assured to remain at the same level while the value of the units in the policy is enough to pay the mortality cost of the life cover
 - (5 marks for each correct and completely stated explanation. Maximum of 6 to be graded. Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D13 MARINE AND 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.
- ♣ 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

D13 - MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 100%

Highest Score: 56%

Lowest Score: 56%

Average Score: 56%

Breakdown Updates

Question 1

The question was to test industry knowledge and practice. The candidate did not know the agency responsible for aircraft registration and to which accident should be reported. The domestication of coursebook would solve the problem in future.

Question 2

The question was well understood and full marks were attained by the candidate.

Question 3

The question was to test knowledge of special vessels. The candidate had knowledge of the three special vessels correctly.

Question 4

The question tested the ability to be able to distinguish between "standard" and "recommended" practices. The candidate failed to show that "standard are recognised as necessary whilst recommend are agreed to be desirable". The distinctions are to be well mastered by everyone.

Question 5

The question was to test the knowledge of defences which a carrier may adduce to evade liability when it arises. The candidate had a good understanding of these defences. Candidates are required to master such defences to be able to advise their clients appropriately.

Question 6

The question was to test knowledge of "Lloyd's brokers and their duties at Lloyd's". The candidate attained full marks in this. All intending applicants should pay attention to clear knowledge of important institutions and operations like Lloyds of London.

Question 7

The question was to test the knowledge of the importance of reinsurance to the marine underwriter. Candidate understood the question and answered correctly.

Question 8

The question was to test the knowledge of the perils covered by ITC (Hulls). The candidate listed three of the five perils correctly. Attention should be paid to the perils covered as they are fundamental to all marine policies.

Question 9

The question was in two-fold, which was to test knowledge of 3/4th collision liability clause and also the knowledge of sistership clause. The candidate did not know that the essence of sistership clause is to protect the interest of the same owner of vessels in collision and when such vessels render salvage services to each other. These aspects should be distinctly mastered by candidates.

Question 10

The question was to test the knowledge of the background of the Marine Insurance Act (MIA) 1906 for proper appreciation of its importance. The candidate did not show good knowledge of the background as required. Attention should be paid to detailed study of the MIA (1906) as it encapsulates the marine insurance law.

Question 11

The question was to test the knowledge of how a valid constructive total loss claim could arise as defined by MIA (1906). Candidate could not bring out the three main causes. Constructive Total Loss is a very important aspect of marine insurance which all candidates must know.

Question 12

The question was to test knowledge of marine insurance placements with slips. The candidate showed a good understanding of slip placement although with some off-points in part of his responses.

Question 13

The question was to test knowledge of the mandatory involvement of the launching State in the liability of satellite accident for enhanced security. The candidate did not understand the mandatory State involvement. The aspect of State involvement in liability for satellite accident in addition to the launcher should be carefully studied.

Question 14

The question was to test whether candidates know that successive carriers execute one and undivided carriage. The candidate showed little knowledge of the undivided nature of successive carriage. Candidates are required to be conversant with the provisions of the Montreal Convention 1999.

Question 15

The question was to test candidates'

- (a) knowledge of how aircrafts are adopted for cargo carriage. The candidate merely mentioned different cargoes carried by aircraft instead of showing how aircrafts are termed cargo carriers. Attention should be paid by candidates to various modification of the use of aircraft for cargo carrying purposes; and
- (b) information on "container ships". This (b) part was well answered by the candidate.

Question 16

The question was to test candidates'

- (a) knowledge of proper delivery of cargo under the CMR conditions. This was averagely understood by the candidate.
- (b) essence of shipowners limiting their liability. Candidates did not understand this aspect of the question. Attention should be paid to both the CMR conditions in the candidates' studies.

Question 17

The question was not attempted by the candidate.

Question 18

The question was not attempted by the candidate.

Chief Examiner's Comments on Overall Performance:

Good.

Chief Examiner's Suggestion on Improvement:

Candidates are encouraged to study their coursebooks thoroughly and be conversant with industry happenings.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

- 1(a) 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)
- (b) Aircraft registration is the responsibility of what agency of government in Nigeria? (3 marks)
- (c) To what agency must aircraft accidents be reported in Nigeria? (3 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). (3 marks)

(Grand Total: 10 marks)

- 2(a) Which Meridian is accepted by international agreement as the Prime Meridian? (4 marks)
- (b) Calculate the local time of Part Reef which is 45°East of Port Ballast when time at the latter is 14.00 hrs local time. (6 marks)

Solution

a) 00 zero degree or Greenwich Meridian

(4 marks)

b) Difference in degrees= 45 degrees

If 15 degrees East is +1 hour

(2 marks)

45 degrees= 45/15= +3 hours

(2 marks)

Therefore, time at Part Reef = (14+3) hours= 17 hours.

(2 marks)

(Grand Total: 10 marks)

3. List five (5) specialist vessels.

Solution

Specialist vessels are:

- Passenger Ships
- Container Ships
- RoRo (Roll-On, Roll-Off) Vessels
- Car Carriers
- Log/Timber Carriers

(2 marks for each correctly stated vessel. Total: 10 marks)

4(a) What is the aim of International Civil Aviation Organisation (ICAO)?

(4 marks)

(b) Explain what "Standard and Recommended Practices (SARPS) mean to airport operators. (6 marks)

Solution

- a) The aim of ICAO is to achieve the agreement of its Member States on necessary level of standardization for the operation of safe efficient and regular air services. (4 marks)
- b) "Standard and Recommended Practices (SARPS) are specifications whose uniform application are recognized as necessary for the safety and regularity of international air navigation. Recommended Practices are those specifications agreed to be desirable but not essential.

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

5. Enumerate any five (5) defences that are available to a carrier in respect of his liability under the "Carriage by Rail Act 1976" as amended in 1982.

Solution

The defences that are available to a carrier in respect of his liability under the "Carriage by Rail Act 1976" as amended in 1982 are:

* an act of God

* as a result of war or civil unrest

* seizure under legal process

* act or omission of the trader

* bulk wastage

* inadequate packing

- * inadequate labelling or addressing * riot or strikes
- * the consignee not taking delivery in reasonable time.

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

6. Which brokers place insurances at Lloyd's in London and what are the duties of such brokers?

Solution

Only Lloyd's brokers can place insurance at Lloyd's in London. (4 marks) The duties of Lloyd's brokers are:

- selecting the best market for a risk either at Lloyd's or in the company market
- provide claim processing services for their clients
- with their vast knowledge and skills, they act as agents of the assured and not the agents of the Lloyd's underwriters
- exercise skill and care in arranging insurance according to their clients' instruction, otherwise they would be liable for damage under the law of agency if they fail to exercise reasonable care.

(3 marks for each correctly stated duty. Maximum of 2 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

7. Enumerate any four (4) reasons why marine insurers reinsure.

Solution

Marine Insurers reinsure for the following reasons:

- protection or cover against exceptionally large individual losses
- avoiding undue fluctuations in underwriting results
- obtaining an international spread of risk
- increasing the capacity of the direct insurer
- obtaining technical advice from the reinsurers.
 (2½ marks for each correctly stated reason. Maximum of 4 to be graded. Total: 10 marks)
- 8. List any five (5) of the perils featuring under section 6.1 of the Institute Time Clauses (Hulls).

Solution

The perils featuring under Section 6.1 of the Institute Time Clauses (Hulls) are:

- perils of the seas, lakes, rivers and other navigable waters
- fire, explosion
- violent theft from persons from outside the vessel
- jettison
- piracy
- contact with land conveyance, dock or harbor equipment or installation
- accident in loading, discharging or shipping cargo or fuel (2 marks for each correctly stated peril. Maximum of 5 to be graded. Total: 10 marks)
- 9(a) What does the 3/4th "Collision Liability Clause" cover?
- (b) What is the essence of "Sistership Clause"?

Solution

- a) The 3/4th "Collision Liability Clause" cover the following:
 - any liability that the assured may incur by way of damages to the owners
 of any other ship or vessel (and cargo there on) owing to a collision by the
 insured vessel
 - it is a supplementary cover which applies to the vessel itself and extends to three- fourths of such liability
 - there is a limit set to one collision at three-fourths of the insured value of the vessel
 - the remaining one-fourth liability is not covered by this clause
 - ship owners cover the one-fourth balance of collision damage in their protection and indemnity Clubs

(2½ marks for each correctly stated point. Sub-Total: 5 marks)

c) The essence of the "sistership clause" is to protect the interest of the shipowner when two or more of his vessels are in collision. Legally, a person cannot be liable to himself. The clause seeks to place the assured in the same position as if the vessels are under different ownership and management. When salvage services are rendered from one sister vessel to another, they are indemnified accordingly. The shipowners' interest is not prejudiced by owning the vessels that come into collision or render salvage services

(2½ marks for each correctly stated point. Sub-Total: 5 marks) (Grand Total: 10 marks)

10. Briefly explain how the Marine Insurance Act 1906 came into existence. **Solution**

Below is a brief explanation of how the Marine Insurance Act 1906 came into existence:

- over the years, a large body of case law in every section of the insurance world had accumulated
- in 1906, the Lord Chancellor in UK, presided over a committee on which underwriters, ship owners, average adjusters and lawyers were represented
- they ranged over the whole of the known laws and practice as interpreted by the courts and brought it into one codified body of knowledge known as Marine Insurance Act (1906)
- although there have been plenty of legal actions since then, the law still stands
- it is necessary to understand it for good practice of Marine Insurance (2½ marks for each graded point. Maximum of 4 points to be graded. Total 10 marks)
- 11. How does Section 60 of Marine Insurance Act 1906 define "Constructive Total Loss"?

Solution

Section 60 of Marine Insurance Act 1906 define "Constructive Total Loss" as:

- subject to any express provision in the policy (2 marks)
- there is a constructive total loss where the subject matter insured is reasonably abandoned (2 marks)
- on account of its total loss appearing to be unavoidable (2 marks)
- or because it could not be preserved from actual total loss without an expenditure which would exceed its value when the expenditure had been incurred

(Grand Total: 10 marks)

12. How do "over-placed slips" arise and how are they resolved in the aviation market?

Solution

"Over-Placed Slips" arise and are resolved in the aviation market as follows:

- when the acceptances indicated by the various underwriters participating in a risk presented to them on a placing slip add up to more than 100 (hundred) percent, then the slip has been over placed
- this may arise because the broker wants to interest particular underwriters with the business
- it may be because the broker wants to close the business quickly before any other broker has the opportunity of placing the same business
- it may be as a result of the difference between preliminary advices and closing information
- such over placed slips are adjusted by reducing proportionately the percentage of each underwriter until the total participation of all the underwriters sum up to 100 (hundred) percent only
- the reduced percentage of each underwriter becomes the signed lines (2½ points for each correctly stated point. Maximum of 4 to be graded. Total: 10 marks)
- 13. How is the liability risk of satellite launch handled between the launching state and the launcher?

Solution

Liability risk of satellite launch handled between the launching state and the launcher as:

- huge liability for damage to property and loss of life may result if a launcher is destroyed a few seconds after launch
- for this and other reasons the international treaty on satellite launch has allocated the liability of satellite accident to the launching state or the state that the satellite operator is resident.

(5 points for each correctly stated point. Total: 10 marks)

14. How does the Montreal Convention 1999 describe carriage to perform by several successive carriers?

Solution

Carriage to be performed by several successive carriers is deemed, for the purposes of this convention, to be one undivided carriage if it has been regarded by the parties as a single operation. Whether it had been agreed upon under the form of a single contract, or of a series of contracts; and it does not lose its international character merely because one contract or a series of contracts is to be performed entirely within the territory of the same State.

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

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

- 15(a) What are Cargo Aircrafts? Concisely explain with at least four (4) distinct points. (12 marks)
- (b) Define "container ships" and explain concisely why they have to use specially equipped container ports. (18 marks)

Solution

- a) Cargo aircraft are:
 - aircrafts that are available in a form suitable to carry either a mix of passenger and cargo or all cargo
 - also, many aircraft operate in all passengers or passenger and cargo for daylight flights and convert to all-cargo format for night flights
 - a lot of medium and large aircraft are now available in cargo- only configuration
 - a number of Russian Antonov 124 freighter aircraft are available for charter to carry large items to remote areas and difficult landing strips
 - aerospace industries have modified some of their own aircraft to carry whole airbus wings and other aircrafts sub-assemblies from one factory to another.

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

b) Container ships are split into vertical cells, the container slipping into position in each cell down guide rails (6 marks)

The reasons why they have to use specially equipped container ports are:

- a fully containerised vessel can carry up to six thousand 20 ft standard containers
- containers are generally standardized in 20 ft or 40 ft lengths, 8 ft high and 8 ft wide
- there are multi- purpose vessels capable of carrying a number of containers as well as general cargo and are equipped with heavy lifts for loading and offloading the containers and general cargo
- container ports often have large specialized berths will large gantry cranes able to load and unload containers because only few ships carry their own gear.

(4 marks for each correctly stated point. Maximum of 3 to be graded. Sub-Total: 12 marks)
(Grand Sub-Total: 18 marks)
(Grand Total: 30 marks)

- 16(a) Concisely enumerate any three (3) scenarios that constitutes "delivery" under the Carriage of Goods by Road Act 1965: CMR Conditions.
- (b) Why does the concept of permitting ship-owners to limit their liability persist till the present time? Explain with at least three (3) concisely stated points.

- a) The scenarios that constitute "delivery" under the Carriage of Goods by Road Act 1965: CMR Conditions are:
 - the agreement of whether it is the carrier or owners of the goods that would be responsible for loading and unloading the consignment must have been concluded in the contract of carriage
 - the sender must have placed at the disposal of the carrier the documents and information necessary at the national frontiers
 - on arrival of the goods at the place designated for delivery, the carrier will deliver them against a receipt of the second copy of the consignment note, to the consignee
 - it is the carrier's duty to deliver the consignment at a place named under the condition laid down in the consignment note
 - with delivery, the carrier is considered to have fulfilled their principal duty.
 (5 marks for each complete and correctly stated scenario. Maximum of 3 to be graded. Sub-Total: 15 marks)
- b) The concept of permitting ship owners to limit their liability to the value of the vessels persists till the present time because:
 - it predated the concepts of insurance and limited liability company
 - limiting liability of ship owners was intended to encourage investment in shipping in order to increase the size of merchant fleets
 - with the limited liability companies, investors in shipping were no longer exposed to unlimited liability that hitherto made shipping business risky and expensive
 - today, most countries subscribe to one of two international conventions which enable a shipowner to limit their liability to a formula based on the tonnage of the vessel
 - however, U.S. and some few countries of the world still enable an owner to limit their liability broadly to the post-accident value of the vessel

(5 marks for each complete and correctly stated reason. Maximum of 3 to be graded. Sub-Total: 15 marks)

(Grand Total: 30 marks)

- 17. Explain the following clauses from the contents of the International Hull Clauses (1/11/83): Claims Provisions:
 - (a) Notice of claims
 - (b) Duties of the assured
 - (c) Duties of underwriters in relation to claim
 - (d) Provision of security; and
 - (e) Dispute resolution.

- a) **Notice of Claims**: an obligation to report accidents or occurrences which may give rise to a claim as set out in the clause, within 180 days of the Assured, Owners or Managers becoming aware of them. Otherwise the claim shall not be recoverable.
- b) **Duties of the Assured:** sets out the obligations of the assured to provide information in the claim process, making it a condition precedent to underwriters' liability that the assured makes a fair presentation of the claim.
- c) **Duties of Underwriters in Relation to Claims:** the underwriters have obliged to give prompt consideration to making of payment on account and making a decision in respect of the claim within 28 days of receipt of the Loss Adjuster's final adjustment.
- d) **Provision of Security:** if the assured is obliged to provide security to a third party to prevent the arrest of or to obtain the release of the vessel due to an accident giving rise to a claim under the policy, underwriters agree to give due consideration to providing security on counter-security.
- e) **Dispute Resolution:** Disputes between underwrites and the assured may, at the request of either party, be referred to mediation or other form of dispute resolution.

(6 marks for each complete and correctly stated explanation. Total: 30 marks)

- 18(a) In Article 17 of the Montreal Convention 1999, what type of liability is imposed on the carrier for death and injury of passengers and what two (2) pre-conditions must a passenger demonstrate to succeed in his/her claim?

 (10 marks)
- (b) What coverage is provided by Section II: Legal Liability to Third Parties (other than passengers) of the "London Aircraft Insurance policy", stating any two (2) exclusions to the said section. (20 marks)

- a) The article imposes strict liability on the carrier in the event that a passenger suffers death or wounding or any other bodily injury during embarkation, disembarkation or while on board in the aircraft. The two precautions that the passenger must demonstrate are that:
 - there has been an accident
 - the accident must have taken place during the cause of embarkation or on board the aircraft.

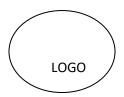
(5 marks for each correctly stated precaution. Sub-Total: 10 marks)

b) The coverage provided by Section II: Legal Liability to Third Parties (other than passengers) of the "London Aircraft Insurance policy", is: indemnity to the insured for all sums the insured becomes legally liable to pay as damages (including costs) in respect of accidental bodily injury or property damage caused by the aircraft or by any person or object falling there from. (10 marks).

The exclusions in the section are:

- employees and others: exclude injury to any director, employee e.t.c. of the insured whilst acting in the course of their employment or duties for the insured
- Operational Crew
- Passengers (these will be covered under section II)
- **Property:** excludes loss and damage to property belonging to or in the care, custody or control of the insured.
- **Noise, Pollution and Other Perils:** excludes claims arising from noise, pollution and, contamination, electrical and electro magnetic interference, interference with the use of property, unless caused by or resulting in a crash fire explosion or collision or a recorded in-flight emergency causing abnormal aircraft operation.

(5 marks for each correctly stated exclusion. Maximum of 2 to be graded. Sub-total: 10 marks)
(Grand Sub-Total: 20 marks)
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D17 OPERATIONAL 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.
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- → The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
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- 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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CHARTERED INSURANCE INSTITUTE OF NIGERIA

D17 - OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

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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: 47%

Highest Score: 70%

Lowest Score: 29%

Average Score: 47%

Breakdown Updates

Question 1

The question was fairly attempt with a 93% pass rate. Candidates are familiar with associations regulating ethical standard in the Industry.

Question 2

60% pass rate. Question was direct enough. Candidates need to study harder for better performances.

Question 3

53% pass rate. Question on non-verbal communication was largely interpreted as communication generally. Careful attention to details is required for improved performances.

Question 4

40% pass rate. Technical but fair question. Candidates largely mistook Theory X for Y and vice-verse. More attention to details is required.

Question 5

80% pass rate. Fair attempt in separating 'leaders' from 'managers' by candidates.

Question 6

7% pass rate. Question on quantitative and qualitative performance standards is technical. With deeper studies, candidates should be able to perform better.

Question 7

27% pass rate. Candidates depended largely on residual knowledge to answer "Critical Success Factors" of an organisation.

Question 8

13% pass rate. Question was on change management. Candidates did not show a deep understanding of what was expected of them.

Question 9

7% pass rate. Question was on telephone interview and this is familiar enough but candidates' efforts were not as expected by the examiner.

Question 10

33% pass rate. Question is fair and direct. Candidates need to study harder for better performances.

Question 11

40% pass rate. Those who attempted the question either got it right or wrong. Acronym GROW demands you get it or fail it.

Question 12

47% pass rate. Fair attempt but can be better if candidates prepared better.

Question 13

100% pass rate. Question on 360° appraisals was friendly to candidates.

Question 14

13% pass rate. Question on performance - related rewards was fair and direct. Students relied on guesses rather than actual knowledge.

Question 15

20% of candidates attempted the question. 33% pass rate was achieved. Question on CRM was hugely poorly attempted.

Question 16

60% attempt. Pass rate was 78%. Candidates were more conversant with the "b" part of the question which was on delegation.

Question 17

73% of the candidates attempted the question with a 100% pass rate.

Question 18

33% attempted question. Pass rate was 60%. The question was on performance appraisal.

Chief Examiner's Comments on Overall Performance:

Overall pass rate is 47%. Candidates can perform better if only they study harder.

Chief Examiner's Suggestion on Improvement:

Questions are fair and understandable. Candidates just need to study harder to produce better performances.

Part I

Answer ALL questions in Part I. Each question carries 10 marks.

1. In the Nigeria Insurance Market, there are organizations/trade associations which are involved in promoting ethical standards and professionalism. List any four (4) of these organisations.

Solution

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)

2. List four (4) obstacles to effective delegation.

Solution

Four (4) obstacles to effective delegation are:

- lack of trust on the delegate to carry out the assignment as well as the manager can do
- managers may be reluctant to pass out the tasks they enjoy doing even when such tasks are not making the best use of their time and skills
- some managers fear the skills and abilities of their subordinates and will not make conscious efforts to develop them
- delegation can be a time-consuming process and some managers are not ready to spare such time.

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

3. List five (5) elements of non-verbal communication.

Solution

The elements of non-verbal communication are:

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

4. Define Douglas McGreor's Theory X and Y assumptions about people to work.

Solution

Douglas McGreor's Theory X and Y assumptions about people to work are:

Theory X

- People dislike work and will avoid it if possible
- People must be coerced, controlled, directed, threatened before they can put in adequate efforts.

Theory Y:

- Work is as natural as play or rest
- Individual will exercise self-direction in the service of objectives to which they are committed.

(2½ marks for each correct definition. Total: 10 marks)

5. Are leaders different from managers? Justify your response with a function of each.

Solution

a. Yes, leaders are different from Managers.

(4 marks)

Manager:	Performs specific function of management
	Holds on official title
Leader	Able to influence other to pursue goals
	Does not require the trappings of officialdom

(3 marks for each correctly stated function. 1 to be graded per term. Sub-Total: 6 marks) (Grand Total: 10 marks)

6. In setting performance standards in an insurance company, it could be quantitative or qualitative. Give two (2) examples each of these approaches.

Solution

Quantitative	Amount of Premium Earned		
	Market Share		
	Profitability		
	Reduction in Management Expenses		
Qualitative	Attitude of Employees and Customers		
	Attrition Rate		
	Industrial Peace and Harmony		

(2½ marks for each correctly stated example. 2 to be graded per term. Total: 10marks)

7. Critical Success Factors (CSF) are factors critical to realising the mission of an organisation. Suggest five (5) CSFs for an organisation.

Solution

The examples of critical success factors (CSF) to realising the mission of an organization are the need:

- for internet presence
- for a marketing expert
- to have a stable lease of office premise
- to have more branch offices
- to brand head-office for more visibility
- to introduce new products (2 marks for each correctly stated example. Maximum of 5 to be graded. Total: 10 marks)
- 8. Enumerate four (4) main issues that arise when changes are expected.

Solution

The main issues that arise when changes are expected are:

- identifying all the problems likely to arise as a result of the change
- the amount of time needed to deal with all the difficulties
- how to persuade people to accept the change
- the frequent lack of employees' commitment to the change
- the potential for crisis to arise during the change process.
 (2½ marks for each correctly stated issue. Maximum of 4 to be graded. Total: 10 marks)
- 9. Telephone interview is one of the pre-screening methods for applicants. In designing the process, mention four (4) areas your interview planning will involve.

Solution

The areas that the interview planning will involve are:

- agree the competence and personal characteristics required
- decide the way these characteristics are to be assessed
- decide on a scoring process
- develop a script and form to collect the information
- train the tele-interviewers
- agree on the success criteria (2½ marks for each correctly stated area. Maximum of 4 to be graded. Total: 10 marks)
- 10. What customers want from telephone service are: convenience, cordiality and consistency. State any four (4) of the five ingredients under "convenience".

The five ingredients under "convenience" are:

- to be answered quickly
- to get through to someone who could help
- to be transferred only once, if at all
- to have no need to repeat themselves
- an informatic queuing system.

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

11. The G.R.O.W. model is a way of helping a person to achieve intended objective. Give the full meaning of the acronym.

Solution

- G-Goal R- Reality O- Options W- What will you do. (2½ marks for each correctly stated meaning. Total: 10 marks) Sequence is required.
- 12. Enumerate five (5) ways a line manager will evaluate the effectiveness of a training programme.

Solution

The ways a line manager will evaluate the effectiveness of a training programme are:

- asking direct questions of the trainee at the time and also later
- spot checking on work done in newly trained areas or activities
- observing any increased confidences and more use of initiative by the trainee
- company standards or backlogs or targets before and after training sessions
- checking error rates before and afterwards
- observing staff turnover and absenteeism rate after training
- general improvement of stall relations
- appraisal (2 marks for each correctly stated way. Maximum of 5 to be graded. Total: 10 marks)
- 13. List four (4) classes of people that give opinions about a staff in a 360^o appraisal method.

Solution

Four (4) classes of people that give opinions about a staff in a 3600 appraisal are:

- the person being assessed
- people that work for them
- their peers
- their manager

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

14. Performance-related rewards are good and effective but they have their limitations too. Mention four (4) of these limitations.

Solution

The limitations of performance-related rewards are:

- rewards bring short-term compliance
- incentives are blunt instruments for motivating employees
- high boardroom performance related rewards do not necessarily improve company results
- it can be divisive, destroying cooperation between employees
- at executive level, the scheme tends to focus on short-term objectives rather than long-term objectives
- staff may not look for innovation or take risks, for fear of losing their rewards.

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

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

- 15. Customer Relationship Management (CRM) is about trying to build relationship with customers in order to promote loyalty thereby increasing revenue.
- (a) Briefly explain four (4) emphasis that CRM entails. (20 marks)
- (b) Enumerate four (4) ways call/contact centres can help improve customer service. (10 marks)

Solution

- a) The emphasis that CRM entails are:
 - offering a relationship focus rather than an enquiry focus
 - a better understanding of customer buying patterns to expand business relationships
 - moving to a proactive rather than reactive environment. For example, starting the process with welcome telephone calls
 - adapting a total relationship management approach which includes direct mail, telemarketing, direct selling, cross selling, e-mail, e.t.c.
- enhancing/complementing additional revenue generating efforts (5 marks for each correct and completely stated emphasis area. Maximum of 4 to be graded. Sub-Total: 20 marks)

- b) The ways that call/contact centres can improve customer service are:
 - increased availability i.e. 24 hours a day, seven days a week, 365 days a year
 - speed of answering
 - skilled staff to provide ease in routing calls to appropriate skilled staff
 - multi-contact channels i.e. handling a variety of customer contacts
 - use of technology- automated services, 24 hours a day
 - internet support

(2½ marks for each correctly stated way. Maximum of 4 to be graded. Sub-Total: 10 marks) (Grand Total: 30 marks)

- 16. Delegation is not mere load-shedding. There is the "how to delegate".
- (a) List five (5) of the logical steps that must be taken to ensure the task is completed in the required way. (10 marks)
- (b) State and briefly discuss five (5) simplistic stages delegation can be broken into. (20 marks)

Solution

- a) The logical steps that must be taken to ensure the task is completed in the required way when delegating are:
 - agree the results and the standards to be achieved
 - agree the deadlines and the completion dates
 - agree any interim check points
 - explain to the delegate the importance, context and constraints of the task
 - provide the delegate with any special authority needed to allow them to complete the task
 - monitor the agreed deadline rigorously
 - praise the delegate for meeting those deadlines.
 - (2 marks for each correctly stated step. Maximum of 5 steps to be graded. Sub-Total: 10 marks)
- b) The five simplistic stages that delegation can be broken into are:
 - **observation:** the manager demonstrates to the subordinate how the task is done. The subordinate watches and criticizes
 - **coaching:** ask the subordinate to do it while the manager watches. Clarifications are made.
 - **controlling:** the team member can now do the job themselves without supervision
 - **exception:** the delegate now does the job without asking questions. At the end, the delegate reports to the delegator to discuss any particular point.
 - **delegation:** the point the manager hands over the responsibility and authority for the job to the delegate.

(2 marks for each correctly stated stage. 2 marks for correct explanation of the stated stage. Sub-Total per stage: 4 marks. Grand Sub-Total: 20 marks)

(Grand Total: 30 marks)

- 17(a) Mention three (3) pros and cons each of "face-to-face" communication and "written" communication. (24 marks)
- (b) In choosing the most effective methods of communication, state any three (3) factors to be considered. (6 marks)

Solution

a)

Face-to-Face	Pros	Cons
Communication	i) Rapid	i) Less permanent
	ii) Easier to gauge instant	ii) More time- consuming
	reactions and modify the process	iii) Needs to be
	iii) Other points of view can be	planned/organized
	heard	iv) More efforts required
	iv) More personal	v) More personal skills required
Written	Pros	Cons
Communication	i) More authoritative	i) Less easily amplified
	ii) More permanent	ii) No opportunity for questions
	iii) Less easily forgotten	and answers
	iv) Highlights central message	iii) Notice boards for instance, are
		notoriously unread
		iv) Less personal/authentic.

(2 marks for each correctly stated pro and con. Maximum of 3 to be graded under each section. Sub-Total per section: 6 marks. Grand Sub-Total: 24 marks)

- b) The factors to be considered in choosing effective communication methods are:
 - the purpose of the communication
 - identity, nature and location of the recipients
 - time available
 - cost considerations
 - the situation

(2 marks for each correctly stated factor. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 30 marks)

18(a) Define "performance management" and "performance appraisal".

(10 marks)

(b) Mention ten (10) purposes of performance appraisal system. (20 marks) **Solution**

a) **Performance Management** is a systematic approach to the management of people using performance and development as forces to motivate individual employees to contribute to organizational goals while at the same time realising their own career plans. (5 marks)

Performance Appraisal is a methodical assessment of how effectively each job in an organization is being performed. It also tries to identify the reasons for a particular level of performance and to seek ways to improve performance.

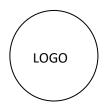
(5 marks)

(Sub-Total: 10 marks)

- b) The purposes of performance appraisal system are:
 - to establish whether a job holder is achieving the results expected
 - examine why there may be a shortfall in performance
 - to establish training or other needs or alternative job opportunities
 - establish whether the job holder has more to contribute in this or larger jobs
 - provide information in connection with career development and manpower planning
 - input to a salary system geared to the reward of achievement and endeavor
 - evaluate training and selection procedures
 - improve individual motivation
 - encourage managers to recognise the importance of performing counselling and training and to participate in the process
 - encourage constructive dialogue about performance and training between managers and subordinates
 - input to a promotion system based on objective achievements
 - communicate the company's concern for its staff and its positive desire to encourage individual development.

(2 marks for each complete and correctly stated purpose. Maximum of 10 to be graded. Sub-Total: 20 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D18 PROPERTY CLAIMS HANDLING

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

D18 - PROPERTY CLAIMS HANDLING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 48%

Highest Score: 74%

Lowest Score: 04%

Average Score: 47%

Breakdown Updates

Question 1

Here the role(s)/statutory functions of National Insurance Commission were tested. Most candidates performed averagely well. Few did not know these. NAICOM functions.

Question 2

Candidates were tested on knowledge of the content of property insurance schedule and what damage means in property policy. Candidates' performance was on the average.

Question 3

This question tested candidates on insurance policies as it relates to fraud, reinstatement and financial ombudsman. Candidates responded very well on fraud and financial ombudsman but reinstatement was not understood hence low mark. It was a fair performance on the average.

Question 4

This question was on the role of assessors as it relates to what needs to be done on claims of negligence as well as challenges likely to arise on claims on building. The role of assessors and negligence in claims were well answered but the part (c) was not well answered.

Question 5

The question was on definition of warranty and differences between excess and franchise. Candidates attempted the questions but it was observed that they performed just averagely; even though the questions were standard.

Question 6

This was intended to test candidates on the subject of utmost good faith. There was a fair understanding of the question. Hence a fair scoring.

Question 7

The question was on what constitute material non-disclosure (a) and remedies for non-disclosure (b). The question is direct and majority of the candidates demonstrated good knowledge of the topic.

Question 8

The question tested candidates on knowledge of chattel, fixture and others. The questions (a - c) appealed to candidates and performed above 50%. Pass rate in this question is very encouraging.

Question 9

The candidates were tested on method of administrating indemnity (a) and physical security for theft insurance. Candidates' performance was exceptional as they recorded over 98% in both (a) and (b).

Question 10

The question tested candidates' understanding of measure of indemnity and modification of the principles of indemnity. It is sad that majority of the candidates answered poorly. It appears they do not understand measure of indemnity. Candidates' are encouraged to go for preparatory classes, read past questions and examiners report and engaged in group discussion.

Question 11

Candidates were tested on their knowledge of essentials of insurable interest. Performance was a blast as candidates recorded 100% of the allocated mark.

Question 12

Candidates were tested on the knowledge of limitations period in the limitation Act of 1980. Candidates understood the question and performance was good.

Question 13

This was designed to test candidates on the party rights against insurers as well as knowledge of nuisance. A lot of the candidates could not define nuisance currently.

Question 14

This question tested candidates' knowledge of the ABI rule and AOA agreement but were not well answered by majority of the candidates. Candidates were able to answer the second part of the questions with over 95% pass rate.

Question 15

This question tested candidates' knowledge on the case of *Cater v Boehm* (1996) and the extent of insurance interest on property polices. Candidates exhibited poor understanding of the subject.

Question 16

The question dealt with contribution and candidates were required to provide examples of contribution. Majority of the candidates misinterpreted the question hence the difficulty in answering and obtaining a pass grade here. Performance was poor.

Question 17

The question was optional and candidates were tested on the mean method of apportioning contribution. Overall performance was slightly above 10% for those that attempted it. Candidates confused this method with other methods; hence the poor performance.

Question 18

Candidates were tested on various Acts (a) - (d) with respect to how the Acts influenced recovery from third parties. The is quite unpopular with candidates and was avoided by most candidates. The few that attempted performed woefully.

Chief Examiner's Comments on Overall Performance:

Overall performance is 48%.

Chief Examiner's Suggestion on Improvement:

Candidates' should prepare early and adequately by studying the coursebook extensively and attending tutorial classes.

Part I

Answer ALL questions in Part I. Each question carries 10 marks.

1. Enumerate any eight (8) statutory functions of the National Insurance Commission as established by NAICOM Act 1997.

Solution

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. (1¹/₄ marks for each correctly stated function. Maximum of 8 to be graded. Sub-Total: 10 marks)
- 2(a) List four (4) information contained in the schedule of a property insurance policy. (8 marks)
- (b) The Standard Fire Policy (SFP) explains action to be taken by the insured in the event of damage to the property insured. Explain what "damage" means in the policy.

- a) The information contained in the schedule of a property insurance policy are:
 - * the names and address of the insurer
 - * the details of the policy holder
 - * the premises covered
 - * the sum insured
 - * period of cover

- * the perils covered
- * any excess or franchise
- * details of the premium

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

b) Damage means loss, destruction or damage to the property insured by the policy. (2 marks)

(Grand Total: 10 marks)

- 3. Explain briefly, with two (2) points on each, the ideas behind the following policy conditions in property insurance policies:
 - (a) fraud (3 marks)
 - (b) reinstatement (4 marks)
 - (c) financial ombudsman (3 marks)

Solution

Fraud	* This is stated to ensure that the insured does not succeed in				
	his attempt to make fraudulent claims				
	* It states that the insured will forfeit not just part of the claim				
	to which the fraud relates but also the whole benefit under the				
	policy				
	* Each case will be decided on its own merit				
	* Exaggeration of claims for the purpose of claims is not				
	necessarily fraud				
1½ marks for	each correctly stated point. Maximum of 2 to be graded. Sub-Total: 3 marks				
Reinstatement	* This is not the same as reinstatement memorandum				
	* This clause relates to insurers' liability to indemnify the				
	policyholder by reinstatement				
	* During the period, the policyholder must not act				
	unreasonably by insisting on strict meticulous reinstatement				
	* The policyholder is responsible for providing all necessary				
	plans, documents, books and information				
	* Insurers' liability is restricted				
	* Reinstatement need only be as near to the original as is				
	reasonable				
	* Care must be taken if the work is not satisfactory, the				
	problem rest with the insurers rather than the policyholder;				

	and rectifying it can increase insurers cost beyond what was		
	originally anticipated		
2 marks for	2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks		
Financial	* This provides consumers with free independent service for		
Ombudsmen	resolving disputes between the insurer and the policy holders		
Service	* It is available to personal policy holders and small businesses		
1½ marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 3 marks			

(Grand Total: 10 marks)

4. (a) Briefly explain the role of a loss assessor in the insurance value chain.

(2 marks)

- (b) You instituted a case of negligence against a third party regarding damage to your property. What would you need to succeed in your claim for negligence? (3 marks)
- (c) In the context of claims on building, list five (5) areas where challenges are likely to arise. (5 marks)

Solution

- a) The role of a loss assessor in the insurance value chain is to act on behalf of the policyholder, prepare and negotiate claims on behalf of the policyholder. (2 marks)
- b) The requirements to succeed in an instituted case of negligence against a third-party regarding damage to one's property are:
 - prove existence of duty or care
 - prove existence of a breach of duty or care
 - evidenced that the claimant actually suffered the damage as a result of the breach.

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

c) The areas where challenges are likely to arise in the context of claims on building are:

* dampness in walls * drains * chimneys

* failure of lath and plaster ceiling.

(1 mark for each correctly stated are of challenge. Maximum of 5 to be graded. Sub-Total: 5 marks) (Grand Total: 10 marks)

5(a) What is a warranty?

(3 marks)

(b) Explain how you will handle warranty condition during an insurance claim.

(2 marks)

(c) Differentiate between an excess and a franchise.

(2 marks)

- (d) In a policy incorporating an excess of N25,000.00 and a franchise of N30,000.00, if there were a loss of N30,000.00, what will you, as the claim processor, pay for:
 - (i) the excess; and (ii) the franchise. (3 marks)

- a) A warranty is an undertaking by the policyholder that some specific thing shall or shall not be done or that some condition shall be fulfilled; or whereby the policy holder affirms or denies the existence of a specific fact(s). (3 marks)
- b) When handling an insurance claim, warranty condition will be handled as follows: look out for where the warranties, whether specific or general, are attached to and ensure that there is compliance with the warranty condition.

 (2 marks)
- c) An excess is the first part of the claim which is not insured (it excludes the first part of the claim) (1 mark); while a Franchise excludes a claim in its entirely until it reaches a certain level when it is paid in full (1 mark) (Sub-Total: 2 marks)

d) i) N5,000.00 (1½ marks) ii) N30,000.00 (1½ marks) (Sub-Total: 3 marks) (Grand Total: 10 marks)

- 6. There is a limited duty of utmost good faith at the claims stage as the principle is confined to a duty not to make a fraudulent claim. Explain:
- (a) the fact of the case in *Orakpo v. Barclays Insurance Services Company Limited* (1996) (5 marks)
- (b) state whether the claim was accepted or rejected by the court . (2 marks)
- (c) what was the reason cited by the court for the decision in (b) above

(3 marks)

Solution

a) Orakpo owned a property that was insured by/through Barclay Insurance Services Company Limited. (1 mark) The insured put forward a number of claims involving a burst pipe in January 1987, a storm in October 1987 and a dry rot. (1 mark). Cost of repairs and loss of rent was put at 77,000GBPounds. (1 mark). There was a loss of rent from 13 bed flats. It was discovered that 3 of the 13 bed flats were occupied in January 1987 and none occupied by October. Orakpo knew of the dry rot since 1985 and he attempted to defraud insurers. (2 marks)

(Sub-Total: 5 marks)

b) The claim was rejected.

(2 marks)

c) In rejecting the claim, the court said that "if the assured knows that he is fraudulent, at least to a substantial extent, he will recover nothing, even if his claim is in part good" (3 marks)

(Grand Total: 10 marks)

- 7(a) Enumerate any four (4) material non-disclosure or misrepresentation that can hurt the success of a claim. (6 marks)
- (b) List the four (4) remedies for non-disclosure of material facts or misrepresentation of material facts. (4 marks)

Solution

- a) The material non-disclosure or misrepresentation that can hurt the success of a claim are:
 - criminal record that is not spent by virtue of Rehabilitation of Offenders Act 1974
 - previous claims
 - an insurer's refusal to accept an insurance, renew a policy or that special terms were imposed by an insurer.
 - misrepresentation of security devices
 - misrepresentation of proposer's business
 - misinterpretation of construction of the premises

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

- b) The four remedies for non- disclosure or misrepresentation of a material facts are:
 - that the policy is voidable (affirmed or rescinded) at the option of the insurer (the aggrieved party)
 - if avoided, the policy is treated as if it had never come to effect
 - any claim paid will be returned to the insurer
 - the premium should be returned to the policy holder even if the policy has been renewed

(1 mark for each correctly stated remedy. Sub-Total: 4 marks) (Grand Total: 10 marks)

8(a)	What is the meaning of the following in property insurance:						
	(i)	chattel	(ii) fi	ixture	(iii)	an improvement?	
(b)	Who	o is the owner of: chattel	(ii)	fixture	(iii)	(3 marks) an improvement? (3 marks)	

(c) What four (4) tests are to be applied when establishing whether a fixture or a fitting item belongs to the landlord or a tenant or is part of the building or part of the contents? (4 marks)

Solution

- a) In the context of a commercial property insurance, here are the meanings
- i) **Chattel:** a chattel is an item of contents that is easily movable (1 mark)
- ii) **Fixture:** a fixture is a chattel which has been fixed to the premises but may be removable in certain circumstances. (1 mark)
- iii) **An improvement:** an improvement is a chattel which has become a permanent and irremovable addition to the premises. (1 mark)
- b) i) **Chattel:** a chattel belongs to the tenant

(1 mark)

- ii) **Fixture:** a fixture may belong to the tenant or the landlord as it is owned by the person fixing or fitting it to the building
- iii) **Improvement:** an improvement is the property of the landlord even if installed by the tenant. (1 mark)
- c) The four tests to be applied when establishing whether a fixture or a fitting item belongs to the landlord or a tenant or is part of the building or part of the contents are:
 - the method and degree of annexation (1 mark)
 - the purpose of annexation

(1 mark)

the nature of the article

(1 mark)

the interest of the person doing the attaching

(1 mark)

(Grand Total: 10 marks)

9(a) List the four (4) methods of providing indemnity in insurance contracts.

(8 marks)

(b) State any two (2) physical security devices that insurers may specify for theft or money insurance policies. (2 marks)

Solution

- a) The four methods of providing indemnity in insurance contracts are by:
 - cash payment
 - replacement
 - repair
 - reinstatement

(2 marks for each correctly stated method. Sub-Total: 8 marks)

- b) The physical security devices that insurers may specify for theft or money insurance policies are:
 - * door locks and bolts * window locks
 - * other security devices such as alarm systems, movement detectors and control circuit.

(1 mark for each correctly stated device. Maximum of 2 to be graded. Sub-Total: 2 marks) (Grand Total: 10 marks)

- 10. The general rule is that the measure of indemnity in respect of property insurance is determined by value at the date of loss and at the place of loss. Now determine the measure of indemnity in the case of:
- (a) an insured who is evidently a willing seller of property at the time of loss (court case: *Leppad v. Excess Insurance 1978*) (3 marks)
- (b) an insured who accepted replacement building of modern design (court case *Reynolds ad Anderson v. Phoenix Assurance Co. 1978*). (3 marks)
- (c) Cite at least one example of policies that modify the principle of indemnity and the insurance policy it can be found in. (4 marks)

Solution

- a) The measure of indemnity is the <u>market value</u> of the property at the time of loss. (3 marks)
- b. The measure of indemnity is the <u>cost of reinstatement loss depreciation</u>. It is not based on market value. (3 marks)
- c) The policies that modify the principle of indemnity and the insurance policy it can be found in them are:
 - reinstatement policies in property insurance
 - valued policies in marine insurance.

(2 marks for any correctly stated policy and 2 marks for the insurance policy correctly stated.

Sub-Total: 4 marks)

(Grand Total: 10 marks)

11. Enumerate the four (4) essentials of insurable interest.

Solution

The four (4) essentials of insurable interest are:

- there must be physical object that is capable of being lost, destroyed or damaged
- the physical object must constitute the subject matter of insurance
- the policyholder must have some legal relationship to that object
- the value of that insurable interest must be measurable in monetary terms. (2½ marks for each correctly stated essential. Total: 10 marks)

- 12. State the principal limitation periods enshrined in the Limitation Act 1980 in respect of the following:
 - (a) breach of contract (b) tort property damage

(c) tort – personal injury (d) defective premises

Solution

a. **Breach of Contract:** six (6) years from the date of breach

b. **Tort- Property Damage:** six (6) years from the date the cause of action

occurs

c. **Tort- Personal Injury:** three (3) years from the date on which the cause

of action occurs or the date of knowledge if later

d. **Defective Premises Act:** six (6) years from the date the dwelling was

completed

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

13(a) Explain Third Parties (Right against Insurers) Act 1930.

(b) Describe a "nuisance".

Solution

a) Third Parties (Right against Insurers) Act 1930 gives some limited rights to claimants to pursue a claim directly against third party's liability insurers in the event that the third party goes into liquidation. In reality, it is of little help because the claimant has to establish the claim is proceeding against the third party and the third party has to have complied with all the policy conditions.

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

b) "Nuisance" is an unlawful interference with a person's use of or enjoyment of land or some rights over or in connection with it. There must be a continuing or a recurrent state of affairs, not an isolated incidence, which subsequently interferes with a person's enjoyment of land, for it to be regarded as nuisance.

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

(Grand Total: 10 marks)

- 14(a) The ABI rule and AOA agreements allow contribution through a number of private agreement in settlement of claims for loss of personal effects to apply in certain insurance policies, List any three (3) of the applicable policies in this instance.

 (3 marks)
- (b) Use the sums insured method to apportion the claim below:

Policy A Sum Insured
Policy B Sum Insured

Agreed Loss

N33,000.00
N11,005.00
N 5,300.00

Agreed Loss \maltese 5,300.00 (7 marks)

- a) The policies in settlement of claims for personal effect are:
 - * Household Policy
- * All Risk

* Motor

* Travel

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

b) Sum Payable= Sum Insured Policy A (or B) * Agreed Loss

(1 mark)

Total Sum Insured on A = 33,010.00

on B =
$$11,005.00$$

Total Sun Insured = 44,015.00

(2 marks)

Therefore, A policy pays =
$$33,010 * 5300 = 3,975.00$$

(2 marks)

$$= 11,005 * 5300 = 1,325.00$$

(2 marks)

(Sub-Total: 7 marks) (Grand Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

15(a) Explain the extent of insurable interest in property insurance policies.

(10 marks)

(b) Explain the principle that was set in judgement from the case of *Carter v. Boehm* (1966). (20 marks)

Solution

- a) The extent of insurable interest in property insurance policy is explained as below:
 - the extent to which the policyholder can insure
 - the extent to which the policyholder can receive under the policy.

(Candidates are required to briefly explain the stated extent above. 3 marks for correctly stating the extent. 2 marks for correct explanation. Sub-Total for each correctly stated extent: 5 marks. Grand Sub-Total: 10 marks)

- b) The principle that arose in the judgement from the case of *Carter v. Boehm* (1966) is that judgment underlying must be disclosed and the judgement also established that:
 - the proposer must disclose all material facts

- the proposer does not need to disclose what the underwriter ought to know
- the proposer is not required to disclose things that he/ she did not/ could not know
- it explains material facts as those facts that will influence an underwriter as to whether they should or should not accept the risks.

(Candidates are required to state and explain the established points from the judgement. Each correctly stated point earns 3 marks. Each correct explanation earns 2 marks. Sub-Total per Point: 5 marks. Grand Sub-Total: 20 marks)

(Grand Total: 30 marks)

16. Enumerate by ways of five (5) complete scenario examples, how there could be contribution involving a common insurance interest.

Solution

The following are some generalized scenario examples of how there could be contribution involving a common insurance interest:

- under a worldwide All Risks Policy where there is also a home contents policy and the loss occurs at home
- under a household policy with an All Risks Extension and a motor policy with a personal effects extension if the loss is personal effect from the car
- where a policy has been affected with one insurer at the behest of a mortgage and the insured decides to affect a second policy with another insurer to cover the difference between amount lent and the value of the property
- under the contents policy and travel policy
- where partners have not realised that the other party has affected a policy and duplicate covers arranged covering same interest
- where holding and subsiding companies affect insurances without realizing the offer has done so. There could be only contribution at common law if the policy effected by holding company is in the name of the subsidiary since different companies are separate legal entities.

(6 marks for each complete and correctly stated/explained scenario example. Maximum of 5 to be graded. Grand Total: 30 marks)

17. Your organisation is well known in the insurance industry as the insurer with the largest clientele in property insurance. One of your clients has two property insurance policies that overlap covering two of her properties in different locations in Lagos.

Policy A., also known as Ikeja policy, covers warehouse rand residential building; while policy B, also known as Mowe policy, covers the warehouse only. The sum insured for the Ikeja policy is \$\frac{\text{N}}{2}500,000,000.00, while that for Mowe policy is \$\frac{\text{N}}{2}145,000,000.00.

There were losses in the two locations caused by lightning and fire. Ikeja policy recorded a $\frac{1}{2}$ 220,000,000.00 loss and Mowe policy had a loss of $\frac{1}{2}$ 25,000,000.00.

You are required to use the MEAN METHOD to apportion the total claims amount of \$\frac{\text{N}}{2}45,000,000.00\$ between Ikeja and Mowe policies. (PLEASE SHOW ALL YOUR WORKINGS).

Solution

Ikeja Policy Covers: Warehouse and Building Sum Insured= N500,000,000.00

Mowe Policy Covers: Warehouse only Sum Insured = $\mathbb{N}145,000,000.00$

Loss

 Ikeja Policy
 = $\frac{1}{2}$ 220,000,000.00

 Mowe Policy
 = $\frac{1}{2}$ 25,000,000.00

 Total Loss:
 = $\frac{1}{2}$ 25,000,000.00

Summary Table

Subject	Ikeja Policy	Mowe Policy	Loss
Warehouse and building	N 500,000,000		N 220,000,000
Warehouse only		N 145,000,000	N 25,000,000
Total	₩500,000,000	N 145,000,000	N 245,000,000

Apportionment

Taking the larger loss of №220 million, Ikeja policy pays the entire amount of №220,000,0000.00. (1 mark)

Balance of Sum Insured after paying the Ikeja policy loss of $\times 220$ million.

i.e. = $\frac{N550,000,000.00}{1 \text{ mark}}$ - $\frac{N220,000,000.00}{1 \text{ mark}}$ $\frac{N280,000,000.00}{1 \text{ mark}}$ Balance Total Sums Insured= $\frac{1280,000,000}{128,000,000}$ (1 mark) $\frac{145,000,000}{128,000,000}$ (1 mark)

Taking the smaller loss of N25million, you have

Ikeja Policy Paying = $\underline{280,000,000} * 25,000,000$ (1 mark)

425,000,000

= 16,470,588 (1 mark)

Similarly, Mowe Policy paying = $\frac{145,000,000}{425,000,000} * 25,000,000$ = 8,529,412 (1 mark)

Summary of Apportionment

Subject	Ikeja	Mowe Policy	Loss	Ikeja Policy Pays	Mowe Policy Pays
Warehouse and building	N500,000,000		N220,000,000	N220,000,000	
Warehouse only		N145,000,000	N 25,000,000	N 16,470,588	N8,529,412
Total			N245,000,000	N236,470,588	N8,529,412

Next

Apportion the smaller loss of N25million first:

New Total Sums Insured:

 Ikeja Policy
 = $\frac{1}{1}$ 500,000,000.00
 (1 mark)

 Mowe Policy
 = $\frac{1}{1}$ 145,000,000.00
 (1 mark)

 Total Sums Insured
 = $\frac{1}{1}$ 1645,000,000.00
 (1 mark)

 Ikeja Policy pays all that is
 = $\frac{1}{1}$ 1220,000,000
 (1 mark)

Warehouse (contribution)=

500,000,000 X 25,000,000

645,000,000 = 19,379,845 (1 mark)

Total Payable = $\frac{1}{2}$ 239,379,840 (1 mark)

Mowe policy pays:

Warehouse only= $\underline{145,000,000}$ X 25,000,000 = $\underline{N5,620,155}$ (1 mark)

645,000,000

Summary of the Apportionment (1 mark)

Subject	Ikeja Policy (N)	Mowe Policy (N)	Loss (N)	Ikeja Policy Pays (N)	Mowe Policy Pays (N)
Warehouse & Building	500,000,000		220,000,000	220,000,000	
Warehouse only		145,000,000	25,000,000	19,379,845	5,620,155
			245,000,000	239,379,845	5,620,155

Finally, we add together the sums the two policies are liable for and divide by two (1 mark)

Ikeja policy Mowe Policy Taking larger loss first N236,470,588 (1 mark) N8,529,412 (1 mark) Taking smaller losses first = N239,379,845 (1 mark) $N_{5,620,155}$ (1 mark) N475,850,433 (1 mark) \mathbb{N} 14,149,567 (1 mark) 14,149,567 Divide by 2 475,850,433 2 $= \frac{N}{237,925,217.00}$ (3 marks) N7,074,783.00 (3 marks)

Adding together, you have

 $= \frac{1237,925,217}{1237,925,217} + \frac{1237,925,217}{1237,925,000,000}$

(Grand Total: 30 marks)

- 18. Describe how the following Acts influence recovery from third parties:
 - (a) Civil Aviation Act 1983

(b) Animal Act 1971

(c) Defective Premises Act 1972

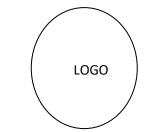
(d) Public Order Act 1986

Solution

- a) **Civil Aviation Act 1982:** this Act creates a strict liability for damage by anything following from or impact by an aircraft. (3 marks) The owner of the aircraft will be liable. (2 marks) Recovery is easy (2½ marks). (Sub-Total: 7½ marks)
- b) **Defective Premises Act 1972**: a person who undertakes work for or in connection with dwelling has a statutory duty to see that the work is done in a workmanlike and professional manner (3 marks) with proper material so that the dwelling will be fit for habitation when complete (2 marks). Recovery is easy (2½ marks). (Sub-Total: 7½ marks)

- c) **Animal Act 1971:** there is a strict liability for damage by trespassing livestock. (3 marks). The only defense available are contributory negligence and escape wholly due to the fault of the person suffering the loss. (2 marks) There is also liability for damage by dangerous species. Recovery from the negligent person is easy (2½ marks) (Sub-Total: 7½ marks)
- d) **Public Order Act 1986:** when two or more persons who are present together use or threaten in lawful violence for a common purpose and the conduct of them is such as would cause a person of reasonable firmness present at the scene to fear personal safety, each of the persons using unlawful violence for the common purpose is guilty of riot and recover is possible/available. (2½ marks) (Sub-Total: 7½ marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA DIPLOMA

YEAR 2020 SECOND DIET EXAMINATION PAPER

SUBJECT D19 SUBSIDENCE CLAIMS HANDLING

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

D19 - SUBSIDENCE CLAIMS HANDLING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks. Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are 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: 0%

Highest Score: 40%

Lowest Score: 40%

Average Score: 40%

Breakdown Updates

Question 1

The candidate failed the question.

Question 2

The candidate failed the question.

Question 3

The candidate passed the question very well.

Question 4

The candidate did not attempt the question.

Question 5

The candidate did not attempt the question.

Question 6

The candidate did not attempt the question.

Question 7

The candidate did not attempt the question.

Question 8

The candidate did not attempt the question.

Question 9

The candidate failed the question below average.

Question 10

The candidate had a good performance in this question.

Question 11

The candidate passed this question very well.

Question 12

The candidate did not attempt the question.

Question 13

The candidate passed the question very well.

Question 14

The candidate passed the question.

Question 15

The candidate did not attempt the question.

Question 16

The candidate had an average performance in this question.

Question 17

The candidate did not attempt the question.

Question 18

The candidate did not attempt the question.

Chief Examiner's Comments on Overall Performance:

The candidate performed below average. There is evidence that candidate did not adequately prepare for the paper from his performance.

Chief Examiner's Suggestion on Improvement:

The subject is technical and it requires adequate preparation by any candidate who chooses to attempt the course.

Part I

Answer ALL questions in Part I. Each question carries 10 marks.

1. In Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers". Enumerate the stated major focus contained in this circular.

Solution

As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers. The stated major focus in the circular are:

- delivery of policy document
- claims.

(5 marks for each correctly stated point. Total: 10 marks)

2. Briefly enumerate any two positive yard-stick that a customer expects to experience when dealing with a subsidence underwriter as it relates to any reported claim.

Solution

The positive yard-sticks that a customer expects to experience when dealing with a subsidence underwriter as it relates to any reported claim are:

- prompt and individual attention to the claim
- being kept informed all through the life-cycle of the claim
- to have their claims treated as first class issue
- to have the claim handler to be proactive at all times when attending to the claims

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

3. Describe ground heave in simple terms and state its primary purpose.

Solution

Ground heave is the upward expansion of a cohesive sub-soil, and the primary cause is an increase in the moisture content and prevalent where trees have been removed allowing water to remain in the ground.

(5 marks for any correctly stated point; Maximum of 2 points to be graded. Total: 10 marks)

4. Describe the usual damage from lintel failure and where there is total failure, what would be the likely extent of damage?

Solution

The usual damage from lintel failure is that once the lintel fails, and can no longer carry the load, then the lintel will defect and the brickwork bearing on the lintel will drop with the deflection and a triangular crack pattern will be presented. However, if the lintel snaps and the brickwork above collapses, then a triangular void will appear.

(5 marks for any correctly stated point; Maximum of 2 points to be graded. Total: 10marks)

5. List and explain four (4) different and unrelated causes of subsidence.

Solution

Four (4) different and unrelated causes of subsidence are:

- **Mining:** which is the digging up of land to excavate natural precious materials for commercial gain.
- **Vibration:** of the ground can be a natural occurrence, which causes subsistence that can lead to consolidation of the ground
- Running of Natural Water through Soils: where the water paths would, over time, cause subsistence
- **Soil Shrinkage:** can be through deprivation of moisture content which can lead to reduction in soil volume and thus cause subsistence (1½ marks for any correctly stated cause; 1 mark for correct explanation; Total: 10marks)
- 6. List the circumstance where removal of support cause movement in bearing ground.

Solution

Excavation in the vicinity of foundations can cause a lateral collapse of the bearing of ground beneath the foundations e.g. the digging of a drain trench alongside a wall.

(5 marks for any correctly stated point/example; Maximum of 2 points to be graded. Total: 10marks)

7. Explain any two (2) circumstances where an adjoining owner can have a liability for subsidence to a party wall without reference to any liability arising under the Party Wall Act?

Solution

An adjoining owner can have a liability for subsidence to a party wall without reference to any liability arising under the Party Wall Act as follows:

- where party walls are damaged by subsidence and thus require underpinning
- where underpinning is required to the front and rear main walls but transitional bags are needed back under the front and rear ends of the party wall to minimize differential movement
- however, party wall act 1996 require notice to be served on the adjoining owner advising on the intended work
- where the adjoining owner has personally undertaken work within their property e.g. lowering of the ground floor, and this causes subsidence to party wall, and damage occur thereto, then the adjoining owner will have a liability for undertaking work negligently.

(5 marks for any correctly stated point; Maximum of 2 points to be graded. Total: 10marks)

8. Explain with examples, where the non-natural use of land cannot only cause subsidence to a third-party property but place a liability on the user.

Solution

The following are examples, where the non-natural use of land cannot only cause subsidence to a third-party property but place a liability on the user:

- building an oil tank to industrial premises would be non-natural use of land
- installation of central heating system to an industrial building is a nonnatural usage. In this circumstance, if there is leakage of oil, and the ground become softened causing a loss of support to neighbouring properties with resultant movement, then a strict liability would attach to the owner of the non-natural usage.

(5 marks for any correctly stated point; Maximum of 2 points to be graded. Total: 10marks)

9. Enumerate the circumstance under legislation in which a local authority can be held responsible for damage in the context of building regulations and what are the two (2) pre-requisite criteria to a potential liability?

Solution

The legislation in which a local authority can be held responsible for damage in the context of building regulation is the Public Health Act.

The two prerequisites to a potential liability and for any recovery action against a local authority to be successful are:

• for their failure to properly apply the building regulations, and

it must also be demonstrated that the breach of the regulations created a
present or imminent danger to the health and safety of the occupants of
the property.

(5 marks for any correctly stated point; Maximum of 2 points to be graded. Total: 10marks)

10. Explain what is delegated authority with regards to the appointment of adjusters?

Solution

When a claim occurs in subsidence and the claim is notified to Insurers, subsequently, the insurer appoints an adjuster, or adopt an in-house adjusting option to process the claim. However, where an adjuster is appointed, the insurer has delegated its authority under delegated authority scheme for the adjuster to act on its behalf; therefore, all actions and inactions of the adjuster are adjudged to be the actions of the insurer.

The reason for this delegation is usually to reduce the number of claims staff of the insurer and the adjuster takes full responsibility for any decision taken on the claim; however, there is a financial limit to this authority.

(5 marks for any correctly stated point; Maximum of 2 points to be graded. Total: 10marks)

11. Mention the guiding principle in the decision whether a property requires underpinning.

Solution

The guiding principle in the decision whether a property requires underpinning is that:

 unacceptable instability must first be established, where it is considered that super-structural repairs would need to be repeated on a regular basis and where it is adjudged that it is more cost-efficient to underpin.

(5 marks for any correctly stated principle/point; Maximum of 2 points to be graded. Total: 10marks)

12. Explain how trees roots cause subsidence damage and in what circumstances; mentioning the worst offending trees.

Solution

Tree roots causes subsidence damage when the tree lack enough ground water for the tree to survive especially when the tree is in leakage stage. Tree introduced to a clay soil will leak out the moisture causing shrinkage and if any building is within the tree roots, then the shrinkage can cause subsidence damage to the building

The worst offending trees are willows, poplars and alms, because these trees extract much quantity of water daily.

(2½ marks for any correctly stated point in the first part; Maximum of 2 points to be graded. Sub-total: 5 marks. 5 marks for any correctly stated example in the second part. Total: 10marks)

Answer True or False to the following questions (Q13 and 14).

- 13. Subsidence is something that is fortuitous whereas settlement is not and is generally predictable.
- 14. Immediate reparation is not automatically applicable to subsidence claims.

Solution

- 13. True
- 14. True

Part II

Answer TWO (2) out of the following FOUR (4) questions. Each question carries 30 marks.

15. It is a myth to believe that where the origins of subsidence damage go back to the time of insurance held by previous owner that the former insurers can be called into contribution; among other justifications. Consequently, subsidence insurers collectively made an agreement as it relates to the acceptance of liability in relation to the following defined options below. State these agreed term(s) for each option:

- a. where the notification date of current claim is eight weeks or less from the current insurer's inception date (10 marks)
- b. where the notification date is one year or more from the current insurer's inception date (10 marks)
- c. where the notification date is more than eight weeks but less than one year from the current insurer's inception date. (10 marks)

Solution

The agreed term(s) for each option is/are:

a) where the notification date of current claim is eight weeks or less from the current insurer's inception date: any claim shall be accepted and dealt with by the previous insurer and no contribution shall be requested from the current insurer

- b) where the notification date is one year or more from the current insurer's inception date: any claim shall be accepted and dealt with by the current insurer and no contribution shall be requested from the previous insurer
- c) where the notification date is more than eight weeks but less than one year from the current insurer's inception date: any claim shall be accepted and dealt with by the insurer to whom notification is given and the cost of settlement shall be shared equally between the two insurers.

(5 marks for each correctly stated point. 2 points per scenario. Total: 30 marks)

- 16. (a) Explain in details, steps taken by insurer in communication management of customer expectations in subsidence claim. (15 marks)
- b) Describe the role played by Adjusters in subsidence claim handling process. (15 marks)

Solution

- a) The steps taken by insurer in communication management of customer expectations in subsidence claim are:
 - insurer will endeavor to offer explanation of policy cover, and exclusion to the customers in order to know what is covered and thereafter give provide proper explanation of policy wordings, and what constitutes subsidence of the site.
 - insurers also print booklets to give further explanation to what is subsidence, and how the customers' claims will be processed after notification
 - insurers also give periodic advice on the stages of claim, and timescale
 with reasons because claim processing in subsidence needs careful
 explanation, and stages of claim with action taken will be provided to the
 policyholder by the insurer.

(5 marks for each correctly stated point. Maximum of 3 points to be graded. Sub-Total: 15marks)

- b) The role played by Adjusters in subsidence claim handling process are:
 - the role of insurers in the claim process
 - they take the responsibility of the insurer with regards to decisions taken on the claim
 - they make recommendation to insurer after their investigation on the cause of the subsidence claim
 - they provide maximum support to both the insurer and the customer and ensure a fair treatment to both parties at all times.

(5 marks for each correctly stated point. Maximum of 3 points to be graded. Sub-Total: 15marks) (Grand Total: 30 marks)

17. (a) Describe the method/basis of settlement under subsidence/heave/landslip policy wordings.

(15 marks)

b) Under what circumstance is sum insured deemed inadequate in subsidence claim handling process? (15 marks)

Solution

a) The basis of settlement in subsidence/heave/landslip policy wordings is stated in the claim settlement clause of the policy and is that if the building is damaged as a result of causes covered by the policy, the insurer will pay at the option the cost of repair work, or cost of replacement provided prior to the loss, the building is in good repair and the sum insured is adequate to allow for complete rebuilding.

(5 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 15marks)

- b) The following are the circumstances where the sum insured is deemed inadequate in subsidence claim handling process:
 - where the valuer states in the valuation report, after considering some important/technical factors that the value is inadequate e.g. bill of quantity, age of the building, e.t.c.
 - if the claim involves technical underpinning to some depths, then the cost of repair could be above the sum insured
 - however, where the policy incorporates a rebuilding cost guarantee, which
 means that even if rebuilding costs exceed the sum insured, the full cost of
 repair is paid.

(5 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 15marks)

- 18. (a) Mention the major causes of subsidence of the site, which could result in subsidence claim. (15 marks)
- b) explain the principle of contribution as it affects subsidence claim. (15 marks)

Solution

- a) The major causes of subsidence of site, which result in subsidence claim are:
 - manifestation of movement in the foundations
 - climatic and moisture variations
 - minning that leads to partial collapse of the ground above
 - effects of tree roots
 - removal of support excavation within the vicinity of foundations can cause lateral collapse of bearing ground beneath the foundations.

(5 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 15marks)

b) The principle of contribution arises out of another insurance policy covering the same loss, and where the other insurer is called upon by the insurer which has settled the loss to fulfil its own share of the policy terms by paying on the claim.

Basically, the types of insurances that are likely to give rise to contribution in subsidence are dual insurance where the policyholder has taken out a policy covering the same property for same cover, while the other one is subsisting insurance where there is some property common to both parties.

In handling the contribution clause, each insurer is independent on his liability and the policy assumes that the other insurance cover does not exist. However, after conclusion of the adjustment, and subject to contribution conditions being met, the applicable insurances are required to share the losses in the proportion where coverage was provided by their policies – in line with policy terms and conditions of each insurer.

(5 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 15marks)