



*Chartered Insurance
Institute of Nigeria*

Chief Examiners' Report

April 2021

Advanced Diploma in Insurance

(A510 – A945)

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)
Start each question on a fresh page	Write after invigilators have declared "time-up"
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum	Avoid the Annual Students' Forum
<p>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); nigeriaallan.com (ILAN); clinigeria.com (CIIN)</p>	
<p>INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT. ANY CANDIDATE CAUGHT AND/OR FOUND TO BE CHEATING/HAVE CHEATED, WILL BE BARRED FROM PARTICIPATING IN ANY OF THE INSTITUTE'S EXAMINATION ACTIVITY FOR TWO (2) YEARS AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).</p>	
<p>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</p>	

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A510

RISK, REGULATION AND CAPITAL ADEQUACY

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A510 - RISK, REGULATION AND CAPITAL ADEQUACY
INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score: 88%

Lowest Score: 22%

Average Score: 60%

Breakdown Updates**Question 1**

This question required theoretical explanation on statistical mode and bi-modal distribution. Over 95% of the candidates attempted the question satisfactorily with above average score in part (a) and less than 40% scored above the pass mark in part "b".

Question 2

Over 99% of the candidates attempted the question, which was on probability; and close to 95% scored the pass mark.

Question 3

The question was testing candidates' understanding of risk retention by organisation. Over 92% of the candidates that attempted this question scored above average of the total scores allocated to the question.

Question 4

This question was on methods of data collection. Over 98% of the candidates attempted the question and also scored above the average pass mark.

Question 5

The question was to examine candidates' understanding of "acceptance in underwriting". The question was attempted by over 98% and over 90% scored above the pass mark.

Question 6

This was a straight forward question on the meaning/ definition of database. Close to 99% of the candidates attempted this question and over 70% scored the pass mark from the total allotted marks.

Question 7

This question was on probabilities. It was well attempted but majority demonstrated low knowledge of relative frequency method. About 50% scored pass mark.

Question 8

This question examined candidates on the knowledge and understanding of types of risks. Over 99% of the candidates attempted the question and close to 90% of them scored pass mark.

Question 9

Over 98% of the candidates attempted this question. The question was into parts, one part requires regulatory knowledge. Over 85% of the candidates that attempted the question passed it.

Question 10

The question was on knowledge of underwriting. Close to 99% of all the candidates attempted it, with 90% of them passing the question.

Question 11

This question in statistical regression was avoided by majority of the candidates. About 10% of the candidates attempted the question and close to 90% of them passed it.

Question 12

The question was attempted by 75% of the total candidates. It was on statistical understanding and workings of mean, median and mode. Over 95% of the candidates scored very high pass mark.

Question 13

The question was on facultative reinsurance and purpose of reinsurance. 95% of the candidates attempted the question in which 97% of the 95% passed the question.

Question 14

The question examined candidates' general knowledge on the concept of risks. Close to 97% attempted it with a 50% pass from this 97%.

Chief Examiner's Comments on Overall Performance:

There was a marked improvement in the candidates' performance when compared with the last diet. This should be kept up.

Chief Examiner's Suggestion on Improvement:

Candidates should be better encouraged and also advised to prepare more adequately.

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

1. (a) What do you understand by a bimodal distribution? (2 marks)
 (b) List out any two (2) disadvantages of the Mode. (4 marks)

Solution

(a) A bimodal distribution is any kind of statistical distribution that has two modes. (2 marks)

(b) The disadvantages of the Mode are: –

- it has limited practical applications/it cannot be used for further mathematical processes).
- it is possible for the Mode not to exist in a given data.
- it may also not be unique in a given data.

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

2. (a) If a laptop is worth ₦20,000,000.00 with a given probability of total loss of 25%. Kindly calculate the expected loss value? (4 marks)

(b) State any two (2) advantages of risks. (2 marks)

Solution

(a) The value of the laptop is ₦20 million

The probability of total loss = 25% = 25/100 = 0.25. (2 marks)

The expected total loss value = 20,000,000 X 0.25 = 5,000,000. (2 marks)

(Sub-Total: 4 marks)

b) The advantages of risks are:

- it allows us to achieve some positive results if we accept it in our everyday life;
- it imbibes a safety consciousness in us;
- it also enables us to improve our knowledge on variables of interest;
- it creates endless opportunities in the business world, which eventually leads to positive rewards for the investors.

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

(Grand Total: 6 marks)

3. State any three (3) options available on how insurable risks retained by an organisation can be financed.

Solution

The options available on how insurable risks retained by an organisation can be financed are for such to be:

- * handled as an expense
- * treated as contingency fund
- * treated as captive insurance company

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

4. List any three (3) methods of data collection for any insurance research work.

Solution

The methods of data collection for any insurance research work are through:

- * interviews
- * direct observation
- * experiments
- * questionnaires.

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

5. (a) What is “an acceptance” in the context of underwriting. (2 marks)

(b) Outline the two (2) types of acceptance for non-life business. (4 marks)

Solution

a) **An acceptance** is a process of communication of the terms and conditions under which the risk is to be accepted to the proposer/insured. (2 marks)

b) For non-life business; acceptance may either be:

- * at standard terms
- or * with modifications

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

(Grand Total: 6 marks)

6. What do you understand by “database” in Insurance?

Solution

A data base means a collection and store of related data for future use **OR** It may also be defined as a way of describing raw material (i.e. raw data) of statistics (3 marks). This description covers the raw data itself, its sources, and accuracy of the end result as well as the various uses of these end results (3 marks).

(Sub-Total: 6 marks)

7. Write short notes on the following methods of deriving probabilities in

Insurance:

- a) a priori method
- b) relative frequency method

Solution

a) **A Priori Method:** A priori method is used in all situations where all the possible outcomes of an event are known before (i.e. prior to) the event occurring

and with all the possible outcomes in most cases having an equal chance of occurring. (3 marks)

b) **Relative Frequency Method:** In a relative frequency method, the relative frequency with which the event has occurred in the past shall be used to derive the probability. The relative frequency method may also be referred to the Empirical Probability. (3 marks)

(Grand Total: 6 marks)

8. Write short notes on the following:

- (a) pure and speculative risks
- (b) particular and fundamental risks.

Solution

(a) **Pure Risk and Speculative Risks:** A **pure risk** is a risk which involves a possibility of a loss (in a worst scenario) or no loss nor profit (at best). Thus, for a pure risk, it is either a person suffers a loss or in the absence of the loss, he remains in his position (status-quo). While a **speculative risk** gives someone a chance of making a gain in addition to making a loss or break-even.

Investment risks generally are speculative risks and are usually uninsurable, whereas, pure risks are insurable.

(1½ marks for each correctly stated explanation. Sub-Total: 3 marks)

(b) **Particular and Fundamental Risks:** A **particular risk** is a risk which has its origin (its cause) known and its effect can be borne by individuals. Thus, particular risks are said to be personal in both its origin and effect, meaning it is caused by individual person and solutions can be proffered by individuals as well. Particular risks are generally insurable. While **fundamental risks** are risks whose causes are beyond human control and their consequences are felt by the society as a whole. Examples of risks with fundamental nature are floods and earthquake. Fundamental risks are generally considered uninsurable.

(1½ marks for each correctly stated explanation. Sub-Total: 3 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. State two (2) effects each on the following on insurance companies:

- i. Increase in the capital base for insurance companies;
- ii. Awareness programmes by NAICOM;
- iii. Going public.

(b) Distinguish between “correlation” and “correlation co-efficient”. (10 marks)

(c) A bag contains 4 brown and 6 grey balls, all identical in size and shape, except in colours. Two balls were picked at random - one after the other without any replacement. Calculate the probability that:

- (i) the first ball picked was grey;
- (ii) the second ball picked was brown;
- (iii) both balls picked were of the same colour;
- (iv) both balls picked were of different colours. (15 marks)

(d) If the course facilitator tosses a single fair die once, calculate the probability that:

- (i) the die shows a 5;
- (ii) the die shows an even number;
- (iii) the die shows an odd number;
- (iv) the die shows either a 4 or a 5. (15 marks)

Solution

(a)

S/No	Action	Effects
1	Increase in the capital base for insurance companies	1. It may lead to mergers and acquisition. 2. It may cause self-retrenchment. 3. These companies that do not meet their deadline risk having their operating licences withdrawn.
2	Awareness programmes by NAICOM	1. Increased efficiencies and effectiveness. 2. Opens up better ways of operational strategies. 3. More staff will benefit in the training and retraining programmes.
3	Going public	1. Open up shares to the public. 2. Availability of more funds for operation. 3. Leads to improved management.

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

(b) **Correlation** may be defined as the level or degree of relationship which exists between two variables. It may equally be described as the strength of association between two variables (5 marks). While, Correlation Co-efficient is a statistical measure which determines the level of linear relationship between two variables. It is usually represented by the symbol 'r' or 'R'. Furthermore, it ranges from - 1 to +1 (5 marks). (Sub-Total: 10 marks).

(c) 4 brown balls; 6 grey balls; Total = 10 balls

i) $P(\text{1st Ball Grey}) = 6/10 = 0.6$ (3 marks)

ii) $P(\text{2nd ball Brown}) = 4/9 = 0.44$ (3 marks)

iii) $P(\text{both balls were of the same colour}) = 4/10 \times 3/9$ OR $6/10 \times 5/9$
 $= 4/10 \times 3/9 + 6/10 \times 5/9$
 $= 2/5 \times 1/3 + 1/3 = 2/15 + 1/3 = 0.1333 + 0.3333$
 $= 0.4666 = 0.467$ (Approximately)
(4 marks).

iv) $P(\text{both balls were of different colours}) = 4/10 \times 6/9$ OR $6/10 \times 4/9$
 $= 4/10 \times 6/9 + 6/10 \times 4/9$
 $= 2/5 \times 2/3 + 3/5 \times 4/9$ OR $2/5 \times 2/3 + 2/5 \times 2/3$
 $= 0.533$ (5 marks).

(d) (i) $P(\text{the die shows 5}) = 1/6$ (3 marks)

(ii) $P(\text{the die shows an even number}) = 3/6 = 1/2 = 0.5$ (4 marks)

iii) $P(\text{The die shows an odd number}) = 3/6 = 1/2 = 0.5$ (4 marks)

iv) $P(\text{The die shows either 4 or 5}) = 1/6 + 1/6 = 2/6 = 1/3$ (4 marks)

(Grand Sub-Total: 15 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

PART III

10. (a) Give any four (4) definitions of Underwriting that you know. (12 marks)

(b) What do you understand by "proposal form". (8 marks)

(c) Outline any four (4) means through which a proposal form could be completed by an insured to insurance companies. (10 marks)

(d) Differentiate between Binding Authority and Underwriting Authority. (4 marks)

Solution

(a) The various definitions of underwriting are:

- underwriting is a process of determining whether or not the risk proposed for insurance should be accepted, and if it is to be accepted at what premium rates, terms and conditions.
- it is a risk appraisal technique.
- it is a risk selection process

- it is an equitable system of assessing all those who transfer their risks to a common pool
 - it may equally be described as a risk management technique or process
- (3 marks for each correct and completely stated definition. Maximum of 4 to be graded. Sub-Total: 12 marks)

(b) A proposal form may be defined as a pre-designed form which is used to elicit all vital information relating to the proposed risks for insurance. This vital information is referred to as the material fact. Though, in practice the contents and wordings of the proposal form vary from an insurance company to the other, but the main objective is the same, and which is to elicit all the information supplied by the proposer with a view to determining whether or not to accept the risk proposed for insurance and if it would be accepted, at what premium rate, terms and conditions. A proposal form is an offer made by the prospecting clients.

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

(c) The means through which a proposal form could be completed by an insured to insurance companies are:

- through completion of the proposal form
- through telephone calls
- via a broker
- via a broker slip (lloyd's market)
- via the internet.

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

d)

- **Underwriting Authority** – This is the level of authority granted by an insurance company within certain predefined limits to the insurance intermediaries (such as the insurance brokers).

It may equally be granted by the reinsurer to the insurance company and reinsurance broking firms. However, a higher commission than the normal commission may be allowed to compensate the brokers for their involvement efforts in the underwriting process.

2 marks for any correct description/definition. Maximum of one description to be graded.

- **Binding Authority** – A binding authority gives the direct brokers and reinsurance brokers the authority to accept risks on behalf of the insurer/reinsurer and place the risks accepted with them. Please note that the risks accepted within this authority limits gives a valid cover, and

therefore binds the insurer/reinsurer towards meeting their claims obligations to the client

2 marks for any correct description/definition. Maximum of one description to be graded.

(Grand Sub-Total: 4 marks)

(Grand Total: 34 marks)

(c) The means through which a proposal form could be completed by an insured to insurance companies are:

- through completion of the proposal form
- through telephone calls
- via a broker
- via a broker slip (lloyd's market)
- via the internet.

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

11. (a) What is Regression? (6 marks)

b) Explicitly outline four (4) uses of Regression. (16 marks)

c) Write out the formula for the equation of regression line of y on x, itemizing what each alphabet represents. (12 marks)

Solution

a) Regression may be defined as the relationship which exists between two or more variables. This relationship may have to do with a change or changes that may occur to one of these variables as a result of a change or changes in the other variables. It can also be defined as a mathematical expression of the relationship between independent and non-independent variables.

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

b) The uses of regression are:

- to determine the relationship which may exist between two or more variables.
- to describe the kind of relationship which may exist in (i) above
- to improve our knowledge on the variable of interest (i.e. the dependent variable)
- for estimation
- for forecasting o.e. used as a predictor of value.

(4 marks for each complete and correctly stated use. Maximum of to be graded. Grand Sub-Total: 16 marks)

d) The equation of regression line of y on x is:

$$y = a + bx \text{ (4 marks)}$$

where y is the dependent variable (2 marks)

a is the constant (2 marks)

b is the regression co-efficient or slope (2 marks); and

x is the independent variable (2 marks).

(Sub-total: 12 marks)

(Grand Total: 34 marks)

12. ABC Insurance company has provided the information below in respect of the premium recorded on its Agriculture Insurance Product in 2020 (all figures are given per thousand in Naira):

Premium Income (N'000.00)	Frequency
0-49	8
50-99	10
100-149	24
150-199	20
200-249	22
250-299	12
300-349	4
Total:	100

You are required to find the:

(a) mean

(b) median

(c) mode.

Solution

Claims	Frequency	Mid-Class (X)	fX	Cumulative Frequency
0-49	8	24.5	196	8
50-99	10	74.5	745	18
100-149	24	124.5	2,988	42
150-199	20	174.5	3,490	62
200-249	22	224.5	4,939	84
250-299	12	274.5	3,294	96
300-349	4	324.5	1,298	100
	100		16,950	

(1 mark for each correctly stated coloured figure above. Sub-Total: 21 marks)

(a) Mean = $\frac{\sum fX}{\sum f}$ (2 marks)

= $\frac{16,950}{100}$ (1 mark)

= 169.5 (1 mark)

$$(b) \text{ Median} = L_1 + \frac{(N/2 - \sum f_i b_4) c}{f_m} \quad (2 \text{ marks})$$

$$= 149.5 + \frac{(50 - 42) 50}{20} \quad (1 \text{ mark})$$

$$= 149.5 + 20 \quad (1 \text{ mark})$$

$$= 169.5 \quad (1 \text{ mark})$$

$$c) \text{ Mode} = L_1 + \frac{(D_1) c}{(D_1 + D_2)} \quad (2 \text{ marks})$$

$$= 99.5 + \left(\frac{14}{14 + 4} \right) \times 50 \quad (1 \text{ mark})$$

$$= 99.5 + \frac{700}{18}$$

$$= 138.4 \quad (1 \text{ mark})$$

(Grand Total: 34 marks)

13. (a) What is facultative reinsurance? (6 marks)

(b) Mention and explain any four (4) main purposes of reinsurance to insurance companies. (28 marks)

Solution

a) Facultative reinsurance is the placement and acceptance of business, by the insurer to the reinsurer, on an individual basis based on its merit (or demerit). This implies that in a facultative reinsurance arrangement, there is no obligation on both the direct office (i.e. the insurer) and the reinsurer to place or accept the risk being placed.

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

(b) The main purposes of reinsurance to insurance companies are:

- **security:** the primary insurance company also seeks the peace of mind that it provides to its clients. Therefore, buying reinsurance cover provides the insurer with peace of mind which is security against uncertainty of loss.
- **stability:** there may be fluctuations in the insurance claims from year to year. With reinsurance, such fluctuations may be avoided.
- **capacity:** by buying reinsurance, the primary reinsurance company can increase the capacity to accept business. This gives it more ability to increase its gross premium earnings.
- **catastrophes:** by purchasing reinsurance, an insurer can transfer some of its catastrophic risks to the reinsurance company.

- **confidence:** as in insurance, reinsurance builds the confidence of the primary insurance company to accept more than it can individually retain. (3 marks for each correctly stated purpose. 2 marks for any correct explanation under each purpose. Maximum of 2 correct explanations to be graded. Sub-total per purpose: 7. Maximum of 4 purposes to be graded. Grand Sub-total: 28 marks)
(Grand Total: 34 marks)

14. (a) Give any two (2) definitions of a risk. (6 marks)
- b) Write short notes on the following risks classification:
- (i) Financial and Non-Financial Risks
 - (ii) Pure and Speculative Risks
 - (iii) Particular and Fundamental Risks. (24 marks)
- (c) List any two (2) benefits of risks. (4 marks)

Solution

a) Risk may be defined in any of the following ways:

- it is an uncertainty of loss
- it is a possibility of loss.
- it is a combination of the probability of occurrence of an undesired outcome (loss) and its consequences.
(3 marks for each correct definition. Maximum of 2 to be graded. Sub-Total: 6 marks)

b) (i) **Financial risks** are risks whose effect (when it eventually happens) can be expressed in monetary values. For general insurance, risks may easily be expressed in monetary terms, however, for life assurance and other related insurance contracts, placing value on the subject matter is not as easy as it is found in the general insurance business. Financial risks are directly linked to insurable interest whose main feature is the capability of financial evaluation of the subject matter of insurance. Therefore, financial risks are insurable. Where-as, **non-financial risks** are not insurable solely because monetary values cannot be placed on them. Non-financial risks are sub-divided into two; those with no financial implications and those with financial implications but which cannot be measured.

(2 marks for each correct and complete explanation. Maximum of 2 to be graded under each term. Sub-total per term: 4 marks. Grand Sub-Total: 8 marks)

(ii) A **pure risk** is a risk which involves a possibility of a loss (in a worst scenario) or no loss not profit (at best). Thus, for a pure risk, it is either a person suffers a loss or in the absence of the loss, he remains in his position (status-quo). While, a **speculative risk** gives someone a chance of making a gain in addition to making a loss or break-even. Investment risks generally are speculative risks. However,

unlike the **pure risks** which are insurable, all **speculative risks** are not insurable (mainly because of the possibility or chance of a gain involved in them).
(2 marks for each correct and complete explanation. Maximum of 2 to be graded under each term. Sub-total per term: 4 marks. Grand Sub-Total: 8 marks)

(iii) A **particular risk** is a risk which has its origin (its cause) known and its effect can be borne by individuals. Thus, particular risks are said to be personal in both its origin and effect, meaning it is caused by individuals and solutions can be proffered by individuals as well. Particular risks are generally insurable. Whereas, **fundamental risks** are risks whose causes are beyond human control and consequences are felt by the society as a whole. Examples of risks with fundamental nature are floods, Tsunamis, earthquake as well as other major disasters.

(2 marks for each correct and complete explanation. Maximum of 2 to be graded under each term.
Sub-total per term: 4 marks. Grand Sub-Total: 8 marks)
(Grand Sub-Total: 24 marks)

c) The following are some of the benefits of a risk. The acceptance of certain risk in our everyday life:

- allows us to achieve some positive results.
- imbibes a safety consciousness in us.
- enables us to improve our knowledge on variables of interest.

(2 marks for each correct and completely stated benefit. Maximum of 2 to be graded. Total: 4 marks)
(Grand Total: 34 marks)

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ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A520

COMPANY AND CONTRACT LAW

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Chief Examiner's Summarised Statistics

Highest Score:	79%
Lowest Score:	28%
Average Score:	62%

Breakdown Updates

Question 1

The question attempted to test the foundation upon which law rests. 95% of the candidates attempted the question, although it was compulsory. 80% of them performed above average.

Question 2

Good performance with over 80% pass rate. The question tested the various types of court system in the UK.

Question 3

The question tested relationship of persons on the validity of contract. It was not well answered generally. Candidates could not come up with examples.

Question 4

95% of the candidates avoided the question as the key word is hidden obscurely in the text. It was very poorly passed.

Question 5

The question tested one of the rules of interpretation. Over 95% avoided this latin word.

Question 6

Franchise is a popular question because of its twin brother – excess. Performance of the 95% of the candidates who attempted this question was excellent and the result covered up for the deficiencies in other questions.

Question 7

The question tested knowledge of the types of agency relationship. Almost all the candidates performed well as agency is critical to commercial law.

Question 8

The question tested candidates' understanding of agency. The duties are self-explanatory in the coursebook and like a bonus question, over 98% of the candidates performed excellently well.

Question 9

(a) The question intended to test candidates' understanding of contemporary issues especially the current status of the reinsurance market. Only 20% of the candidates performed excellently.

(c) This question was intended to test the understanding of insurance principles. Over 95% of the candidates understood the concept and also performed well as the concept is central in insurance education.

(d) The question tested the understanding of one of the important aspects of company law. The concept was well understood. 90% of the candidates attempted it but less than 50% performed above average as they expressed little understanding of the comparison of AGM with EGM.

Question 10

(a) This question tested one of the elements of valid contracts. It was an optional question and not too many of the candidates attempted it although it was explanatory in the coursebook, maybe the aspect of supporting the principle with decided case accounted for the low number of attempts.

(b) 90% of the candidates understood this question as the answer lies within the question.

(c) 90% of the candidates attempted this question which tested the candidates' understanding of misrepresentation which appears in other insurance courses that were preparatory to this course, A520. The impressive result here compensated for the poor performance in (a) above.

There was an overall pass in this question at the end of the day.

Question 11

(a) This question tested the candidates on agency and the aspect of the bribery makes it lively and quite easy for the candidates. The remedies were well answered by over 95% of candidates.

(b) Most of the candidates confused this question with partnership and they failed to relate it with trading or left out the trading. Over 60% of the candidates who attempted the question answered (b) correctly.

Question 12

(a & b) Less than 30% of the candidates attempted this question as it is a coursebook which requires application of the knowledge of the contents. The performance of those who attempted it was average.

(c) Most of the candidates did not understand the question as it requires some thinking and application of knowledge to the text.

Question 13

95% of the candidates attempted this question as it has to do with insurable interest which is critical to insurance education. The allotted marks of 20marks uplifted most of these candidates in the final grading.

Question 14

(a) This question was easy and popular with the candidates because it is one of those legacy questions. Performance here was excellent which greatly assisted candidates in the final grading.

(b) Only 10% of the candidates understood this part probably because the explanation in the coursebook was dry.

Chief Examiner's Comments on Overall Performance:

The performance this diet is much better than those of previous diets as most of the questions, especially those in Parts II & III were textbook questions. Also, it appears that there was significant improvement in the preparation by the candidates.

Chief Examiner's Suggestion on Improvement:

Candidates should understand that Part II of the course will carry industry related questions and thus should ensure that they are adequately prepared for it.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What is constitutional law?

Solution

Constitutional law is the body of law which defines the role of powers and structure (2 marks) and the different entities within a State like the Legislature, Executive, Judiciary (2 marks) and their relationships with one another (2 marks).

(Grand Total: 6 marks)

2. (a) What is family division of the high court? (2 marks)

(b) List any four (4) matters that come within the family division of any High Court in a country. (4 marks)

Solution

(a) Family Division is one of the three (3) divisions of the high court which deals with the broad spectrum and issues relating to family life. (2 marks)

(b) The following are matters that come within its jurisdiction:

- Non-contentions probate i.e. proving the wills of deceased persons where there is no dispute.
- dissolution of marriage
- presumption of death
- matters relating to legitimacy and validity of marriage status
- wide variety of disputes between spouses
- wardship, adoption and guardianship of minors
- enforcement of maintenance orders.

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

(Grand Total: 6 marks)

3. Explain undue influence and give three (3) examples.

Solution

This occurs when one party holds a dominant position over the other party or is able to take advantage of the relationship of trust and confidence between them. Common examples are Parent and Child, Doctor and Patient, Solicitor and Client, Religious Leader and follower.

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

4. What is in terrorem?

Solution

In Terrorem is a clause in legal document or a contract that is intended or designed to threaten (3 marks) someone or one of the parties to perform his obligations (3 marks).

(Grand Total: 6 marks)

5. Explain *noscitur a sociis rule*.

Solution

Noscitur a Sociis rule means a word may be known by the company which it keeps clause (2 marks). It provides that the meaning of a word should be considered in the light of the other words used in conjunction with it (2 marks).

(Grand Total: 6 marks)

6. What is franchise?

Solution

A franchise in a fixed amount which is to be paid by the insured in the event of a claim (2 marks), however, once the amount of the franchise is exceeded the insurers pay the whole of the loss including the value of the franchise (2 marks).

Examples:

	If Franchise	=	₦2,000.00	
	Claim Amount	=	₦2,000.00	
	Insured	=	receives nothing	(1 mark)
But if	Franchise	=	₦ 2,000.00	
	Claim	=	₦ 5,000.00	

Insured receives full amount of = ₦5,000.00 (1 mark)

(N.B: The example could also be explained by a narration. Either way, if correctly done, the candidate earns the marks as allotted. Total: 6 marks)

7. Who is a *del credere agent*?

Solution

Del Credere Agent is one with authority to undertake responsibility for one's performance of contract by people whom they introduce to their principal (4 marks). An example is a commission agent who agrees to guard his principal against loss from sales on credit (2 marks) for undertaking this type of extra responsibility Del credere agents receives extra commission.

(Grand total: 6 marks)

8. State two (2) duties of principal to Agent.

Solution

The duties of Principal to Agent are as follows:

- the principal must pay the agreed remuneration
- the principal must indemnify the agent against all losses, liabilities and expenses incurred in the normal course of the agency's work. For instance, the administrative expenses of running a brokerage company are held to be paid out of the broker's commission.

(3 marks for each correct and completely stated duty. Grand total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks

9. (a) List the five (5) Reinsurance Companies in Nigeria with their full names as recognised by the Regulator. (10 marks)

(b) Explain the term effluxion or passage of time. (10 marks)

(c) Utmost good faith is one of the fundamental principles of insurance.

Enumerate any three (3) remedies for breach of utmost good faith. (12 marks)

(d) Compare Annual General Meeting (AGM) with Extra Ordinary General Meeting (EGM). (18 marks)

Solution

Solution

The Reinsurance Companies in Nigeria with their full names as recognised by the Regulator are:

- * African Reinsurance Corporation
- * Continental Reinsurance Plc
- * FBS Reinsurance Limited
- * Nigerian Reinsurance Plc
- * WAICA Reinsurance Corporation Plc.

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

(b) Effluxion or passage of time implies that where a contract or agreement is for a definite or a specific period, the contracts comes to an end at the expiration of that period. (7 marks). In agency contract, where no time has been laid down, the contract ends when the agent completes all he has been authorized to do. (3 marks)

Grand Sub-Total (10 marks)

(c) The remedies for breach of utmost good faith are:

- the aggrieved party can avoid the contract by either repudiating the contract ab initio or avoiding liability for an individual claim.
- the aggrieved party can sue for damages if concealment or fraudulent misrepresentation is involved.
- the aggrieved party could waive these rights and allow the contract to carry on unhindered.
- **However**, the aggrieved party must exercise his option within a reasonable time of discovery of the breach or it will be assumed that he has decided to waive his rights.

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

(e) Annual General Meeting must be held every calendar year with an interval of not more than 15 months between one AGM and the next. This gives the shareholders the opportunity to ask the directors questions about the performance of the company.

The law provides that 21 days' notice must be given in writing of an AGM to every member specifying, date, place, time of the meeting and if there is to be any special business, the general nature of the business.

Extraordinary general meetings are any general meeting of a company other than an annual general meeting the calling of such meetings will depend on the articles.

Usually, the articles of association will indicate when the directors can call an EGM, most articles provide that holders of not less than 1/10 of the paid-up capital of the company carrying voting right can do so, failure by the directors to do so within 21 days gives those asking for the meeting the right to convene themselves.

An EGM requires not less than 14-days' notice in writing, however if a special resolution is to be proposed it requires at least 21-days' notice.

The nature of the business to be conducted must give the members such information as will allow them to make up their mind whether to attend or not.

(3 marks for each correctly stated difference. Maximum of 3 differences to be graded under each term.

Sub-Total per term: 9 marks. Grand Sub Total: 18 marks)

Part III

Answer THREE (3) of the following FIVE (5) questions.

Each question carries 34 marks.

10. (a) Can a party enforce social or domestic agreement, support your answer with a decided case. (14 marks)

(b) Explain the doctrine of intelligibility. (10 marks)

(c) What is innocent misrepresentation? State the remedies. (10 marks)

Solution

(a) Social and Domestic agreements unlike commercial contracts are not intended to have legal consequences (5 marks). No one will assume an agreement to clean the drains in the house will be legally binding or accepting an invitation to a party creates a contract (2 marks), such agreements are not binding unless a convincing contractual intention can be found.

A decided case in this instance is *Balfour v. Balfour (1919)* (5 marks) where it was held that a husband's promise to pay his wife an allowance was not legally binding even though the husband's work had taken him abroad (2 marks).

(Sub-Total: 14 marks).

(b) The **doctrine of intelligibility implies that** any written term must be drafted in "plain, intelligible language" and that any term which fails this test is to be constructed in favour of the consumer (6 marks).

This doctrine is consistent with the already established doctrine in insurance which provides that any ambiguous term in insurance contract is constricted against the Insurer-Contract preference rule (4 marks).

(Sub-Total: 10 marks)

(c) **Innocent Misrepresentation** is a false statement which the maker innocently believes to be true (4 marks). The remedies for views innocent misrepresentations are: * rescission * damages * refusal of further performance.

(2 marks for each correctly stated remedy. Sub-Total: 6 marks in total)

(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

11. (a) When an agent accepts a bribe, the principal has certain remedies available against this. What are these four (4) remedies available to such principal?

(10marks)

b. What is trading partnership? Explain any five (5) powers available to this set of partners.

(24 marks)

Solution

(a) The four (4) remedies available to a principal who discovers his agent has accepted a bribe are as follows:

- the principal can recover the bribe from the agent.
- the principal can dismiss the agent without notice or commission.
- the principal can sue the agent and third party for conspiracy to defraud where appropriate
- the principal can exercise the rights to set aside the contract made with the third party.

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

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

(4 marks)

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

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

(2 marks each for mentioning any of the above powers. 2 marks each for any correct explanation under each power. Sub-Total per power = 3½ marks. Maximum of 5 to be graded. Sub-Total: 20 marks.

Grand Sub-Total: 24 marks.)

(Grand Total: 34 marks)

12. (a) Can an insured recover compensation for a loss caused by his own criminal activity?

(5 marks)

(b) State the principle(s) involved in this position and give example in life assurance supported with a decided case.

(15 marks)

(c) Explain the maxim “delay defeats equity”. (7 marks)

(d) State the essential features of Life Assurance Act 1774. (7marks)

Solution

(a) No. An insured cannot recover compensation for his own crime. (5 marks).

(b) The principles are as follows:

First is where a man through his own lawful conduct or he injures himself or takes his own life, he will be debarred from profiting from this exercise because what insurance covers in a fortuitous incident not a predetermined occurrence.

Secondly, it will open the “floodgate” of claims as others may be encouraged to break the law against public policy.

For example in *Beresford v Royal Insurance Co. Ltd (1938)* the assigned committee suicide intending that the policy money used to settle his heavy debts at a time when suicide was a criminal offence; it was held that the policy did cover suicide and that the insurers could extend the policy to cover such acts of willful misconduct; Nevertheless, the cover held that the public policy would prevent such recovery because the insured would benefit from his criminal act as his estate will be free from his debts

(5 marks for each correct and completed stated justification with/without example. Maximum of 3 to be graded. Sub-Total: 15 marks)

(c) **Delay defeats Equity implies that anyone who has a claim in the “court of equity” (2 marks) must bring out the claim in an expeditious manner (3 marks); he must not in any way prolong it intentionally (2 marks).**

(Sub-Total: 7 marks)

(d) The essential features of Life Assurance Act 1774 are:

- any insurance on the life of any person or any other event in which the person benefiting from the insurance has no interest is null and void.

- no policies on lives or other events are lawful unless the name of the person for whose benefit the policy is being effected is inserted in the policy.
- no greater sum may be recovered than the amounts of the interest of the insured.
- the Act did not extend to insurances on ships, goods or merchandise.
- however, the Insurance Company Amendment Act 1973 permits unnamed persons to benefit provided they fall within a certain class or description stated in the policy.

(3½ marks for any correctly stated essential. Sub-Total: 7 marks)

(Grand Total: 34 marks)

13. (a) Identify and state the extent of insurable interest in the following situations:

- | | | |
|-------------------------------|--------------------------------|------------|
| (i) Part or joint owners; | (ii) Mortgagees and mortgagors | |
| (iii) Executors and trustees; | (iv) Bailee. | (20 marks) |

(b) State three (3) remedies for utmost good faith. (9 marks)

(c) How can the legal presumption of an implied agency in favor of wife be rebutted? (5 marks)

Solution

(a) The extent of insurable interest in the following situations:

(i) **Part or Joint Owner:** A person having a partial interest in some properties is entitled to insure it to the full value of that property rather than just to the extent of his actual interest. He is a trustee of the excess funds above his interest in the event of total loss as he holds the excess for the other owner.

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

(ii) **Mortgagees / Mortgagors:** Mortgages are common in the area of house purchase. Mortgagee is the lender in a mortgage usually a bank, building society or a mortgage company. Mortgagor is the borrower. Both parties have insurable interest. The purchaser as the owner of the house and the building society as the creditor.

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

(iii) **Executors / Trustees:** Executors are legally responsible for the properties under their charge and trustees are also are legally responsible for the properties under their charge. This responsibility gives rise to insurable interest.

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

8

(iv) **Bailee:** A Bailee is a person legally holding the goods of another either for payment or gratuitously, pawn brokers, launderers/ dry cleaners and watch repairers are examples of bailee. Each has a duty to take reasonable care of the goods while in their custody.

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

(Grand Total: 20 marks)

(b) For remedies for breach of utmost goods faith, the aggrieved party has the following options:

- to avoid the contract by either repudiating it ab initio or avoiding liability for an individual case.
- sue for damages as well as if concealment or fraudulent misrepresentation is involved.
- to waive these rights and allow the contract to carry on unhindered.
- the aggrieved party must exercise his option within a reasonable time of discovery of the breach; otherwise, it will be assumed that he has waived his right.

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

(c) The legal presumption of implied agency in favor of the wife can be rebutted as follows:

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

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

(Grand Total: 34 marks)

14. (a) What is contribution? State any four (4) conditions that must be present for contribution to arise. (28 marks)

(b) Explain the concept of companies limited by guarantee and give an example. (6 marks)

Solution

(a) Contribution is the right of an insurer to call upon others similarly but not necessarily equally liable to the same insured to share the cost of an indemnity payment. (5 marks) If an insurer has paid full indemnity, he can recoup an equitable proportion from the other insurers of the risk. (3 marks)

If a full indemnity has not been paid then the insured will wish to claim from the other(s) also-to receive an indemnity and the principle of contribution enables the total share to be claimed in a fair manner. (4 marks)

Conditions that must present for contribution to arise are as follows:

- two or more policies of insurance must exist.
- the policies cover a common interest
- the policies cover a common peril which gave rise to the loss.
- the policies cover a common subject matter. Each policy must be liable for the loss.
- policies do not have to cover the same interests or perils or subject matter or insurance provided that there is an overlap between one policy and another. For example, a policy covering the insured stock in one premise will also contribute with one covering its stock in all its premises.

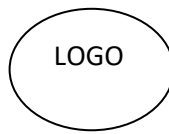
(4 marks for each correctly stated condition. Maximum of 4 to be graded. Sub-Total: 16 marks)

(Grand Sub-Total: 28 marks)

(b) **Companies Limited by Guarantee:** In a Company Limited by guarantee each member undertake to pay the company's debt up to a certain amount in the event of winding up, an example is a golf club where no working capital is required for its formation.

(6 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A530
BUSINESS AND ECONOMICS

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 or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A530 - BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	79%
Lowest Score:	21%
Average Score:	51%

Breakdown Updates

Question 1

The performance was low. Over 90% of the candidates failed this question, which was a coursebook question.

Question 2

Candidates were able to give clear distinction between "above-the-line" and "below-the-line". Overall performance was average.

Question 3

Most of the candidates showed a good understanding on the distinction between empowerment and delegation. Some of the candidates wrote extensively, instead of, briefly on the two concepts.

Question 4

The question was designed to state the effects of unemployment and inflation. The pass rate was just average.

Question 5

The attempt rate was around 85%. The question was well understood by most of the candidates although a few of them could not list the requirements correctly.

Question 6

About 76% of the candidates attempted the question. Candidates were not as concise as expected.

Question 7

The question was well understood with very good performance as majority of the candidates obtained full marks here.

Question 8

Only very few candidates did not show a good understanding of the question. The overall performance was good.

Question 9

Performance was average. Most candidates could not apply the formulas required correctly.

Question 10

About 90% of the candidates attempted the question. Candidates showed a good understanding of the question and performance was very good.

Question 11

Although the question was simple, clear and straightforward, majority of the candidates could not explain the “theory of comparative advantage”. The pass rate in general was 42%.

Question 12

A very large percentage of the candidates attempted the question. The average pass rate was simply average.

Question 13

Very few candidates attempted this question. Maybe because it was fairly loaded, when compared to others. Even from those who attempted the question, most of them were also not on ground with technicalities of the question. Performance was below average.

Question 14

Candidates showed a good understanding and were conversant with the focus of the question. Almost all those who attempted the question scored above average.

Chief Examiner’s Comments on Overall Performance:

There was a marked improvement from the performance of the October 2020 diet which implies that candidates prepared more adequately.

Chief Examiner’s Suggestion on Improvement:

Candidates should endeavour to study to cover all areas in the syllabus while noting that there is no alternative to studying adequately for any examination. They are thus advised to study more.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1) State any six (6) factors that can affect the demand for non-life insurance.

Solution.

The factors that can affect the demand for non-life insurance are:

- * price/premium charged;
- * income of the insured;
- * economic situation;
- * legal requirement.
- * mode of premium payment
- * taste and preference of the insured
- * product awareness/ advertising;

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

2) Differentiate between “above-the-line” and “below-the-line” promotion stating one (1) advantage of each.

Solution

Above-the-line promotion involves using advertising, which is then communicated to the target market through the media (e.g. television, radio, magazines, newspapers). An advantage is any of those below:

- boosting the sales volume
- used to build a distinctive brand image for a product
- it creates a degree of product differentiation in the minds of the target market
- firm may be able to charge a higher price.

Below-the-line promotion describes other forms of promotion that do not involve advertising. An advantage is any of those below:

- may be used by supermarkets to favor added value promotions to increase sales of their own labels
- can be used in sponsoring deals or in-store displays.

(2 marks for each correct differentiation. 1 mark for each correct advantage. Sub-Total per term: 3 marks. Grand Total: 6 marks)

3. Distinguish between “empowerment” and “delegation”.

Solution

Empowerment involves giving the employees the freedom to decide what decisions to make in the first place. It is about giving the employee the opportunity to exercise power over their own working lives. (3 marks)

On the other hand, delegation is the process by which the firms pass decision making process (power) down the hierarchy from managers to staff. (3 marks)

(Grand Total: 6 marks)

4. State two (2) effects each of the following terms on the insurance industry:

(a) unemployment.

(b) inflation.

Solution

The following are the effects of the stated terms on the insurance industry:

(a) unemployment:

- income protection policy claims will rise;
- theft claims will rise;
- demand for insurance for luxury holidays falls.

(b) inflation:

- it affects paying for rebuilding cost;
- wage claim will increase;
- it erodes the cash solvencies held by insurers for the payment of claims.

(1 ½ marks for each correctly stated effect. Maximum of 2 to be graded under each term. Sub-Total per term: 3 marks. Grand Total: 6 marks)

5) (a) List the two (2) methods of pricing insurance products/services. (2 marks)

(b) Distinguish between the two methods in (a) above. (4 marks)

Solution

(a) The two methods are:

* cost-based methods;

* market-based methods.

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

b. The cost-based methods set their prices by identifying their unit cost and then applies a mark-up to the unit cost figure in order to produce the retail price (2 marks). On the other hand, market-based method set prices according to what the market will bear (2 marks).

(Sub-Total: 4 marks)

(Grand Total: 6 marks)

6) Mention any three (3) factors that can make market unprofitable for an insurer.

Solution

The factors that make market unprofitable are:

- reinsurance costs are too high;
- customers premiums are too low;
- undertaking risk are too high;
- claim cost are too high.

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

7) Distinguish between “public goods” and “merit goods” with an example each.

Solution

Public goods are goods provided by Government since it is impossible for entrepreneurs to make money from selling them e.g. defence; **while merit goods** may be under-provided by the free markets since entrepreneur’s do not value the non-profit benefits that arise as a consequence of their consumption. A good example is education.

(2marks for correct explanation. 1 mark for each correct example. Sub-Total per term: 3 marks. Grand Total: 6 marks)

8. List any six (6) examples of the types of market research information that can be produced from an insurance company’s database.

Solution

Some examples of the type of information that can be generated from an insurance company’s database are:

- geographical distribution of customer
- information on sales by product, region, brokers e.t.c.
- success or otherwise of pricing and promotion strategies
- effectiveness of sources of business
- profitable nich markets
- targeted and segmented client types
- geodemographic data.

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

Part II

Compulsory Question.

This question carries 50 marks.

9) (a) List the five (5) Reinsurance Companies in Nigeria with their full names as recognised by the Regulator. (10 marks)

(b) Given the following extract from Inter Insurance Plc as at December 2019.

Revenue Account	₦'000.00
Gross Premium Written	5,736
Net Premium Written	3,536
Investment Income	3,486

Expenditure	₦'000.00
Claims	1,084
Net Commission	(24)
Expenses	2,226
	<u>3,286</u>
Transfer to Life Fund

Balance sheet as at 31/12/2019

Assets	91,928
Liabilities	51,492
Shareholders' Fund

Profit and Loss Account

Underwritten Result	239,634
Investment Income	58,444
Other Incomes	9,992
Other Items	218,576
Profit before Taxation	89,634
Taxation	(30,812)

You are required to calculate the following:

- (i) the amount transferred to the life fund; (ii) shareholders' fund;
(iii) claims ratio (iv) expenses ratio (v) solvency margin. (28 marks)
(c) State any four (4) global relevancies of the above ratios. (12 marks)

Solution

(a) The Reinsurance Companies in Nigeria with their full names as recognised by the Regulator are:

- * African Reinsurance Corporation
- * Continental Reinsurance Plc
- * FBS Reinsurance Limited
- * Nigerian Reinsurance Plc
- * WAICA Reinsurance Corporation Plc.

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

(b) (i) Amount Transferred to the Life Fund = $\text{N}(3,536 + 3,486 - 3,286) \times 1000$ (3 marks)

= $\text{N}3,736,000.00$ (2 marks)

(ii) Shareholders' Fund = $\text{N}(91,928 - 51,492)$ (3 marks)

= $\text{N}40,436,000$ (2 marks)

(iii) Claims Ratio = $\frac{\text{Claims}}{\text{Premium}} \times 100$ (3 marks)

= $\frac{1084}{3536} \times 100$ (2 marks)

= 30.66% (1 mark)

(iv) Expenses Ratio = $\frac{\text{Expenses}}{\text{Premium}} \times 100$ (3 marks)

= $\frac{2226}{3536} \times 100$ (2 marks)

= 62.95% (1 mark)

(v) Solvency Margin = $\frac{\text{Shareholders' Fund}}{\text{Premium}} \times 100$ (3 marks)

= $\frac{4036}{3536} \times 100$ (2 marks)

= 114.8% (1 mark)

(Sub-Total: 28 marks)

(b) The global relevancies of the ratios include:

- to analyze the performance of a business;
- to compare the performance of a company over time, by working out a set of relevant ratios for a number of years;
- to compare the performance of a number of businesses;
- to set target;
- to compare the performance of various sections of business.

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10) (a) State any seven (7) characteristics of partnership. (14 marks)

(b) Enumerate any ten (10) characteristics of a Public Limited Liability Company. (20 marks)

Solution

(a) The characteristics of partnership are:

- it is formed by two or more individuals;
- the partners share profit and losses;
- the partners limited to a maximum of twenty (20);
- it is governed by deed or memorandum of partnership;
- the business is jointly owned by members;
- ordinary partners participate in management;
- the members take salaries for duties performed and share out of profit and losses;
- it could be ordinary where all partners are liable for the debts of the business or limited where partners have limited liability;
- the business has no separate personality with the ownership and management resident with the partners.

(2 marks for each correctly stated characteristic. Maximum of 7 to be graded. Sub-Total: 14 marks)

(b) The characteristics of a Public Limited Liability Company include:

- it is a private enterprise which is formed by a group of at least seven (7) shareholders;
- shares can be bought by members of the public;
- capital of the company is usually divided into shares and sold to the public through stock exchange;
- guided by Memorandum of Association and Articles of Association;
- Registered with the Corporate Affairs Commission;
- liabilities are limited to the shares invested;
- owners are separated from the company and management;
- shareholders are paid dividend;
- Management are paid salaries;
- shares are easily transferable;
- both the profit and dividends are taxed;
- legally bound to reproduce owned reports.

(2 marks for each correctly stated characteristic. Maximum of 10 to be graded. Sub-Total: 20 marks)
(Grand Total: 34 marks)

- 11) (a) Briefly explain the concept of the theory of comparative advantage.(8 marks)
(b) State four (4) reasons why countries engage in international trade.(10 marks)
(c) Enumerate any five (5) barriers to international trade. (10 marks)
(d) With the use of a brief explanation and an example each, distinguish between direct and indirect taxes.
(6 marks)

Solution

(a) The theory of comparative advantage states that the commodities which a country should produce and trade with other countries are those that it can produce relatively more efficiently. This theory assumes unimpeded specialization and free exchange among countries. The theory states that it is not absolute efficiency that matters rather it is comparative efficiency. A country has absolute advantage in all goods/services over other countries but it can trade in goods which it has comparative advantage.

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

- (b) The reasons why countries engage in international trade include:
- it encourages transfer of technology.
 - it provides economic development.
 - it is a source of market expansion.
 - it provides employment opportunities.
 - it enhances welfare through the provision of variety of goods and services.
 - it assists in providing diversification of the economy.

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

(c) The barriers to international trade include:

- distance.
- the use of weights and measurements.
- transport cost and communication.
- difficulties of language or language barriers.
- trade barriers e.g. custom duties, quotas, tariffs, etc.
- political and religious barriers.
- differences in laws and legal interpretation.

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

(d) **Direct taxes** are those that are levied directly on individuals and companies. The taxes are levied on their income or properties (2 marks) e.g. PAYE or land use charge (1 mark); while **indirect taxes** are levied not on individuals' income and company's profit but on the goods and services that they consume (2 marks) e.g. tax on food items, entertainment, VAT, e.t.c. (1 mark). (Sub-total: 6 marks)

(Grand Total: 34 marks)

12. (a) What do you understand by "external constraints" against the operation of business from achieving its objective". (4 marks)

(b) Identify and discuss the external constraints that can mitigate against the operation of business from achieving its objectives. (30 marks)

Solution

(a) External constraints that work against the operation of business from achieving its objectives are those issues that are outside the direct control of the business concern. (4 marks)

(b) The external constraints that can mitigate against the operation of business from achieving its objectives are:

- **economy in trading or business conditions within the economy fluctuate greatly over time:** The main cause of these fluctuations is the trade cycle. Business conditions within the following are clearly an example of an external constraint; there is nothing a single business can do to prevent a recession which will eventually lead to a fall in profitability caused by a decrease in demand for the products.
- **government policy:** changes to the fiscal and monetary environment will obviously affect businesses. The government may also pass laws and regulations that act as external constraints on business e.g. minimum wage law passed by government which will be beyond the business control.
- **competition:** in order to survive, businesses must be able to fight off the threats posed by competitors at home and abroad.
- **different organisations have attempted to deal with this problem in various ways by:**
 - relocating their businesses to move labour-intensive activities to lower cost locations.
 - others decide to pull out of their operating activities and buy them from firms who are able to do better (outsourcing),
- **infrastructure:** the quality of a country's infrastructure may have a profound effect on a business competitiveness. This is usually provided by the state. In Nigeria where businesses have to provide infrastructure, this

will add to the cost of production thereby affecting the business productivity level and thereby increasing the production cost and subsequently cost of products and services.

- **exchange rates:** as a business grows, the domestic markets may become unattractive due to competition and the managers may look overseas to do business. In many cases, these markets can be extremely profitable. However, a serious constraint can be the fluctuation within the currency exchange rates. This can lead to either increase or decrease in profit due to nature of the fluctuation (i.e. positive or negative).

(3 marks for each correctly stated constraint. 1½ marks for each correct and completely stated explanation under each point. Maximum of 2 points to be graded under each constraint. Sub-Total per constraint: 5 marks. Maximum of 6 constraints to be graded. Sub-Total: 30 marks)

(Grand Total: 34 marks)

13) (a) What do you understand by the term 'Electronic Performance Support'?

(2 marks)

(b) List four (4) examples of interactive information systems.

(4 marks)

(c) State any four (4) advantages of e-commerce for the customer.

(8 marks)

(d) Write short notes on the following:

(i) internet

(ii) world wide web

(iii) website

(iv) computer systems.

(20 marks)

Solution

(a) **Electronic Performance Support** is a combination of computer-based training and online help for users of a computer system. (2 marks)

(b) The examples of interactive information systems are:

* home banking

* home shopping

* education training

* education.

(1 mark for each correctly stated example. Sub-Total: 4 marks)

(c) The advantages of e-commerce for the customer are:

- offer cheaper insurance;
- saves time in purchasing insurance;
- allows comparisons of premium level;
- supports a chosen brand image;
- improves understanding of insurance.

(2 marks for each correctly stated advantage. 8 marks)

(d) (i) **internet:** is a global computer network made up of hundreds of smaller networks linked by the international telephone system. The networks are run by governments, academic institutions, corporations and providers.

(ii) **World Wide Web:** www is a system of millions of hypertext pages (paper limited using associative networks) databases that can be searched. Information can be assessed and files can be downloaded to a connected system anywhere in the world.

(iii) **Website:** is a location on the internet that maintains one or more web pages. A website is always developed for a particular business or firm.

(iv) **Computer Systems:** are the physical components which enable computerized information systems to run. They are often referred to as hardware and the programs which run on them are known as software. The data processed is known as information.

(2½ marks for each correctly stated point. Maximum of 2 points to be graded under each term. Sub-Total per term: 5 marks. Grand Total: 20 marks)

14) (a) Summarise the functions of any economic system. (5 marks)

(b) List the three (3) types of economic system and discuss their characteristics. (29 marks)

Solution

(a) The functions of any economic system is to produce solutions to the basic economic problems of how to distribute limited resources to the unlimited human needs (3 marks). A part of this system is to decide what to produce, how to produce it and how to allocate the goods and services produced (2 marks).

(Sub-Total: 5 marks)

(b) The three types of economic system are:

- free market economies; (3 marks)
- planned economies; (3 marks)
- mixed economies. (3 marks)

(3 marks for the first two correctly stated type. 2 marks for the last type correctly stated. Sub-Total: 8 marks)

Characteristics of the Free Market Economy are:

- in a free market system, the resources used to produce goods and services are owned by the private individuals rather than the state. Factories are owned and run by entrepreneurs who obtain the labour they need to produce goods and services by paying workers' wages.

- individuals are given the freedom to choose in free market system.
 - entrepreneurs produce goods and services for the society because they are motivated by the desire to make profits for themselves. They tend to minimize cost while maximizing revenue.
 - decision making is decentralized. Individual decisions made by firms and consumers determine the market price levels.
 - consumers spend their income on goods and services. Here access to goods and services is determined by individual ability to pay market prices.
 - free market economies work best when there is competition. A lack of competition discourages innovation and new product development.
- (3 marks for each correctly stated point. Maximum of 3 to be graded. Sub-Total: 9 marks)

Characteristics of Planned Economies

- factories are owned and run by government. There is no private property for political reasons.
- decisions about what goods and services to produce are made by a team of central planners who are employed by the state.
- prices within the planned economy are not determined by market forces. The government sets the prices from the centre objective being able to be available to all irrespective of status in the society.

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

Characteristics of the Mixed Economy

- exists in natural monopolies.
- private sector driven by profit.
- a public sector exists for the 'less well-off'.

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

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A655

RISK MANAGEMENT

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A655 – RISK MANAGEMENT INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	77%
Lowest Score:	11%
Average Score:	56%

Breakdown Updates

Question 1

The question was on the relevance of (other) consultants to sources of external information to risk manager. Over 80% went on to discuss sources of external information. Close to 60% scored above average pass marks.

Question 2

Testing candidates understanding of how to successfully manage information to the public during crises/rumours. Close to 98% of the candidates that attempted understood and score above average pass marks.

Question 3

Objectives of risk analysis, one of the important aspects of risk management was the demand of the question. On the average question was well understood, attempted by all and over 50% scored pass marks.

Question 4

Popular question on electronic commerce (tradings). The question has been repeated several times hence over 95% of the candidates attempted it and gave satisfactory answers that gave them pass marks.

Question 5

The question examined the candidates' understanding of how to work with (other) consultants to achieve better results and reduce risk of loss. All the candidates attempted the question gave satisfactory answers/points. Over 80% scored pass mark.

Question 6

About acceptance definition and characteristics of catastrophic risk. Over 55% got the correct definition whilst less than 50% were able to list out the correct features of catastrophic risk. Overall candidates had fair performance. Similar question will be desirable for this course.

Question 7

The question was on definition/meaning of HAZOP. It was well attempted. Over 75% of the candidates that attempted scored pass marks.

Question 8

Very popular and straight-forward question on things within the society (outside organisations) that can cause threat. In view of COVID-19 that is a worldwide pandemic, many candidates could not do justice to the question as per points listed and well explained in the coursebook. Less than 40% scored pass marks.

Question 9

The question that cut across the entire syllabus and market (insurance) regulations. The (b) was important and carried the largest marks. Many of the candidates got this correctly.

Question 10

Candidates' knowledge of importance of electronic mail, components and dependencies were tested. Over 90% of the candidates that attempted this question found same easy to attempt and scored pass marks.

Question 11

Part (a) of this question examined the candidates on who a risk manager was. 95% of the candidates got the correct definition and the (b) part examined on steps for handling risks after identification. Over 80% scored pass marks in this part.

Question 12

The benefits of taking carefully considered risks are numerous. Candidates were required to discuss seven (7) and confirm the statements. Majority defended the statement and gave the required benefits resulting in over 90% of them scoring above the pass mark.

Question 13

This question was carefully and professionally drafted but clearly requesting for advantages and disadvantages of spending money on risk management and transfer. Over 50% of the candidates did not understand the question and thus less than 40% of them passed it.

Question 14

About 90% of the candidates attempted this question. Knowledgeable risk management candidates ought to score above the pass mark in part (a). Ironically, it was the part (b) that candidates performed much better. The pass rate was about 50% in general.

Chief Examiner's Comments on Overall Performance:

In this diet, over 50% of the total number of candidates scored sufficiently to pass the course.

Chief Examiner's Suggestion on Improvement:

Candidates are encouraged to study more intelligently and be grounded in their understanding of risk management principles in order to have better results.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1) List three (3) ways/means that consultants can play role of being sources of “external information” to risk managers.

Solution

The ways/means that consultants can play role of being sources of “external information” to risk managers are:

- through previous reports written on special areas of concerns
- through some and usually up-to-date information been kept by the consultant on previous jobs/assignment
- through collaboration and acquired knowledge from other professionals and experts in different fields
- through individuals or group that formed consultancies
- through consultancies that are subsidiaries of insurers, insurance brokers and reinsurers in insurance industry and other industries
- through market software developed by large business concerns employing thousands of consultants.

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

2) Mention three (3) ways as a risk manager that you will manage information flow to the media, particularly when there are crisis or incorrect news to the public about your organisation.

Solution

The ways as a risk manager that I will manage information flow to the media, particularly when there are crisis or incorrect news to the public about my organisation are:

- immediately get pre-prepared, authorised and well-trained spokespersons to respond
- respond almost immediately and factually
- give immediate, factual and reasonable need/response to the media that can help meet the expectation/enquiries of different stakeholders
- any spokesperson appointed by the organisation must continually be available until thing returned to normal

- spokesperson for the organisation must be given unhindered access to the latest information as it emerges
 - ensure important information not necessary for release are protected and shielded away from unauthorised staff or other persons
- (2 marks for each correctly stated way. Maximum of 3 to be graded. 6 marks total)

3) Enumerate three (3) of the seven fundamental objectives of risk analysis.

Ans:

The seven fundamental objectives of risk analysis are:

- to identify and measure risk;
- to compare the risks that are carried against the levels that are acceptable to the organisation;
- to assist in presenting risk concepts clearly and in a consistent style;
- to support decision taking about spending and other actions that may be needed to reduce the risk to an acceptable level;
- to assess both the operational effectiveness and the cost effectiveness of any existing risk management measures that are in place;
- to encourage good decisions about contingency planning that may be needed;
- to raise management awareness and the depth of understanding of the exposures that are being carried.

(2 marks for each correctly stated objective. Maximum of 3 to be graded. 6 marks total)

4) (a) In e-commerce, state at least two (2) things been exchanged.

(b) Mention two (2) important items/infrastructure needed for one to be engaged in e-commerce.

Solution

(a) In e-commerce, the things been exchanged are:

- * exchange of trade
- * exchange of value
- * open networks.

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

(b) The important items/infrastructure needed for one to be engaged in e-commerce are:

- * computer or relevant device
- * internet
- * human resources/beings
- * knowledge/training.

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

(Grand Total: 6 marks)

5) State three (3) specific information you will need/could need from consultants, as external means to help in your work and decisions.

Solution

The specific information you will need/could need from consultants, as external means to help in your work and decisions are:

- performance and/or durability of materials to be used
 - the explosive nature or capabilities of liquid substances or gaseous collection
 - crime rates/ possibilities in particular areas, region or nation
 - up-to-date crime patterns in (large) cities
 - on human behavior during crisis
 - possibilities of earth tremor
 - current demand and supply situation of particular essential production item of the organisation where scarcity could drive her out of the market
- (2 marks for each correctly stated information. Maximum of 3 to be graded. 6 marks total)

6) (a) Define catastrophic risk. (2 marks)

(b) Give two (2) features (or things common to) catastrophic risk. (4 marks)

Solution

(a) Catastrophic risk is a misfortune or loss occurrence that is large in volume, cost and the number of people affected. (2 marks)

(b) The features (or things common to) catastrophic risk are:

- it happens very infrequently;
 - it can be said that it happens once in a while;
 - it happens with extremely potential damage;
 - it is always accompanied with huge loss/cost;
 - must be felt by large number of people
 - it usually cover wide areas or across areas, regions or nations
- (2 marks for each correctly stated feature. Maximum of 2 to be graded. 4 marks total)

(Grand Total: 6 marks)

7) Give the full meaning of HAZOP and mention two (2) key questions the study involves.

Solution

HAZOP: Hazard and Operability Study (2 marks)

The key questions related to it are:

- what is the part intended to achieve?
- what deviations are possible away from the 'usually expected delivery'?
- what could be the causes of those variations?
- what could be the consequences of those variations?

(2 marks for each correctly stated question. Maximum of 2 to be graded. 4 marks total)

(Grand Total: 6 marks)

8) In considering changes in external exposures, mention three (3) external threats that risk managers and business managers identifies as being capable of doing harm to the organisation.

Solution

In considering changes in external exposures, the external threats that risk managers and business managers identifies as being capable of doing harm to the organisation are:

- * climate change
- * political change
- * cultural change
- * economic change
- * security issues and challenges
- * geographic forces
- * fashion's changes
- * Medical science
- * law and legal practices change
- * science and technology change

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

Part II

Compulsory Question.

This question carries 50 marks.

9) (a) State two (2) important functions of NAICOM. (4 marks)

(b) What is the significance of Section 50 of Insurance Act & Regulations 2003? (6 marks)

(b) Through a diagram only, draw and fill the steps for creating effective risk management in any organisation as a process of risk management. (21 marks)

(c) Using Springfield Limited Risk Management Structure/Channel as benchmark, draw the channel/organogram out with the correct label/position. (9 marks)

(Correct organogram/channel= 1 mark; 8 positions for 2 correct positions for 1 mark each= 4 marks)

(d) Suggest five (5) directors that (you expected) should be permanent member of group risk committee by your knowledge of group risk management. (10 marks)

Solution

(a) The important functions are also the statutory functions of the National Insurance Commission as established by NAICOM Act 1997. These 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.

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

(Grand Sub-Total: 10 marks)

(b) The significance of Section 50 of the Insurance Act & Regulation 2003 is that it provides that:

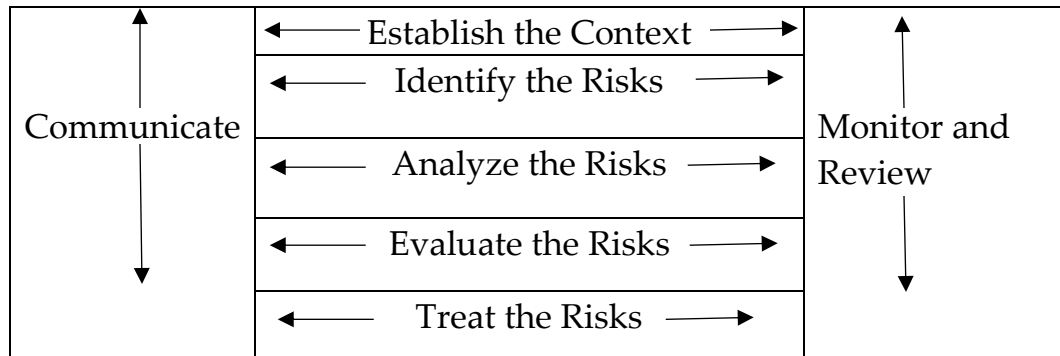
i) the receipt of an insurance premium shall be a condition precedent to a valid contract of ins & there shall be no cover in respect of an insurance risk unless the premium is paid in advance. (3 marks)

ii) an insurance premium collected by an insurance broker in respect of an insurance business transacted through the insurance broker shall be deemed to be premium paid to the insurer involved in the transaction. (3 marks)

(Sub-Total: 6 marks)

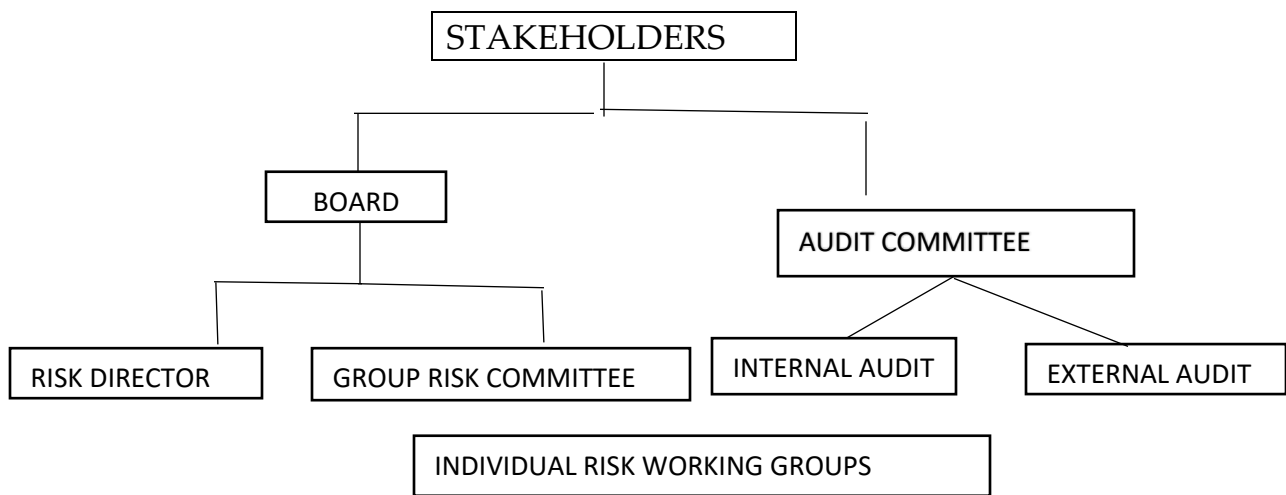
(Grand Total: 10 marks)

(b) The following are ways of creating effective risk management in any organisation as a process of risk management:



(Correct Diagram: 3 marks; Correct labeling: 3 marks each x 7= 28 marks. Sub-Total: 21 marks)

(c) The Springfield Limited Risk Management Structure/Channel is:



(Correct Diagram: 1 mark; Correct Diagram: 1 mark each * 8. Sub-Total: 9 marks)

(d) The directors that are expected to be a permanent member of the group risk committee by the knowledge of group risk management are the:

- * Risk Director
- * Compliance Director
- * Group Internal Auditor
- * Legal Director
- * Finance Director
- * Public Affairs Director
- * Any other director as approved by the board and based on organisation line of business

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

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10) (a) You are to explain to a set of seven National Youth Service Corpers in your office the impact and effect of the use of electronic mail and computers in the workplace. Write out your explanation with at least six (6) points. (24 marks)

(b) Draw up an illustration of dependencies for supply of DMS/diesel from NNPC depot to one of their services stations about 130km away from the depot.

(10 marks)

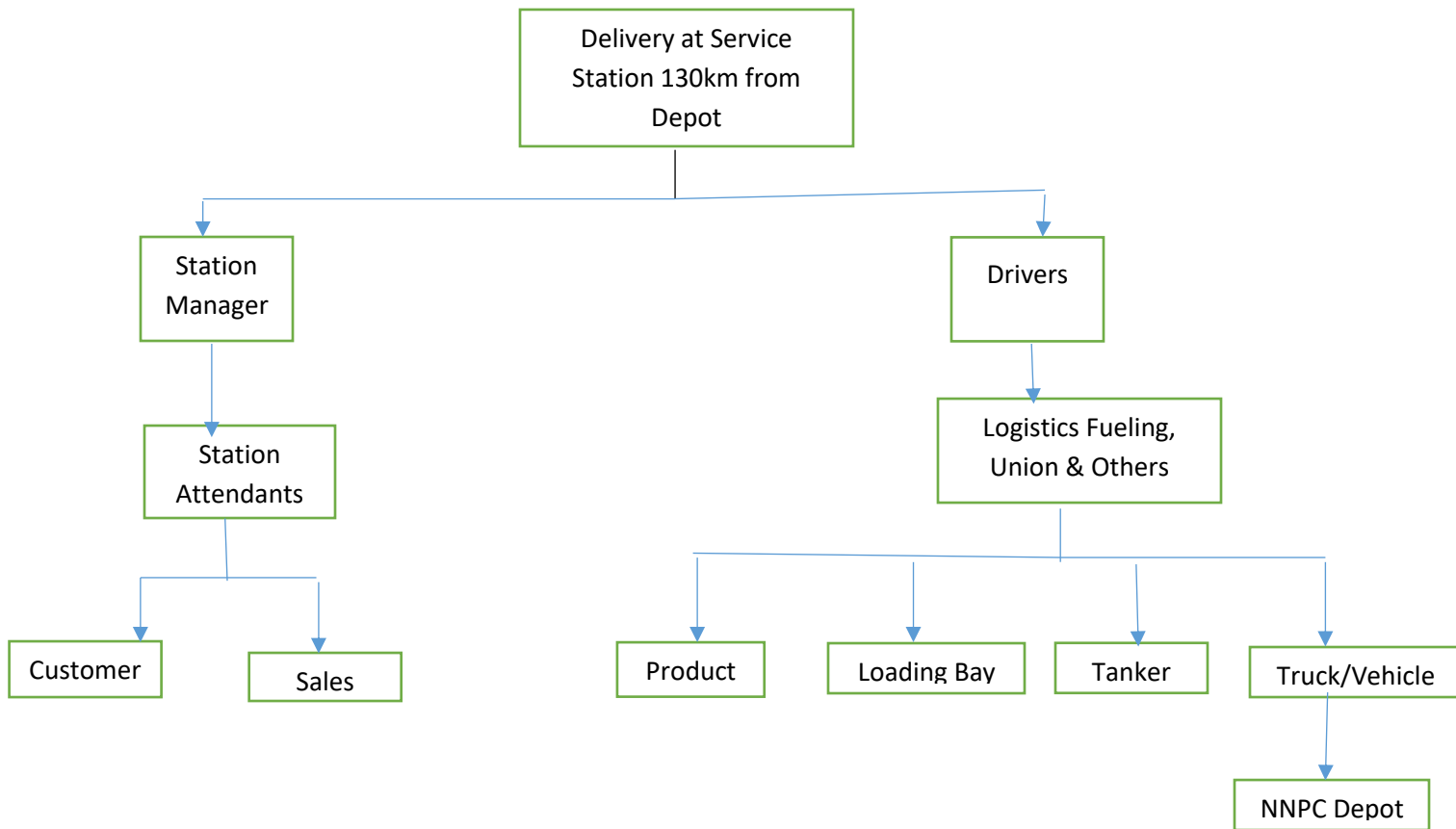
Solution

(a) The explanation that would be given to a set of seven National Youth Service Corpers in my office on the impact and effect of the use of electronic mail and computers in the workplace are:

- replacement of large numbers of staffs, with the possible loss of previous held skills. The computers will store many files and at the press of buttons will bring out customers information;
- availability of instantaneous information. Allow for quick access to customers information without delay;
- increased involvement in the processing of information transactions. Many transactions can be processed with the use of computer;
- the ability to impose and maintain strict control over large numbers of detailed movement, thus enabling precise production and deliver needs to be matched;
- improved communication and interaction between different areas of an organization as well as those outside;
- hiding under time, logistics and other is removed;
- once something goes wrong within and in an organization regarding services delivery it shows immediately;
- risk manager must pay more attention to dependencies set out to understand all of the implications of a failure.

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

(b) ILLUSTRATION OF DEPENDENCIES (LOADING AND DELIVERY OF PETROLEUM PRODUCT TO A SERVICE STATION 130km from Depot)



11) (a) Who is a Risk Manager?

(9 marks)

(b) Expantiate on five (5) steps required to be carried out after risk identification.

(25 marks)

Solution

(a) The officer of an organisation saddled with the job of identifying, analysing and control of all those risks, which can threaten the operations, assets and people and other responsibilities of the organization. He manages all risk bearing in mind the objectives of the organization culture of the organization and cost saving elements, hence is professional worrier.

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

(b) The Risk Manager after identifying risks will:

- analyze and create risk dash board

- set out process of risk impact and control (because of cost control)
- take practical steps to reduce the chance of risk occurring
- take action to mitigate the extent of loss when and it is occurred. this could be through risk retention or transfer of the risk
- self-recovery plans
- self-contingency plans

(2 marks for correctly stating what to be done. 3 marks for correct explanation. Sub-Total per action: 5 mark. Grand Sub-Total: 25 marks)

(Grand Total: 34 marks)

12) (a) (i) Do you accept the fact that taking carefully considered risk is a routine and in fact, an essential ingredient of business and other organisation strategies?

(4 marks)

(ii) Discuss seven (7) benefits of doing this to organization.

(18 marks)

(b) Explain four (4) reasons for the use of risk surveyors when it comes to physical inspections.

(16 marks)

Solution

(a) (i) Yes I agree.

(4 marks)

(b) The benefits of taking carefully considered risk as a routine are:

- this will allow for regular risk identification;
- this will allow for risks to be analyzed and handled appropriately;
- this will allow for understanding of risks and adoption of risk management procedures;
- this can guarantee good profits to organizations and can allow organizations to take new/additional risk without negative consequences;
- this will remove fear hence, good decisions can be made that will generate valuable opportunity;
- it has been proved that taking carefully considered risk is risk management
- this will promote good business practice
- this allows laws to be obeyed and regulations to be followed and fines/penalties will be avoided as possible
- This will make it easy to comply with regulations requiring organizations to have in place visible risk management structure and strategy

(2 marks for each correctly stated benefit. Maximum of 7 to be graded. Sub-Total: 14 marks)

(Grand Sub-Total: 18 marks)

(b) The reasons for the use of risk surveyors when it comes to physical inspections are that:

- Risk Surveyors are trained people on how to carry out physical assessment of risk presented particularly to underwriting houses;
- There are specialist risk surveyors in the areas of engineering, security, health and others;
- Specialist risk surveyor must be guided on areas of insurance and bring their professional ideas into risk assessment for comprehensive report to be put together;
- Risk surveyor must physically carry out their assignment as the eyes of the risk manager;
- Risk surveyor can be involved in risk manager or report to risk manager;
- Risk surveyor prepare report of inspection, relevant observations and possible risk exposure or likely improvement;
- The risk surveyor report may not answer all the risk manager's checklist;
- Risk manager must take note of all areas of the risk the survey report did not touch.

(4 marks for each correctly stated reason. Maximum of 4 to be graded. Sub-Total: 16 marks)

(Grand Total: 34 marks)

13) The director in charge of Finance in your company always take risk and avoid discussion that wishes to discuss risk and insurance cover. Your Company Managing Director, who is a Briton, has requested from you as a risk manager, why the Director, a Nigerian, knows about insurance but avoid taking necessary one(s) for the company. Summarize your explanations, with five (5) justifying points.

b. Draw a risk matrix showing how probability and severity can be demonstrated. Show on the matrix how it can illustrate a level of acceptance risk probability and risk severity

Solution

(a) I would make my justifications in with some or all of the points below:

- such people/decision maker see themselves only as 'positive thinkers' on behalf of organisation;
- they cannot bring themselves to perceive that things under their control could go wrong;
- the kind of people can be reluctant and actually are reluctant to divert resources from their own preferred projects towards risk understanding, risk management and safety;

- such directors can unfortunately fall victim to very unpleasant, even destructive surprises;
- such directors can get the organisation/company mixed business opportunity(ies) that can emerge from a careful understanding and balancing of risk and reward;
- such director needs to be educated to on risk management procedures that teaches balancing pressures and influences;
- that those who avoid risk understanding could be expressing stakeholders by their refusal to even contemplate how things could evolve;
- organisation shall be advised to commence process of understanding risk and director/board making commercially realistic, knowledge-based decisions about different organization attitude's to risk acceptance and risk avoidance;
- henceforth board of company commence decisions to accept a level of risk, based on a foundation and commercials realism. These are as much part of risk management as in removing risk by organisational or risk transfer activity.

(3 marks for each correct and completely stated point. Maximum of 7 to be graded. Sub-Total: 24 marks)

b. Probability Against Severity Graph

		1 Negligible	2 Marginal	3 Critical	4 Catastrophic
5	> 5 times per year				
4	Annually				
3	1 to 5 years				
2	5 to 10 years				
1	< 10 years				

N.B: The shaded areas reflect where risks would be acceptable to the organisation

(2 marks)

Correct Shading:

(2 marks)

Correct Table and Labellings (y axis – Probability; x axis – severity)

(4 marks)

Side Labelling (Severity and Probability)

(2 marks)

(Sub-Total: 10 marks)

(Grand Total: 34 marks)

14) (a) List only six (6) important things that a risk manager and/or a building engineer will consider in setting out to model the consequences of a fire.

(12 marks)

(b) Fire can cause real danger to people who are within building, vessels, roads, vehicles and other workplace organisation. In its fire safety booklet, an employer's guide, the health and safety executive seek to guide those who are setting out to assess the fire risk, particularly for the risk manager. Represent the paraphrased table as a risk management scholar.

(22 marks)

Solution

(a) The important things that a risk manager and/or a building engineer will consider in setting out to model the consequences of a fire are that they will consider the following

- ignition and fire source;
- need transfer to neighboring structures and materials;
- the behavior of those materials and structures in a fire;
- smoke movement;
- detection;
- active fire safety features;
- the way humans behave and how they will exit the premises;
- toxicity; and
- waste and run off.

(2 marks for each correctly stated thing. Maximum of 6 to be graded. Sub-Total: 12 marks)

b.

Approach	The risk manager is to:	
		Appoint a person to carry out assessment plan and prepare for carrying out the assessment
Step 1	Location.	Identify the locations of people and assets that are at significant risk in case of fire.
Step 2	Identify fire hazards	Sources of ignition. Sources of fuel. Work processes.
Step 3	Evaluate the risks	Are existing fire measures adequate? Are ignition and fueling sources adequately controlled? Is the fire detection adequate for the likely needs at peak times?

		<p>Is fire fighting equipment in place of the right kind and adequate?</p> <p>Are fire precautions maintained and tested regularly?</p> <p>Are employees trained as necessary in fire safety?</p>
Step 4	Record.	<p>Record findings and the actions taken.</p> <p>Prepare emergency plans and</p> <p>Inform, instruct and train employees in fire precautions and fire responses.</p>
Step 5	Update	<p>Keep assessment under renew</p> <p>Revise as necessary</p> <p>Ensure new employees are inducted continually</p>

(22 marks) Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A735
LIFE ASSURANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A735 – LIFE ASSURANCE
INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score: 82%

Lowest Score: 18%

Average Score: 54%

Breakdown Updates

Question 1

The candidates found this question interesting as it was attempted by all the candidates with very impressive performance. 99% of the candidates performed well showing a good understanding of the examined principle.

Question 2

The question was to examine candidates' understanding of what is expected of trustees at the time of a claim. Over 95% of the candidates attempted the question with about 80% of them showing a good understanding of it.

Question 3

The question examined candidates' understanding of solvency margin and sound health of insurance companies. 95% of the candidates did not have a good understanding of the question and there was a pass rate of less than 5%.

Question 4

Performance of the candidates was good. The question was to examine candidates' knowledge of alterations encountered in life assurance policies. About 90% of those who attempted the question scored above average while about 25% of the 90% scored the maximum mark attainable.

Question 5

The question was on retention in the practice of reinsurance and it was well attempted by the candidates (99%) with a pass rate of 95%.

Question 6

The question examined candidates' knowledge of life assurance and annuity contracts. Only few of the candidates showed a lack of understanding. There was an overall pass rate of 80%.

Question 7

Candidates showed a good understanding of the concept of free cover in life assurance. The other aspect on facultative reinsurance also elicited good responses.

Question 8

Candidates failed to show a product knowledge of the concept of universal life policies. Performance was rather disappointing.

Question 9

The pass rate in this question was disappointingly discouraging. This is a question that examined different parts of the course, which gives room for diversity for the candidates, but this was not so in their responses. Candidates need to study more.

Question 10

This question examined the merits and demerits of natural and level premium system, which is a basic concept in life assurance that practitioners must understand well. It was attempted by only very few candidates, who equally performed woefully.

Question 11

85% of the candidates attempted this question with a pass rate of 75%. This is good for the industry as the question examined the concept of money laundering and the part of the insurance industry should play in combating it.

Question 12

Many of the candidates attempted this question and equally performed very well. It shows a good understanding of term assurance policy and the underwriting consideration.

Question 13

The question examined candidates' knowledge of various aspects of claims settlement. A lot of candidates did not have a good understanding of "disappearance claims". Overall pass rate in this question was low.

Question 14

About 60% of the candidates attempted this question Many performed poorly as they could not explain writing a life contract under trust. Performance was just above average.

Chief Examiner's Comments on Overall Performance:

With a pass rate of 54%, the performance could be improved on.

Chief Examiner's Suggestion on Improvement:

All parties should look towards producing professionals who are specialists in life assurance with the view to making life products more marketable and competitive in the financial space.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. List three (3) specific examples of how insurable interest may occur as it relates to life assurance.

Solution

Examples of insurable interest as it relates to life assurance are:

- a creditor on the life of the debtor for the amount of the debt
- an employer on an employee
- an employer on a key employee
- a partner in business has an insurable interest on their other partners
- the donee of a life-time gift has an interest in the life of the donor
- a man on his/her own life
- a man on the life of his wife
- a woman on the life of her husband

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

2. In making a claim by trustees of a life policy, some documents are required to be submitted in order to assist the life office to examine the titles of the trustees. Enumerate any three (3) of these documents.

Solution

The documents required to be submitted in making a claim by trustees of a life policy are:

- the policy
- the deed of appointment of trustees
- any deeds of appointment of new trustees
- any deeds of retirement of trustees
- the death certificated of any trustees who have died.

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

3. Before the Life Assurance Companies Act 1870 was enacted, life offices could conduct their business in whatever way they liked. List any other three (3) Acts enacted in order to give the government more control over the conduct of life assurance particularly as it relates to the financial status and solvency of insurers.

Solution

The other enabling Acts that give the government more control over the conduct of life assurance particularly as it relates to the financial status and solvency of insurers are:

- Friendly Societies Acts 1896 and 1992
- Assurance Companies Act 1909
- Industrial Assurance Act 1923
- Companies Act 1967
- Insurance Companies Acts 1974 and 1981.

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

4. Usually, life offices have alterations department whose job it is to alter policies if requested by the policyholder. List six (6) of such common alterations that policyholder usually ask for.

Solution

The most common alterations are:

- | | |
|-------------------------------------|-------------------------------|
| * increase in the sum assured | * decrease in the sum assured |
| * conversion of policy | * extension of term |
| * reduction of term on an endowment | |
| * addition of life assured | * removal of life assured |
| * removal of life assured | * fund switch |

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

5. Define the following terms:

(a) retention

(b) original terms reinsurance.

Solution

(a) **Retention:** is the maximum sum assured a life office will hold before seeking reinsurance or the maximum amount of liability which a life office is prepared to pay per anyone loss. (3 marks)

(b) **Original Terms Reinsurance:** is the reinsurance of a proportion of the original sum assured. It is also when the reinsurers covers the same risks covered by the life office and the premium shared on the basis in which the risk was shared. (3 marks for any correctly stated one)

(Grand Total: 6 marks)

6. (a) Describe the main differences between Life Assurance and Annuity contracts. (4 marks)

(b) Explain the features of "Annuity Certain". (2 marks)

Solution

(a) Annuity deals with survival rather than death benefits, the premature death of an annuitant is therefore to the advantage of the life office; while in life assurance, individual pays small contributions (premium) to receive a lump sum later, whereas in Annuity the individual pays lumps sum in order to receive smaller amounts called Annuities for as long as the contractual agreement permits.

(2 marks for each correctly stated point. 1 point per term. Sub-Total: 4 marks)

b) Annuity certain is a contract to pay an annuity for a specified period regardless of whether or not the annuitant survives. It does not depend on the age of the annuitant as payment is guaranteed for a set period whatever happens.

(2 marks) (Grand Total: 6 marks)

7. (a) Define the "free cover limit" in life underwriting. (2 marks)

(b) Life offices make use of facultative reinsurance. Enumerate any four (4) disadvantages of this type of reinsurance arrangement to the life office. (4 marks)

Solution

(a) Free cover limit in life underwriting is the level of sum assured which does not require medical examination in a group life business. (2 marks)

(b) The disadvantages of facultative reinsurance to the life offices are:

- there is no certainty as to risk acceptance since the risks are considered individually
- it is very time consuming
- it is also very cumbersome
- it is usually more expensive than the treaty
- there may be leakages of vital information to competitors.
- It attracts lower reinsurance commission when compared to a treaty reinsurance.

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

(Grand Total: 6 marks)

8. List any six (6) range of covers available under universal life policies.

Solution

The range of covers available under universal life policies are:

- * death benefit
 - * annual indexation option
 - * guaranteed insurability options
 - * regular income options
 - * waiver of contribution benefit during disability
 - * facility to suspend premium payment
 - * unemployment
 - * income protection benefits
 - * sum assured payable on disability
 - * hospital income benefits
 - * accidental death benefits
 - * option to add a further life assured on marriage, critical illness, e.t.c.
- (1 mark for each correctly stated range. Maximum of 6 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) (i) Write out the full meaning of LOC as it relates to insurance practice in Nigeria.

(ii) State the three (3) classification of life business by the Insurance Act of 2003.

(b) A life office is allowed to be able to appoint as many representatives as is required who can also refer the company's client to intermediate intermediary. State the three (3) instances where a company representative can refer a client to an intermediate representative. (12 marks)

(c) A company representative selling a contract must give a "key features document" before the proposal form is signed.

(i) what is a "key feature document"? (3 marks)

(ii) Concisely state any five (5) client-specific basis information must be contained in the "key features document". (25 marks)

Solution

(a) (i) Life Offices Committee (4 marks)

(ii) The three (3) classification of life business by the Insurance Act of 2003 are:

- * Individual Life
- * Group Life; and
- * Health Insurance.

(2 marks for each correctly stated classification. Sub-Total: 6 marks)

(Grand Total: 10 marks)

(b) The instances where a company representative can refer a client to an intermediate representative are only if the client:

- wants a contract of a class which the representative does not have

- wants advice on the open market option of a pension contract
- wishes to invest a lump sum and the representative feels that part of the investment should be spread to other offices to avoid all the investor's eggs being in one basket.

(4 marks for each correct and completely stated instance. Sub-Total: 12 marks)

(c) (i) A "key feature document" is a stand-alone document produced to a standard commensurate with the life office's product brochures. (3 marks)

(ii) The client-specific basis information that must be contained in the "key features document" are:

- an explanation of the contract and its risk factors
- the premiums and benefits
- an illustration of benefits using the standard growth rates but the office's own charges
- projected surrender values for the first five years and each fifth year thereafter as compared with total premiums paid
- expiration of the charges and their effect in reducing the yield
- details of any commission paid to an independent intermediary
- details of any remuneration paid to a company representative
- name and address of the life office
- means of payment of premiums
- means of terminating the contract
- explanation of the with-profits system or unit-linked fund if applicable
- explanation of the cancellation rights
- explanation of the taxation of the policy
- explanation of the complaints system
- law applicable to the contract.

(5 marks for each correctly stated information type. Maximum of 5 to be graded. Sub-Total: 25 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. Describe the merits and demerits of natural and level premium systems in life assurance contracts.

Solution

Natural Premium

The merits of the natural premium system of premium payment are:

- net or pure premium is derived from the mortality rate applicable to a particular age multiplied by the same assured requested.
- the sum provided represents the premium required just to meet the death claim during the particular year.

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

The demerits of the natural premium system of premium payment are:

- People may become unable to afford cover when needed
- Best and fit lives may not be able to renew their policies
- May lead the increase in the number of inferior or unfit lives with increased mortality rate
- Premiums would then be inadequate to meet claims

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

Level Premium:

The merits and demerits of the level premium system of premium payment are inter-wovenly stated below:

- Mortality tables are based on the fact that the risk of death increases with age, so if a level premium is charged, throughout the term of the policy
- The premium in the early years is higher than it is needed to meet current claims cost. Hence, there will be excess money left as a reserve to meet the cost of greater risk in future when the premium will be less than the cost of risk
- The reserve will be invested and a substantial amount of interest can be earned over a period of term of cover
- The interest on the premiums expected to be earned is usually always taken into consideration by the Actuaries in calculating the rate to reduce the natural premium to the level premium
- The expected interest yield on the premium depends on the duration of the contract. The longer the term of contract, the better the interest yield.

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

(Grand Total: 34 marks)

11. (a) What is money laundering?

(6 marks)

(b) Explain seven (7) roles of life offices to combat the effect of money laundering.

(28 marks)

Solution

(a) Money Laundering is the process by which any one (whether individual or corporate) convert money obtained illegally into legitimate funds. This enables them to enjoy the fruits of organised crime.

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

(b) The roles/duties of life office to combat the effects of money laundering are:

- life offices must appoint a senior employee as a money laundering authorities
- it must secure full internal compliance with money laundering regulations
- the MLRO, preferable a legal officer must be given sufficient authority to enforce compliance with the regulations
- the MLRO must establish internal procedures to identifying and reporting any person suspected of attempting to launder money
- staffs and advisers must be well trained in anti-money laundering issues as stated below:
 - Recognising the symptoms of money laundering
 - The procedure of reporting suspicions
 - The conduct of continued business dealings with clients suspected of money laundering activities.
- The office must obtain evidence of the identity of clients where a business relation is formed.
- If business is introduced by an independent intermediary the life office may rely on the intermediary to comply with the identification rules.
- Where proof of identity is required, it must be obtained as soon as it is practically possible before the contract is complete.
- If proof of identity cannot be obtained when required, then the transaction should not proceed.
- Record of transactions should be kept for 5 years
- Any suspicious transactions e.g. large amount of cash (in line with regulatory limits) should be reported to the money laundering reporting officer who will report to the relevant authorities where necessary.

(4 marks for any correctly stated role/duty. Maximum of 7 roles/duties to be graded. Sub-Total: 28 marks). (Grand Total: 34 marks)

12. (a) As a life underwriter, what considerations must be taken into account when deciding the acceptance terms of a term assurance life policy? (28 marks)

(b) Enumerate the three (3) different categories of acceptance terms that can be offered under (a) above. (6 marks)

Solution

(a) The considerations that must be taken into account by an underwriter when deciding the acceptance terms of a term assurance life policy are:

- **size of the sum assured proposed:** it may be necessary to arrange for reinsurance where it exceeds the retention limit of the office
- **age of the proposer:** the higher the age at entry, the higher the risk of death
- **medical factor:** the underwriter will look out for medical factors affecting longevity i.e. any condition that can reduce the expectation of life. For example, heart diseases, cancer, kidney failure, e.t.c.
- **occupational factors:** to check the occupation whether it presents greater than average risk of death by disease and/or accident e.g. bomb disposal worker or miners (lung diseases), e.t.c.
- **residential factors:** like climate risks, political instability, war, diseases, e.t.c. Some places may present extra risk that are life threatening
- **sports and pastimes:** unusually hazardous sports or pastimes should be of concern to the underwriter because of the high risk of accidental death e.g. boxing, motorcycle racing, e.t.c.
- **financial factors:** the size of the sum assured proposed must be noted in line with the circumstances of the proposer. If the sum assured and/or premiums are not consistent with the life assured's situation, it could be a case of overselling with the attendant risks. In addition, when a policy is sold on a "life of another basis", the insurable interest position must be checked

(5 marks for mentioning the consideration. 2 marks for explaining the mentioned point. Sub-Total: 7 marks for each correct point. Maximum of 4 points to be graded. Grand Sub-Total: 28 marks)

(b) The three different categories of acceptance terms that can be offered under (a) above are:

- acceptance at ordinary rates of premium
- acceptance at special terms if found to be substandard (medically, hazardous occupation, sports/pastime, e.t.c.)
- alternative contract or policy may be offered.

(2 marks for each correctly stated acceptance category. Sub-Total: 6 marks)

(Grand Total: 34 marks)

13. The duty of the claims department of a life office is to pay valid claims efficiently and promptly.

(a) Enumerate five (5) requirements that need to be available for claims payment. (10 marks)

(b) What procedures are taken by the life office to settle a claim where the life assured has been declared to have disappeared? (10 marks)

(c) When processing a life claim, enumerate any four (4) alternative documents to prove one's evidence of age when one is unable to provide an original Birth Certificate. (14 marks)

Solution

(a) The requirements that need to be available for claims payment under life assurance contract is subject to:

- payment of all due premiums
- production of policy document
- the claimant must produce proof of title
- proof of death in the case of death claim
- proof of age for death claim.

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

(b) Disappearance is not the same as death, hence life offices are usually cautious about such a claim especially where no human body is found and no death certificate is issued (4 marks). Therefore, the procedures taken by the life office to settle a claim where the life assured has been declared to have disappeared are dependent on the circumstance surrounding the disappearance.

For instance,

- death may be difficult to prove where the life assured died in an airliner that crashed into the sea unless through a written confirmation that the aircraft that crashed may be adduced as evidence;
- it is also possible for the claimant to apply to the court for an order presuming death if life assured has disappeared and not found for 7 years;
- the court must be satisfied that all necessary measures have been taken to check if the life assured was not alive;
- it may not be necessary to wait for 7 years before making a claim after the court has given them leave to swear to the death - presumption of death.

(4 marks for a strong opening sentence. 3 marks for any other complete and correctly stated point.

Maximum of 2 points to be graded. Sub-Total: 10 marks)

(c) The life office may accept copy of any of the following documents as an alternative to prove the evidence of age in such an instance, while noting that the original copy will be required for sighting:

- * baptismal certificate
- * adoption certificate
- * naturalisation certificate
- * international travel passport
- * school record if they contain evidence of age
- * statutory declaration of age

(3½ marks for each correctly stated document. Maximum of 4 to be graded. Sub-Total: 14 marks)

(Grand Total: 34 marks)

14. (a) Define a “life assurance contract”? (2 marks)

(b) Life assurance contracts have unique provisions and advantages; and can also be written under trust. Enumerate any six (6) of the combined unique and advantages of writing a life assurance contract under trust. (18 marks)

(c) Describe the implications of the following on Life Assurance Contracts:

- (i) three certainties of trust (ii) surrender of policies. (14 marks)

Solution

(a) A life assurance contract is an insurance contract set up on the life of a person for agreed reasons by the life assured/assured and the insurance company. **OR** It is an agreement between two (2) parties (the life office and assured) whereby upon the payment of the applicable premium, the life office promises to pay the assured a certain sum known as the sum assured when the event(s) assured against occurs. (2 marks)

(b) The combined unique and advantages of writing a life assurance contract under trust are:

- a covenant by the settler to pay premium
- a covenant by the settler to restore the policy if it becomes void.
- a covenant by the settler to revive or effect a new policy if the original policy lapses
- a power for the trustee to pay premiums out of the trust property.
- a power for the trustee to borrow to pay premiums
- a power for the trustee to surrender the policy, to convert it or to exercise any option in it.
- a wide power for the trustee to deal with the policy in any manner they think fit.
- the policy is not part of the life assureds’ estate
- the life assured can maintain control by appointment as trustee

- there is no need to wait for grant of representative and death, hence payment is quicker.
- trust provide flexibility as to how the proceeds are paid out
- some degree of protection is afforded against the life assured's creditor.

(3 marks for each correctly stated provisions/advantage. Maximum of 6 to be graded. Total: 18 marks)

(c) The implications of the following on Life Assurance Contracts are:

(i) **Three Certainties of Trust:** whatever method used to create a trust, the following three (3) certainties must be present:

- the words used must show clearly what the trust intended. No special form of words is necessary while noting that the use of the words "on trust for" will make the trust certain.
- the subject matter must be certain i.e. the property to be the subject of the trust must be specified.
- the object of the trust i.e. the beneficiaries must be certain. This can be achieved simply by naming. The beneficiaries for example: on trust for John, Sarah and Buraimoh absolutely. This can also be achieved by describing the beneficiaries as a class. For example: on trust for the employees for the time being, of Zebra Co. Limited. Whatever words are used to specify who are the beneficiaries, it must be possible to ascertain with certainty at any time exactly who are the beneficiaries.

(3½ marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 7 marks)

(ii) **Surrenders of Policies:**

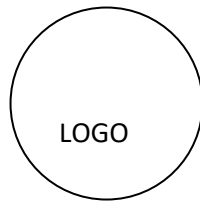
- when a policy has fallen into arrears of premium and the outstanding cannot be paid by the assured, the policyholder may request for the payment of the surrender value if the policy has run for specified period and has acquired a minimum number of instalments
- the request for payment of surrender value is not strictly a claim, but it is usually treated the same way with regards to proof of title.
- the surrender value will be quoted, subject to the payment of the minimum number of instalments and the submission of proof of title.
- also requested is the duly completed and signed discharge from the policyholder, singular to that used for maturity claims except that it will indicate that the policy is being surrendered.

- if the policy is being surrendered by a mortgagee the counter signature of the mortgagor will be required unless the mortgagee confirms it is being surrendered under power of sale.
- trustees surrendering a policy will have to use the surrender proceeds for the benefits of the beneficiaries.

(3½ marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 7 marks)

(Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A745

PRINCIPLES OF PROPERTY &
PECUNIARY INSURANCES

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A745 – PRINCIPLES OF PROPERTY & PECUNIARY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

Highest Score:	83%
Lowest Score:	07%
Average Score:	45%

Breakdown Updates

Question 1

A coursebook question to examine the candidates' understanding of "riot". Candidates' performance was excellent.

Question 2

A coursebook question to examine the candidates' knowledge of excess, franchise and deductible. Candidates' performance was okay.

Question 3

This was to examine candidates' knowledge of chancery guarantee. It was not popular with the candidates. The performance is very poor.

Question 4

This question was to examine candidates' understanding of package policy and there was a 60% pass rate.

Question 5

This was a coursebook question and the candidates' performance were okay.

Question 6

The question was based on bonds available in the construction industry. Candidates did not give correct answers and there were various mix-ups.

Question 7

The question examined candidates' understanding of the cover available for pressure vessel/boiler. The performance was good.

Question 8

This was a coursebook question to test the candidates' working of burning cost. The performance was very good by all the candidates who attempted the question.

Question 9

The question was to examine the candidates' knowledge of the CIIN and that of JC7 (Clause 22A). Candidates' performance here was okay.

Question 10

The question was to test candidates' knowledge and understanding of theft, robbery and burglary. The performance was very good by those who attempted the question.

Question 11

The question was meant to test candidates' understanding of consequential loss. Unfortunately, those who attended it performed poorly because of poor preparation.

Question 12

The question was basically for GIT and CPA model. The performance of those who attempted the question was poor.

Question 13

The question was to examine candidates' knowledge on Loss Adjusters process. Performance of candidates was very good in this question.

Question 14

The question was to examine candidates' knowledge for both practical underwriting and declaration policy for adjustment. A lot of the candidates attempted this question with a good performance

Chief Examiner's Comments on Overall Performance:

The average performance was okay i.e. about 57% pass rate.

Chief Examiner's Suggestion on Improvement:

Candidates are expected to read far and wide especially as it relates to NAICOM, CIIN and other industry arms. They should also understand the contents of the coursebook.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1) Enumerate any three (3) elements that should be met to classify an event or situation as a "Riot"?

Solution

The elements that should be met to classify an event or situation as a "Riot" are that:

- there must be at least twelve or more people present;
- there must be a common purpose, lawful or unlawful;
- there must be execution or inception of the common purpose;
- they must intend mutually to assist one another by force if necessary, in the execution of the common purpose;
- there must be force or violence displayed in such a manner as to alarm at least one person of reasonable firmness and courage.

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

2) Distinguish between excess, franchise and deductible.

Solution

Excess: an excess relieves the insurer from liability to pay the specified first amount otherwise payable under the policy even though the particular event gives rise to a claim admissible in the terms of the policy.

(2 marks)

Franchise: the difference between excess and franchise is that where an excess is imposed, the amount of the excess is always deducted from the agreed amount of the claim, whereas with a franchise is exceeded, the agreed amount of claim is paid in full.

(2 marks)

Deductible: a deductible operates in the same way as an excess except that the insured voluntarily accepts to pay the first part of any claim at a figure higher than the standard excess. A discount is allowed off the premium.

(2 marks)

(Grand Total: 6 marks)

3) Name the three (3) situations where a chancery guarantee may be used in preservation and protection of property.

Solution

A chancery guarantee may be used in preservation and protection of property where property ownership is:

- a minor
 - property in dispute
 - likely to be prejudiced by those whom it is entrusted or by creditors from a debtor where the debt has been the subject of a court judgement
- (2 marks for each correctly stated situation. Maximum of 3 to be graded. Total: 6 marks)

4) List any three (3) covers available in a package policy.

Solution

The covers available in a package policy are:

- * fire
- * consequential loss
- * theft
- * money
- * glass
- * goods-in-transit
- * Employers liability product or public liability fidelity insurance

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

5) What is insurance?

Solution

Insurance is a business in which the contribution (premium) of many will compensate the few among them who may suffer loss by the occurrence of the event insured against. In an equitable insurance business, the contribution of each shall reflect the degree of risk and value at risk which the business is required to protect for each of them.

(3 marks for any correctly stated definition/explanation/example. Maximum of 2 to be graded. Total: 6 marks)

6) Name any three (3) bonds available in the construction industry.

Solution

The types of bonds available in the construction industry are:

- * Bid/Tender Bond
- * Performance Bond
- * Advanced Payment Bond
- * Maintenance Bond
- * Rotation Bond
- * Road and Highway Act Bond
- * Water Mains Bond.

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

7) What is the basic cover that is available to a Boiler and Pressure plant?

Solution

The basic covers are explosion and collapse.

- a. Explosion: is the sudden and violent rending of the pressure plant by force of internal steam or other fluid pressure (other than pressure of chemical action or ignition of the contents of ignited flue gases) causing bodily displacement of any part of the pressure plant together with forcible ejection of the contents.
- b. Collapse: The sudden and dangerous distortion of any part of the pressure plant caused by crushing stress by force of steam or fluid pressure (other than pressure by chemical action or ignition of the contents or of ignited glue gases).

Explosion (3 marks) or collapse (3 marks).

(Grand Total: 6 marks)

8) What is the “burning cost” of an account in a class of business?

Solution

$$\text{Burning Cost} = \frac{\text{total of all claim paid in the class}}{\text{total sum insured written in that class}} * 100\%$$

(6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9). (a) As a student member of the Chartered Insurance Institute of Nigeria, what is the vision of the institute? what are the Institute’s core values? (10 marks)

(b) As a major contractor to a multi-national cable production outfit, Messrs. XYZ Limited, the company has asked you to build a multipurpose hall with a seating capacity of 20,000 in Benin City, Edo State, Nigeria to replace the 5,000-seating capacity one in Akure, Ondo State, Nigeria.

The contract will be subjected to JC7 standard form of design and build contract schedule 3 insurance option A (previously Clause 22A of the JC7 1998 standard form of building).

(i) explicitly enumerate any five (5) conditions/contents of Clause 22 of insurance of works. (15 marks)

(ii) list eight (8) common extensions under the contract of works policy. (16 marks)

(c) In addition to the insurance arranged by the contractor, explicitly explain the additional cover that Messrs. XYZ Limited may arrange to protect their future earnings from the new premises. (9 marks)

Solution

(a) **CIIN Vision:** - To remain a world class professional body committed to the provision of an efficient and effective manpower for the insurance industry (4 marks)

CIIN Core Values: * Members' Satisfaction * Knowledge
* Trust * Efficiency.

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

(b) (i) The conditions/contents of Clause 22 of insurance of works JC7 (Clause 22) are:

- the contractor has to insure
- the insurance must be in the joint names of the contractor and principal
- cover must be arranged for the full value plus an allowance for professional fees
- provision for debris removal and any sharing up or propping up or the works
- the insurance must remain in force until the date of issue of the certificate of practical completion or up to or including the date of determination of the contract
- the insurance must be approved by the principal
- if the contractor fails to insure, the employee principal can do so and charge the premium to the contractor from notification of loss or damage to the architect, under clause 22A:4:1, the contractor must also notify their insurers to comply with the insurance contract.

(3 marks for each correctly stated condition/content. Maximum of 5 to be graded. Sub-Total: 15 marks)

(ii) The common extensions under the contract of works policy are:

- * transit * professional fees * debris removal
- * off-site storage * reinstatement of sum insured
- * maintenance or defective liability cover * expedition expenses
- * public authorities * plans and document
- * inflation proofing * negligent breakdown * hire charges

(2 marks for each correctly stated extension. Maximum of 8 to be graded. Sub-Total: 16 marks)

(c) The additional cover that Messrs. XYZ Limited may arrange to protect their future earnings from the new premises.

- is the advanced profit insurance
- cover is provided for loss of earnings following damage to the contract works
- there is also a cover earnings for a future business rather than an existing business
- this is designed to cover earnings from a future business rather than existing business.
- along with cover for additional cost of marketing involved to reduce the period of delay.

(2 marks for each correct explanation. Maximum of 2 to be graded. Sub-Total: 4 marks. Grand Sub-Total: 10 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10) (a) Define "Theft" under the Theft Act 1968. (10 marks)

(b) How does this differ from the definition of "robbery" and "burglary" as also defined in the Act? (16 marks)

(c) Describe the cover under a basic theft policy. (8 marks)

Solution

(a) According to the Theft Act 1968,

(i) a person is guilty of theft if he dishonestly appropriates property belonging to another person with the intention of permanently depriving the other of it, and "theft" and "steal" shall be constructed accordingly. (5 marks)

(ii) it is immaterial whether the appropriation is made with a view to gain or is made for the thief's own benefit. (5 marks)

(Sub-Total: 10 marks)

(b) Robbery is defined in Section 8 as: a person is guilty of robbery if he steals and immediately before or at the time of doing so and in order to do so, he uses force on any person or puts or seeks to put any person in fear of being there and/or subject them by force. (6 marks)

Burglary is defined in Section 9 as: a person is guilty of burglary if he enters any building or part of a building as a trespasser and with intent to commit any such offence as is mentioned below or having entered any buildings or part in a building as a trespasser, he steals or attempts to steal anything in the building or that part of it or inflict or attempt to inflict any person therein grievous bodily harm. (3 marks)

(Sub-Total: 6 marks)

(Grand Sub-Total: 12 marks)

The basic difference is that theft does not involve force or violence, whereas robbery and burglary involve force, inflict fear and bodily harm. (4 marks)

(Grand Total: 16 marks)

(c) The Basic Theft Policy Cover insures loss or destruction or damage to property insured as a result of:

- theft or attempted thereof involving force or violent entry or exit from the premises (4 marks)
- theft following assault or violence or threat thereof to the insured or any director, partner or employee of the insured (4 marks)

(Sub-Total: 8 marks)

(Grand Total: 34 marks)

11) (a) What is "turnover"? List its three (3) components. (7 marks)

(b) Describe any five (5) factors that will be considered for setting the maximum indemnity period. (15 marks)

(c) If an insured decides to take a 36 months indemnity period, but is concerned about the effect of inflation on the sum insured as a result of the application of average. Explain how the cover could be amended to give the insured some comfort and how this revision in cover would operate. (12 marks)

Solution

(a) Turnover is defined as the money paid or payable to the insured for goods sold and delivered and for services rendered in the course of the business at the premises (4 marks). Turnover actually consists of

- * variable charges (1 mark)
- * standing charges (1 mark)
- * net profit (1 mark).

(Sub-Total: 7 marks)

(b) The factors that will be considered for setting the maximum indemnity period are:

- what would be the maximum extent of the physical damage to the premises?
- consider damage at worst time for the largest assessed reinstatement;
- seasonal issued to be considered;
- reinstatement time for building including planning, rebuilding ease of transfer to other sites;
- reinstatement time for machinery including ordering time, ease of transfer of production;
- any specialist machinery;
- how long would it take to replace stock what buffer stock is kept?
- is there another suitable facility in the vicinity from which it could operate temporarily?

(3 marks for each of the correct and completely stated factor. Maximum of 5 to be graded. Sub-Total: 15 marks)

(c) Declaration linked policy should be suggested as stated below:

- the insured estimates a sum insured they feel is reasonable and concurrent with the period of insurance
- this is then adjustable to reflect the length of the indemnity period
- a limit of liability applies 133.33%
- the premium is adjusted at year end based on the actual figure earned
- up to 50% is allowed as return premium
- full amount is charged if the sum insured exceeds the estimate

(2 marks for each of the correct and completely stated amendment. Sub-Total: 12 marks)

(Grand Total: 34 marks)

12) (a) An engineering company has decided to relocate its spraying machinery from Port-Harcourt to Aba. The size of the machinery means that it has to be moved and then reassembled at the new location.

As a broker, describe the cover which would be recommended for the movement of the machinery and describe the various operations which would be insured.

(14 marks)

(b) An insured decided to hire a crane with the operator to move a plant. Under the CPA Model conditions, outline the responsibilities of the insured and the plant owner. (10 marks)

(c) Identify a policy which could be taken by the insured to provide them with an indemnity in respect of the responsibilities identified in (b) above and advise of any two (2) exclusions that will be contained in the recommended policy. (10 marks)

Solution

(a) The recommended policy is a **machinery movement policy**. (6 marks)

The cover that will be provided in respect of this are:

- **transit** (including loading and unloading) movement of the plant onto and off a vehicle including any transfer, storage or deviation en route; (2 marks)
- **dismantling or erection** for larger items of plant; (2 marks)
- **lifting or lowering cover:** this provides cover where the plant is lifted on site using cranes or lift gear; (2 marks)
- **testing or commissioning** after erection at the site subject to an excess (2 marks)

(Sub-Total: 14 marks)

b. CPA Model Conditions

- The **plant owner** is required to supply the plant in a sound working condition and with an experienced operator. In addition, he is liable for breakdown which does not arise from their negligence. (5 marks)
- The **hirer/insured** is responsible for loss or damage to the plant whilst it is in their custody or control including breakdown of the plant arising from their negligence, misdirection or misuse. **The hirer** is also responsible for continuing hire charges at all time rated, following loss or damage to the plant. (5 marks)

(Sub Total: 10 marks)

(c) Hired in Plant Policy should be recommended, which will:

- cover can be effected as a one-off policy instead of an annual cover;
- cover is used for plant which is the subject of a short-term hire;
- limit of liability applies to the policy;
- policy excess applies. (4 marks)

Exclusions

- wear and tear, deterioration due to atmospheric conditions or otherwise, rust, corrosion or oxidation;
- consequential losses not specially provided for;
- normal usage breakdown;
- damage to property being handled by hired plant.

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

(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

13) (a) Loss adjusters are independent and professionally qualified personnel. Briefly discuss the process of loss adjusting on receipt of instruction to adjust a claim from an insurer on any particular claim. (20 marks)

(b) Highlight any seven (7) headings usually contained in a loss adjuster's preliminary report. (14 marks)

Solution

(a) The process of loss adjusting on receipt of instruction to adjust a claim from an insurer on any particular claim are as stated below:

- receipt of the name/address of the policy holder/insured;
- the loss adjuster calls at the premises for introduction;
- takes photographs of the loss and other necessary ones;
- inspect/survey the damages;
- begins an investigation as to cause of loss may be written or verbal;
- check whether property damaged is covered by the policy;
- check for warranties/changes/conditions;
- check for salvages (if any) and the preservations of the premises;
- prepare an overall estimate of the possible cost of the claim;
- check if there is possible recovery from a third party who may be responsible;
- prepare a preliminary respond for the insurer to reserve an estimate for the loss;
- an interim payment report can be made;
- after concluded in registration a final report will be made and submitted.

(2 marks for each correctly captured step in the procedure. All summarised into a maximum of

20 marks)

(b) The headings usually contained in a loss adjusters preliminary report are:

- * claim number
- * class i.e. business class
- * address or situation of the loss/damage
- * usage of the premises
- * cause of damage/loss
- * policy number
- * name/address of the insured
- * trade/occupation
- * time/date of loss
- * reserve for insurance.

(2 marks for each correctly stated heading. Maximum of 7 to be graded. Sub-Total: 14 marks)
(Grand Total: 34 marks)

14) (a) A broker has approached your company for the underwriting of a risk in the broking slip. Give the step-by-step approach that you will take to underwrite the risk. (15 marks)

(b) Goodluck Shopping Mall Limited has a fire policy with a monthly stock declaration condition. The sum insured under the policy is ₦200,000.00 with a premium rate of 0.225% and an agreed 25% discount on the provisional premium.

	₦
January -----	₦150,000
February -----	₦160,000
March -----	₦140,000
April -----	₦110,000
May -----	₦110,000
June -----	₦140,000
July -----	₦140,000
August -----	₦140,000
September -----	₦200,000
October -----	₦150,000
November -----	₦190,000
December -----	₦200,000

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

- (a) What is the provisional premium?
- (b) What is the annual premium?
- (c) What is the additional or return premium?
- (d) What is the percentage (%tage) of the maximum return premium?

(19 marks)

Solution

(a) The step-by-step approach that it will take to underwrite the risk are as follows:

- identify the risk/perils presented;
 - physical hazard of the perils/risk;
 - moral hazard of the proposer.
- check the general acceptability of the promised risk/peril;
- identify the underwriting factors and the estimated maximum loss (EML);
- establish type of risk and acceptance limit for the class;
- utilize such automatic reinsurance as are available;
- identify various terms: e.g. clauses/warranties;
- identify the premium/rating factors for the risk;
- calculate premium/discount/excess where applicable;
- make an offer to the proposer/ broker.

(15 marks for the complete procedure. From start to finish. If incomplete but logical, 3 marks for correctly stated logical steps. Sub-Total: 15 marks)

$$\begin{aligned} \text{(b) (i) Provisional Premium} &= \text{Sum Insured} * \text{Rate (less discount)} && \text{(3 marks)} \\ &= \text{N}200,000.00 * 0.225\% \text{ (less discount)} && \text{(1 mark)} \\ &= \text{N}450.00 - (25\% * \text{N}450.00) && \text{(1 mark)} \\ &= \text{N}450.00 - \text{N}112.50 \\ &= \text{N}337.50. && \text{(1 mark)} \end{aligned}$$

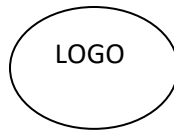
$$\begin{aligned} \text{(ii) Annual Premium} &= \frac{\text{Sum Insured}}{12} * \text{Rate} && \text{(3 marks)} \\ &= \frac{\text{N}1,830,000.00}{12} * 0.225\% && \text{(1 mark)} \\ &= \text{N}152,500.00 * 0.225\% \\ &= \text{N}343.13. && \text{(1 mark)} \end{aligned}$$

$$\begin{aligned} \text{(iii) Return/Additional Premium} &= \text{Annual Premium less Provisional Premium} && \text{(2 marks)} \\ &= \text{N}343.13 - \text{N}337.50 && \text{(1 mark)} \\ &= \text{N}5.62. && \text{(1 mark)} \end{aligned}$$

(iii) The % of the Maximum Return Premium is 33.3%. (4 marks)

(Sub-Total: 19 marks)

(Gross Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A755

LIABILITY 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.
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- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
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- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A755 - LIABILITY INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	82%
Lowest Score:	20%
Average Score:	53%

Breakdown Updates

Question 1

This question was to test candidates' knowledge on general damages of pain, suffering and loss of amenities. Candidates' performance was good.

Question 2

This question tested candidates' knowledge on occurrence and claim made basis. Good responses from the candidates. Performance was above average.

Question 3

This question examined the candidates on duty of employees. The performance was average by candidates although few of them did not have an understanding of the question.

Question 4

There was a good performance by candidates on the (a) part of the question, while the (b) part was not fully understood by many of them.

Question 5

The question examined candidates on private nuisance. The performance was above average.

Question 6

This question examined candidates on what constitute "safe system of work". Good performance from the candidates.

Question 7

This question was to examine candidates on general defences. Candidates' performance was very good.

Question 8

This question examined candidates on "onus of proof" and it was well answered as the candidates showed a good understanding of the question.

Question 9

Candidates' performances were above average; however, few candidates showed a lack of understanding in the operative clause of public liability insurance.

Question 10

This question was essentially to examine candidates' knowledge on liability claims. There was a good performance by the candidates.

Question 11

This is one of the popular questions answered by the candidates. The performance was good and encouraging.

Question 12

Majority of the candidates did not attempt this question and those who attempted it performed below average.

Question 13

This question was not popular with the candidates. Those who attempted it performed just averagely.

Question 14

The "a" part was a direct question and majority of the candidates that attempted the question performed well. The "b" part was poorly answered which shows candidates' lack of knowledge about premium calculation or professional insurance.

Chief Examiner's Comments on Overall Performance:

The overall performance is average.

Chief Examiner's Suggestion on Improvement:

Candidates are encouraged to develop better habit for studying.

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

1. Pain and suffering, loss of amenities are examples of general damages in liability insurance. Distinguish between them.

Solution

Pain and Suffering: this involves bodily injury which the plaintiff need not specifically prove and represent the largest single source of litigation. Damages for pain and suffering will be set to reflect their nature and severity, and how long they have lasted or are likely to last in the future. (3 marks)

Loss of Amenities: this reflects the physical and/or mental limitations associated with the injury or suffered by the plaintiff. For example, a pianist losing two fingers would constitute a higher level of loss of amenity than a person who did not play any instrument. (3 marks)

(Total: 6 marks)

2. Liability claim is either “on occurrence” and “claims made” basis. Explain their differences.

Solution

When liability claim is on occurrence basis it means the accident or event causing bodily injury, death or property damage must occur during the period of insurance (3 marks), while with claim made basis, the claim must be made on the insured during the period of insurance, the date of the negligent act is irrelevant (3 marks). (Total: 6 marks)

3. In employers’ liability insurance, one of the important duties of the employer is to ‘select competent employee’. Explain what you understand by this statement.

Solution

There is a duty on employers to employ competent employees to work for him. The competence relates to any possible injury they may cause especially to their fellow employees. Employers are vicariously liable if an incompetent employee negligently cause bodily injury or death to a fellow employee. Employers must also train and re-train his employees to improve on their competence at work.

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

- 4(a) List three (3) roles of Loss Control Audit.
(b) Explain what you understand by the term “latency”.

Solution

a. The roles of Loss Control Audit are to:

- assist the underwriter in understanding the risk.
- assist the insured in managing the risk.
- facilitate risk improvement.

(1 mark for any correct and completely stated role. Maximum of 2 to be graded. Sub-total: 2 marks)

b. **Latency:** latency seek to identify the gap in the time between the start of a chain of event and its end. It also means the delay between the cause of liability and the claim being made. The side effect of a drug may become apparent many months or years after the patient has taken them.

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

(Grand Total: 6 marks)

5. In private nuisance, what do you understand by “continuous state”.

Solution

In nuisance, “continuous state” means that the act which constitute the nuisance must have been existed continuously. Either the interference must be continuing or a state of affairs that threatens a danger of interference. There must be frequency in the act of the plaintiff to constitute a state of nuisance.

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

6. List three (3) factors that constitute safe system of works in Employers’ Liability Insurance.

Solution

The factors that constitute safe system of works in Employers’ Liability Insurance covers the following:

- planning and co-ordination of work.
- layout of machinery.
- provision of clothing and
- provision of instruction, training and supervision.

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

7. List six (6) general defences to an action in tort.

Solution

The general differences to an action in tort are:

- * inevitable accident;
- * vis-major i.e. act of God;
- * volenti-non-fit injuria;
- * contributory negligence;
- * emergency/necessity;
- * remoteness of damage;
- * statutory authority;
- * accord and satisfaction.

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

8. Explain what you understand by the term “Onus of Proof”.

Solution

Onus of Proof states that in an action for negligence the plaintiff must prove the facts upon which the claim is based. The main principle is that he who assert must prove.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Enumerate any five (5) organisations/ trade associations that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market. (10 marks)
- (b) Name and explain five (5) trigger events for the operative clause of liability policies. (10 marks)
- (c) In relation to Employers’ Liability, explain the following terms:
- i. employers exempted from insurance.
 - ii. training and supervision.
 - iii. authorised insured.
 - iv. protection of eyes. (12 marks)
- (d) In relation to public/product liability insurance, explain the following terms:
- i. The Operative Clause of Public Liability.
 - ii. Pollution.
 - iii. Product Recall.
 - iv. Contractual liability.
 - v. Financial Loss in Product Liability. (10 marks)

(e) Explain what you understand by the following:

- i. Volenti non fit injuria.
- ii. Accord and satisfaction.

(8 marks)

Solution

(a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:

- Nigerian Insurers Association (NIA)
- Nigerian Council of Registered Insurance Brokers (NCRIB)
- Institute of Loss Adjusters of Nigeria (ILAN)
- National Insurance Commission (NAICOM)
- Chartered Insurance Institute of Nigeria (CIIN)
- Professional Reinsurance Association of Nigeria (PRAN)
- Association of Registered Insurance Agents of Nigeria (ARIAN)

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

(b) The trigger events for the operative clause of liability policies are:

- **causation:** the causation trigger means that the policy responds to an event which was caused in the period of insurance.
- **occurrence:** the occurrence trigger means that the policy responds to an event that occurs in the period of insurance.
- **manifestation:** the manifestation trigger means that the policy will respond to an event that becomes manifest to the insured during the period of insurance. For example, an event that takes place over several years but remains unnoticed will only trigger the policy in which the event becomes noticed or manifest.
- **losses discovered:** losses discovered trigger covers losses that are discovered during the period of insurance. It is a common form of trigger in the reinsurance market. Losses means the consequences of an insured event e.g. negligent act, breach of statute, breach of contract, etc.
- **claim made:** claim made trigger indemnifies the insured against claims that are made against the insured during the period of insurance. It is commonly used by underwriters who wish to limit their exposure to latency losses because at the end of the period of insurance the insurer knows that no further claims can be made against that policy year in the future.

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

(c) (i) **Employers' Exempted Form Insurance:** Employers' Liability exempt the following employers from insurance are:

- * nationalised industries;
- * police authority;
- * certain Government department;
- * local authorities.

(ii) **Training and Supervision:** training and supervision is one of the important common law duty of an employer. The employer must make provision for proper instruction, supervision, training and re-training of their employees.

(iii) **Authorised Insurer:** means a person or body of persons lawfully carrying on in Great Britain (or Nigeria) insurance business of any class relevant for the purpose of Part II of the Company Act and issuing the policy or policies in the course thereof.

(iv) **Protection of Eyes:** Protection of Eyes Regulations 1974 provide that for certain specified operations, eye protectors must be provided. Depending on the type of process, the requirements as to type of protectors differ. Eye protector may include goggles, fixed shields, hand-held shields or helmets. Protectors must be normally issued on an individual basis and be suitable for the person for whom they are provided.

(1½ marks for each complete and correctly stated point. Maximum of 2 points to be graded under each term. Sub-Total per term: 3 marks. Grand Sub-Total: 12 marks)

(d) In relation to public/product liability insurance, the following terms mean:

(i) **Public Liability Operative Clause:** the intention of a public liability insurance is to protect the insured against some common and potentially disastrous liabilities it may encounter by virtue of its trading activities. In the course of the insured operation there may be accident due to the negligence of their employees which may result in death, bodily injury or property damage of third party. The operative claims of the policy provide that the insured will be indemnified for legal liability to third party occurring during the period of insurance and within the territorial limit of the policy.

(ii) **Pollution:** pollution is the introduction of harmful substances into the environment. The harmful substances are called pollutant and it can be natural (volcanic ash) or man-made. Pollution may take the form of air pollution, noise

pollution, water pollution, solid waste pollution, etc. The main sources of pollution are household activities, factories, agricultural, transport, etc. Pollution may kill plant and animal and lead to chronic respiratory disease and lung cancer in human being. Pollution is almost entirely a public liability exposure usually associated with the insured business activities on their premises. Insurers are unwilling to provide cover for pollution because it is difficult to qualify and evaluate the risk. This is because the insurer can be faced with many different originating causes.

(iii) **Product Recall:** after a product has been put on to the market, it may be discovered that it has a dangerous fault and it may be necessary to withdraw the product completely and replace it, or to recall it to have the fault corrected. Insurance for product recall covers expenses incurred by a supplier in recalling the product or arranging its destruction. The basis of cover is that the offending products may cause injury or damages and it is important to recall them for correction or destruction.

(iv) **Contractual liability:** it has been established that liability for negligence at may arise in contract. The insured is free to enter into contract on whatever basis they choose as long as the contract will be enforceable at law. However, the insurer decides to exclude contractual liability i.e. liability that attaches under a contract unless the insured would have been liable.

(v) **Financial Loss in Product Liability Policy:** in Product Liability insurance, financial loss that is consequent upon injury and damage will be covered. It is possible to extend a product liability policy to cover financial losses suffered by a third party arising from the defective product. However, where an insured has taken out a product guarantee policy, financial loss is included as part of the cover.

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

(e) (i) **Volenti Non Fit Injuria:** this is a maxim which translate no injury is done to a willing person. It is a defence to show that the plaintiff either expressly or impliedly consented to the risk of injury or damage. The consent must be real and not obtain under duress. For example, sport men and women voluntarily accept the risk associated with their sports.

(ii) **Accord and Satisfaction:** when liability claims is settled out of court, then there is accord and satisfaction among the parties. The settlement of claims forms a binding contract between the parties. The accord and satisfaction release the defendant from any further liability and if proceedings are commenced, it can be used as a defence.

(2 marks for each complete and correctly stated point. Maximum of 2 points to be graded per term.

Sub-Total per term: 4 marks. Grand Sub-Total: 8 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) A claim involving bodily injury to an employee of AB2 industries has been reported in your office. Enumerate and explain five (5) important claims document you will require from the claimant to settle the claim. (20 marks)

(b) Explain the following liability terms:

i. Professional Negligence. (6 marks)

ii. Strict Liability. (8 marks)

Solution

(a) The following documents are required to settle employers' liability claim involving bodily injury:

- **completed claim form:** this will provide relevant information about the employee and the circumstances of the accident.
- **medical examination report:** this will provide the health status of the injured employee together with the degree of disability if any.
- **medical bill:** this will ascertain medical bill incur.
- **sick leave certificate:** this is to determine the period of absence from the usual occupation of the employee.
- **discharge certificate:** this will help the underwriter to know when the injured employee is fit to resume normal work.
- **last three months' pay slip of the injured employee:** as evidence of his/her earning.

(2 marks for each correctly stated document. 2 marks for each correct explanation on the stated document. Sub-Total per document: 4 marks. Maximum of 5 documents to be graded. Grand

Sub-Total: 20 marks)

(b) (i) **Professional Negligence:** professional negligence is the error, omission, wrong advice, mistake etc. which is committed by people in professional practice

in the course of their business. Failure of people in professional practice to exercise high degree of skill and care will result in professional negligence.

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

(ii) **Strict Liability:** strict Liability occurs when a defendant is liable even though there was no negligence on their part. It is also known as absolute liability. The case of *Ryland v. Fletcher (1868)* is a good example of strict liability. The defendant accumulated water in a reservoir on his land. Water escaped from the reservoir and flooded the plaintiff mine. The defendant was made liable even though there was no negligence on their part.

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

(Grand Total: 34 marks)

11 (a) Define or explain the cover provided by the following liability policies:

i. Public Liability Insurance.

ii. Product liability Insurance. (12 marks)

(b) In Employers' Liability Insurance, explain the significance of the "Reasonable Precaution Condition". (6 marks)

(c) List five (5) exclusions of public and product liability policies. (10 marks)

(d) Differentiate between "liquidated and unliquidated damages". (6 marks)

Solution

(a) (i) (A **public liability insurance policy** is designed to protect corporate organisations for their legal liability to any member of the public (third party). Legal liability of a corporate organisation to third party may arise from the negligence of their employees in the course of their operation. Public liability insurance provides indemnity to the insured for their legal liability for death, bodily injury or damage to property of third party arising from their business operation within their premises or elsewhere (work away) during the period of insurance and occurring within territorial (geographical) limit of the policy.

(ii) **Product liability insurance** is very suitable for manufacturers of product. The policy covers a wide range of products i.e. if the product is defective and result in bodily injury or death of the ultimate consumer of the product. The indemnity provided by product liability policy covers the insured legal liability to third party as a result of

- defect in the product.

- defective container of the product.
- incorrect labelling of the product.

The legal liability meet arise during the period of insurance and occurring within the territorial (geographical) limit of the policy.

(2 marks for each complete and correctly stated point. Maximum of 3 points to be graded. Sub-Total for each term: 6 marks. Grand Sub-Total: 12 marks)

(b) Reasonable Precaution Condition: the employers' liability (compulsory insurance) Act 1969 prohibit certain conditions in the policy. One of such condition is reasonable precaution condition. The absence of reasonable precaution indicates negligence on the part of the employer (the insured). The rigid application of this condition by the insurer would nullify the contract and will defeat the purpose of the Act which is intended to provide employees with compensation for bodily injury, illness or death arising in the course of their employment. In other words, the failure of the insured to take reasonable precaution is not enough ground to repudiate an employers' liability claim.

However, the policy contains a condition by which the insured would be required to repay to the insurer all sum paid by insurer which they would not have been liable to pay but for the regulation 2 which prohibit certain conditions.

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

(c) Public/Product Liability Policies Exclusions: public and product liability policies exclude the following areas provided by other policies:

- injury to employees where cover is available by an employers' liability policy.
- ownership of motor vehicle, aircraft, watercraft where cover is provided by motor, aviation and marine policies.
- advice given for a fee where cover is provided by a professional indemnity policy.
- damage to property in the insured's custody or control where cover is provided by material damage insurance.
- aircraft products where the cover is provided in the aviation market.

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

(d) Liquidated damage is a damage that can be assessed by monetary valuation. For example, on liability claims involving damage to third party property e.g. motor vehicle, building, etc., the repair cost can be assessed by financial valuation of the damage property. When the value of the property is ascertained, the court will use it as the basis for the award of damage to be paid by the negligent person (3 marks). On the other hand, unliquidated damages are damages that cannot be assessed by reference to evidence of value (market price). Example is damages for pain and suffering (3 marks). (Sub-Total: 6 marks)

(Grand Total: 34 marks)

12(a) Read and meditate on the following statement and provide answer to the question. In liability matters, it is normal for the plaintiff only to bring an action in a territory where they can enforce any judgement against the defendant.

Mention and briefly discuss the area of liability where this statement is relevant. (10 marks)

(b) Explain the significance of the following Case/Act:

(i) Hedley Byrne & Co. v. Heller and Partners 1963. (8 marks)

(ii) Law Reform (Contributory Negligence) Act 1945. (6 marks)

(c) Write short notes on each of the following:

(i) Date of Knowledge in Personal Injury (5 marks)

(ii) Arbitration. (5 marks)

Solution

(a) This statement is relevant in the 'Jurisdiction Clause' on liability policies. In other words, the statement refers to the jurisdiction of court which is situated within the territorial limit (geographical limit) of the liability policy. In most situation, a party can only be sued inside court of the territory in which they reside. This is because they have no assets or other presence outside the territory where they reside. A plaintiff can bring an action in any territory they choose. He can even shop round the world for a forum (a court) and choose a court i.e. jurisdiction that requires lower standard of proof for their case which offers the highest level of damages. It is however, normal for the plaintiff only to bring an action against the defendant in a territory where they can enforce the judgement. The best territory i.e. jurisdiction where the defendant resides and have assets which can be used to satisfy the judgement against him.

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

(b) (i) **Hedley Byrne & Co. v. Heller and Partners 1963**: this is the most important case in connection with 'negligent misstatement'. Legal liability now attaches for negligent misstatement which result in financial loss. A person who gives advice whether verbal or in writing will be liable if another person relies or acts on the advice which result in financial loss. In Hedley Byrne V. Heller and partners 1963, the court rule that a duty of care is owed to avoid negligent misstatement and advice.

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

(ii) **Law Reform (Contributory Negligence) Act 1945**: this Act is significant in the sense that it brought a reform to the negligence cares by introducing apportionment of damages between the plaintiff and the defendant based on their contribution to the negligent act. Contributory negligence is of the defence to an action in negligence cases. Before 1945, if it could be shown that the plaintiff was party to blame for the accident, they will recover nothing. This was amended by the law Reform (Contributory Negligence) Act 1945 which stipulates that damages will be reduced to such an extent as the court thinks equitable.

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

(c) (i) **Date of Knowledge in Personal Accident Injury**: Section II of Limitation Act 1980 provides that the limitation period for actions which include damages for personal injury is three years from:

- the date at which the cause of action accrued or
- the date of knowledge (if later) of the person injured.
- the concept of date of knowledge was introduced to deal with cases of latent injury or disease.

Date of knowledge is the date the plaintiff had knowledge of the following facts:

- that the injury in question was significant.
- that the injury was attributable & in whole or in part to the negligence of the defendant or any other person other than the defendant.

It is important to note that the cause of action of the plaintiff accrue from his/her date of knowledge and limitation period commence from that date.

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

(ii) **Arbitration** is intended to settle disputes that may arise between the insurer and the insured as regards claim settlement. Arbitration condition requires such dispute to be referred to arbitrators instead of legal proceedings. Arbitrators are to deal with any dispute that may arise as to the quantum of a claim with the view to arrive at amicable settlement between the two parties.

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

(Grand Total: 34 marks)

13(a) Distinguish between the following pairs:

- i. libel and slander. (5 marks)
 - ii. master and servant relationship. (4 marks)
- (b) Explain why the courts are usually reluctant (unwilling) to impose a duty in tort for nervous shock. (10 marks)
- (c) (i) What is risk control? (3 marks)
- (ii) Mention and explain three (3) ways by which an insured can control exposure to risk. (12 marks)

Solution

(a) (i) *Libel and slander* are both torts of defamation. The law of defamation is designed to protect a person's reputation. A statement is defamatory if it injures the reputation of the plaintiff and subjects him/her to hatred and public ridicule. When such statement is written or from radio or television, it is referred to as libel because they are in permanent form. On the other hand, slander is a statement made orally and they are considered as non-permanent oral statements. They are in transient form and they are not actionable automatically i.e. there must be a proof.

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

(ii) A relationship exists between a **master and servant**. The master is the employer while the servant is the employee. The master has the power to select the servant, control his/her work, pay him/her wages and other remuneration and power of dismissal. In master and servant relationship, the master may be liable to a third party for bodily injury or damage to property arising from negligence of the servant. This is referred to as vicarious liability.

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

(b) The courts are generally reluctant to impose a duty in tort for nervous shock for many reasons. Some of these reasons are:

- there is limited understanding of the workings of the brain;
- there is greater likelihood of false claims involving nervous shock;
- it is difficult to satisfy the genuineness of a plaintiff alleging mental trauma compare with physical injury;
- there is complication of applying the test of duty of care and how far the duty is stretch;
- there is problem of foreseeability that a particular individual will suffer nervous shock as a result of my action;
- there is problem of proximity i.e. is the plaintiff in sufficiently close proximity in terms of time and space to guarantee the right of recovery.

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

(c) (i) **Risk control** is the third leg in risk management process. Risk must first be identified before they can be assessed or measured and only after their impact has been evaluated can we decide on the most effective, method of control. Risk control involves treatment of risk or loss exposure which has been identified and evaluated. Risk control process also entails making decision on a cost versus benefit basis.

(3 marks)

(ii) **Risk or loss exposures can be controlled as follows:**

- **Eliminate, avoid or remove the risk:** total limitation of risk may not be possible. Certain production function that is prone to losses can be avoided an also a product line that is not profitable can be avoided thus eliminating the loss exposure completely.
- **Risk prevention or minimization:** certain measures can be put in place to prevent the occurrence of risk. For example, smoke detector, fire alarm can prevent the occurrence of fire while burglar alarm will prevent an intruder to operate and cart away properties.
- **Risk reduction or minimization:** some risk control measures put in place anticipates the effect of loss and will ensure the severity is reduced accordingly. Examples are wearing of seatbelt, fire extinguisher, etc. Risk prevention and risk reduction are pre-loss minimization and post-loss minimization of risk control.

- **Risk transfer:** This is known as risk financing aspect of risk control. It involves the purchase of relevant insurance policies that will pay for the loss when it happens. Therefore, risk transfer anticipates the consequences of the loss exposures and transfer it to the insurance company by effecting or buying appropriate insurance policies.

(2 marks for each correctly stated way. 2 marks for correct and completely stated point under each way. Sub-Total for each way: 4 marks. Maximum of 3 ways to be graded. Sub-Total: 12 marks)

(Grand Total: 34 marks)

14(a) In relation to liability insurance policies, briefly explain or define the following:

- | | | |
|-------|---|-----------|
| (i) | Common duty of care to visitor. | (4 marks) |
| (ii) | Limit of Indemnity | (4 marks) |
| (iii) | Negligent Mis-statement | (4 marks) |
| (iv) | Importance of Prompt Claim Notification | (4 marks) |
| (v) | Excess of Loss Reinsurance | (3 marks) |

- (b) (i) Briefly explain how premium is calculated on professional indemnity insurance policy. (6 marks)
- (ii) List and briefly explain the three (3) circumstances that will warrant a loading in the premium calculation on professional indemnity insurance policy. (9 marks)

Solution

(a) (i) **common duty of care to a visitor:** an occupier may incur legal liability for injury and damage to property of any person legally on his premises. The occupier normally has the more direct control of the premises and what goes on there. An occupier owes duty of care to visitors are all these lawful on the premises. By the provision of Occupiers Liability Act 1957, an occupier of premises owes common duty of one to all his visitors are a duty to take care such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purpose for which he was limited or permitted by the occupiers to be there.

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

(ii) **limit of indemnity:** most liability policies have limit of indemnity for any one occurrence which represent the insurer maximum amount payable to the insured. Limit of indemnity is usually fixed by the insured which represent their

potential legal liability to third party for death, bodily injury or damage to property.

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

(iii) **negligent misstatement:** negligent misstatement is statement or advice given, whether verbal or in writing, and when acted upon, results in financial loss. An example is a statement or advice given when someone acted as a referee i.e. when you vouch for a person in order to secure a job or obtain a loan legal liability now attaches for negligent instatement which result in financial loss. In *Hadley Burne v. Heller and Partner 1963*, the following was established:

- that duty of care is owned to avoid negligent instatement or advice
- that there will be liability for negligent advice or careless statement which result in financial loss.

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

(iv) **importance of prompt claim notification:** claim notification is a standard condition on all liability policies. The insured is required to notify the insurer within 14 days of any accident which may result in a claim. Prompt notification of claim is important because:

- enables the insurer to conduct investigation when the matter is fresh
- enable insurer to get good information form an eye witness of the incident
- it helps insurer to make adequate reserve for the claim
- it helps insurer to notify their reinsurers on time
- enables early processing and settlement of the claim

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

(v) **statutory authority:** this is a form of liability formed or created by statutes i.e. Acts of Parliament. Statutory liability are laws created and passed by legislators in the parliamentary setting of a State. Statutory liability is very relevant in employer's liability insurance and they are for the protection and welfare of employees and provide remedy to workers in civil law for damages. Examples of statutory liability are:

- Factories Act 1961
- Health and Safety at Work 1974
- Employers' Liability (Defective Equipment) Act 1969 e.t.c.

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

(b) The premium for professional indemnity insurance is normally calculated by applying a rate either to the gross fees or to total amount of indemnity (3 marks) plus a per capital charge for each person employed in the business (3 marks).

(Sub-Total: 6 marks)

The following will warrant a loading in the premium calculation:

- **more than one office:** where there is more than one office, the risk may be increased due to issue of supervision and control.
- **age of partners:** an increase premium may be applied where the partners are young or where the business is only recently established.
- **ratio of partner to staff:** the ratio between supervisory and other staff is very important in arriving at the premium. the span of control i.e. the number of staff a supervisor can conveniently supervise will be taken into consideration in arriving at the premium.

(1 mark for each correct and completely stated reason. 2 marks for each complete and correctly stated point under each reason. Sub-Total per reason: 3 marks. Grand Sub-Total: 9 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A765

MOTOR INSURANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A765 – MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	74%
Lowest Score:	14%
Average Score:	44%

Breakdown Updates

Question 1

The question tested candidates' knowledge of the functions of DVLA. Performance was very good.

Question 2

The question tested candidates' knowledge of the various covers available in Motor Insurance. Attempt was good (about 85%) and performance was equally very good.

Question 3

The question tested candidates' understanding and operation of the non-contribution clause. It was well attempted and performance was above average.

Question 4

The question tested candidates' knowledge of parts of a motor policy. Performance was above average and the question was well attempted.

Question 5

The question tested candidates' knowledge of the handling of accidental damage claims. It was well attempted but performance was just average.

Question 6

The question tested candidates' knowledge and understanding of different types of buses. It was well attempted and performance was above average.

Question 7

The question tested candidates' knowledge of different types of policies available to motor traders. Performance was not encouraging as it was below average. Candidates need to improve their knowledge of the subject matter.

Question 8

The question tested candidates' knowledge of the principles of insurance, particularly proximate cause. Performance was good.

Question 9

The question tested candidates' knowledge of the classification in Insurance Act 2003 and what constitutes material facts in insurance. Candidates performed excellently well.

Question 10

The question tested candidates' knowledge of the use of accident report form, categories of fleet and what constitute market value in motor insurance. Performance was average.

Question 11

The question tested candidates' knowledge of "special types" vehicles, motor trade rating and also commercial vehicle insurance rating. Very few candidates attempted the question and performance was not encouraging.

Question 12

The question tested candidates' knowledge and understanding of types of cover/policies available in Motor Insurance. Performance was not quite encouraging.

Question 13

The question tested candidates' knowledge of TPPD and TPPI, along with the personal nature of motor insurance. Candidates did not display a good knowledge of the question; hence the result is not encouraging.

Question 14

The question tested candidates' knowledge of management of expense ratio, reinsurance, coinsurance, indemnity and reasonable care. Overall performance here was far above average.

Chief Examiner's Comments on Overall Performance:

Candidates' overall performance was very good compared to prior years.

Chief Examiner's Suggestion on Improvement:

Candidates should continue the displayed knowledge and also continue to study adequately in order to maintain this level of impressive results in future examinations.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Outline the two (2) main functions of Driver and Vehicle Licensing Authority (DVLA).

Solution

The main functions of Driver and Vehicle Licensing Authority (DVLA) are as follows:

- to regulate the issuing of licenses to drivers and
- to regulate the issuance of licenses for vehicles (registration of vehicle) and the issuing of road fund licenses.

(3 marks for each correct and completely stated function. Total: 6 marks)

2. Outline three (3) of the four scopes of cover available in private motor insurance.

Solution

The four scopes of cover available in private motor insurance are:

- | | |
|--------------------------------------|---------------------------|
| * Act Only Policy | * Third Party Only Policy |
| * Third Party, Fire and Theft Policy | * Comprehensive Policy. |

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

3. How do you respond to a situation where two (2) policies that:
 (a) would otherwise contribute to a loss each has a non-contribution clause?
 (b) how is this resolved if only one policy has a non-contributing clause?

Solution

(a) Contribution applies to each effectively as the clauses cancel each other out.
 (3 marks)

(b) The policy that does not contain the non-contribution clause(s) will pay in full.
 (3 marks)

(Grand Total: 6 marks)

4. What is the relevance of “preamble” in the construction of a motor policy?

Solution

The relevance of “preamble” in the construction of a motor policy is that “preamble” is one of the parts of a motor policy. This will normally set out the basis of the motor insurance contract which would usually be one of indemnity.

It will remind the policy holders that the proposal certificate and schedule all form part of the contract and should be read together.

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

5. What has been the effect of “towing and storage charges” on insurers in Accidental Damage Claims?

Solution

Under the terms of the standard motor policy, insurers will pay for the reasonable cost of removing the vehicle from the scene of an accident to the nearest competent repairer. They will pay for the cost of safeguarding of the vehicle and then returning it after repairs to the policy holder’s permanent address in the UK.

Initial towing charges can be quite enormous, especially if the vehicle is towed from a motor-way under police instruction. It is quite difficult for insurers to control this aspect of the cost, but if they can arrange for an approved repairer to undertake the removal, then, very favourable and possibly free rates can be achieved.

Repairers, especially approved garages are able and willing to absorb such costs where they are able to profit from a subsequent repair. However, if the vehicle is a total loss, then not only will they expect some recompense for the towing but they will also make a charge for storage until the vehicle is moved. Most approved repairers will allow the initial free days free of charge. This allows time for an engineer to access the damage for total loss vehicle to be moved to storage at one of the major salvage yards.

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

6. Define a “bus” and distinguish between a “large bus” and a “small bus”.

Solution

A bus is a motor vehicle constructed or adapted to carry more than eight (8) seated passengers other than the driver (2 marks). **A large bus** is a vehicle adapted to carry more than sixteen (16) passengers (2 marks), whereas **a small bus** is a vehicle adapted to carry more than eight (8) but fewer than sixteen (16) (2 marks).

(Total: 6 marks)

7. How many types of policies are available to motor traders? List.

Solution

There are three types of policies available to motor traders (3 marks). They are:

- road risks policy (1 mark)
- internal risks policy (1 mark)
- comprehensive road and garage policy (1 mark).

(Total: 6 marks)

8 (a) Define Proximate Cause?

(b) What is the relevance of proximate cause in motor claims administration?

Solution

(a) Proximate Cause was defined in the leading case of *Pansey vs Scottish Union and National Insurance Company (1908)* as proximate cause means the active efficient cause that sits in motion a train of events which bring about a result without the intervention of any force started or working actively from a new or independent source. The doctrine relates to the risk which are employed as a guide in determining whether or not a loss which is the subject of a claim was brought about by an insured peril, excepted peril or uninsured peril.

(3 marks)

(b) The fundamental principle of proximate cause is very much relevant to the settlement of motor insurance claim in that it would help to determine whether a loss is covered or not.

(3 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9(a) List five (5) classes of general insurance business as classified in insurance Act 2003. (10 marks)

(b) (i) What constitutes a material fact? (4 marks)

(ii) When does the duty of disclosure exist under a motor policy? (4 marks)

(iii) What guidelines exists for proposers to assist in knowing what facts are material and consequences of failure to disclose them? (4 marks)

- (iv) Notwithstanding the Common Law requirements that all material facts must be disclosed, there are certain facts which do not need to be disclosed, outline five (5) of these facts. (10 marks)
- (c) What are the six (6) alternatives rather than declinature, available to an insurer faced with a substandard insurance risk? (18 marks)

Solution

(a) The classes of general insurance business are-

- Fire Insurance business
- General accident insurance business
- Motor Vehicle insurance business
- Marine and aviation insurance business
- Oil and Gas insurance business
- Engineering insurance business
- Bonds, credit guarantee and surety cling insurable business
- Miscellaneous insurance business

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

(b) (i) The Common Law requirement is that for either party to the insurance contract to comply with the duty of Utmost Good Faith, then they must disclose all major facts. "A fact is material when disclosed, it might have led a reasonable insurer to decline the risk or to stipulate a higher premium (*Mutual Life Insurance co. of New York vs Ontario Metal Products Ltd (1925)*). (4 marks)

(ii) The duty of disclosure exist at all stages leading up to the contract coming into existence(2 marks). It is reviewed again at renewal (1 mark). However, insurers tend to modify the Common Law position by a policy team requiring notification of changes as soon as possible (1 mark). (Sub-Total: 4 marks)

(iii) Under the terms of the ABI Statement of General Insurance Practice (1 mark), insurers are bound to draw the proposer's attention to the consequences of failure to disclose material facts (1 mark).and state that if the proposer is in any doubt as to what is material, they should disclose the facts (2 mark).

(Sub-Total: 4 marks)

(iv) There are certain facts which do not need to be disclosed. These are:

- certain statutory measures e.g. Rehabilitation of Offenders Act 1974;

- matters of common knowledge of which insurer, in the ordinary course of business is aware or ought to be;
- facts about which an insurer waives information;
- facts which reduce the risk;
- facts which could be deduced where the insurer is placed, upon further enquiry by information already discussed;
- facts of which the proposer is not aware and could not reasonably have been expected to be aware.

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

(c) The six alternatives rather than declinature, available to an insurer faced with a substandard insurance risk, are:

- restrict cover to third party, fire and theft, third party only or “Act only” in extreme cases;
- load premium by percentage commensurate with increased degree of a risk;
- impose substantial excess under accidental damage section or all sections if circumstances require it;
- restrict use permitted to social, domestic and pleasure only;
- exclude any driver with unsatisfactory record;
- delete certain benefits.

(2 marks for each correctly stated alternative. Total: 12 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Outline four (4) main purposes of obtaining an Accident Report Form.

(16 marks)

(b) Outline the three (3) categories of fleets available.

(9 marks)

(c) Briefly explain what constitutes market value as far as Motor Insurance is concerned.

(9 marks)

Solution

(a) The main purposes of obtaining an “accident report form” are to:

- provide the policyholder with convenient medium through which to advise claims details;
- ensure that all the information that is generally felt to be pertinent for claims handling is obtained easily and accurately;

- enable 'validation' of the claims i.e. that it is properly covered under the policy, that indemnity can be provided and to what extent;
- assist in dealing with the claims quickly and efficiently;
- provide the policyholder's current details in order to update underwriting record;
- check to ensure that the information disclosed at inception and/or renewal was accurate and full;
- assist in dealing with liability issues.

(4 marks for each correct and completely stated purpose. Maximum of 4 to be graded. Sub-Total: 16 marks)

(b) The three categories of fleets available are:

* small fleet; * medium sized fleets * large fleets.

(3 marks for each correctly stated category. Sub-Total: 9 marks)

(c) What constitutes market value is a topic of much debate and even within the industry there is no total consensus. However, if we accept the premise that the objective is to provide indemnity i.e. to put the policyholder back to the same financial position that was enjoyed prior to the loss, then the true measure must surely be: *"The amount that it will cost to replace the vehicle with one of the model and in the same condition and with similar mileage."*

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

(Grand Total: 34 marks)

11(a) (i) What are "Special Types" Vehicles? (3 marks)

(ii) Outline five (5) vehicles that may be considered as "special types" for insurance purposes. (10 marks)

(b) State the two (2) factors, with basis, on which the premium of the Internal Risks Motor Trade Policy is based. (6 marks)

(c) What is the relevance of "value of the vehicle" as a rating factor in Commercial Vehicle Insurance Underwriting? (15 marks)

Solution

(a) (i) 'Special Types' vehicles are vehicles specially constructed to meet specific purposes and operations. (3 marks)

(ii) Vehicles that may be considered as "special types" for insurance purposes are:

- cranes; * ready-mixed concrete carriers; * tankers;

- mobile retail vehicles such as ice cream vans, shops and mobile canteens, fish fryers, shops, libraries, e.t.c.;
- agricultural and forestry vehicle such as trailers; * dumpers;
- ambulances; * hearses;
- trolleys (not constructed for general road use).
- mechanized navies and other mobile plants.

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

(b) The Internal Risks Motor Policy is usually issued on a third and damage basis and its premium is usually based on two factors:

- a flat rate which measures the capacity of the premium by number of private cars; (3 marks) and
- a rate per mille on the policyholder's annual wage and salary bill, this bill is clearly adjustable (3 marks).

(Sub-Total: 6 marks)

(c) The relevance of "value of the vehicle" as a rating factor in Commercial Vehicle Insurance Underwriting is that it is possible that the value of the vehicle will be a factor where the cover chosen on goods-carrying policy is comprehensive or third party, fire and theft. Therefore, standard premium may be charged up to the value of each vehicle, which will vary from insurer to insurer but could be as high as ₦50,000.00 for the very large goods-carrying vehicles. The variety of options available for changes where the stated amount may vary widely but may be a percentage of the value or fixed amount per ex of value or past thereof. Alternatively, some insurers may totally ignore the value of the vehicle.

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

(Grand Total: 34 marks)

12(a) Distinguish between the cover provided by an 'Act Only' Policy and that provided by a 'Third Party Only' Policy. (10 marks)

(b) Enumerate four (4) advantages of taking up a comprehensive Motor Insurance Policy? (12 marks)

(c) Mr. Adebayo was arrested by the Police for driving a Toyota Saloon Car along Oshogbo-Inisha Road, without a valid insurance cover. According to the Police, he (Mr. Adebayo) has contravened the provisions of Section 143 of the RTA and therefore liable to a conviction. Outline the defenses open to Mr. Adebayo. (12 marks)

Solution

(a) An **“Act only Policy”**: covers only those liabilities referred to be insured under the Road Traffic Act (RTA) i.e. liability for Death or Bodily Injury of Third Party Plus Payment of Emergency Treatment Expenses and loss incurred in defending claim under the Policy is also covered. It should be noted that cover provided by ‘Act Only’ Policy only operates when vehicles is used on a ‘ Road’ as defined. **WHILE** a **“Third Party only Policy”** is a policy that cover all the above regular plus liability for damage to Third Party Property with Legal Liability of Passengers for Third Party Bodily Injury or Property Damage while riding in a vehicle. It also provides indemnity to Insured’s Employer or Partners. It should be noted that “ Third Party Only” Policy is wider than “Act Only” Policy and so recommended to a fresh proposer.

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

(b) The advantages of taking up a comprehensive motor insurance policy are that:

- it gives the widest cover, including all the cover provided by third party, fire and theft, third party only and Act only policies;
- it covers loss of or damage to the insured’s vehicle by accidental collision or theft;
- it covers windscreen replacement and windows and scratching of paint work arising from the breakage of the glass without loss of the “No Claim Discount” (NCD);
- it covers emergency medical treatment;
- it covers personal accident benefit;
- it covers medical expenses;
- it covers replacement of rugs, clothing and personal effects.

(3 marks for each complete and correctly stated advantage. Maximum of 4 advantages to be graded.

Sub-Total: 12 marks)

(c) Mr. Adebayo has the following defences available to him:

- that the vehicle did not belong to him and was not in his possession, under a contract of hiring or loan;
- that he was using the vehicle in the course of employment;
- that he neither knew nor had reasons to believe to that there was not in force in relation to the vehicle, a policy of insurance or security;

From the above therefore, it could be seen that a person would escape prosecution if they are driving their employer's vehicle and did not know or had no reason to believe that there was no insurance cover.

(6 marks for each complete and correctly stated line of defence with reason. Maximum of 2 to be graded. Sub-Total: 12 marks)
(Grand Total: 34 marks)

13) (a) (i) Differentiate between Third Party Property Damage (TPPD) and Third Party Personal Injury (TPPI) in relation to Motor Insurance. (8 marks)

(ii) Who is a third party as far as Motor Insurance is concerned? (4 marks)

(b) 'Motor Insurance is a personal contract.' Comment on this statement in relation to Motor Insurance Policy. (10 marks)

ii. Alhaji Danladi maintain a Motor Insurance Policy with Reliable Insurance Company Limited and there are five cars on the schedule of the policy. In the course of the Policy, he bought a brand new Toyota Saloon Car and notified the insurer to add same to the schedule of the existing policy. Thereafter, he sold one Nissan Saloon car to Mr. Jackson his very good friend. Whilst driving along Lagos-Badagry Express Road, Mr. Jackson ran into a Police checkpoint where his motor particulars were demanded for. The Police discovered that the Certificate of Insurance bore the name Alhaji Danladi. However, Mr. Jackson's argument was that the vehicle was sold to him by his friend along with the certificate of insurance. Advise Mr. Jackson as to the legality or otherwise of this transaction.

(12 marks)

Solution

(a) (i) In the event of any accident involving the insured vehicle as a result of which property other than the insured vehicle is damaged, such damaged property is referred to as Third Party Property whilst the resultant damage is referred to as Third Party Property Damage (TPPD). **Similarly**, consequent upon an accident involving the insured vehicle, if any person outside the insured suffers any bodily injury, such injury is referred to as Third Party Personal Injury (TPPI). The policy makes provision for the protection of such injured person.

(2 marks for each complete and correctly stated point. Maximum of 2 points to be graded under each term. Sub-Total per term: 4 marks. Grand Sub-Total: 8 marks)

(ii) Normally, there are two parties to a motor insurance contract, the insurer and the insured and these are reflected in the Motor Insurance Policy. They are the First and Second Parties respectively. Any other person outside these two- i.e. the insurer and the insured is regarded as a Third Party and he is not a party to

the contract. The policy, however make provision of the protection of this (third party) interest. This interested party is a third party as far as third party motor insurance policy is concerned.

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

(b) Motor Insurance is actually a personal contract such that the Motor Insurance Policy or Certificate of Insurance is not transferable. For instance, when the proposer completes the proposal form, his personal details e.g. name, address, occupation, age, use, insurance history, claims experience etc. are completed therein and these details are normally taken into account by underwriters in assessing the risk as to whether or not to accept. Where the risk is accepted, premium is paid and policy issued. These details are personal and cannot be the same with another person to whom the policy/ certificate is purportedly transferred.

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

(c) It is illegal to sell the insured car along with the certificate of insurance. Motor insurance is a personal contract and all the personal details of Alhaji Danladi were taken into consideration in assessing the risk as to whether it should be accepted or not and at what rate of premium. Relevant sections of the Road Traffic Act (RTA) is also opposed to this kind of illegal transaction. Consequently, Mr. Jackson's purported purchase of the car along with the Motor Insurance Certificate is wrong and illegal. He should have arranged a fresh insurance cover in his name.

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

(Grand Total: 34 marks)

- 14(a) (i) Define Expense Ratio. (4 marks)
- (ii) Enumerate three (3) reasonings behind the management of Expense Ratio. (9 marks)
- (b) Write short notes on the following:
- | | | | |
|------------------------|-----------|------------------|-----------|
| (i) Reinsurance | (5 marks) | (ii) Coinsurance | (5 marks) |
| (iii) Reasonable Care. | (5 marks) | (iv) Indemnity. | (6 marks) |

Solution

(a) (i) Expense Ratio is the proportion of premium devoted to expenses from the premium income. (4 marks)

(ii) The reasonings behind the management of expense ratio are:

- it becomes greater when sales are low and smaller when policies are sold;
- there is therefore, a temptation to set rates low in terms of heavy competition, thus ensuring sufficient income to reduce expense ratio;
- under cutting the market in this way, may be a short term-necessity but it cannot be sustained, so the ratio needs to be managed.

(3 marks for each correct and completely stated reasoning. Sub-Total: 9 marks)

(b) (i) **Reinsurance:** this is a means by which motor insurers insure risks that are originally insured with them. This could be done by way of facultative or treaty arrangement. This is to ensure that the risk is spread and in the event of a loss, the Reinsurers also indemnify the insurer.

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

(ii) **Co-Insurance:** this is a situation where more than one insurer jointly insure a risk. Each co-insurer is responsible for its own share (percentage) whilst the co-insurers are led by a leader who probably has a controlling percentage and handles the issuance of policy and relevant documents which are to be signed by each participant (co-insurer). The leader charges over-riding commission for each leadership and administrative expenses incurred.

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

(iii) **Reasonable Care:** a term/condition of the motor policy will call for the policyholder to take all reasonable steps to protect the vehicle from loss or damage and to keep it in roadworthy condition. The law relating to reasonable care clauses continues to change and with particular reference to motor insurance, the ombudsman has recently had a number of things to say. The common feature seems to be that insurers would have to prove a high level of 'reckless disregard' for the safety of the property before they can apply policy condition in order to repudiate a claim.

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

(iv) **Indemnity:** motor Policies are essentially policies of indemnity. In other words, subject to policy limits, exclusions and any applicable excesses, the policyholder should be placed in the same position after a loss as they enjoyed immediately prior to the loss. The principle of indemnity is usually mentioned in

the operative clause of the policy and in addition may be the subject of a definition. The one exception to indemnity usually found in a major policy is that relating to personal accident benefits where fixed sums are paid to policyholders and/or spouse in the event of death or serious disablement such as loss of an eye or limb.

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

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET T EXAMINATION PAPER

SUBJECT A770

PRINCIPLES OF MARINE INSURANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A770 -PRINCIPLES OF MARINE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score: 61%

Lowest Score: 61%

Average Score: 61%

Breakdown Updates

Question 1

The candidate performed excellently in this question which was meant to test knowledge on premium rating of vessels.

Question 2

The candidate performed excellently in this question which was meant to test knowledge of documents required for marine cargo shipment.

Question 3

The candidate performed excellently in this question which was meant to test knowledge of P & I clubs.

Question 4

The candidate performed poorly in this question which was meant to test the characteristics that distinguish reinsurance from normal insurance. Rather, the candidate wrote the functions of reinsurance.

Question 5

The question was meant to test the general understanding of loss in reinsurance including the renewal in such instances. It was well answered.

Question 6

The candidate performed averagely in this question which was meant to test the understanding that premium and claims of risks are handled individually under facultative reinsurance. The candidate failed to mention the use of bordereaux in facultative obligatory cover.

Question 7

The candidate performed excellently in this question which was meant to test knowledge of claims handling under sistership clause.

Question 8

The candidate performed averagely in this question which was meant to test the understanding of the effect of negligence in Marine Insurance claims. Candidate omitted mentioning that negligence is regarded as a remote cause and that claims are made under particular casualty causing the loss e.g. stranding.

Question 9

The question was meant to test (a) knowledge of reinsurance companies in Nigeria (b) advantages of open cover; and (c) features thereof (d) underwriting considerations for rating total loss only vessels. The performance was good.

Question 10

This question was not attempted by the candidate. It was meant to test (a) the practical knowledge of various types of policies under which total loss is claimable; (b) defences available to carrier under carriage by rail against his liability for loss.

Question 11

This question was not attempted by the candidate. It was meant to test (a) the complementary effect of the lettered and numbered rules of York Antwerp Rules in Average Adjustment; (b) the understanding of export of cocoa and coffee from West Africa.

Question 12

Part (a) of the question was well answered. This was to test the knowledge of the advantages of containerization; while the part (b) was poorly answered as the candidate described the activities of P & I clubs and various liabilities covered by them; instead of treating passenger liabilities as required.

Question 13

The question was meant to examine candidates (a) practical understanding of "warehouse to warehouse" marine cover; and (b) types of loss treaties. The candidate missed the question in (a) while he performed excellently in (b).

Question 14

The candidate performance was just average in both (a) and (b). The question was meant to test candidates' knowledge of (a) the process of negotiating terms of facultative reinsurance; (b) negotiation of commission and reserves. Candidate left out the steps in negotiation with the reinsurer possible through a reinsurance broker in (a) and in (b), also did not bring out the fact that overriding commission could depend on profitability of account and management expenses of the

reassured. The candidate also failed to state that loss is carried forward until there is credit balance before profit commission becomes payable.

Chief Examiner's Comments on Overall Performance:

The overall performance was good.

Chief Examiner's Suggestion on Improvement:

Candidates should ensure that every chapter in the coursebook is thoroughly understood, paying attention to practical and technical aspects.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What three (3) important information would a marine underwriter require to enable him determine the rate per-cent on a vessel proposed for insurance?

Solution

The important information that a marine underwriter would require to enable him determine the rate per-cent on a vessel proposed for insurance are:

- the valuation of the vessel;
- management and ownership with their corresponding claims experience
- consideration of the type, trade, age, tonnage and all aspects of the machinery;
- if entered with a classification society for hull and machinery, that class is maintained;
- conditions of insurance being affected;
- repair costs;
- underwriting experience of similar risks.

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

2. What three (3) documents are required in CIF overseas trade transactions?

Solution

The three documents required in CIF overseas trade transactions are:

- * the invoice * the policy or certificate of insurance
- * a full set of the bill of lading

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

3. Mention three (3) collision liabilities excluded by Institute Time Clauses (Hull) but covered by Protection & Indemnity (P&I) Clubs.

Solution

The collision liabilities excluded by Institute Time Clauses (Hull) but covered by Protection & Indemnity (P&I) Clubs are:

- * cargo liabilities * crew liabilities * passenger liabilities
- * other personal injury and death liabilities * pollution liabilities
- * damage to fixed and floating objects * ¼ collision liability
- * miscellaneous liabilities.

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

4. State three (3) characteristics that distinguish reinsurance from ordinary/normal insurance.

Solution

The characteristics that distinguish reinsurance from ordinary/normal insurance are:

- both parties to the contract are insurers and reinsurers or both could be reinsurers;
- it is a contract of indemnity
- the insurable interest is always the reassurer's insurance liability.
- it confers immediate financial benefit upon the reinsured party
- it does not generate fresh premiums.

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

5. What is the usual duration of a marine excess of loss contract and what two main information is the reassured required to supply at renewal?

Solution

The usual duration of a marine excess of loss contract is twelve months (2 marks).

The two main information that the reassured is required to supply at renewal are:

* statistics of premiums and estimates (2 marks)

* statistics of paid and outstanding claims (2 marks).

(Grand Total: 6 marks)

- 6 How is the facultative reinsurance accounting handled?

Solution

In facultative reinsurance, premiums and claims of each risk are accounted for individually. Recovery for claims are made separately for each claim submitted. In facultative obligatory cover, bordereaux are issued and subsequent statements embracing a period of say three months.

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

7. As courts do not accept the claims of sisterships, how then is collision claim handled under the sistership clause?

Solution

Collision claim is handled under the sistership clause as follows:

- the collision damage of both vessels are assessed by a single arbitration to be agreed upon between the underwriters and the assured

- the $\frac{3}{4}$ th collision claims under the hull policy would thereby be paid by concerned underwriters
- if vessels are entered in the P&I club, the remaining $\frac{1}{4}$ collision claim less applicable deductible would similarly be paid.

(3 marks for each correctly stated point. Grand Total: 6 marks)

8. Give two (2) reasons why “negligence” is not a ground for underwriters to avoid marine claims?

Solution

“Negligence” is not a ground for underwriters to avoid marine claims for the following two reasons:

- negligence is considered as a remote cause and often disregarded whilst claim is recoverable under the particular casualty such a stranding, sinking, fire etc.
- negligence of masters, officers, crew or pilots, repairers and charterers are listed as covered perils in the marine hull policies.

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

Part II

Compulsory Question.

This question carries 50 marks.

PART 2

- 9(a) List the five (5) Reinsurance Companies in Nigeria with their full names as recognised by the Regulator. (10 marks)
- (b) Explicitly explain three (3) advantages of open cover in cargo insurance? (15 marks)
- (c) Of what importance are the following features in an open cover contract?
- | | |
|----------------------------------|------------------------------------|
| (i) period of contract (2 marks) | (ii) cancellation clause (3 marks) |
| (iii) conveyance (2 marks) | (iv) undertaking (3 marks). |
- (d) Mention any five (5) factors that a specialist Total Loss Only (TLO) underwriter will require in determining the rate of a vessel. (15 marks)

Solution

(a) The Reinsurance Companies in Nigeria with their full names as recognised by the Regulator are:

* African Reinsurance Corporation

* Continental Reinsurance Plc

* FBS Reinsurance Limited

* Nigerian Reinsurance Plc

* WAICA Reinsurance Corporation Plc.

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

(b) Some advantages of an open cover in cargo insurance are:

- an open cover is an insurance contract that establishes an atomic facility for all future cargo insurance within the terms of the main contract;
- it is crafted to accommodate variations in interests, voyages, conditions, rates, e.t.c.;
- the assured is relieved of the need to negotiate every shipment individually;
- the assured is merely required to declare full shipping details of each dispatch;
- the insurer on the other hand obtains continuity of interest in the assured's global activities.

(5 marks for each correctly and completely stated advantage. Maximum of 3 to be graded.

Grand Sub-Total: 15 marks)

(c) The importance of the following features in an open cover contract are:

(i) **Period of contract:** often expressed as 'permanent' or "always open" for all sending's made on or after a given date, alternatively 'for twelve months e.t.c.

(2 marks)

(ii) **Cancellation clause:** the assured has a right to terminate the contract if he finds better alternative in the competitive environment whilst the insurer, for reason of unfavorable experience and unacceptable development may also exercise his right to terminate. A 30 days' notice of cancellation is required by either party at any time or at the anniversary date, for marine risks. A 7 days' notice is required for war and strikes risks.

(3 marks)

(iii) **Conveyances:** broad definition is only possible usually in the form of vessels of institute classification clause standard or held covered; coupled with appropriate reference to connecting transportation. Such parameters, governing the quality of the vessel provide viable rating structure.

(2 marks)

(iv) **undertaking:** usually a footnote reminder stating that the insured is bound to declare and the insurer is bound to accept all shipments coming within the scopes of the contract, whether arrived or not.

(3 marks)

(Grand Sub-Total: 10 marks)

(d) The factors that a specialist Total Loss Only (TLO) underwriter will require in determining the rate of a vessel are:

- * types of vessel
- * value
- * age
- * tonnage
- * trade
- * management and/or ownership
- * experience of the particular underwriter
- * known losses, published regularly in LLP Limited and annually by ILU Journals.

(3 marks for each correctly stated factor. Maximum of 5 factors to be graded. Grand Sub-Total: 15 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Under what sets of institute hull clauses can a shipowner make a total loss claim, and in what circumstances? (24 marks)

(b) What five (5) defenses may avail a carrier under the carriage by rail (CIM and COTIF) against his liability for loss, mis delivery, damage or delay? (10 marks)

Solution

(a) The clauses are as follows:

- i. Institute Time Clauses (Hulls) 1/11/95 (3 marks)
- ii. Institute Time Clauses (Hulls) Total Loss only (3 marks)
- iii. Institute Time Clauses (Hulls) Total Loss, General Average and $\frac{3}{4}$ ths Collision Liability (3 marks)

Under the sets of clauses (i) - (iii) above,

- the assured would be able to claim total loss of the vessel where it has been caused by a peril insured against
- where the total loss is not clearly by a peril insured against to prove that the total loss is covered to be able to claim.
- iv. Institute Time Clauses- Hulls Disbursements and Increased Value (Total Loss Only including Excess Liabilities) 1/11/95 (3 marks)
- these clauses provide 'top up' to the insured value in hull and machinery policy
- underwriters settle the total insured value on the policy, only when total loss or constructive total loss on the hull and machinery has been settled

- where the total loss on the hull and machinery is compromised, it is the same percentage of the hull and machinery paid that will be settled on the value insured under these clauses

(3 marks for each correct and completely stated circumstance. Maximum of 4 circumstances to be graded. Grand Sub-Total: 12 marks. Grand Sub-Total: 24 marks)

(b) The defenses that may avail a carrier under the carriage by rail (CIM and COTIF) against his liability for loss, mis-delivery, damage or delay are:

- * Act of God
- * Seizure Under Legal Process
- * Bulk Wastage
- * Riot or Strikes
- * War or Civil Unrest
- * Act or Omission of the Trader
- * Inadequate Packing
- * The consignee not taking delivery in reasonable time.

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

(Grand Total: 34 marks)

- 11(a) (i) York Antwerp rules contain lettered and numbered rules, explicitly state which of the two can nullify the other? (5 marks)
- (ii) Demonstrate the nullifying position in rule A and rule 1 on "jettison of cargo". (15 marks)
- (b) Show why cocoa and coffee beans from West Africa arrive Europe in poorer conditions than those from Brazil. (14 marks)

Solution

(a) (i) The numbered rule can mollify the lettered rule. (5 marks)

(ii) Rule A provides that any cargo which has been jettisoned for the common safety would be allowed in general average. (3 marks)

But Rule 1 states that:

- no jettison of cargo shall be made good as general average unless such cargo is carried in accordance with the recognized custom of trade; (4 marks)
- hence, a container stowed on deck of a purpose-built container vessel instead of its rightful place under deck, would not rank as jettison for general average recovery; (4 marks)
- but for the provision of rule 1, rule a would have allowed it as jettison inadvertently since it provides that any cargo which has been jettisoned for the common safety would be allowed in general average. (4 marks)

(Grand Sub-Total: 15 marks)

(b) The reasons why cocoa and coffee beans from West Africa arrive Europe in poorer conditions than those from Brazil include the following:

- cocoa and coffee beans from West Africa are loaded in warm climates;
- there is the reason of excessive moisture content at the inception of voyage;
- there is also the issue of newness of crop;
- storage inadequacies prior to loading
- winter in Europe often cause ships sweat, leading to wetting, mildew and damage to beans;
- coffee beans readily absorb moisture causing swelling and bursting of bags
- Ghana's cocoa however arrives in sounder condition
- Brazil cocoa has better preparation and effective stowage aboard reliable vessels and therefore arrive Europe in good condition in spite of its tropical passage.

(7 marks for each correctly stated reason. Maximum of 2 to be graded. Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)

12(a) Containerization brought with it many advantages in transportation of cargo. Concisely enumerate any six (6) of these advantages. (24 marks)

(b) To what extent do the protection and indemnity clubs cover passenger liabilities of their members? (10 marks)

Solution

(a) The advantages of containerization in transportation of cargo are:

- quick and efficient carriage of cargo by custom-built container vessels between custom-built container terminals;
- elimination of multiple handling for full container loads;
- improvement in handling techniques;
- economies in individual packaging of contents;
- reduction in pilferage hazards;
- protection against external contact damage;
- protection against sea and/or fresh water damage;
- improved defense against fire damage during extinguishing operations;
- reduced risk of mis-delivery.

(4 marks for each correct and completely stated advantage. Maximum of 6 to be graded. Grand Sub-Total: 24 marks)

(b) Protection and indemnity clubs:

- cover passenger liabilities of their members;
- the clubs cover their members liabilities for injury to or death of passengers and for loss of luggage under the Athens Convention;
- they cover damage or compensation for illness of, injury to or loss of life of passenger arising out of any act, neglect or default on board or in relation to the vessel;
- where the shipowner contracts a higher limit than the applicable legal limit, they must ensure that the contract is approved by the club manager;
- expenses in respect of medical, repatriation, funeral and deviation activities are reimbursed by the clubs.

(5 marks for each correct and completely stated cover. Maximum of 2 to be graded. Grand Sub-

Total: 10 marks)

(Grand Total: 34 marks)

13(a) Is the damage sustained by goods in the tackle of the warehouse for loading on to a lorry covered by Institute Cargo Clauses 'A'? (25 marks)

(b) Support your answer in (a) (i) above with the provisions of the "transit clause 8". State three (3) types of non-proportional reinsurance treaties being used in the marine market. (9 marks)

Solution

(a) (i) Damage to goods in the tackle of the warehouse is not covered by Institute Cargo Clauses "A". (5 marks)

(ii) The transit clause 8 clearly states that: "the risk does not attach until the goods leave the warehouse or place of storage at the place named in the insurance contract for the commencement of the transit, continues during the ordinary course of transit and terminates either, on delivery to the consignee ... " (10 marks)

(iii) Any loss or damage to cargo during loading onto the lorry in the warehouse does not come within the insurance cover, unless such risk has been specially agreed and additional premium paid to the underwriter. (5 marks)

(iv) Otherwise, the risk attaches when the goods leave the warehouse or place of storage named in the insurance contract. (5 marks)

(Grand Sub-Total: 25 marks)

(b) The types of non-proportional reinsurance treaties being used in the marine market are:

- | | |
|----------------------------|-------------------------------|
| * working excess of loss | * catastrophic excess of loss |
| * reporting excess of loss | * aggregate excess of loss |
| * stop loss | * back-up contracts. |

(3 marks for each correctly stated type. Maximum of 3 types to be graded. Grand Sub-Total: 9 marks)
(Grand Total: 34 marks)

14(a) How does the reassured negotiate the terms of Facultative Reinsurance?
(20 marks)

- (b) With regard to Proportional Treaty, how does the reassured deal with:
- | | |
|---------------------------|-----------|
| (i) overriding commission | (4 marks) |
| (ii) profit commission | (6 marks) |
| (iii) reserves | (4 marks) |

Solution

(a) The reassured negotiates the terms of facultative reinsurance as follows:

- the reassured would select the reinsurer he considers best among the potential reinsurers;
- the selected reinsurer may be the leader or the sole reinsurer of the reassured;
- the reassured or his broker will present their case in the most favorable light but ensuring the disclosure of all material facts;
- the reassured will show the classes of business they write and the line structure they adhere to for the reinsurer's consideration;
- since facultative reinsurance are judged largely on the risk itself, the reputation of the reassured is not material;
- the commission terms will be assessed on the original rate and overriding commission will depend on whether the original rate will be able to support it;
- long-term relationship between the reassured and reinsurer is not considered in facultative reinsurance but the quality of the risk itself.

(4 marks for each correctly stated step/process. Maximum of 5 completely steps to be graded.
Sub-Total: 20 marks)

(b) (i) The **overriding commission** is based on the net premium after the deduction of the reassured' acquisition costs from the gross premium. The size of the overriding commission is usually negotiated but will depend on profitability of account and management expenses of the reassured on the particular account, and should leave a reasonable profit for the reinsurer.

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

(ii) **Profit Commission** encourages the reassured to write and cede profitable business but when it is a high percentage. It reduces the ability of the reinsurer to build up credit balance. Profit commission are often clausued to the effect that the reassured must carry forward any losses so that no profit commission is payable until a credit balance has been restored.

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

(iii) **Reserves** and the length of time they are held, as well as the interest rates thereon, form part of the negotiations in arranging the contract terms. They may also be a legal requirement to be incorporated into the contract.

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

(Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A780

AVIATION INSURANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A780 -AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

Highest Score:	64%
Lowest Score:	14%
Average Score:	32%

Breakdown Updates

Question 1

The question was meant to test the candidates' knowledge of main participants in aviation insurance market. It was a popular question with about 95% pass rate.

Question 2

This was a direct coursebook rudimentary question which was to test candidates' knowledge on provisions of common conventions. The pass rate was about 70%. Candidates without preparation exhibited carelessness in their answers.

Question 3

The question tested an aspect of the Warsaw Convention and the pass rate was 55%.

Question 4

All the candidates attempted this question and there was a pass rate of 80%. The question was meant to test knowledge of some available contracts that airlines may be involved in.

Question 5

The question was a general insurance principle not particular to aviation on type of discounts on renewal premiums. About 85% pass rate was recorded. Those who performed below average may have attempted with residual knowledge. Tutorial classes will assist to produce better performances.

Question 6

This is a coursebook question assess candidates on the list of claims documentations in aviation. The performance was not too good as 57% of them scored above average; 29% scored zero due to poor preparation.

Question 7

All the candidates attempted this question and there was 80% pass. Those that performed below average may have been ill-prepared as the question had appeared in some diets before.

Question 8

This question was intended to assess candidates' understanding of cogent conventions on offences on board aircraft in flight. The attempt was good (80%) as 14% of the candidates avoided the question entirely. The pass rate was 57%.

Question 9

The question was intended to test candidates on various industry current matters along with other technical questions. The pass rate was 43%.

Question 10

The question was to evaluate candidates' understanding of basic insurance principles such as cancellation, limits of indemnity, subrogation, variation in risk and fraudulent claims. About 42% pass rate was recorded.

Question 11

60% of the candidates attempted this question while 40% did not. Performance among those who attempted it was woeful as they did not understand that brokers should know insurance workings in order to enable them advise their clients logically and professionally.

Question 12

All the candidates attempted this question but none of them passed it. This connotes a lack of knowledge of the concept of aircraft accidents or activities.

Question 13

54% of the candidates attempted the question which was meant to test candidates' knowledge on insurance and its contractual implications, with the convention limits fully enumerated in the coursebook.

Question 14

None of the candidates attempted this question.

Chief Examiner's Comments on Overall Performance:

The overall performance was below average for an assessment of course that the candidates had prior knowledge that they will be tested on it.

Chief Examiner's Suggestion on Improvement:

Candidates need to be more studious and also attend tutorial classes to improve their understanding.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Who are the main participants in the aviation insurance market?

Solution

The main participants in the aviation insurance market are:

- * clients/buyers
- * underwriters
- * brokers
- * reinsurers

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

2(a) What does Annex 13 to the Chicago Convention deal with?

(b) Provide the meaning of the following abbreviations:

- (i) CFIT
- (ii) VFR
- (iii) IFR

Solution

(a) Annex 13 to the Chicago Convention deal with aircraft accident and incident investigation. (3 marks)

(b) (i) CFIT - Controlled Flight Into Terrain (1 mark)

(ii) VFR - Visual Flight Rules (1 mark)

(iii) IFR - Instrument Flight Rules. (1 mark)

(Total: 6 marks)

3(a) What effect does the Warsaw Convention have on a carrier's liability for loss of or damage to cargo?

(b) List the two (2) factors that determine the rate applicable to cargo all risks insurance.

Solution

(a) Warsaw Convention limits the carrier's liability to specified amounts unless the consignor has made a special declaration of value when the higher limit will apply. (2 marks)

(b) The two factors that determine the rate applicable to cargo all risks insurance are: the type of cargo (2 marks) and the point of departure and destination (2 marks).

(Total: 6 marks)

4. Enumerate any six (6) types of contract that an airline may get involved with.

Solution

The types of contract that an airline may get involved with are:

- * aircraft purchase
- * aircraft lease
- * aircraft charter
- * spare parts or engines purchase or lease
- * aircraft maintenance

- * fuel supply
- * catering
- * use of airports
- * indemnity passenger or route sharing
- * ground handling
- * SITA agreements.

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

5. List the three (3) usual type of discounts that may be given on renewal of an aircraft policy.

Solution

The three (3) usual type of discounts that may be given on renewal of an aircraft policy are:

- * no claim bonus
- * profit commission
- * good experience return.

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

6. List any six (6) documents required by lawyers as soon as possible after an aircraft accident.

Solution

The minimum documents required by lawyers as soon as possible after an aircraft accident include the following:

- copy of passenger list or manifest
- passenger flight coupons
- addresses of passenger and next of kin
- report of operator
- seating plan
- details of injuries
- navigational log
- details of crew
- copies of relevant correspondence.

(1 marks for every correctly stated document. Maximum of 6 to be graded. Total: 6 marks)

7. Enumerate any three (3) key advantages to a company which results from owing a captive.

Solution

The key advantages to a company which results from owing a captive are:

- captives have lower administration cost compared with those of the company
- captive's parent company will have the benefit of any investment income
- cost of insurance should more closely reflect the risk

- cover can be provided for risks which the traditional insurance markets do not wish to insure.
(2 marks for each complete and correctly stated advantage. Maximum of 3 to be graded. Total: 6 marks)

8. Enumerate the three (3) conventions related to offences committed on board an aircraft in flight.

Solution

The three (3) conventions related to offences committed on board an aircraft in flight are:

- The Tokyo Convention 1963
- The Hague Convention 1970
- The Montreal Convention 1971

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

Part II

Compulsory Question.

This question carries 50 marks.

9(a) In Nigeria, what is the name of the current

- (i) Commissioner for Insurance? (2 marks)
- (ii) President of the Nigerian Council of Registered Insurance Brokers? (2 marks)
- (iii) President of the Institute of Loss Adjusters of Nigeria? (2 marks)
- (iv) Chairman of the Nigerian Insurers Association? (2 marks)
- (v) President of the Chartered Insurance Institute of Nigeria? (2 marks)

(b) As an insurance broker to a religious organisation, which has recently purchased a light aircraft for their use and has requested you to obtain quotes to insure the aircraft. Identify the:

- (i) coverage your client needs. (14 minutes)
- (ii) ten (10) information your client needs to provide to obtain a quote. (10 marks)
- (iii) provisions required in the insurance if your client has obtained finance to augment purchase of the aircraft. (16 minutes)

Solution

- (a) (i) Mr. Sunday O. Thomas (2 marks)
- (ii) Dr. (Mrs.) Bola Onigbogi (2 marks)
- (iii) Mr. Reginald Egbuniwe (2 marks)
- (iv) Mr. Ganiyu Musa (2 marks)
- (v) Sir Muftau Oyegunle (2 marks)

(Grand Total: 10 marks)

(b) (i) The client will need to buy hull, third party and passenger liability for the aircraft (5 marks), plus possibly hull war coverage (5 marks). Hijacking and other perils exclusions clause (Aviation) per the extended coverage endorsement (4 marks). (Sub-Total: 14 marks)

(ii) The following information are required to be provided by the client in order to present a quote:

- * name and address of the insured
- * Age of aircraft
- * agreed value
- * usage e.g. crops spraying
- * passenger seating
- * names and flying experience of pilots' geographical limits required
- * maintenance provider
- * make and model of aircraft
- * registration
- * level of deductible
- * utilization
- * liability limit

(iii) When using finance to buy an aircraft, the finance company will want the insurance covering the asset to contain certain provisions protecting them and their property as follows:

- to be added as additional insureds under the liability coverage
- to be a loss payee up to the amount of the loan outstanding
- to protect in case the insured breaches a policy condition or warranty which might result in the policy not responding in the event of a claim
- at least 30-days-notice in the event of cancellation or material change to the policy.

(8 marks for each correctly stated provision. Maximum of 2 to be graded. Sub-Total: 16 marks)
(Grand Total: 34 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. Explain the provision of the following six (6) general conditions in the London Aircraft Insurance Policy (AVN IC)

- * Subrogation (6 marks)
- * Cancellation (6 marks)
- * Limit(s) of indemnity (4 marks)
- * Variation in risk (6 marks)
- * Arbitration (6 marks)
- * False and fraudulent claims (6 marks)

Solution

The provisions required in the insurance if the client has obtained finance to augment purchase of the aircraft are:

- **Subrogation:** as soon as underwriters have made a payment or have given an indemnity under the policy, underwriters will be subrogated to the rights of the insured. The insured is required to co-operate with insurers and do everything necessary to assist insurers to exercise their subrogation rights.

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

- **variation in risk:** insurers require an insured to give them immediate notice of any change in the circumstances of the risk which are the basis of the contract. If the insured does not advise insurers of such a change or if the change is not agreed by insurers, then no claim arising after the change will be recoverable under the policy.

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

- **cancelation:** the policy can be cancelled by either the insured or insurers giving not less than 10 days. If the insured's cancel, the return premium is calculated at the discretion of insurers. If the insurers cancel, the return premium is calculated at pro-rata policy terms. No return is payable in respect of any aircraft that has been the subject of a loss.

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

- **arbitration:** the standard London aircraft insurance policy (AVN IC) is to be construed in accordance with English law and any dispute or difference between the insured and insurers will be arbitrated in London in accordance with such statutory conditions in force.

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

- **limit(s) of indemnity:** this condition means that the policy limit of indemnity shown in the policy will apply irrespective of the number of insured parties named under the policy. The limit will apply equally but will not exceed the stated amount

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

- **false and fraudulent claims:** if the insured makes any claim which they are aware is false or fraudulent as regards the amount or otherwise, the policy becomes void and any claims there under are forfeited.

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

(Grand Total: 34 marks)

11. You are an insurance broker to your client Exe Ground Handling Company in Nigeria providing refueling, aircraft towing and cleaning services.
- (a) Highlight the potential aviation exposures that your client will need to consider insuring against and the policy that may be used. (20 marks)
- (b) Describe coverage issues that may arise in the following situations
- (i) Fuel leak from your client's fuel storage facility and has polluted a local water supply. (10 marks)
- (ii) An employee of your client drives his own vehicle airside and is involved in an accident with another vehicle (4 marks)

Solution

(a) The potential aviation exposures to be considered and the policy that may be used are:

- vehicle colliding with other vehicles, aircraft or structure whilst airside; (5 marks)
- damage to aircraft by the employees, whilst working on or around aircraft, as well as whilst driving; (5 marks)
- one of the highest risk occupations on an airfield arises through aircraft refueling. Aircraft cleaning companies have a premises liability exposure when access of aircraft, a hangar keepers' exposure when the aircraft are in the cave, custody and control, and they have a products liability exposure due to the cleaning products being used. (5 marks)

The normal policy form that would be used is the ARIEL Airport Owner's and operators' Liability Policy. (5 marks)

(Grand Sub-Total: 20 marks)

(b) (i) It must be proved that the fuel has come from the contractor's facility and that it has caused the damage. Pollution or contamination of any kind is excluded from an aviation policy, per the Noise and Pollution and other Perils Exclusions Clause – AVN 46B, unless it is caused by or results from a crash, fire, explosion or collision or a recorded in-flight emergency causing abnormal aircraft operation. If it is not caused by an aircraft accident, the pollution event will not be covered.

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

(ii) The premises section of the AIRTEL policy provides cover for vehicles hitting aircraft. In this case of deliberate and malicious act is excluded by paragraph of the war exclusion.

(4 marks)

(Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)

12 Executive Helicopters Limited registered in England provides first class transportation to executives and celebrities. On a domestic flight into London, the helicopter suffers a mechanical failure and crash-landed on a car park at a local shopping centre. The helicopter is extensively damaged and two passengers suffered serious injury; one passenger being paralyzed by the event. In addition, several bystanders were injured and two parked cars were also destroyed.

It was discovered that when the helicopter was recently serviced, a crucial oil sealing ring was not put back in place, and this was the cause of the accident.

Executive Helicopter advised their hull and liability insurers of the accident. Discuss the liabilities of insurers and executive helicopter and describe any likely liability awards.

Solution

To consider first the damage to the aircraft, the damage to the hull would be covered so long as the insured had not been breached any of the policy conditions and none of the exclusions applied.

However, this could be clouded by the error made when the helicopter was serviced. It is important to find out who did the servicing. If it was a third party, then there would be no problem and the insurers would without doubt want to investigate rights of subrogation if any contractual provisions were in place to modify the insured's right to seek to recover loss for what is, in effect, faulty workmanship.

If the service had been undertaken by the insured, the insurer may look to any policy language which might give them right to decline the claims. AVNIC for example, states that the insured and their employees shall ensure that the aircraft is airworthy at the commencement of each flight. This applies equally to the insurer's position on any liability claims.

It should be noted further in respect of contractual provisions that the policy wording could well include an exclusion of any liability assumed or rights waived under contract unless specifically agreed by insurers this could lead to problems. As regards liability of insurers to the passengers/ third parties all of the preceding applies. Reasonable claims for loss of use of the destroyed cars i.e. live costs would in all likelihood be allowed by the insurers.

An interesting aspect is if the shopping centre had to be closed for a length of time although no damage was caused to it. Some insurers will not meet any claim from that end.

Owners of vehicles lost can claim for the replacement of the vehicles plus live costs until the matter is settled.

Executive Aviation has strict liability to its passengers and this will be subject to the terms of EU Regulations 2027/97. Therefore, there will be no artificial limit of liability. Advance payment to meet immediate economic needs must be made no later than 25 days after identification of the party entitled to compensation.

It can be assured that courts would also find Executive Aviation liable for the injury to the third parties on the ground.

(5 marks for each complete and correctly stated point. Maximum of 5 points to be graded. 4 marks for logical presentation. Grand Total: 34 marks)

13. An aircraft leasing company has leased a twin-engine aircraft to an airline. The agreement contains a provision specifying that they must be named as sole loss payee and additional insured under the operator's policy.

The aircraft is insured for \$5,000,000.00 using a standard London aircraft insurance policy - AVN IC with an agreed value clause - AVN 61. The engines are valued at \$750,000.00 each.

The aircraft has suffered a constructive total loss. You have subsequently heard that the airline had earlier replaced one of the aircraft engines with one of their own. The engine is currently missing during shipment back to them.

Discuss the insurance and contractual implications.

Solution

The airlines insurers will have to pay the constructive total loss as there appears to be no doubt that that is what has occurred. However, the surveyors will need to examine the lease agreement to check on the contractual relationship between the two parties. The information states that the leasing company be named as sole loss payee under the airline's insurance.

There is the complication of the engines if an engine is removed and a substitute engine installed, the lessor will usually require that the value of the aircraft as stated in the insurance should be increased by the value of the loaner engine. This will ensure that the owner of the new engine will receive indemnity on their asset in the event of a total loss. The lessee would also still receive the total agreed value of the aircraft as stated in the original lease agreement.

We are advised that one of the aircraft that one of the aircraft engines which forms part of the USD5,000,000 aircraft agreed valued has been removed. The airline/ their insurers will need contractually to pay the agreed value of USD5,000,000 as shown in the lease.

We are also advised that the engine that was removed was being shipped back. We are not advised who was agreed to be responsible for this shipment as it would be a contractual issue. Whichever party had agreed to provide the insurance for the shipment, it should have been on all risks' basis necessary as agreed value. The insurance that shippers provide say that their liability will be limited to convention limits if they are liable for anything going missing or damaged during transit. The convention limits restrict the amount that can be claimed to as little as USD2 per kilogram.

The leasing company must receive the agreed value of the aircraft as in laid out in the contractual agreement. If missing aircraft engine is not found and was insured correctly on an all risks' basis.

(5 marks for each complete and correctly stated point. Maximum of 5 points to be graded. 4 marks for logical presentation. Grand Total: 34 marks)

- 14) In respect of a domestic flight, describe the possible awards of damage if an aircraft accident occurred in
- (a) the UK. (20 marks)
 - (b) in Canada (14 marks)

Solution

As in both cases, it was a local pleasure flight and that all claim will be dealt on its own merits. The doctrine of common law and proof of negligence apply.

(a) **Accident in the UK.**

Assuming negligence was proved to the court's satisfaction, the liability to the plaintiffs would be unlimited. Claims may be made for death or for bodily injury.

Death claims would be made under two headings

- * Economic loss;
- * Non-economic loss.

Economic loss would include the following.

- Life expectancy of the deceased.
- The deceased's expected gross salary, including salary investment for promotion and inflation but less expected living expenses and tax.
- The value of any other benefits or shareholding or partnerships he may have had in any business.
- Funeral expenses.
- Less of personal property.
- Any estate or death duties payable by his heirs.

Non-economic loss would include:

- loss of care, affection, companionship and protection to his wife and to his children from the time of his death to their majority.
- damage or death claims are generally tried before a judge although the trial could go before a jury if the parties require.

Claims for injury come under the following headings

- compensation for pain and suffering.
- loss of amenities of life.
- loss of expectation of life.
- loss of earnings.
- medical and other expenses reasonably incurred as a result of the injuries.

(4 marks for each correct and completely stated point. Maximum of 5 points to be graded. Grand Sub-Total: 20 marks)

b. Accident in Canada

- almost all provinces base their law on the common law of England.
- in fatal injury cases, the following can claim in respect of the remaining spouse, the children, the parents, the grandparents and grandchildren.
- the court will use as a basis an expected average annual earning.
- children can claim for the expected financial support they would have received from their deceased parent. Parents can claim for the loss of support they might have received in their old age.
- For men, fatal injuries that is permanent total disablement, supreme court of Canada has adopted following guideline.
 - Hemisation of headings per UK.
 - actuarial valuation of lump sum payment.
 - full compensation for pecuniary loss.
 - adequate care for the totally disabled.
 - a lump sum to cover non-pecuniary loss.

(3½ marks for each correct and completely stated point. Maximum of 4 points to be graded. Grand

Sub-Total: 14 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A785

PRINCIPLES OF REINSURANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A785 -PRINCIPLES OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	72%
Lowest Score:	30%
Average Score:	46%

Breakdown Updates

Question 1

Candidates performed woefully as they were applying sum insured to the premium rate to arrive at premium for the risk rather than for layered insurance.

Question 2

Over 95% of the candidates performed excellently in this question.

Question 3

Candidates' mis-concepted rating method for method of reinsurance and components of life premium. Hence the mass failure.

Question 4

Candidates wrote on risk factors i.e. underwriting considerations rather than the question asked. The end result was a woeful performance.

Question 5

A good attempt was made here by candidates. 81% of them scored above the pass mark. They generally understood the concept of net retained clause and notification clause.

Question 6

A direct question that was generally understood by the candidates. 97% of the candidates scored above the pass mark.

Question 7

The question was well understood by the candidates and they performed relatively well.

Question 8

Majority of the candidates attempted the question with few of them writing off the required point.

Question 9

This question was poorly answered as almost all the students failed the question. Only one candidate scored above the pass mark.

Question 10

A fair performance was recorded here.

Question 11

16% of the candidates attempted the question and they scored above the pass mark.

Question 12

This question was poorly attempted. Most of the candidates misconstrued rating factors in rating with objects and reasons for reinsurance, hence the mass failure.

Question 13

This question was not impressively attempted by almost all the candidates. Most candidates answered (a) correctly and (b) incorrectly. The information for successful negotiation was mis-concepted.

Question 14

This question was sparsely attempted by the candidates. The pass rate was low. The "a" part was understood but the "b" part was not understood as candidates were providing reasons/importance of reinsurance rather than the circumstances where quota share is desirable.

Chief Examiner's Comments on Overall Performance:

The performance is not impressive.

Chief Examiner's Suggestion on Improvement:

Candidates should study harder and apply themselves to their studies. They are also encouraged to attend tutorial classes and students' forum.

Part I

Answer ALL questions in Part I.

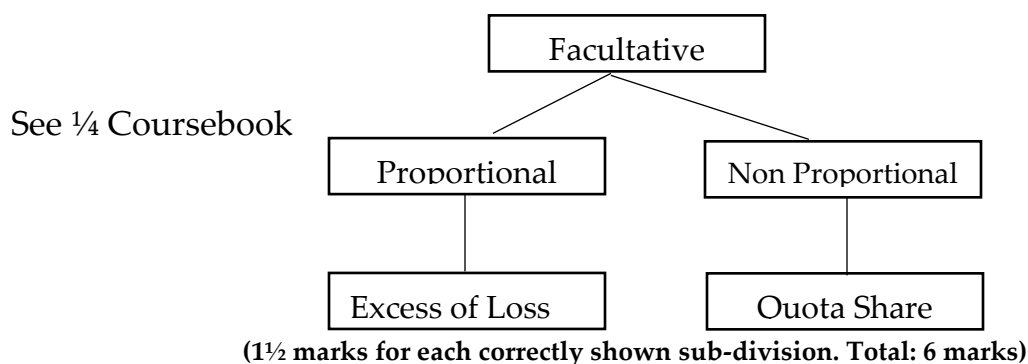
Each question carries six (6) marks.

1. State the formula for calculating the premium for layered insurance.

Solution

Premium Formula for Layer = Gross Premium Income * Rate% (6 marks)

2. Show with a diagram the sub-divisions of Facultative Reinsurance.

Solution

3. Mention the two (2) rating methods often used to work out a quotation on a treaty account.

Solution

The two rating methods often used to work out a quotation on a treaty account are:

- in accordance with the experience, with projection into the future;
- in accordance with the risk exposure.

(3 marks for each complete and correctly stated method. Total: 6 marks)

4. Enumerate any three (3) crucial detail to be identified when the cedant offering the business to a previous reinsurer is previously unknown to the reinsurer.

Solution

The crucial detail to be identified when the cedant offering the business to a previous reinsurer is previously unknown to the reinsurer are:

- date that the company was established
- capital structure and ownership of the company
- company's trading results

- knowledge and experience of the individual underwriters employed by the cedant
- ability and competence of the cedant's management team.
(2 marks for each correctly stated detail. Maximum of 3 to be graded. Total: 6 marks)

5. What is the purpose of the following as it relates to reinsurance:
- net retained line clause
 - claims notification clause and reporting clause.

Solution

The purpose of the clauses as it relates to reinsurance is:

(a) **net retained line clause:** to stress that the reinsurance applies only to that proportion of any insurance which the reinsured has retained net for its own account.

(b) **claims notification and claims reporting clause:** to avoid an increase in insurer's liability due to a change in law of a country which would increase reinsurers' liability substantially from that envisaged at the outset of the treaty.

(3 marks for each correct and completely stated purpose. Total: 6 marks)

6. Define the following terms as it relates to reinsurance:
- a warranty;
 - condition precedent

Solution

(a) A **warranty** is a contractual promise made by a reinsured either as to an existing state of affairs or as the things that the reinsured will do in the future.

(b) **Condition Precedent** is a contractual term which must either be performed in order to bring into force a valid policy or, more usually, to make the reinsurer liable under the policy.

(3 marks for each correct definition. Total: 6 marks)

7. Marine reinsurance have many different main classes. List any three (3) of these classes.

Solution

The different main classes of marine reinsurance are:

- | | |
|--|------------------------|
| * cargo (also called "voyage" account) | * liabilities |
| * hull (also called "time" account) | * war |
| * energy (also called "rig" account) | * assumed reinsurance |
| * incidental non-marine | * incidental aviation. |

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

8. Insurance is globally guided by universally acceptable legal principles of insurance. List these principles.

Solution

The legal principles of insurance which are globally applicable to the practice of insurance are:

- * Utmost Good Faith * Insurable interest * Indemnity
- * Subrogation * Contribution * Proximate Cause

(1 mark for each correctly stated principle. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

Section B (50 marks)

9(a) State two (2) effects each on any two of the following on insurance companies:

- (i) Increase in the capital base for insurance companies
- (ii) Awareness programmes by NAICOM
- (iii) Going public.

(10 marks)

(b) There are a number of factors that allow the successful development of an international centre for reinsurance. Apart from the requirement factors for an international market, there are many other aspects affecting the purchase of reinsurance. Enumerate and explain five (5) of these factors. (30 marks)

(c) List any four (4) methods that allow the capture of data from several different areas of operation onto a database. (10 marks)

Solution

(a)

S/No	Action	Effects
1	Increase in the capital base for insurance companies	1. It may lead to mergers and acquisition. 2. It may cause self-retrenchment. 3. These companies that do not meet their deadline risk having their operating licences withdrawn.
2	Awareness programmes by NAICOM	1. Increased efficiencies and effectiveness. 2. Opens up better ways of operational strategies.

		3. More staff will benefit in the training and retraining programmes.
3	Going public	1. Open up shares to the public. 2. Availability of more friends for operation. 3. Leads to improved management.

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

(b) There are a number of factors that allow for the successful development of an international centre for reinsurance. Apart from the requirement factors for an international market, the other aspects affecting the purchase of reinsurance are:

- **price:** the price of reinsurance has declined in recent years, as a result of the lack of serious losses, making not only the amount available greater but also causing reductions in deductibles and terms.
- **availability:** reinsurance availability has increased to a number of new entries into the reinsurance market and until the capacity diminishes, there will be no difficulty with the availability of reinsurance.
- **strength of competition:** although the large reinsurance firms appear to be getting larger through merger and acquisition resulting from the influx of new providers, they are not in a position to control the market to the extent of dictating rates.
- **developments in loss exposure:** with the advent of electronic placement and claims collections, recovery times have decreased, putting a cash-flow strain on some of the reinsurers.
- **potential claims:** new loss exposures could result in insurance companies trying to purchase additional protections for losses they were not previously aware of.
- **new products:** insurers use reinsurance as a means of protecting the development of new products. In times of intense competition reinsurers will develop new products for the use of insurers.
- **coverage:** the greater the coverage available, the more likely the purchase of excess of loss reinsurance.

(3 marks for each correctly stated factor. 3 marks for each correct and completely stated explanation. Sub-Total per factor: 6 marks. Grand Sub-Total: 30 marks)

(c) The following are methods that allow the capture of data from several different areas of operation onto a database:

- * neural networks
- * expert systems
- * artificial intelligence
- * statistical algorithms
- * data warehousing.

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

Section C (34 marks each)

10.(a) A company has a net retention of ₦200,000.00 with a 50% quota share and a nine-line surplus treaty. The company has written a line of ₦5,000,000.00, in respect of which it has filled its proportional treaties and placed the balance facultatively. It suffers a loss of ₦3,000,000.00. How would the loss be allocated to the reinsurances? (20 marks)

(b) What type of risks/cessions may a second surplus treaty take? Explain the unique challenge that a reinsurer of a second surplus treaty might face. (14 marks)

Solution

(a)

Sum Insured: ₦5,000,000.00

Loss: ₦3,000,000.00

Risk Apportionment:

Retention 4%: ₦200,000.00 (1 mark)

Q1S 4%: ₦200,000.00 (1 mark)

Treaty 72%: ₦3,600,000.00 (1 mark)

Facultative 20%: ₦1,000,000.00 (1 mark)

Loss Apportionment

Retention 4%: ₦1,200,000.00 (4 marks)

Q1S 4%: ₦ 120,000.00 (4 marks)

Treaty 72%: ₦2,160,000.00 (4 marks)

Facultative 20%: ₦ 600,000.00 (4 marks)

Total: ₦3,000,000.00

(Sub-Total: 20 marks)

(b) A second surplus treaty may only have larger risks (4 marks), in which case fewer cessions will be made to it (3 marks). This implies that there is less premium available to build reserves against any potential losses (4 marks) and such treaties may be subject to considerable fluctuations in results (3 marks).

(Sub-Total: 14 marks)

(Grand Total: 34 marks)

11(a) There are various forms of casualty/liability business and for each class, the type of reinsurance is different. However, several casualty classes are often combined in one treaty for reinsurance purposes. Explicitly enumerate three (3) advantages and three (3) disadvantages of combining classes of casualty/liability business. (18 marks)

(b) List any two (2) risk areas that exclusions are applicable on under each of the following types of casualty/liability businesses under third party liability.

(i) public liability (ii) product liability (iii) employers' liability
(12 marks)

(c) Enumerate any two (2) of the three (3) risks splits under motor insurance? (4 marks)

Solution

(a) Several casualty/liability classes are often combined in one treaty for reinsurance purposes with the following advantages and disadvantages.

Advantages are:

- in many cases, reinsurance requirements are similar across classes, therefore, one treaty for all classes can be suitable
- ease of administration i.e. in the calculation and payment of instalments, adjustments, e.t.c.
- allows small companies in particular to include classes too small to warrant separate reinsurance treaties within their main treaty
- can maintain flexibility by purchasing different limits under excess of loss treaties for different classes.

Disadvantages are:

- reinsured unable to split reinsurance costs accurately between departments
- common retention level across all classes for excess of loss cover
- it is more difficult for the reinsurer to exercise underwriting judgement, as the results of different classes are obscured
- different classes of business may end up subsidizing one another.

(3 marks for each correct and completely stated (dis)advantage. Maximum of 3 to be graded under each section. Sub-Total per section: 9 marks. Grand Total: 18 marks)

(b)

S/No	Type	Risk Areas
1	Public Liability	aircraft; vessels and anything to do with shipbuilding, docks, e.t.c., motor vehicles, contractors engaged in building, wrecking, demolition, toxic waste; dams and subaqueous work; mining, quarrying and excavating; erection and work on towers, e.t.c.; gases and explosives; oil companies; tobacco; asbestos; pollution (other than sudden and accidental).
2	Product Liability	manufacturers of aircraft, pharmaceuticals, blood and plasma products, toxic or explosive chemicals, industrial boilers, portable oil heaters, tobacco; incorrect labelling; products recall; products guarantee; professional liability; financial loss; efficacy.
3	Employers' Liability	where there is an accumulation of employees and all of them would likely be injured or killed in the event of a disaster e.g. aircraft and ships' crew; accumulation (often unknown) of employees exposed to danger e.g. offshore; dangerous work involving large number of employees in confined spaces and with the additional threat of occupational disease e.g. explosives, chemicals, asbestos; areas with high potential for catastrophic bodily injury e.g. subaqueous work.

(2 marks for each correctly stated area. Maximum of 2 to be graded under each type. Sub-Total per section: 4 marks. Grand Total: 12marks)

(c) The three (3) risks splits that we have under motor insurance are:

- * own damage
- * fire and theft (i.e. first party risk)
- * third party bodily injury and third party property damage.

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

(Grand Total: 34 marks)

12. (a) What is the full meaning of EML and EPL?

(4 marks)

(b) Under a treaty account, there are detailed and key factors which are relevant to the rating process and by which premiums might be arrived at, although insurers use different methods when calculating their premiums. Enumerate and briefly explain any five (5) of these factors. (30 marks)

Solution

a) EML – Estimated Maximum Loss and EPL – Estimated Probable Loss

(2 marks each. Grand Total: 4 marks)

b) The detail and key factors that are relevant to the rating process by reinsurers are as follows:

- **Original Underwriting Limits** of the reinsured with emphasis on the basis of these limits (sum insured or EML). If it is on an EML basis, the minimum factor that is applicable must be provided
- **Claims Experience:** the number of years for which claims history is available depends upon the length of time that the reinsured has been writing the particular class of business in question. For risk and working covers, at least five years' experience figures would usually be expected and this would be considerably longer for catastrophe protections. The detail required consists of both the premium income protected for each year as well as a profile of the amount and frequency of losses which would have affected the cover. Any loss amounts should be defined as to whether they are before or after the application of the proposed treaty deductible.
- **Nature of the Account:** the reinsurer will expect that during the requested period of the reinsurance cover the reinsured's underwriting policy will not materially alter, except if agreed by both parties. However, it may be that the current portfolio is changing in comparison to previous years owing to amendments to the company's management policy and/or the needs of the original insureds. Any such changes should be allowed for in the calculation of the current price to be applied.
- **Effect of Inflation:** the existence of inflation in an economy results in increases in property values and the cost of repairs etc., which in turn results in an increase in the average size of claims. Loss details should be

made available, not only of the losses that have actually exceeded the deductible, but also of those claims in previous years that are within, for example, 75% of the deductible. Similar losses in future years may result in losses attaching to the proposed reinsurance.

- **Currency Fluctuations:** where the limits and deductibles of a proposed cover are expressed in one currency and significant amounts of the original business to be protected are in different currencies (as in the case of a world-wide portfolio) variations in rates of exchange may seriously affect the size and number of losses attaching to the reinsurance. Excess of loss reinsurances are rated generally at the beginning of the reinsurance period. Therefore, any upward or downward movement in exchange rates would alter burning cost calculations and these movements cannot be satisfactorily predicted in advance. In such circumstances, the use of a currency conversion clause (see chapter 8 on 'wordings') will limit any adverse effects on the cover.
- **Risk Profiles:** an analysis of the risks within a portfolio of business which groups the policies, aggregate sums insured and applicable premiums into specified bands should be made available. Such a profile of the risks to be protected should reveal the number and nature of the risks (i.e. domestic, commercial or industrial) which may be expected to produce the normal size and frequency of loss to risk or working excess of loss covers.
- **Catastrophe Perils:** the extent to which a portfolio of business is exposed to natural catastrophic perils must be considered. Any significant exposure should be reflected in the final rate calculated and particular attention paid to the geographic spread of the business. Aggregate sums insured should be available for every identified geographic or seismic zone, again split by the nature of the original policies, for example, domestic, commercial and industrial
- **Underlying Protections:** with catastrophe protections, the existence and extent of any underlying proportional or risk excess of loss should be considered. Any such covers reduce the reinsured's net retained losses arising out of any one event and consequently reduce a catastrophe reinsurer's potential exposure to loss.

- **Number of Reinstatements:** the amount of reinsurance provided by each cover may be limited or restricted, particularly in the case of 'catastrophe' types of protection. The contract of reinsurance may provide a number of reinstatements and in the event of a valid claim, additional premiums may be due to replace the amount of cover 'used up' in the claim.
- **Amount of Cover Requested:** has an effect on the final rate to be quoted: this consideration varies depending on the relationship between the size of the deductible and the level of anticipated exposure that reinsurers have assumed. If the total amount of cover required is being layered, the extent to which a reinsurer is (or wishes to be) involved in more than one layer is considered in the calculation of the final premium.
- **Relationship with the Reinsured:** the majority of excess of loss covers are arranged on an annual, twelvemonth basis. This gives the reinsurer an automatic opportunity to review the basis of cover and the contractual terms and conditions. However, contracts may be arranged on a continuous basis, with tacit renewal at anniversary date, giving the reinsured and reinsurer the opportunity to build and maintain a long-term working relationship.
- **Quality of the Business:** it may be that because of the desirability of the business being offered, the final rate quoted reflects a reluctance to participate on the cover except at terms that are specifically advantageous to the reinsurer.

(3 marks for each correctly stated factor. 3 marks for each correctly stated point under each factor. Maximum of 1 point to be graded under each factor. Sub-Total for each factor - 6 marks. Maximum of 5 factors to be graded. Grand Sub-Total: 30 marks)
(Grand Total: 34 marks)

- 13(a) What is the slip? (4 marks)
- (b) The successful negotiation of a reinsurance contract or programme depends on the quality and quantity of the information made available to potential reinsurers. Contextually discuss any five (5) of that information, stating their importance. (30 marks)

Solution

(a) The slip is the document on which the basic outline of the reinsurance contract is summarised during the negotiation and on which the reinsurer confirms the amount of liability they are prepared to underwrite. (4 marks)

(b) The information required for a successful negotiation of a reinsurance contract/programme are:

- **Details of the cedant:**
 - Date that the company was established
 - Capital structure and ownership of the company
 - Company's trading results
 - Knowledge and experience of the individual underwriters employed by the cedant
- **Cedant's Class or classes of business covered**
 - Precise risks to be protected by the reinsurance
 - Nature of coverage
 - Extent of coverage
 - Details of the territorial scope
- **Cedant's Original Policy Sums Insured**
 - Details of the sums insured or limits of liability
 - Applicable deductibles (if any)
 - Portfolio Risk Profile
- **Cedant's Risk Profile**
 - Details of different sums insured
 - Varied risks being covered
 - Relationship between any hazardous and non-hazardous risks
 - Special perils being covered
- **Cedant's General Experience**
 - In particular class(es) of business
 - Overall cedant's experience in managing all its accounts
 - Individual experience of its technical staff
 - Information on the development of the cedant's premium income over the years, usually the past 5-10 years
 - Growth pattern of the cedant – aggressive or conservative
- **Cedant's Claims Experience**
 - Cedant's claim reserving philosophy and expertise

- Details of all claims
- Claims and underwriting policy
- All reported claims – paid, outstanding and IBNR
- Triangulated claims especially on long-tail businesses
- **Exclusions**
 - Details of business or perils that it does not underwrite
 - Details of perils it does not require reinsurance
 - Nuclear Risks
 - War Risks
- **Reinsurance Preference.**
 - Type of reinsurance cover required – proportional or non-proportional
 - Commission negotiation
 - Likelihood of transfer of business to another reinsurer.

(3 marks for each correctly stated heading. 3 marks for the correct explanation. Sub-Total per heading: 5 marks. Grand Sub-Total: 30 marks)
(Grand Total: 34 marks)

14.(a) Define the “quota share treaty” (4 marks)

B(B) Explain any five (5) circumstances where the use of quota share is particularly appropriate. (30 marks)

Solution

a) Quota Share Treaty is an **obligatory ceding treaty** where **the ceding company has to cede a fixed percentage of all their risks** and the **reinsurer is obliged to accept all the cessions made**, usually **subject to a maximum amount any one cession**.
(1 mark for each bolded phrase correctly stated. Sub-Total: 4 marks)

b) The following are some of the circumstances where the use of quota share is particularly appropriate:

- where a newly formed company needs a sufficiently large per risk capacity to enable it to attract business, particularly in a market that has an excess of existing capacity. However, it may not have the capital base to support the size of acceptances required, nor the experience or reputation to develop a presence in an established market. A quota share treaty will provide operating capacity whilst enabling the insurer to fix its net retention at a level that matches its capital base. The reinsurer would prefer a quota share arrangement with greater opportunity to participate in the underwriting of each policy and to obtain an understanding of how

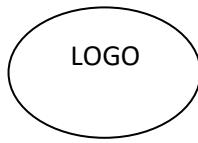
the new business would be handled. As the company grows, the percentage of its retention can be increased which allows a certain amount of expansion within existing arrangements. This also provides continuity in its reinsurance security which is important, particularly in the first few years of a company's development.

- where the risks are homogeneous (i.e. similar risks and relatively uniform sums insured for example, household). Quota share treaties are useful where volumes are high as the administration of the reinsurance is relatively simple and cost effective when compared to other types. This is especially true if the type of business is written via a number of small branch offices or agents. The ease of operation of this type of reinsurance, again, may make quota share arrangements attractive to new or small companies with staff of limited experience administering their reinsurance programmes.
- where the cash flow of a ceding company is a major factor which influences the ceding company's choice of reinsurance because in general, quota share treaties carry the highest percentages of ceding commission compared with other types of proportional reinsurance arrangements.
- where a company wishes to expand its portfolio of inwards reinsurance business but this may only be achievable by giving some of its own business away by some form of reciprocal exchange. Quota share treaties provide an efficient method of effecting such transfers.
- where an established insurer (and its reinsurers) may have experienced a period or series of poor results under other less all-embracing reinsurance arrangements. As a temporary expedient, a sign of good faith and to seek to maintain its reinsurance capacity, a quota share treaty may be arranged to restore the balance. With this type of reinsurance there can be no selection of the risks ceded to reinsurers. Therefore, if the original account is profitable this may be a preferred method of maintaining faith with reinsurers.
- where there ceding company is with a large insurance group operating on a world-wide basis, the 'sharing' of business by subsidiary companies within the group organisation can be a way of diluting the effects of losses in any one part of the organisation without losing the overall benefits of the premium income from the business concerned.

- where the company is in need of financial assistance in order to cover a large cost, such as increase in production (financing of costs and of the reserve for unexpired risks). For example, an insurer has launched a new insurance offering directors' and officers' cover. It is proving extremely successful and the capital backing allocated for it is quickly becoming exhausted. The insurer could allocate more capital but that would take capital away from other areas of the company. However, if they added a quota share, for example, a 33.33% quota share would allow them to write a third more business using the same existing capital base.

(4 marks for each correctly and fully stated circumstance. 2 marks for any additional point stated under the circumstance. Sub-Total per Circumstance: 6 marks. Maximum of 5 circumstances to be graded. Grand Sub-Total: 30 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A825

APPLICATION OF REINSURANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A825 -APPLICATION OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	72%
Lowest Score:	46%
Average Score:	53%

Breakdown Updates

Question 1

This was a direct question. Candidates were able to understand the concept of burning cost. 50% of them scored above the pass mark.

Question 2

Candidates were able to understand the question and they answered it brilliantly. The pass rate was impressive.

Question 3

Most of the candidates that attempted the question did not understand the meaning of investible funds for a reinsurance company. Rather, they were writing on investment possibilities for insurance companies.

Question 4

Brilliantly answered by most of the candidates who scored more than 80% of the marks. They displayed a good understanding of the essence of reinsurance.

Question 5

This question was badly attempted. Ironically, most of the candidates could not give clear meaning of capacity; rather they were enumerating on reasons for reinsurance. Only few were able to distinguish between quota and surplus treaty.

Question 6

Only about 50% of the candidates correctly answered this question. Others were stating elements of life premium instead.

Question 7

This was a popular question and a compulsory one as at date. Performance was not discouraging as 80% of them scored between 80% and 100% of the available marks.

Question 8

Performance was satisfactory. 25% of the candidates scored 40% of the mark while the remaining 75% scored between 80% and 100%.

Question 9

The pass rate here was 33% as the candidates did not answer them options correctly.

Question 10

50% of the candidates attempted the question and their performance was very woeful as none of them passed the question. This shows a no-understanding of the question.

Question 11

55% of the candidates attempted this question which was a direct question on type of reinsurance. There was a pass rate of 50% from them notwithstanding the directness of the question.

Question 12

This question was a badly attempted question. There was no iota of knowledge on the (a) to (d) by all those who answered this question.

Question 13

This was a direct question and it was well attempted by the candidates with a 90% pass rate.

Question 14

Responses to this coursebook question produced a fair result for the few candidates that attempted it.

Chief Examiner's Comments on Overall Performance:

The overall pass rate was 73% which though good, could still be better.

Chief Examiner's Suggestion on Improvement:

Candidates are encouraged to be more focussed in their studies to guarantee success in the examination.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Explain “burning cost” and how it operates.

Solution

This is a common method of experience rating under a non-proportional treaty arrangement. It takes the loss ratio on a portfolio into consideration in arriving at the premium rate. **Burning cost are worked out by taking the aggregate of individual losses to the layer, divided by the total ratable income on a per year basis. The burning cost calculation would then be multiplied by the loading factor; these are most commonly 100/70th, 100/75th and 100/80th.** They can also be expressed as percentages.

Burning cost formula is expressed as : **Incurred claim/ GNPI X 100 X100/70**
(2 marks each for the bolded points. 2 marks for other explanation. 6 marks in all)

2. List six (6) factors an insurer should look for whilst choosing its reinsurer.

Solution

The factors an insurer should look for whilst choosing its reinsurer are:

- financial strength ratings of the reinsurers
- whether or not the reinsurer is authorised to transact the type of business
- strength of the reinsurers balance sheet and solvency margin
- business philosophy of the reinsurer
- communication
- type of reinsurance required
- business acceptance policy of the reinsurer selected
- standard of security required
- reputation of the reinsurer
- underwriting policy and type of business written
- experience and quality of management
- retrocession policy of the reinsurer
- ultimate ownership of the reinsurer.

(1 mark for each correctly stated factor. Maximum of 6 to be graded. 6 marks in all)

3(a) What are the two (2) main sources of investible funds for a reinsurance company.

- (b) List the three (3) basic types of investments that are commonly open to reinsurers.

Solution

- (a) The reinsurance company has two main sources of investible funds namely;

- capital or non-insurance funds.
- reinsurance fund generated by the business written.

(1½ marks for each correctly stated factor. Sub-Total: 3 marks)

- (b) The three basic types of investments that are commonly open to reinsurers are:

* cash * fixed-interest securities * equities including Property

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

(Grand Total: 6 marks)

4. Outline four (4) reasons why an underwriter would use facultative reinsurance arrangement.

Solution

The reasons why an underwriter would use facultative reinsurance arrangement are:

- when risks to be reinsured falls outside the scope of the treaty;
- when the sum insured exceeds the treaty limit;
- the risk may be of such nature that the reinsured may not want to cede to the treaty;
- for specialist class of business (e.g satellite launches or political risks)
- for extra-hazardous risks.

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

5. How is the capacity of a proportional reinsurance treaty programme determined?

Solution

Capacity of a proportional reinsurance treaty programme is determined as follows:

For Quota Share: the capacity is determined by the percentage of the gross limit per risk which is reinsured. This is the difference between 100% and the percentage calculated by working out the desired retention in monetary terms as a percentage of the maximum limit per risk. (3 marks)

For Surplus Treaty: the capacity is determined by the number of lines, each line representing the reinsured's retention per risk. (3 marks)

(Grand Total: 6 marks)

6. Once results for individual risks and classes have been analysed, management of a reinsurance company can determine appropriate steps to remedy the situation. Lists four (4) of those options open to a reinsurance company?

Solution

The options open to a reinsurance company once results for individual risks and classes have been analysed are:

- ceasing to write a certain class of business;
- not renewing certain contracts;
- increasing rates;
- reducing costs.

(1½ marks for each correctly stated option. Total: 6 marks)

7. Explain with example the difference between proportional and non-proportional reinsurance programme.

Solution

Proportional Reinsurance Programme is a method of reinsurance that involves sharing of risks , premium and liability according to a particular proportion. Examples include Surplus treaty, quota share treaty, facultative proportional and facultative obligatory reinsurance programmes. Proportional reinsurance allows a cedant to increase its capacity through a pro-rata sharing of exposures. All premiums and claims on risks falling within the reinsurance programme will be shared between the reinsured and the reinsurers. (3 Marks)

Non- Proportional Reinsurance are based on a different concept; the cedant undertakes payments of all losses up to a pre-agreed figure. The balance of any loss which exceeds that agreed limit will be met by reinsurers, usually up to a contractual maximum. The amount assumed by the reinsured is usually known as deductible. Example of Non-Proportional reinsurance includes; risk excess of loss, Catastrophe Excess of Loss, Stop Loss/Aggregate Excess of Loss. (3 Marks)

(Grand Total: 6 Marks)

8. Enumerate any four (4) sources where statistical data are internally obtained by Reinsurers?

Solution

The following areas of operation records and produce their own statistical information internally in a reinsurance company:

- * reinsurance underwriters
- * retrocession department
- * finance department

- * claims department
- * technical processing department
- * security department.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) List the five (5) Reinsurance Companies in Nigeria with their full names as recognised by the Regulator. (10 marks)
- (b) What five (5) needs will a board of directors seek to balance when the directors identify the company's investment policy? (5 marks)
- (c) ABC Insurance Plc agreed the following treaty terms with its reinsurers for 2020 underwriting year to cover its Property line of business:
- Maximum Retention: ₦100,000,000
 - 10-line 1st Surplus Treaty
 - 5 line 2nd Surplus Treaty

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ABC Insurance purchased a Non-Proportional treaty programme to protect its gross retention as follows:

- 1st Layer : ₦30,000,000 Xs 20,000,000
- 2nd layer: ₦50,000,000 Xs 50,000,000

Information: Any Risk above its underwriting capacity is managed through proportional facultative reinsurance.

The company underwrites the underlisted risks:

- (a) Beta Manufacturing Nigeria Limited with Sum Insured of ₦2,000,000,000.00 and Premium ₦4,000,000.00
- (b) Tango Nigeria Limited with Sum Insured of ₦1,200,000,000.00 and premium of ₦2,400,000.00.

Required:

- i. Apportion the risks.
- ii. Allocate the liability if there was a loss on the two risks as follows:
- Beta Manufacturing: ₦1,800,000,000.00
 - Tango Nigeria Limited: ₦1,150,000,000.00 (23 marks)
- (iii) How would the gross retained loss be apportioned between the reinsured and the excess of loss reinsurers? (12 marks)

Solution

(a) The Reinsurance Companies in Nigeria with their full names as recognised by the Regulator are:

- * African Reinsurance Corporation
- * FBS Reinsurance Limited
- * WAICA Reinsurance Corporation Plc.
- * Continental Reinsurance Plc
- * Nigerian Reinsurance Plc

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

(b) The needs that a board of directors will seek to balance when the directors identify the company's investment policy are:

- preserve and enhance the capital of the company;
- generate adequate levels of return compatible with risk;
- have adequate cash available in relation to cash flow requirements;
- match assets and liabilities as and when they are expected to fall due for payment;
- match currency assets to currency liabilities so that the effect of currency gains or losses are minimised;
- spread the holdings of investments so that there is not excessive reliance on any one institution or sector in the event of collapse or failure of that institution or sector;
- consider any differential tax implications of alternative policies;
- segregate life funds from general funds;
- fit the policy with the social policy (if any) of the company; and identify countries where local investment is a legal requirements or subject to controls.

(2 Marks for each correctly stated point. Maximum of 6 point to be graded. Sub-Total: 12 marks in all)

(c) (i). Risks Apportionment: Beta Manufacturing

Sum Insured = ₦2,000,000,000.00

Premium = ₦4,000,000.00

- Retention proportion = $100,000,000 / 2,000,000,000 \times 100 = 5\%$ (2 marks)
- 1st surplus treaty Proportion = $1,000,000,000 / 2,000,000,000 \times 100 = 50\%$ (2 marks)
- 2nd surplus treaty proportion = $500,000,000 / 2,000,000,000 \times 100 = 25\%$ (2 marks)
- Facultative proportion = $400,000,000 / 2,000,000,000 \times 100 = 20\%$ (2 marks)

Premium Apportionment: Beta Manufacturing

- Retention: 5% of ~~₦4,000,000~~ = ~~₦200,000~~ (1 mark)
- 1st Surplus: 50% of ~~₦4,000,000~~ = ~~₦2,000,000~~ (1 mark)
- 2nd Surplus: 25% of ~~₦4,000,000~~ = ~~₦1,000,000~~ (1 mark)
- Facultative reinsurance: 20% of ~~₦4,000,000~~ = ~~₦800,000~~ (1 mark)

Risk Apportionment: Tango Nigeria Limited:

- Retention Proportion = $100,000,000 / 1,200,000,000 \times 100 = 8.33\%$ (2 marks)
- 1st Surplus Proportion = $1,000,000,000 / 1,200,000,000 \times 100 = 83.34\%$ (2 marks)
- 2nd Surplus Proportion = $100,000,000 / 1,200,000,000 \times 100 = 8.33\%$ (2 marks)

(ii) Loss Apportionment

Beta Manufacturing: Loss of ~~₦1,800,000,000~~

- Retention = 5% of ~~₦1,800,000,000~~ = ~~₦90,000,000~~ (1 mark)
- 1st Surplus = 50% of ~~₦1,800,000,000~~ = ~~₦900,000,000~~ (1 mark)
- 2nd Surplus = 25% of ~~₦1,800,000,000~~ = ~~₦450,000,000~~ (1 mark)
- Facultative = 20% of ~~₦1,800,000,000~~ = ~~₦360,000,000~~ (1 mark)

Tango Nigeria Limited: Loss of ~~₦1,150,000,000~~

- Retention = 8.33% of ~~₦1,150,000,000~~ = ~~₦95,795,000~~ (1 mark)
- 1st Surplus = 83.34% of ~~₦1,150,000,000~~ = ~~₦958,410,000~~ (1 mark)
- 2nd Surplus = 8.33% of ~~₦1,150,000,000~~ = ~~₦95,795,000~~ (1 mark)

(Grand Sub-Total: 23 marks)

(iii) Allocation/ apportionment of gross retained loss

Beta Gross Retained loss = ~~₦90,000,000~~

- Deductible = ~~₦20,000,000~~ (2 marks)
- 1st layer cover = ~~₦30,000,000~~ (2 marks)
- 2nd layer cover = ~~₦40,000,000~~ (2 marks)

Tango Gross retained loss = ~~₦95,795,000~~

- Deductible = ~~₦20,000,000~~ (2 marks)
- 1st layer cover = ~~₦30,000,000~~ (2 marks)
- 2nd layer cover = ~~₦45,795,000~~ (2 marks)

(Grand Sub-Total: 12 marks)

(Grand Total: 50 marks)

Part III

Answer **THREE** of the following **FIVE** questions.

Each question carries **34** marks.

10. After reviewing the outcome of a reinsurance contract, a number of options is available to the reinsured. One of these options is to arrange new or different types or combinations of facultative and treaty contract. Discuss at least seven (7) factors that could support this decision or option.

Solution

The reinsured is required to note the following:

- The need of the reinsured may have altered and existing contracts may be unsuitable. For example, a quota share treaty may have been arranged when business was new and when the reinsured needed capacity, protection and guidance. As the reinsured gain more experience and strength, it may be unnecessary to cede a fixed percentage of each and every risk, and the reinsured may therefore opt for a surplus or an excess of loss 'per risk' treaty both of which will enable it to retain more reinsurance income and provide a sharing of losses.
- The reinsured's solvency margin may be under pressure, and the cession of premiums under a quota share arrangement may provide a quick and effective short-term solution.
- **Unusually and rare risks**, previously protected by facultative covers, may be more common, and a new proportional or non-proportional treaty or a facultative obligatory arrangement may be attractive.
- The review of the reinsured's net retention under a quota share may lead to an increase, which will require a negotiation of the percentage ceded. Similarly, the number of lines under a surplus treaty may be reduced
- The reinsured may need more capacity to compete in the market place in order to take larger lines and, therefore, may seek more lines under a first surplus or create new second and third surplus.
- As statistical information develops, and the reinsured's financial strength is enhanced, it may consider that a surplus treaty, which requires ceding of premiums for risks over a certain value, is unnecessary and opt to bear all losses itself up to a specified amount. In this case, an excess of loss per risk may be more attractive. The commission terms under a proportional treaty also needs to be considered.

- Growth in the portfolio may result in the accumulation of risks and the aggregation of liabilities in one location. In these circumstances, the reinsurer would consider effecting an excess of loss event treaty.
- The growth in the size of risks may necessitate higher units or more layers on an excess of loss programme.
- In normal circumstances, the terms of the existing contracts are not capable of being changed except at renewal or anniversary date
- Some classes of business of the reinsured may have expanded while others may have declined; the opportunity may therefore arise to combine more than one class under the same treaty
- The mix or programme of all contracts, facultative and treaty, proportional and non-proportional may be changed to provide the most effective coverage for the reinsured's current and future needs.
- The excess of loss ratio treaty or a cover written on an aggregate deductible basis may be suitable if the reinsured wishes to protect its account against volatile or excessive loss ratios.

(4 marks for each correctly stated and explained factors. 8 factors to be graded. 2 marks for giving examples. 34 marks in all)

- 11(a) Explain the main types of reinsurance. (8 Marks)
- (b) State the advantages and disadvantages of the types of reinsurance. (14 Marks)
- (c) The types of reinsurance can be further divided into two basic methods. Discuss. (12 Marks)

Solution

(a) The main types of reinsurance are Treaty and Facultative reinsurance (2 Marks)
Treaty reinsurance is a contract that automatically accepts a large number of similar risks. Instead of having to place all risks individually with the reinsurer and having the possibility that each separate one could be accepted or rejected, the solution was to develop an obligatory contract where the insurer is bound to cede a fixed amount of its business and the reinsurer is obliged to accept. The treaty is a contract that outlines what terms and what share of risk is to be placed with a reinsurer. (3 marks)

Facultative reinsurance is an individual reinsurance of large or hazardous single risks. Facultative means optional; both parties have a choice as to whether to enter into the contract or not. Each risk is considered individually with the

original insurer determining whether they wish to place it as reinsurance and the reinsurer determining whether they want to accept the risk. (3 Marks)

(Sub-Grand Total: 8 marks)

(b) Advantages of Treaty Reinsurance are as follows:

- the reinsured has automatic reinsurance cover;
- the reinsured receives a contribution towards costs (ceding commission) for proportional treaties;
- the reinsured can receive an additional contribution if the business is profitable (profit commission) for proportional treaties;
- administration is quicker and easier than for facultative reinsurance, particularly for proportional treaties;
- accounting procedures can be simplified by the use of quarterly accounting;
- as treaties generally deal with large number of homogeneous risks, computer technology can be used for data storage and analytical techniques;

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

Disadvantages of Treaty Reinsurance includes:

- there is no freedom since both parties are tied into the contract. hence there is so much reliance on the underwriting ability of the underlying insurer.
- too much premium can be lost to reinsurers on small good risks which an insurer would otherwise retain net for their own account.

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

Advantages of Facultative Reinsurance includes:

- risks are considered individually. reinsurers can negotiate a suitable premium for the actual risk concerned rather than having to consider it as part of an overall portfolio of risk;
- facultative reinsurance increases the insurer's competitive edge within its chosen market;
- there is freedom to offer any risk (by the insurer) which may be accepted or declined (by the reinsurer). this option allows the reinsurer to select a portfolio of risks which corresponds to their underwriting policy;

- an insurer's treaty reinsurance could be protected by facultative reinsurance of particular risks to ensure better overall result and lower premiums in the long term;
- an insurer might benefit from the specific knowledge of the facultative reinsurer with regard to the nature and potential of the risk;
- there is an opportunity for both parties to develop a successful professional relationship.

(1 mark for each correctly stated advantage. Maximum of 4 points to be graded. 4 marks in all)

Disadvantages of Facultative Reinsurance includes:

- as risks is considered individually, the cedant cannot be certain of the placement of the facultative reinsurance and this could affect their ability to underwrite the underlying risk
- the administration involved is labour intensive and expensive
- the insurer has to disclose full information regarding its underwriting of the risk. this could be a problem if the reinsurer is also seen as a competitor in the field.
- there is the possibility of the reinsurer exercising a certain amount of influence over the insurer's underwriting by asking them to improve the risk offered or influencing unduly their assessment of the premium on the original risk.
- the insurer may lose control over the handling of the risk. For example, claims control and cooperation.

(1½ marks for each correctly stated disadvantage. Maximum of 2 points to be graded. Grand Sub-

Total: 3 marks)

(Grand Total: 34 marks)

(c) Both treaty and facultative reinsurance can be arranged with two methods.

The methods of reinsurance are: Proportional and Non-Proportional Reinsurance.

- **Proportional Reinsurance** is where an insurer (the cedant) cedes a proportion of each risk. The reinsurer accepts that share in the risk, a commensurate share of the premium and pays the same proportion of the claim. For example, if the reinsurer accepts a 50% quota share of the insurers Bond account, it would take 50% of the premium and pay 50% of

the claims. Example of proportional reinsurance are surplus and quota share treaty. (6 marks)

- **Non-Proportional Reinsurance** is based on the size of the loss and not the reinsurer's share in the risk. Non-proportional reinsurance is usually referred to as excess of loss as the loss has to exceed a certain retention or deductible (usually a monetary amount) before a claim can be made against the reinsurer. For example, if the insurer's motor account was protected by a reinsurance of ₦20,000,000.00 in excess of ₦5,000,000.00 the reinsurer would indemnify the insurance company for a loss once it exceeds ₦5,000,000.00 but only up to maximum indemnity of ₦20,000,000.00 available under the contract for that loss. Once the loss exceeded ₦25,000,000.00 the contract would not indemnify the insurer further. (6 marks)

(Grand Total: 12 marks)

- 12(a) How can exposure to currency gains or losses be avoided on reinsurance transactions in currencies other than the normal accounting currency of the reinsurance company? Why is this not always practical? (10 Marks)
- (b) How might a company alleviate the strain on liquidity of its investment portfolio? (8 Marks)
- (c) When might a flat rate reinsurance commission be an appropriate commission to apply to a proportional treaty? (8 Marks)
- (d) Differentiate between overriding commission and Original Gross Rate (OGR). (8 Marks)

Solution

(a) Exposure to currency gains or losses is **avoided by an exact match of assets and liabilities in the transaction currency**. (4 Marks). If a reinsurance company transacts business in many currencies, such a policy might be impractical. In order to reduce costs, ease administrative burdens and reduce currency exchange risk, **reinsurers tend to hold relatively few but strong currencies** (3 Marks) and **then link other weaker currencies and their appropriate assets and liabilities to one of those stronger currencies** (3 Marks).

(Grand Sub-Total: 10 marks)

(b) A company can alleviate the strain on liquidity of its investment portfolio through the use of **proper planning and projections**. The actual amount of cash required can be determined from an analysis of the monthly cash-flow figures with some margin to allow for unforeseen contingencies. This planning should preclude having to borrow money at short notice and pay high rates of interest for that special borrowing. **The balance of investments can be held longer term related to the maturity profile of anticipated liabilities. Investment will normally have regard to the average maturity profiles of the liabilities so that there should be no shortfall in cash.**

(3 marks for each of the bolded phrases/sentences. 2 point for any other supporting point stated.
Grand Sub-Total: 8 marks)

(c) If a proportional treaty is expected to **provide stable results**, a flat rate commission might be negotiable. (8 marks).

(d) Overriding commission is money paid by the reinsurer to the reinsured in order to **cover the reinsured's costs in administering the business and ceding it to reinsured**. The amount given to the reinsured is dependent upon the profitability of the treaty and the management expenses of the reinsured. (4 marks)

Original gross rate (OGR) is the **rate of premium applied under the original business to the sum insured**. The result of the **original gross rate times the sum insured equals the original gross premium**. No deduction are made for commission and brokerage. (4 marks)

(Grand Sub-Total: 8 marks)
(Grand Total: 34 marks)

13) Briefly explain any four (4) of the following:

- a. Interlocking Clause
- b. Hours Clause
- c. Two Risk Warranty
- d. Co-Reinsurance Clause
- e. Event Limit
- f. Applicable Law Clause.

Solution

a) **Interlocking Clause**: This clause is incorporated into 'policies issued or renewed' contracts. Its effect is that if a loss falls under policies that incept in two different years, the reinsured is neither penalised nor benefits from

having to run two deductibles or two limits. A loss is pro-rated over the involved policies.

b) **Hours Clause:** **This are inserted into catastrophe cover.** Catastrophe treaties are intended to protect the reinsured against the risk of an accumulation of claims arising from a specific, unexpected, sudden and external happening which can be located in time and place and which is the proximate cause of each and every loss giving rise to the claim under the treaty. Sometimes it can be difficult to separate the circumstances which together constitute the 'catastrophe'. Reinsurers have introduced the hours clause as definition of loss occurrence. **This clause recognises the difficulties in defining the damage arising out of natural perils (e.g. earthquake).** The clause **serves to enable the treaty to cover all damage arising out of the same insured event within a specified number of hours,** even though in reality there may be interludes when there is no activity. **The numbers of hours vary from perils to perils; typically, 72 hours is appropriate for earthquake and weather perils.**

c) **Two Risk Warranty:** This are imposed in a catastrophe cover to indicate when the cover can be triggered. **This means more than one risks has to be damaged by the insured peril before the catastrophe treaty will operate.** Catastrophe treaties are not intended to cover the loss arising out of a large single risk, such as a multi-storey office block, which is severely damaged by an explosion, nor the underestimation of the EML for one risk. Reinsurers try to safeguard themselves by ensuring that the catastrophe deductible is substantially higher than the working deductible.

d) **Co-Reinsurance Clause:** **To encourage a prudent underwriting and acceptance policy on the part of the reinsured,** catastrophe reinsurance contracts often contain a co-reinsurance clause, **whereby the reinsured has to bear a fixed percentage, say 5% of all losses.**

e) **Event Limit:** The limit on the treaty is the extent of the reinsurer's liability. There is often an event limit written into a per risk treaty. **The effect of this is that the reinsurers' liability is restricted to a specific sum; say the equivalent of four or five total losses under the treaty,** arising out of a particular event such as hurricane.

f) **Applicable Law Clause:** **If there was no clear jurisdiction indication in the contract, the jurisdiction was to be the place most suitable for the contract** which could again be the local jurisdiction and **identifies the law(s) to which the**

reinsurance agreement should apply; not the subject matter of the reinsurance contract (which is governed by the acts in force clause.

(8.5 marks for each clearly defined and explained clause. 3 full marks should be awarded for each of the bolded points. Not more than 8.5 for each of the clauses. A total of 34 marks in all).

- 14(a) What is retrocession? What are the three (3) principal objectives for a reinsurer when designing a retrocession programme? (10 Marks)
- (b) A portfolio of reinsurance business differs from an insurance portfolio in two main ways. Highlight these two (2) important ways. (10 Marks)
- (c) Discuss three (3) different lines in which a retrocession programme is usually arranged. (10 Marks)
- (d) It is more hazardous to write retrocession business than insurance or reinsurance business because the Retrocessionaire is more remote than the original business. State two (2) effects of this. (4 Marks)

Solution

(a) Retrocession is a means by which reinsurers arranges cover to protects its portfolio of reinsurance business. A factor in the underwriting of reinsurance contracts is the availability to the reinsurer of reinsurance facilities to protect its own writings/ exposures. (4 Marks)

The principal objective for a reinsurer when designing a retrocession programme are to:

- increase acceptance capacity
- limit the exposure to loss
- give greater stability to the results.

(2 Marks for each correctly stated objective. Sub-Total: 6 marks in all)

(Grand Sub-Total: 10 Marks in all)

(b) A portfolio of reinsurance business differs from an insurance portfolio in the following important ways:

- the reinsurance receives little or no information about the individual risks re-ceded to them under a reinsurance treaty. They are only aware of the maximum limits of the treaty per risks or per event
- the reinsurer has no means of calculating precisely total exposure.

(5 Marks for each correctly stated difference. Sub-Total: 10 Marks in all)

(c) The retrocession programme will usually be arranged on the following lines:

- **Facultative business:** protection is arranged either on a pro-rata basis (quota share or surplus or by an excess of loss per risk cover.

- **Treaty business:** A retrocession pool may be established and consists of fixed or variable shares of each inwards acceptance. This pool will be used to reduce exposure on each treaty to an acceptable level. Separate retrocession programme may be arranged for pro-rata and non-proportional business, and for each of the main classes of insurance business; property, motor, marine, liability and aviation.

Whole account protection: once a reinsurer has arranged separate protection for each parts of its portfolio, the reinsurer may decide to take out additional excess of loss cover to protect against the accumulation of losses from different types of business arising from a single event.

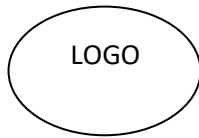
(2 marks each for the first two points above, 4 marks for the bolded point. Sub-Total: 10 marks in all)

(d) It is more hazardous to write retrocession business than insurance or reinsurance business because the Retrocessionaire is more remote than the original business. The two effects include;

- the premium received will have been reduced from the original premium by the deduction of commission, reinsurance commission, overriding commissions and brokerage;
- it becomes more difficult for the retrocessionaire to identify its exposures.

(2 marks for each correctly stated effect. Sub-Total: 4 Marks in all)

(Grand Sub-Total: 34 marks).



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A930
INSURANCE BROKING

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A930 -INSURANCE BROKING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	80%
Lowest Score:	16%
Average Score:	46%

Breakdown Updates

Question 1

The first part of the question on the definition of intermediary by IMD was very poorly answered with over 70% of the candidates failing it.

Question 2

Over 60% of candidates attempted this question very well.

Question 3

A direct question, but surprisingly, over 60% of the candidates failed it.

Question 4

A very badly attempted question with over 90% of the candidates failing it.

Question 5

A well attempted question with about 70% of the candidates that attempted it passing the question.

Question 6

A direct question but with only average good performance.

Question 7

A direct question but poorly attempted by candidates.

Question 8

Over 70% of the candidates that attempted this question failed it.

Question 9

The (a) part was a very direct question about the market but was woefully attempted. Over 70% of the candidates failed the question.

Question 10

A popular question with 60% of candidates passing the question.

Question 11

The candidates recovered an average performance.

Question 12

This was not a popular question; however, the candidates' performance in it was average.

Question 13

This was not a popular question; however, the candidates' performance in it was average.

Question 14

This was a popular question but only 40% of the candidates answered the question correctly.

Chief Examiner's Comments on Overall Performance:

The overall performance of the candidates was bad.

Chief Examiner's Suggestion on Improvement:

Candidates should study the course materials more and also learn about the insurance market in Nigeria.

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

- 1(a) The Insurance Mediation Directive (IMD) defines an insurance or reinsurance intermediary as? (3 marks)
- (b) List three (3) types of intermediaries in an insurance market. (3 marks)

Solution

(a) The Insurance Mediation Directive (IMD) defines an insurance or reinsurance intermediary as any natural or legal person, who, for remuneration takes up or pursues (re)insurance mediation. (3 marks)

(b) The types of intermediaries in an insurance market are:

- full time insurance brokers, agents and consultants
- part time agents and consultants
- travel agents, airlines and tour operators
- property companies, landlords and managing agents
- professionals, such as solicitors and surveyors
- retailers and motor traders
- bank, building societies and other financial institutions and
- newspapers and magazine

(1 mark for any correctly stated type. Maximum of 3 to be graded. Sub-Total: 3 marks)

(Grand Total: 6 marks)

2. List three (3) of the four statutory legal objectives of FSA.

Solution

The statutory legal objectives of FSA are to:

- * promote market confidence
- * increase public awareness
- * protect consumers
- * reduce financial crime.

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

3. Good management information should enable management to make good decisions. List any three (3) qualities for good management information.

Solution

The qualities for good Management Information are:

- * accuracy
- * timely
- * relevant
- * consistent.

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

4. List three (3) matters that should be included in a business continuity policy.

Solution

The matters that should be included in a business continuity policy are:

- resource requirements such as people, systems and other assets and arrangements for obtaining these resources
 - the recovery priorities for the firm's operations
 - communications arrangements for internal and external concerned parties
 - escalation and innovation plans that outline the processes for implementing the business continuity plan
 - processes to validate the integrity of information affected by the disruption
 - regular testing of the business continuity policy in an appropriate manner.
- (2 marks for any correctly stated type. Maximum of 3 to be graded. Grand Total: 6 marks)

5 What is (a) material fact; and (b) marketing?

Solution

(a) The standard definition of material fact is: "material information that would influence a prudent insurer in deciding whether a risk is acceptable and if so the premium terms and conditions to be applied". (3 marks)

(b) Marketing is the management process which identifies, anticipates and supplies customer requirements efficiently and profitably. (3 marks)

(Grand Total: 6 marks)

6 Enumerate three (3) cynical issues surrounding cover specification.

Solution

The cynical issues surrounding cover specification are:

- lack of clarity of internet
- clash with insurers' wordings
- premium implications
- clash with insurer quotation protocols
- policy checking becomes more difficult as a result of a conflict between what the insurer issues based upon their quotation and what the broker expected.

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

7 Enumerate three (3) advantages of global programs.

Solution

The advantages of global programme are:

- consistency of cover
- central control of cover and cost
- savings obtained through group buying

- identification and control of losses worldwide
 - global approach to risk management
 - a global approach to risk retention
 - premium allocation can be adjusted for claims experience and used as a tool to encourage better risk management
- (2 marks for any correctly stated type. Maximum of 3 to be graded. Grand Total: 6 marks)

8 Enumerate three (3) disadvantages of using a captive.

Solution

The disadvantages of using captives are:

- premiums paid to captives and similar vehicles attract premium taxes;
- they are considerable attention from revenue authorities which can be time consuming for management;
- they generally must take a short-term investment view and tend to keep their funds in low-risk investments and secure deposit facilities;
- insurers often require documents against captive retained risks;
- a captive cannot eliminate the tax that would otherwise be payable on surplus on shore self-insurance funds, it merely defers it;
- there are costs associated with the setting up and running of a captive;
- the credit crunch has created more suspicion of tax havens especially in the USA.

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

Part II

Compulsory Question.

This question carries 50 marks.

9)(a) (i) List two (2) Nigerian Insurance laws that has impact on Insurance Brokers in Nigeria. (4 marks)

(ii) The Nigerian Council of Registered Insurance Brokers (NCRIB) has different types of membership cadre. State any three (3) types of these cadres. (6 marks)

(b) Mention three (3) reasons why clients choose to use a broker. (15 marks)

(c) (i) Explains the term electronic data interchange? (4 marks)

(ii) Explicitly enumerate any six (6) challenges of electronic trading. (21 marks)

Solution

(a) (i) The Nigerian Insurance laws that will affect Insurance Brokers in Nigeria are:

* Insurance Act 2003

* NCRIB Act 2003

* NAICOM Act 1997

* Pension Reform Act 2014

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

(ii) The types of membership cadre for NCRIB are:

- * Corporate Members
- * Fellow Members
- * Associates Members
- * Ordinary Members
- * Students Members.

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

(b) The reasons why clients choose to use a broker are due to the broker's:

- knowledge of insurance terminologies;
- knowledge of and access to a wide range of insurers;
- ability to find the right deal in a market that is dynamic;
- ability to be efficient and effective

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

(c) (i) Electronic Data Interchange (EDI) is typically defined as the structured transmission of data between organizations by electronic means including the transfer of electronic documents from one computer system to another and the direct input of data in peer systems without re-entry using structured necessary languages. (4 marks)

(ii) The challenges of electronic trading are:

- maximum efficiency requires all parties in the process to work to similar standards and protocols;
- the use of email has led to concerns over the security of messages;
- general security threats caused by virus and hackers;
- the cost of investment in systems, particularly websites to make them more responsive and effective;
- the creation of an "internet is free" mentality
- the insurance market is moving faster to adopt EDI than its commercial customers;
- regulatory conflict between the worldwide nature on internet and local links;
- legal uncertainty over electronic documents;
- in the UK, the explosive growth of price comparison websites for consumer business.

(3½ marks for each correctly stated challenge. Maximum of 6 to be graded. Sub-Total: 21 marks)
(Grand Total: 50 marks)

Part III

Answer **THREE** of the following **FIVE** questions.

Each question carries **34** marks.

- 10(a) Explain the term “an approved person”. (6 marks)
- (b) Define large risks. (8 marks)
- (c) Enumerate five (5) duties owed by agents to their principals. (20 marks)

Solution

(a) An approved person is defined as “a person in relation to whom the FSA has given its approval for the performance of a controlled function”. (6 marks)

(b) Large risks are risks which if it crystallises into a loss will have huge financial impacts on the financials of the concerned parties. Some examples are railway rolling stock, aircraft, ships, credit and suretyship, land vehicles, e.t.c.

(4 marks for correct and complete definition. 4 marks for any correctly stated example. Sub-Total: 8 marks)

(c) The duties owed by agents to their principals are:

- they must follow the lawful instructions of their principal;
- they must exercise due care and skills in performing their role as agents
- as a consequence of their fiduciary relationship with their principal, they must not use their position for their own benefit;
- they must account to their principal all monies and property they receive in the course of their duties;
- they must avoid conflicts of interest and notify their principals of circumstances that may give rise to the appearance of a conflict;
- they cannot take “secret profits” (normal brokerage or commission is not deemed to be a secret profit)
- they must treat confidential information as just that and may not use it for their own benefit.

(4 marks for complete and correctly stated duty. Maximum of 5 to be graded. Sub-Total: 20 marks)

(Grand Total: 34 marks)

11(a) Mention five (5) key functions of the broker. (25 marks)

(b) What is the difference between a data controller and a data processor? (9 marks)

Solution

(a) The key functions of the broker are:

- to understand the client’s business and its risk and insurance needs;
- design the most appropriate insurance cover
- execute the client’s instruction in an efficient manner;
- explain the needs of and the behaviour of the market to clients;

- maintain effective relationships with the market;
- assist in negotiation of claims;
- provide continuous service and advice.

(5 marks for complete and correctly stated duty. Maximum of 5 to be graded. Sub-Total: 25 marks)

(b) The difference between a data controller and a data processor is that a data controller is any person who makes decisions with regards to particular personal data including decisions about the purposes for which the personal data are processed and the way in which the personal data are processed (4 marks). While, a data processor is a person who works on the data on behalf of the data controller (3 marks), but who is not an employer of the data controller (2 marks).

(Sub-Total: 9 marks)

(Grand Total: 34 marks)

12. Concisely but briefly explain (6) data that should be compiled in preparation for an initial client meeting.

Solution

The data that should be compiled in preparation for an initial client meeting are:

- business description;
- business overview in terms of where the business is in its market, key customers and suppliers;
- the defining features of the business which contribute to its success – core skills;
- business history recording key financial data and major changes such as mergers, acquisitions and disposals;
- where relevant share price back
- key decision makers such as the executive and non-executives on the board and the person(s) responsible for insurance and the appointment of the broker;
- any data that has been acquired on major loss issues;
- information about their risk management.

(6 marks for each of the first five correct and completely stated data. 4 marks for the sixth one.

Maximum of 6 data to be graded. Grand Total: 34 marks)

13(a) What are the three (3) major reasons for maintaining a triangulation of claims? (12 marks)

(b) Mention six (6) reasons why a client may choose to retain more risks. (22 marks)

Solution

(a) The three major reasons for maintaining a triangulation of claims are:

- to establish the payment pattern for the risk to enable the present cost of future claims costs to be calculated;
- to establish the way in which claims develop for the given risk;
- as a helpful tool to demonstrate to clients the way that losses do develop and as a justification for what might look like a high premium today when so few losses have been paid.

(4 marks for each correct and completely stated reason. Sub-Total: 12 marks)

(b) The reasons why a client may choose to retain more risks are:

- a desire to gain more control over the insurance pricing and terms and conditions;
- a desire to control claims;
- a desire to control risk improvement measures;
- to save money through premium reductions or credits;
- the client's view on loss probability differing from the market's;
- the client's risk appetite;
- facilitation of a risk funding mechanism;
- market conditions.

(4 marks for each of the first five correct and completely stated data. 2 marks for the sixth one.

Maximum of 6 data to be graded. Grand Total: 22 marks)

14(a) Mention four (4) reasons why a broker may choose fees. (20 marks)

(b) Concisely enumerate any four (4) methods that a broker can use to identify risk in the insurance market. (14 marks)

Solution

(a) The reasons why a broker may choose fees are:

- they are more certain and therefore allow more predictable budgeting and forecasting;
- they are transparent and are more likely to meet the transparency aims of the regulator;
- they reflect directly the work the broker does for the client;
- they create a framework within which the broker can charge for additional service, such as captive management or contingency planning;
- there is now a clear demand for fees from the majority of medium sized and large businesses.

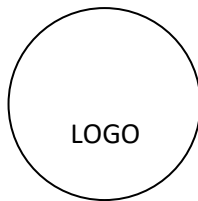
(4 marks for each correct and completely stated reason. Maximum of 5 to be graded. Sub-Total: 20 marks)

(b) The methods that a broker can use to identify risk in the insurance market are:

- physical risk surveys;
- business interruption analysis based upon financial data;
- “what if” brainstorming sessions with senior management;
- data gathering:
- interviews with relevant employees;
- research of public data;
- specifically commissioned research;
- quantification of the effect that potential loss scenarios will have on the business;
- evaluation of a “worst-case-scenario” with relation to its effects on the business and future plans;
- reviewing the impact of previous events.

(3½ marks for each correct and completely stated method. Maximum of 4 to be graded. Sub-Total: 14 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A935

MANAGEMENT

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
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- Leave no blank pages among your answers.
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**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A935 -MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score: 81%

Lowest Score: 23%

Average Score: 48%

Breakdown Updates

Question 1

76% pass rate. The question was fair and direct. Candidates appear familiar enough.

Question 2

68% pass rate. Candidates rested more in residual knowledge.

Question 3

92% pass rate. The question was direct and friendly with a day-to-day knowledge of candidates.

Question 4

100% pass rate. Candidates could relate easily with the question.

Question 5

72% pass rate. The question was fairly and averagely understood and attempted respectively.

Question 6

36% pass rate. Candidates did not relate easily with the question except for about 8% of them who performed well.

Question 7

76% pass rate. Fairly attempted.

Question 8

72% pass rate. Candidates were fairly familiar with the question.

Question 9

28% pass rate. Questions on leadership and statutory functions of NAICOM are expected to be friendly enough. A better preparation can improve performance.

Question 10

Attempt rate was 60%. Pass rate was 33%. The question on leadership is fair and friendly. The technical question involved was largely misunderstood.

Question 11

Attempt rate was 72%. Pass rate was 17%. The question on HR management is relevant at this state but obviously not studied by majority of the candidates.

Question 12

Attempt rate was 52%. Pass rate was 23%. The question on “why people will resist training” was approached poorly. Personal opinions other than articulated coursebook answers were stated by a lot of the candidates.

Question 13

Attempt rate was 76%. Pass rate was 63%. The question on management was well attempted and could have been answered better considering the contents.

Question 14

Attempt rate was 40%, which is a fair attempt. Pass rate was 60%.

Chief Examiner’s Comments on Overall Performance:

The questions are fair enough but it seems that the candidates did not adequately prepare for this examination.

Chief Examiner’s Suggestion on Improvement:

Better preparations can significantly improve candidates’ overall performance. Candidates are thus advised to study harder and also to be better prepared.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Differentiate between the meaning of actual costs and committed costs.

Solution

Actual costs are those that have passed through the organisation's books (3 marks) while committed costs represent the firm's orders whose costs have not yet been invoiced (3 marks).
(Grand Total: 6 marks)

2. Mention any three (3) of the four potential marketing objectives for any business.

Solution

The four potential marketing objectives for any business are:

- continue to sell existing offerings to existing members.
- sell existing offerings into new market.
- develop new offerings for existing market.
- develop new services for new market.

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

3. State three (3) expectations of employees as stakeholders in a business.

Solution

The expectations of employees as stakeholders in a business are:

- good salaries and wages;
- staff benefits;
- job security and promotion opportunities;
- good working conditions.

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

4. List six (6) categories of people interested in an organisation's financial information.

Solution

The categories of people interested in an organisation's financial information are:

- | | | |
|---------------------------|--------------------|-----------------------|
| * directors and managers; | * tax authorities; | * regulators; |
| * creditors and lenders; | * competitors; | * employees; |
| * general public; | * shareholders | * financial analysts. |

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

5. Organisations can stimulate an intrapreneurship culture by creating new staff roles such as "Idea Champion". What is Idea Champion?

Solution

An idea champion is an **employee** who generates an **idea** and **takes responsibility for developing that idea** within the organisation.

(2 marks for each bolded word/phrase correctly used. Total: 6 marks)

6. The “right individual” in a workplace is expected to have five (5) typical profiles. List any four (4) of these profiles.

Solution

The ‘right individual’ profiles are:

- highly intelligent but not too clever;
- highly forceful and sensitive to people’s feelings;
- dynamic and patient;
- fluent communicator and good listener;
- decisive and reflective.

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

7. List the three (3) steps involved in a brainstorming session.

Solution

The three (3) steps involved in a brainstorming session are:

- write down the problem;
- write down at least 20 ideas and their opposites;
- use lateral thinking (looking at things in different ways).

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

8. Government often protect their industries by restricting global trade in a number of ways. List three (3) financial methods that can be used for this purpose.

Solution

Financial methods that Government use to protect their industries are:

- * import tariffs;
- * custom and other duties;
- * restrictions on the quantity of goods imported;
- * exchange control;
- * subsidies to local industries.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9.(a) (i) State two (2) important functions of NAICOM. (4 marks)
- (ii) What is the significance of Section 50 of Insurance Act & Regulations 2003? (6 marks)

- (b) Discuss the two (2) main components of transactional leadership. (8 marks)
- (c) Discuss the two (2) main components of transformational leadership. (8 marks)
- (d) Facilitative leadership understands the dynamics of team behaviour and motivation of individual team members:
- (i) explain the four (4) principal roles of a facilitator. (12 marks)
- (ii) state four (4) skills used by facilitative leaders to achieve performance. (12 marks)

Solution

(a) The important functions are also the statutory functions of the National Insurance Commission as established by NAICOM Act 1997. These 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.

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

(Grand Sub-Total: 10 marks)

(ii) The significance of Section 50 of the Insurance Act & Regulation 2003 is that it provides that:

i) the receipt of an insurance premium shall be a condition precedent to a valid contract of ins & there shall be no cover in respect of an insurance risk unless the premium is paid in advance. (3 marks)

ii) an insurance premium collected by an insurance broker in respect of an insurance business transacted through the insurance broker shall be deemed to be premium paid to the insurer involved in the transaction. (3 marks)

(Sub-Total: 6 marks)

(Grand Total: 10 marks)

(b) The components of transactional leadership are:

- the leader provides reward if and only if subordinates perform adequately and/or try hard enough;
- the leader does not seek to change the existing working methods of subordinates so long as performance goals are met and only intervenes if something is wrong.

(4 marks for each correct and completely stated component. Sub-Total: 8 marks)

(c) The components of transformational leadership are:

- the leader treats each subordinate on their own merits and seeks to develop followers through delegation of projects and coaching or mentoring;
- the leader encourages true thinking and emphasis reasoning before any action is taken;
- the leaders create an optimistic, clear and attainable vision of the future, thus encouraging others to raise their expectations;
- the leader takes personal sacrifices (e.g. a cut in pay) takes responsibility for their own actions and shares glory with others.

(4 marks for each correct and completely stated component. Maximum of 2 to be graded. Sub-Total: 8 marks)

(d) (i) The four principal roles of a facilitator are to be a:

- **teacher:** shows how things are done by providing relevant and meaningful information and instruction;
- **guide:** provides wise counsel an appropriate advice;
- **coach:** provides direct instructions to fine-tune individual performance;
- **leader:** leads by example exemplifying the values of the organisation and the team.

(2 marks for the correctly stated role. 1 mark for the explanation. Maximum of 3 marks per role. Sub-Total: 12 marks)

(ii) The skills used by facilitative leadership are:

- recognising the needs of team members;
- landing conflict in the team;
- encouraging communication and dialogue;
- creating openness and trust among team members;
- fastening a climate of learning and development.

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Leading can be a lonely business. Explain the four (4) steps leaders can take to monitor their performances. (12 marks)

(b) (i) Group the eight (8) team roles under “Outward Looking” and “Inward Looking” roles. (16 marks)

(ii) In order to make meeting more effective, state three (3) things that must be present in the meeting room. (6 marks)

Solution

(a) The steps that leaders take to monitor their performances are:

- **use your boss:** ensure that you sit down together to review your success criteria and how you are doing it;
- **encourage frank feedback from others:** ask others at all levels from time to time how they see you and your performance and how they think you could improve;
- **develop a support network:** get together with other leaders formally to discuss common problems;
- **monitor your stress levels:** realise when stress is having an adverse effect and do something about it.

(2 marks for the correctly stated step. 1 mark for the explanation. Maximum of 3 marks per step. Sub-Total: 12 marks)

(b) (i)

Outward Looking Role	Inward Looking Roles
Co-ordinator	Implementer
Plant	Monitor Evaluator
Resource investigator	Team worker
Shaper	Completer.

(2 marks for each correctly categorised role. Sub-Total: 16 marks)

- (ii) The things that must be present in the meeting room are:
- have comfortable upright chairs and a large enough table for people to spread their papers;
 - try a square, round or oval table rather a long their rectangular one;
 - have two flip chart stands and space all around the walls to hang flip charts if necessary;
 - ensure no disturbances occur during meeting.

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

(Grand Total: 34 marks)

11(a) Briefly discuss three (3) significant characteristics of Human Resource Management. (9 marks)

(b) (i) Define “succession planning”. (4 marks)

(ii) Identify the seven (7) steps to succession planning. (21 marks)

Solution

(a) Significant characteristics of Human Resource and Management are:

- **it has a strategic focus:** HR management is concerned with the formulation and implementation of a people strategy specifically designed to support the overall business strategy.
- **it is concerned more with enabling than control:** It is supportive of others rather than seeking their compliance with systems and procedures.
- **it is proactive:** the concerns of the management are change and growth. HR anticipates people-related needs, develop policies to meet those needs in advance of their rising.

(1 mark for correctly stated characteristic. 2 marks for complete and correct explanation. Sub-total per characteristic: 3 marks. Grand Sub-Total: 9 marks)

(b) (i) **Succession Planning** is concerned with ensuring that an organisation has adequate pool of skills and talent to provide it with continuity in management able to respond to changing organisational and market needs. (4 marks)

(ii) The seven (7) steps to succession planning are:

- identify the key jobs necessary to achieve strategic goals;
- identify the extent to which these jobs will change (or indeed represent a new job);
- identify the performance factors critical to success in these jobs;
- establish current key players;
- propose an inventory of skills, abilities e.t.c. of current key players;
- identify a timescale before current players will leave the organisation;

- establish means of identifying current skills of potential successors and their potential to develop new skills.

(3 marks for complete and correctly stated step. Sub-Total: 21 marks)

(Grand Total: 34 marks)

12(a) Briefly explain six (6) main reasons why people do not wish to learn in an organisation. (18 marks)

(b) Identify eight (8) skills necessary for future managers to possess in the financial sector. (16 marks)

Solution

(a) The main reasons why people do not wish to learn in an organisation are:

- staff who are employed for a short period of time to do a specific job and so do not have the wish to learn new skills;
- people who recognise that they have reached the limit of their own level of ability;
- lack of confidence and the fear that extra skills may bring additional unsought responsibilities;
- those who have no wish to progress because they feel sufficiently fulfilled by their present work;
- some feel they know it all already and resent the suggestion they require for further training;
- pressures from outside the working environment, social, family, domestic, e.t.c.;
- staff who have been discouraged by inadequate original training.

(3 marks for each correct and completely stated reason. Maximum of 6 to be graded. Sub-Total: 18 marks)

(b) The skills necessary for future managers are:

- * commercial awareness;
- * flexibility;
- * adaptability;
- * ability to learn rapidly;
- * decisiveness;
- * marketing skills
- * intellectual dexterity – ability to cope rapidly changing strategies and grand levels;
- * selling skills;
- * effective communication;
- * ability to take a broad view;
- * skills in interpersonal relationship;
- * a technical competence.

(2 marks for each correctly stated skill. Maximum of 8 to be graded. Sub-Total: 16 marks)

(Grand Total: 34 marks)

13(a) Define Management. (4 marks)

(b) Identify eight (8) roles of an individual manager. (24 marks)

(c) Tomorrow's managers will need new skills that fit changing working patterns. State any three (3) of the skills. (6 marks)

Solution

(a) Management is the process of planning, organizing, loading and controlling the materials, financial and human resources of an organization towards the set objectives. (4 marks)

(b) The roles of individual managers are:

- structure and organize their team to meet the needs of the job;
- clarifies the accountabilities and authorities of subordinates;
- establish a system of personal targets and a performance and reward review which emphasises the contributions the staff are making;
- ensure that correct decisions are taken at the right time;
- communicate regularly with her staff and establish a system whereby they can receive a feedback;
- establish a system which enables them to consult with representatives of their group;
- take a positive attitude towards employee representation and participation;
- consider how jobs can be designed to meet the needs of staff in order to maximise their contribution and allow for job satisfaction;
- establish a system for monitoring results and performance;
- maintain discipline and control through the effective use of authority and by seeking to encourage co-operation and commitment;
- consider their responsibilities to society and the relationship between the work they control and the community at large.

(3 marks for each correct and completely stated role. Maximum of 8 to be graded. Sub-Total: 24 marks)

(c) The skills that tomorrow's managers will need that will fit changing working Patterns are:

- earning the respect of subordinates;
- focusing on customers;
- multi-tasking;
- mobility and global outlook;
- new management concepts.

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

(Grand Total: 34 marks)

14(a) The basic control process or cycle has 5 styles. Identify these five (5) styles. (15 marks)

(b) Define "management control" and "operational control" to show difference in meaning. (10 marks)

(c) State the three (3) levels of information within an organisation. (9 marks)

Solution

(a) The five styles of the basic control process cycle are:

- making plans since without plans, there can be no control, deciding what to do and identifying the desired results;
- recording the plan formally or informally since the plans should incorporate standards of efficiency or targets of performance;
- carry out the plan and measuring actual results achieved;
- comparing actual results against plans which is sometimes referred to as the provision of feedback;
- evaluating the comparison and deciding whether further action is necessary to ensure the plan is achieved.

(3 marks for each correct and completely stated style. Sub-Total: 15 marks)

(b) **Management control** is the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organisations objectives (5 marks); while **operational control** is the process of ensuring that specific tasks are carried out effectively and efficiently. It focuses on individuals tasks, and is carried out within the strictly defined guidelines (5 marks).

(Sub-Total: 10 marks)

(c) The three (3) levels of information within an organisation are:

- strategic information which is used by senior managers to plan the objectives of their organisation;
- tactical information which is used by middle management to ensure that resources of the business are employed to achieve the strategic objectives of the organisation;
- operational information which is used by front-line managers such as supervisors to ensure that specific tasks are planned and carried out properly.

(3 marks for each correct and completely stated level. Sub-Total: 9 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A940

FINANCE AND ACCOUNTING

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 or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A940 -FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	56%
Lowest Score:	21%
Average Score:	40%

Breakdown Updates

Question 1

The question tested the component of balance sheet or statement of financial position. The question was well attempted (100%) and the performance was impressive (about 75%). Candidates displayed a good understanding of the concept.

Question 2

The questions tested candidates' knowledge about items that appear under technical provision in an insurance company's financial statement. It was well attempted (100%) but the performance was poor (about 5%). Candidates' performance was poor.

Question 3

The question examined candidates' knowledge of net operating expenses in profit and loss account. The question was well attempted (100%) but performance was poor (12.6%). This could be as a result of inadequate preparation.

Question 4

The question examined the knowledge of different categories of standard costing. It was well attempted (100%) but performance was average (50%). Most of the candidates did not understand the question from the responses they supplied.

Question 5

The question examined candidates' knowledge on the importance of budget. It was well attempted (100%) but performance was average (about 50%). Candidates need to study this aspect of the syllabus very well.

Question 6

The question examined the shareholder's area of interest in the financial statement. It was well attempted (100%) but with a pass rate of about 75%. Candidates displayed a good understanding of the concept.

Question 7

The question examined candidates' knowledge about the factors that determine the size of solvency margin. It was well attempted (100%) with a 67% pass rate.

Question 8

The question examined popular types of long-term insurance funds. It was well attempted (100%) with a 13% pass rate. This is not encouraging as it shows that candidates did not cover this aspect of syllabus.

Question 9

The question examined candidates' knowledge of the preparation of a simple financial statement/accounts of an enterprise. It was well attempted but the performance was poor (29%). Candidates are advised to take this aspect of the course very seriously.

Question 10

The question examined candidates' knowledge on matters relating to the issue of shares. All the candidates attempted the question but the pass rate was 32%. They did not display a good understanding of this concept. Candidates are advised not to neglect any aspect of the syllabus.

Question 11

The question was not attempted by any of the candidate. It set out to examine candidates' knowledge about different kinds of investment and their suitability.

Question 12

The question attempted the basic interest area of people in financial statements. It was well attempted (100%) although the performance was below average (about 45%).

Question 13

The question tested the terms "responsibility accounting", "types of cost for decision making and standard costing". Only one person attempted the question (25%). The performance was 80%.

Question 14

The question examined candidates' knowledge about basic accounting concepts and accounting record. Only 75% attempted the question with a low performance of 28%. Candidates are advised to take this aspect of the course very seriously.

Chief Examiner's Comments on Overall Performance:

The overall performance was 25% which is very low. Candidates are advised to take more interest in this course.

Chief Examiner's Suggestion on Improvement:

Candidates need to study harder and they need to take every aspect of the syllabus very serious.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Which of the following accounts would you expect to appear in the Balance Sheet or Statement of Financial Position?
- | | | |
|----------------------|------------------------|-----------------------|
| (a) Cash | (b) Premium | (c) Investment Income |
| (d) Investments | (e) Creditors | (f) Motor Cars |
| (g) Maintenance Cost | (h) Outstanding claims | |

Solution

The accounts expected to appear in the Balance Sheet or Statement of Financial Position are:

- | | | |
|--------------|-----------------------|---------------|
| * cash | * creditors | * investments |
| * motor cars | * outstanding claims. | |

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

2. List six (6) items that appear under technical provision in an insurance company's financial.

Solution

The items that appear under technical provision in an insurance company's financial are:

- | | |
|-------------------------------------|-------------------------------|
| * provision for unearned premium | * life assurance premium |
| * claims outstanding | * equalisation provision |
| * provision for bonuses and rebates | * other technical provisions. |

(1 mark for each correctly stated item. Total: 6 marks)

3. Enumerate four (4) items that are categorised as net operating expenses in the profit and loss account (statement of comprehensive income) of an insurance company.

Solution

The items that are categorised as net operating expenses in the profit and loss account (statement of comprehensive income) of an insurance company are:

- | | |
|---|---------------------------|
| * acquisition costs | * administrative expenses |
| * change in deferred acquisition costs | |
| * reinsurance commissions and profit participation. | |

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

4 Standard costing are usually classified into three broad categories. List these three (3) categories.

Solution

The three broad categories on standard costing are:

- * basic cost standards
- * idea standards
- * currently attainable standards.

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

5 Enumerate six (6) reasons why budget is necessary.

Solution

The reasons why budget is necessary are:

- * planning
- * coordination
- * communication
- * motivation
- * control
- * evaluation.

(1 mark for each correctly stated item. Total: 6 marks)

6 Among the interested parties for financial statement are the shareholders. List three (3) areas of the shareholders' interest in the financial statement.

Solution

The areas of the shareholders' interest in the financial statement are the:

- returns on their investment – profit, dividends, capital growth (appreciation);
- stability of the company, its solvency and whether there may be a need for it to raise extra capital;
- future profitability of the company, including the type and spread of its business.

(2 marks for each correct and completely stated area. Total: 6 marks)

7 List six (6) factors that determine what the size of solvency margin of an insurance company should be.

Solution

The factors that determine what the size of solvency margin of an insurance company should be are the:

- size of the insurer (net retention);
- types of business undertaken (class and geography);
- efficiency of management (claims and expense control, e.t.c.);
- risk of outstanding claims exceeding provisions;
- possibility of a collapse in investment values at a time when cash is needed;
- danger of default by debtors, particularly reinsurers;
- harmful effects of an increase in inflation rates;

- degree of exposure to exchange rate risk;
- existence of equalisation (or other reserves counted as liabilities);
- bases of valuing assets and liabilities.

(1 mark for each correct and completely stated factor. Maximum of 6 to be graded. Total: 6 marks)

8 Long-term insurance – unit-linked business both for life and pension business, have proved to be one of the fastest growing areas in the life assurance and most insurers now offer a range of such contracts. List six (6) popular types of long -term insurance funds.

Solution

Six popular types of long -term insurance funds are:

- * managed funds
- * UK equity fund
- * international fund
- * fixed interest fund
- * property fund
- * property fund
- * money fund.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) (i) Write out the full meaning of LOC as it relates to life insurance practice in Nigeria. (4 marks)
- (ii) State the three (3) classification of life business by the Insurance Act of 2003. (6 marks)
- (b) Comrade Adebola operates a restaurant on cash basis. All cash received are banked after deducting the following expenses:

	N'000.00
Staff Wages	2,000.00
Cash Purchases	500.00
Sundry Expenses	100.00
Drawing (Weekly)	30.00

The following is the Bank Account:

	N'000.00		N'000.00
Balance ^{b/d}	2,000.00	Rent	500.00
Restaurant Taking	26,000.00	Rates	400.00
Investment Income	2,000.00	Electricity	220.00
		Telephone	50.00
		Advertising	200.00
		New Equipment	400.00
		Insurance	50.00

	Repairs	300.00
	Cash paid to:	
	Trade Payable	20,000.00
	Deposit on Private House	750.00
	Income Tax for Adebola	280.00
	Balance c/d	<u>6,930.00</u>
		<u>30,000.00</u>

Additional Information:

(i) The balances extracted from the books are as follows:

	1/1/20X2	31/12 20X2
	₦'000.00	₦'000.00
Accrued Electricity	30.00	40.00
Trade Payables	1,500.00	2,000.00
Rates Prepaid	100.00	150.00
Inventory	400.00	300.00

(ii) Equipment at cost on 1/1/20X2 was ₦600,000.00: depreciation is to provided at 10% per annum on cost.

(iii) Adebola occupies an apartment in the restaurant which attract a rent of ₦120,000.00.

You are required to prepare:

- (i) Profit and Loss Account (Income Statement for the Year ended 31/12/20X2) (20 marks)
- (ii) A Balance Sheet (Statement of Financial Position as at 31/12/20X2) (20 marks)

Solution

(a) (i) Life Offices Committee (4 marks)

(ii) The three (3) classification of life business by the Insurance Act of 2003 are:

* Individual Life * Group Life; and * Health Insurance.

(2 marks for each correctly stated classification. Sub-Total: 6 marks)

(Grand Total: 10 marks)

(b) (i) **Sales for the Year (w₁)**

	₦'000.00	₦'000.00
Restaurant Takings Banked		26,000 (1/2 mark)
Add Payment from Sales:		(1/2 mark)
Staff Wages	2,000	(1/2 mark)
Cash Purchases	500	(1/2mark)
Sundry Expenses	100	(1/2mark)
Drawings (₦30,000*52)	1,560	<u>4,160</u> (1/2mark)
		<u>30,160</u> (1/2mark)

(ii) Purchases (w₂)

Cash Paid to Trade Payables	20,000	(1/2mark)
Less Trade Payables at the Beginning	<u>1,500</u>	(1/2mark)
	18,500	(1/2mark)
Add Trade Payables at the End	2,000	(1/2mark)
Credit Purchases for the Year	20,500	(1/2mark)
Add Cash Purchases	500	(1/2mark)
Total Purchases	21,000	(1/2mark)

(iii) Opening Capital on 1/1/20X2 (w₃)

Sundry Assets:		(1/2mark)
Equipment	600	(1/2mark)
Inventory	400	(1/2mark)
Rates Prepaid	100	(1/2mark)
Bank	<u>2,000</u>	3,100 (1/2mark)
Less Sundries Liabilities:		(1/2mark)
Accrued Electricity	30	(1/2mark)
Trade Payable	1500	1,530 (1/2mark)
Opening Capital		<u>1,570</u> (1/2mark)

(iv) Drawings (w₄)

Weekly Drawings (N 30,000 * 52)	1,560	(1/2mark)
Deposit on Private House	750	(1/2mark)
Income Tax for Adebola	200	(1/2mark)
Personal Rent	<u>120</u>	(1/2mark)
	<u>2,630</u>	(1/2mark)

iv) Rent (w₅)

Rent Payment	500	(1/2mark)
Less Personal Rent of Adebola	<u>120</u>	(1/2mark)
Rent of Restaurant	<u>380</u>	(1/2mark)

(v) Rate (w₆)

Rate Paid Advance Last Period		100 (1/2mark)
Rate Paid This Period	400	(1/2mark)
Less the Applicable Rate for Next Year	150	<u>250</u> (1/2mark)
Rate for the Year		<u>350</u> (1/2mark)

(vi) Electricity (w₇)

Amount Paid	220	(1/2mark)
Less Amount Outstanding @ the Beginning of Period	<u>30</u>	(1/2mark)
	190	(1/2mark)
Add Outstanding Amount @ the End of Period	<u>40</u>	(1/2mark)
	<u>230</u>	(1/2mark)

Comrade Adebola
Income Statement for the Year Ended 31st December 20X2

	₦	₦
Sales:		30,160(1mark)
Cost of Sales:		(1/2mark)
Opening Inventory	400	(1/2mark)
Purchases (w ₃)	21,000	(1/2mark)
Closing Inventory	<u>(300)</u>	<u>21,100</u> (1/2mark)
Cost of Sales		21,100(1/2mark)
Gross Profit		9,060 (1/2mark)
Investment Income		2,000 (1/2mark)
		11,060(1 mark)
Less Expenses:		
Staff Wages	2,000	(1/2mark)
Sundry Expenses	100	(1/2mark)
Rent (w ₅)	380	(1/2mark)
Rate (w ₆)	350	(1/2mark)
Electricity (w ₇)	230	(1/2mark)
Telephone	50	(1/2mark)
Advertising	200	(1/2mark)
Insurance	50	(1/2mark)
Repairs	300	(1/2mark)
Depreciation (Equipment)	<u>100</u>	<u>3,760</u> (1/2mark)
Net Profit		<u>7,300</u> (1 mark)

ii) **Comrade Adebola**
Statement of Financial Position as at 31st December 20X2

	₦	₦
Assets:		
Non-Current Assets:		
Equipment	1,000	(1/2mark)
Accumulated Depreciation	<u>100</u>	900 (1/2mark)
Current Assets:		(1/2mark)
Inventory	300	(1/2 mark)

Bank	6,930	(1/2mark)
Rates Prepaid	<u>150</u>	<u>7,380</u> (1/2mark)
Total Assets		<u>8,280</u> (1 mark)
Equity:	N	N
Capital 1 st January 20X2 (w ₃)		1,570 (1/2mark)
Net Profit for the Year		<u>7,300</u> (1/2mark)
		8,870 (1/2mark)
Less Drawings (w ₄)		<u>2,630</u> (1/2mark)
		6,240 (1/2mark)
Current Liabilities:		
Trade Payables	2,000	
Accrued Electricity	<u>40</u>	<u>2,040</u> (1/2mark)
Total Equity and Liabilities		<u>8,280</u> (1 mark)
	(Grand Sub-Total: 40 marks)	
	(Grand Total: 50 marks)	

Part III

Answer **THREE** of the following **FIVE** questions.

Each question carries 34 marks.

- 10(a) Outline what must be done before new shares are issued for any company. (14 marks)
- (b) Explain in detail the following terms in relation to the raising of share capital:
- (i) an offer for sale; (ii) an offer by tender;
- (iii) placing or offer for placement; (iv) introduction. (20 marks)

Solution

(a) The following are required to be done before new shares are issued for any company:

- issue of prospectus on the shares
- securing stock exchange permission to deal
- issue may be by offer for sale
- issue may be by offer by tender
- issue may be by placings/placements
- issue may be by introduction
- the prospectus must show the capital structure, ownership and position of directors.

(3½ marks for each correctly stated requirement. Maximum of 4 to be graded. Sub-Total: 14 marks)

(b) (i) **An Offer for Sale:** is when an issuing house, acting as the principal, purchases shares from the vendors and offer them for sale to the public, inviting subscribers at a fixed price.

(ii) **An Offer by Tender:** is when the price at which the shares are offered is not fixed, but the public is invited to offer to subscribe, naming the price that it will pay.

(iii) **Placing or Offer for Placement:** here, the majority of the shares are “placed” or “sold” by the stockbrokers to a number of investors (usually institutions) prior to advertising the prospectus, but the market makers are usually offered a prospectus of the issue so they can make a market.

(iv) **Introduction:** in this case, there is a prospectus in order to give information about the company to the public but no invitation to the public to subscribe for the shares. After the Stock Exchange have granted the quotation, dealings can begin.

(5 marks for each correct and completely stated explanation. Sub-Total: 20 marks)

(Grand Total: 34 marks)

11(a) Explain in detail why equity and property investment will be suitable for shareholders funds. (10 marks)

(b) An institutional investor can invest properly in a number of ways. List and briefly explain any five (5) of these ways. (10 marks)

(c) Explain in detail each of the following terms:

(i) debentures (8 marks);

(ii) unsecured loan stocks

(6 marks).

Solution

(a) Equity and property investment will be suitable for shareholders funds for the following reasons:

- they offer capital appreciation plus income;
- shareholders' fund always form the basis for the solvency margin which insurers are obliged to maintain;
- they must thus grow at least in line with the growth in business and investment must make a large contribution to this growth;
- the investment must provide a basis for the dividends payable to the shareholders;
- an eye must be kept on the relative size of the shareholders fund and insurance fund;

- shareholders' fund must be managed inextricably with the general fund investment.

(2 marks for each correct and completely stated reason. Maximum of 5 to be graded. Sub-Total: 10 marks)

(b) An institutional investor can invest properly in the following number of ways:

- **purchasing properties:** it may be existing property or from a developer.
- **developing properties itself:** the entity may choose to engage in developing properties by itself rather than purchasing existing properties or buying from developers.
- **financing a development:** and taking a share of the resulting income.
- **Providing mortgage finance:** to a development company and also taking a share in the equity of the company.
- **Entering into sale and leaseback arrangements:** a property owner, needing funds for other developments, sell his property to an investor for a sum of money then leases it back at an annual rental.

(1 mark for each correctly stated way. 1 mark for correct explanation. Sub-Total per way: 2 marks. Maximum of 5 to be graded. Grand Sub-Total: 10 marks)

(c) (i) **Debentures:** (any four of the following point suffices as explanation)

- these are normally issued by companies to raise money;
- they are secured by a charge on specific assets of the company or by a floating charge over all the assets or by both;
- trustees are appointed to represent the debenture holders;
- trustees are responsible for ensuring that the terms of the trust deed covering the issue of the debentures are observed;
- where the terms are breached, the trustee will be able to exercise the rights granted under the trust deed.

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

(ii) **Unsecured Loan Stocks:**

- these are similar to debentures but they have no specific security;
- holders of such stocks must rely on the standing of the issuing company;
- in the event of failure to meet the terms of issue, stock holders would rank as unsecured creditors;
- it may also be convertible;
- yield would consequently be above those obtainable on debentures.

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

(Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)

12(a) Different people look at figures in financial statement for a variety of purposes and in a variety of ways. However, in basic term their interest are in three basic areas. List and explain the three (3) main areas. (12 marks)

(b) Explain in details the following financial terms and how to calculate them:
(i) liquidity; (ii) asset reliability; (iii) solvency. (12 marks)

(c) Internal management and staff are also interested in financial statement of the organisation. Enumerate their respective interest(s). (10 marks)

Solution

(a) The three (3) basic areas that people look at figures in financial statement for a variety of purposes and in a variety of ways are:

(i) **Security:** these include solvency, liquidity, capital adequacy. A stakeholder will ensure that his interest is protected and adequately secured.

(ii) **Profitability:** these include management efficiency, underwriting, value for money, dividends, investment policy and yields.

(iii) **future plans and prospects:** every stakeholder will be concerned with the future (going concern) aspect of the entity with due interest in the plans and prospects of the entity. These help the investors to make relevant and timely decision on their investment.

(2 marks for each correctly stated area. 2 marks for correct explanation. 4 marks for each area. Grand Sub-Total: 12 marks)

(b) (i) **Liquidity:**

- the insurance companies must have a positive cashflow;
- should not suffer from liquidity problem;
- must be able to discharge its obligations to pay claims;
- its assets must be more than its liability at any point in time;
- its investment should be near cash and should be readily convertible to cash.

It is calculated by:
$$\frac{\text{Net Assets}}{\text{Annual Premium Income}}$$

(ii) **Asset Reliability:**

- the market value of investments can be subject to considerable fluctuation which can affect the net available assets;
- volatility is greatest in the equities sector and least among government bands;

- the more the percentage of the investment portfolio which is invested in government bonds, the more secure will the values be;
- the balances of the portfolio are very important.

It is calculated by:
$$\frac{\text{Actual Solvency Margin}}{\text{Required Solvency Margin}}$$

(iii) Solvency:

- since it is essentially a comforting cushion, its size should bear some comparative relationship with the size of the company;
- for general business purposes, it is measured by its premium income.

It is calculated by:
$$\frac{\text{Premium Written in year}}{\text{Net Assets at the end of year}}$$

(2 marks for each correctly stated point. Maximum of 1 point to be graded per term. 2 marks for correctly stated formula. Sub-total per term: 4 marks. Grand Sub-Total: 12 marks)

(c) The respective interests of internal management and staff are in financial statement of the organisation are:

S/No	Internal Management	Staff
1	The efficiency and profitability of the company as a whole.	The profitability of the company (particularly where profit sharing exists).
2	The efficiency and profitability of their own department or areas of influence.	The security of the company, including possibility of takeover.
3	Future plans.	The ability of management.
4		Future plans.

(2½ marks for each correctly stated area. Maximum of 2 areas per category. Sub-Total per category: 5 marks. Grand Sub-Total: 10 marks)
(Grand Total: 34 marks)

13(a) Define the term “Responsibility Accounting”. Explain its three (3) components. (12 marks)

(b) For decision making purposes, list and explain four (4) types of cost. (12 marks)

(c) Using the following standard cost information, establish the total budgeted cost.

Policy Preparation	₦
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Direct Labour	2.00 (15 minutes @ 8/hr)
Terminal Input	0.50 (use of 5 input screen @ ₦ 0.10/screen average 6 key depressions)
Checking by Supervisor	0.40 (18 minutes for 1 in 5 policies @ ₦ 12/hr)
Postage Cost to Client	<u>0.20</u>
Total Standard Cost	<u>3.10</u>

(10 marks)

Solution

(a) **Responsibility Accounting** is a system of accounting where specific persons are made responsible. It is a system that involves identifying responsibility centres and their objectives, developing performance measurement schemes, preparing and analysing performance reports of the responsibility centres.

(3 marks)

The three (3) components are:

- **cost centre:** where managers are accountable for the expenses which are under their control;
- **profit centre:** where managers are accountable for sales revenue and expenses;
- **investment centre:** where managers are normally accountable for sales revenue and expenses plus capital investment decisions.

(2 marks for correctly stated component. 1 mark for correct explanation. Sub-Total per component: 3 marks. Grand Sub-Total: 9 marks)

(Grand Sub-Total: 12 marks)

(b) The four (4) types of costs from decision making are:

- **Relevant Costs:** these are costs that are relevant to a particular decision making. For example, if one is deciding whether to go buy a car for private use or for taxi use, then the car cost is immaterial as the irrelevant as it stays the same whether the car is used as a taxi or not. The relevant cost in this instance is the petrol cost.
- **Sunk Costs:** these are cost already incurred and which will be totally unaffected by the proposed alternatives. They are irrelevant for decision making.
- **Opportunity Costs:** these are costs that measure the sacrifice of choosing one alternative course of action which requires another alternative to be discarded.
- **Incremental/ Marginal Costs:** these are basically the costs that establishes the additional costs or revenues resulting from a decision.

(2 marks for each correctly stated cost. 1 mark for correct and complete explanation. Sub-Total per cost: 4 marks. Grand Total: 12 marks)

(c) By application of estimated workload and activities e.g. estimated numbers of new policies to be obtained in the sales budget, the total budgeted cost can be established e.g.

Budgeted Cost	= volume of activities x Standard cost	(4 marks)
	= 3000 policies x 3.10	(2 marks)
	= ₦9,300.00.	(2 marks)

Hence, the manager of the responsibility centre can establish an activity basis for assembling the budget. (2 marks)

(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

14(a) Identify and explain the four (4) basic accounting concepts. (12 marks)

(b) What accounting record must every company keep and what must they show to concerned/interested parties? (12 marks)

(c) (i) What must auditors certify?

(ii) To whom must copies of the published accounts be sent?

(10 marks)

Solution

(a) The four (4) basic accounting concepts are:

- **going concern:** the enterprise will continue for the foreseeable future;
- **accruals:** revenue and costs are recognised as they are earned or incurred rather than as money is recovered or paid and are matched with one another where appropriate;
- **consistency:** like items are dealt with the same way from one accounting period to the next.
- **prudence:** revenue and profits are not anticipated but recognised only when 'realised' but 'provision' is made for all known expenses or losses even if this involves a best estimate.

(2 marks for each correctly stated concept. 1 mark for correct and complete explanation. Sub-Total per cost: 3 marks. Grand Total: 12 marks)

(b) The accounting record that every company must keep are:

- every company is required to keep accounting record, sufficient to show and explain the company's transaction; and to
- record showing the disclosure with reasonable accuracy, at any time, the financial position of the company at that time;
- record that will enable the directors to ensure that any balance sheet and profit or loss account prepared for the year purposes of the Act complies with its requirements.

and what must they show to concerned/interested parties are:

- a balance sheet as at the last day of the year.
- a profit and loss account.

(3 marks for each correctly stated record to be kept. Maximum of 2 to be graded. Sub-Total: 6 marks. 3 marks for each correctly stated document to be shown. Maximum of 2 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 12 marks)

(c) (i) The auditors must certify that:

- the report should state whether in the Auditors' opinion the annual accounts have been properly prepared in line with the Act;
- the report states in particular whether a true and fair view is given of the state of affairs as at the end of the financial year;
- auditor should consider the director's report and see that it is consistent with the accounts.

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

(ii) The company's auditor must make report to the members on annual accounts and present copies before the members at AGM. (5 marks)

(Grand Sub-Total: 10 marks)

(Grans Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2021 DIET EXAMINATION PAPER

SUBJECT A945

MARKETING

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does 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 APRIL 2021
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A945 -MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarised Statistics

Highest Score:	75%
Lowest Score:	10%
Average Score:	49%

Breakdown Updates

Question 1

The question examined candidates' knowledge on the conditions that should exist for exchange to take place. The attempt was impressive (about 85%) and performance very good (above 60%). The candidates displayed a good understanding of the topic which shows that they are well prepared for the examination. Candidates are advised to keep it up by ensuring that every aspects of the syllabus are covered.

Question 2

The question examined candidates' knowledge on performance of products classification in order of their hardness or softness. The performance is less than 40%. Candidates were not adequately prepared for the question. Candidates are advised to study harder to enable them perform better in the future examinations.

Question 3

The question intended to examine candidates' knowledge of characteristics and attributes of service. The performance was very good (about 90%). Reason for this could be that candidates concentrated their studies in this area. Candidates are advised to ensure that they prepare very well and cover the syllabus for future examinations.

Question 4

The question was meant to test the candidate's knowledge on the tangibility of insurance services. About 80% of them attempted the question while the performance was poor (about 20%). Candidates did not show understanding of this question. They are advised to prepare better in future examinations.

Question 5

The question was about different insurance products offerings that are available to different groups and how satisfied the groups are. Attempt was highly impressive and performance was very good (about 90%). Candidates were well prepared for this question.

Question 6

This question examined candidates' knowledge on why marketing strategies may fail. The attempt was excellent (about 95%) and performance was highly impressive (about 90%). Candidates were well prepared for this question.

Question 7

The question was meant to examine candidates' knowledge of the aims of external marketing; audit and to identify, as well as qualify, the insurance organization market and customer. The question was well attempted (about 80%) but the performance was poor (about 20%). The candidates did not display an understanding of the question. Candidates are advised to study well and ensure they understand the question before attempting it in future.

Question 8

The question tested candidates' knowledge of marketing communication. As simple as the question appeared, less than 30% of the candidate scored a pass mark. This revealed the weak state of candidates' preparedness. Candidates are advised to study harder as there is no short-cut to come out successful in this type of examination.

Question 9

This question was attempted by all and sections (a), (b) and (c) were understood and performance was very good (about 90%). However, for section (d), it was very poorly attempted. Performance was below average. Candidates displayed lack of understanding of the concept. The overall performance was good about 60%).

Question 10

The part (a) examined candidates' knowledge on various definitions. The question was well attempted with a pass rate that was above 80%. Part (b) was well attempted (about 85%) with a pass rate of about 60%). Candidate displayed a good understanding of the question.

Question 11

The question examined candidates' knowledge about processes and stages involved in implementing marketing strategy as well as market positioning. The question was poorly attempted (about 40%) with a pass rate of 40% from those who attempted it.

Question 12

The question examined candidates' understanding of market research process and how data collection process can be vulnerable and inaccurate. The attempt was very encouraging (95%) and the performance very good (90%). It was evidenced that preparation for this question was good.

Question 13

The question examined candidates' knowledge of customer service, call centre and fulfilment house. Internet and e-commerce were also tested. Many of the candidates did not attempt this question; below 40% of them did with a pass rate that was lower than 50%.

Question 14

The question examined candidates' knowledge of the international aspect of marketing. The question was well attempted (about 90%) and performance was equally good (about 80%). This good performance can be deduced to mean that candidates prepared adequately for this question.

Chief Examiner's Comments on Overall Performance:

The overall pass rate was below average with a global 45% pass rate.

Chief Examiner's Suggestion on Improvement:

Candidates are advised to ensure that they study harder and cover every aspect of the syllabus in future examination. They are also enjoined to ensure that every aspect of the syllabus is thoroughly studied in future examinations.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1 Many exchanges may be necessary for complete satisfaction, but such exchanges do not happen automatically. Outline 6 (six) conditions that must be met before an exchange transaction occurs.

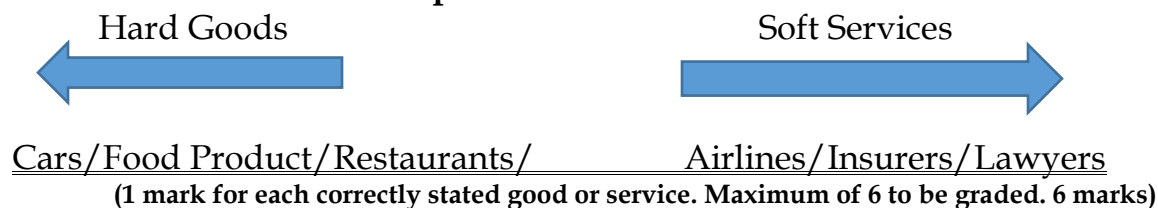
Solution

The conditions that must be met before an exchange transaction occurs are:

- there must be at least 2 parties
- both parties must offer something of value (e.g. money, goods, services e.t.c.)
- both parties must be aware of each other's existence
- both parties must be capable of communication and delivery
- both parties must be free to accept or reject the other's offer
- both parties must be willing and able to negotiate terms of exchange they find acceptable.

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

2 As an introduction to the differences between goods and services, it is important to recognise that they exist within a broad spectrum of "hardness" or "softness". With the aid of diagram, show a range of three (3) examples of services and where they fall within that spectrum.

Solution**The Goods and Services Spectrum**

(1 mark for each correctly stated good or service. Maximum of 6 to be graded. 6 marks)

3 Services have certain characteristics and attributes that distinguish them from goods. List six (6) of those characteristics.

Solution

The characteristics and attributes that distinguish services from good are:

- services are intangible;
- services are always almost temporary, or have a lifetime mutually agreed by the provider and the recipient;

- some services such as hairdressing do not necessarily conform to a recognizable and consistent specification;
 - some services, such as state education are subject to official governmental regulation, while others such as window cleaning are not;
 - to be bought and sold, services are most often on personal interaction between the recover and the provider of the services, or the engagement of an intermediary between them;
 - to be attractive to buyers, services rely less on their inherent qualities and more on the qualities of the people that supply them;
 - services require no physical distribution channel to allow them to pass from seller to buyer;
 - the value of a service is most commonly assessed on its competition, and there must therefore be a higher degree of trust between seller and buyer
- (1 mark for each correctly stated characteristic. Maximum of 6 to be graded. Total 6 marks)

4. Enumerate any three (3) of the four (4) ways in which an insurance service can be made more tangible.

Solution

The ways in which an insurance service can be made more tangible are by:

- by using any physical products e.g. the style and format of the insurance policy and any accompanying integrator, as quality indicators;
- by creating a tangible representation of the insurance e.g. by offering customers a branded plastic card which contains key policy numbers and claim telephone contact details and can be kept in a wallet;
- offering financial incentives to customers which allow them to buy tangible items such as fire alarms, steering wheel locks and other security;
- tying the marketing of services to the marketing of certain goods e.g. providing insurance case for electrical domestic products or new cars at the time of sale.

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

5. The insurance organisation must strive to match its offerings to groups whose needs it can best satisfy, and these groups will differ accordingly to certain identified factors. Mention three (3) of such factors with 2 (two) examples of each of each.

Solution

The factors, with examples are:

- **demographic factors** e.g. age, gender, education, occupation
- **buying behavior** e.g. heavy/light users of insurance
- **geographical location** e.g. where are the customers based?

- **behavioral factors** e.g. do customer take, or avoid risks?

(1 mark each for correctly stated factor. 1 mark for each correct example under each factor. Sub-Total per factor: 2 marks. Grand Total: 6 marks)

6 Like military campaigns, marketing strategies can also fail due to certain reasons. Outline three (3) of such reasons.

Solution

Some of the reasons why marketing strategies can also fail are:

- overall corporate objectives are not communicated accurately to those who are supporting the achievement of those objectives at an operational level;
- there are insufficient resources to carry out the overall strategy at an operational level;
- those who are carrying out strategy at an operational level choose not to follow the guidelines for the overall strategy;
- changes in the business environment means that the marketing strategy is no longer relevant.

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

7. One of the aims of the external marketing audit is to identify and qualify the insurance organisation’s market and customers. That market can encompass a range of distant targets. Mention any four (4) of them.

Solution

The targets could be:

- * customers;
- * intermediaries;
- * distribution agents
- * investors;
- * joint venture partners and affiliates

(1½ marks each for each correctly stated target. Maximum of 4 to be graded. 6 marks total)

8 Different organisations within the same industry differ in the way they allocate their resources to marketing communications and to other area of promotion within the marketing mix. Mention four (4) of the factors that determine how appropriate each method of communication is.

Solution

The factors that determine how appropriate each method of communication are:

- objectives and resources of the organisation;
- type of product or service;
- stage of the product/service within the product lifecycle;
- characteristics of the market;
- other elements of the marketing mix.

(1½ marks each for each correctly stated factor. Maximum of 4 to be graded. 6 marks total)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) (i) List two (2) Nigerian Insurance laws that has impact on Insurance Brokers in Nigeria. (4 marks)
- (ii) The Nigerian Council of Registered Insurance Brokers (NCRIB) has different types of membership cadre. State any three (3) types of these cadres. (6 marks)
- (b) List and explain the five (5) main objectives behind the design of distribution channels. (15 marks)
- (c) Broadly speaking, the internet presents four (4) distinct distribution features. Outline the four. (10 marks)
- (d) Explain the five (5) principal applications of market research. (15 marks)

Solution

- (a) (i) The Nigerian Insurance laws that will affect Insurance Brokers in Nigeria are:

* Insurance Act 2003

* NCRIB Act 2003

* NAICOM Act 1997

* Pension Reform Act 2014

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

- (ii) The types of membership cadre for NCRIB are:

* Corporate Members

* Fellow Members

* Associates Members

* Ordinary Members

* Students Members.

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

(Total: 10 marks)

- (b) The main objectives for marketing distribution channels are:

- to make the product or service available to customers;
- to ensure that promotional effort is devoted to the product or service as close as possible to the customer;
- to provide the highest level of customer service;
- to gather feedback from customers and intermediaries about the market;
- to take advantage of economies of scale.

(3 marks for any correctly stated objective. Sub-Total: 15 marks)

(c) The four (4) distinct distribution features of the internet are:

- a direct link between customers and business to complete transactions or swap information more easily;
- technology that lets companies by-pass traditional distributors;
- a way for organisations to develop and deliver new products and services for new customers;
- a way for organisations to use the internet to become dominant players in the electronic channel of a specific industry or segment, controlling access to customers and setting new business rules.

(2½ marks for each complete and correctly stated feature. Sub-Total: 10 marks)

(d) The five (5) principal applications of market research are:

- **Product or Service Availability:** there are two types of availability for consumer goods. First, is that the goods claim as much claim as much as retail space as possible at retail outlets. The second is that the shelf or floor space that they occupy must be appropriate for the goods in question. For industrial goods or wholesale products, retail space is irrelevant, emphasis is on availability via efficient ordering system.
- **Promotional Effort:** retailers often participate in special in-store promotion events to support the producers of consumer goods. Distribution partnership is used to bring the consumer's attention to the product.
- **Consumer Service:** often, members of the distribution channel take an active part in providing customer service, owing to their closeness to the customer and the point of sale.
- **Market Feedback:** as distributors and agents are often closer to their market place than the actual producers of goods or providers of services, they can usually provide more accurate and up to date information about the market.
- **Economies of Scale:** distribution channels provide economies of scale since distributors, agents and retailers can act far more than one producer and can make the cost of providing distribution service very competitive.

(2 marks for each correctly stated application. 1 mark for correct explanation. Sub-Total per application: 3 marks. Grand Sub-Total: 15 marks)

(Grand Total: 34 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Define the terms:

- (i) "goods" (2 marks) (ii) "a pure service" (2 marks)
(ii) "unsatisfied needs" (2 marks) (iv) "market positioning" (2 marks)

(b) With the aid of diagram, list and explain the five (5) stages of the product life cycle. (10 marks)

(c) An important strategic decision in marketing is the determination of the most appropriate segments for the marketing effort.

- (i) Outline the three (3) of the four (4) main options. (6 marks)
(ii) List and explain (4) out of 5 (five) factors that determines the choice of option in (i) above. (10 marks)

Solution

(a) (i) **Goods:** are material or physical things, either natural or man-made, which are used to satisfy human needs and wants. They may be bought and sold by consumers or by organisations. (2 marks)

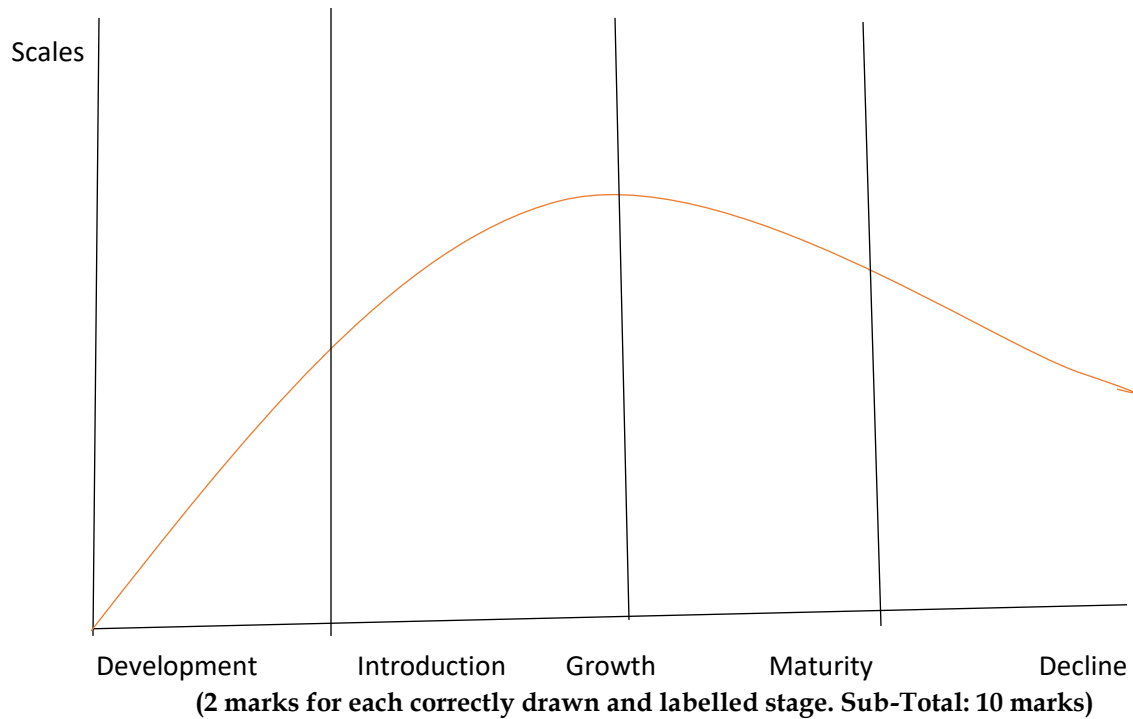
(ii) **A Pure Service:** is any activity or benefit that one party offer to another that is intangible. (2 marks)

(iii) **Unsatisfied Needs:** it is a gap between a person's (or organisation's) actual state and their desired state. (2 marks)

(iv) **Market Positioning:** is the development and communication of a differential advantage that makes an organization's product or service superior to and distinctive from others, in the perception of target customers. (2 marks)

(Sub-Total: 8 marks)

b)



(c) The four (4) main options are:

- producing a single product for a single segment;
- producing a small range of products for a limited range of segments;
- producing many products serving many different market segments;
- producing a single product for an unidentified mass market.

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

(ii) The choice will depend on a range of factors from the below:

- whether segments can be accurately identified;
- whether segments can be clearly defined;
- whether each segment is large enough to be profitable;
- whether each segment can be served within certain cost constraints;
- the organization's management goals.

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

(Grand Total: 34 marks)

11(a) Formulating and implementing a marketing strategy by an insurance organisation is a 4-stage process that shares some attributes with developing a business plan for an organisation. Outline and explain the 4-steps in sequential order.

(24 marks)

- (b) Market Positioning is based on the customer's perception of the offering in relation to other offerings in the market. The process of positioning involves five main steps. Outline these five (5) steps. (10 marks)

Solution

(a) The 4-steps for formulating and implementing a marketing strategy by an insurance organisation are:

- **Step 1:** Establishing the corporate content i.e.
 - stating the corporate mission or vision statement;
 - identifying corporate objectives.
- **Step 2:** Analysis of the internal and external environment
 - carrying out a marketing audit
 - carrying out a SWOT analysis
 - using research to make some key assumptions
- **Step 3:** Formulation of market strategy
 - establishing marketing objective
 - establishing marketing strategy
 - predicting expected results
 - identifying contingent and alternative strategies
- **Step 4:** Implementation, control and alternative strategies
 - Resource allocation
 - Budgeting
 - Action plans
 - Monitoring

(2 marks for each correctly stated step. 2 marks for each correctly stated point. Maximum of 2 points to be graded under each step. Sub-Total per Step: 6 marks. Grand Total: 24 marks)

- (b) The process of positioning involves the following five main steps:
- determining the levels of positioning;
 - identifying the key attributes which impacts selected segments;
 - locating those attributes on a positioning map;
 - evaluating other positioning options;
 - implementing the new positioning strategy.

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

(Grand Total: 34 marks)

12(a) Market Research Process involves six steps/stages. Enumerate and explain these six (6) steps in detail. (16 marks)

(b) Data can be collected in a variety of ways. However, the actual collection of data is vulnerable to dangers that may affect the accuracy of the research.

List and explain four (4) examples of circumstances in which the resultant data may be distorted. (12 marks)

- (c) There are three categories of product enhancement an insurance company can adopt. List and give two (2) suitable examples of each. (6 marks)

Solution

(a) Market research is methodical and typically follows an ordered series of six steps or stages. These are:

- Step 1: Identifying the missing information (1 mark)
- Step 2: Determining data needs and sources (1 mark)
- Step 3: Research design (1 mark)
- Step 4: Design of sample size and characteristics (1 mark)
- Step 5: - Data collation (1 mark)
- Step 6: Tabulation and analysis. (1 mark)

Identifying the Missing Information- first step towards identifying the information required by the organization and the question for which the market research will provide answers. (1½ marks)

Determining Data Needs and Sources- in this step, researcher needs to identify what kind of data they need and the likely source of that data. e.g. are historical records required to show trends? (2 marks)

Research Design- This step is very important if the research is based on questioner. (1½ marks)

Design of Sample Size and Characteristics- depending on the information gap identified in step 1 and likely sources of information identified in step 2, the researcher will need to identify a target group from when the information will be gathered. (2 marks)

Data Collation- data can be collected in variety of ways. Actual data collection may be prone to dangers which may affect the accuracy of the research. (1½ marks)

Tabulation and Analysis- The raw data needs to be tabulated or collated in a format that makes it easier to draw inference about trends (1½ marks)

(Grand Total: 16 marks)

(b) Data can be collected in a variety of ways; however, the actual collection of data is vulnerable to dangers that may affect the accuracy of the research. For example,

- interviewees who do not respond at all
- interviewees who do not respond accurately, or respond dishonestly
- interviewers who ask questions incorrectly or inaccurately
- interviewers who record answers incorrectly or inaccurately

(2½ marks for each correctly stated point. 10 marks total)

(c) There are three (3) categories of product enhancements. These are:

- extensions of the offering might include free house survey, free smoke detectors or the introduction of an additional access of cover to a standard insurance policy;
- improvements to the offering might include better-drafted insurance policies, higher limits of cover or a 24 -hour helpline;
- style changes involve cosmetic alternations to, or enhancements of the tangible elements of your offering, such as a new corporate image.

(2 marks for each correctly stated category. Sub-Total: 6 marks)

(Grand Total: 34 marks)

13 (a) Explain the following terms with respect to marketing of insurance services:

- (i) customer service; (ii) call center and
(iii) fulfilment house.

(12 marks)

(b) (i) Define Internet and E-commerce.

(4 marks)

- (ii) Outline four (4) distinct distribution features presented by the use of the Internet.

(8 marks)

(c) Outline the five (5) main objectives that an insurance company wants to achieve while designing marketing distribution channels.

(10 marks)

Solution

(a) (i) **Customer Service:** means all activities required to accept, process, deliver and fulfill customer orders and to follow up any activity that has gone wrong.

(ii) **Call Centre:** is a group of telephone agents who are also computer operators inked sometimes electronically as well as vocally by telephone lines and who can service existing customers and sell to potential customers.

(iii) **Fulfilment House:** is an organisation that takes responsibility for fulfilling an enquiry on behalf of the provider of goods or services. e.g. by sending information or a brochure to a caller.

(4 marks for each term correctly explained. 12 marks in total)

(b) **Internet** is the way that computers are connected by telephone lines. The net allows computer user to communicate cheaply, quickly and internationally with one another through their computer terminals by using the world's existing telephone communication structure. (2 marks); while **e-commerce** is the conduct of business electronically using the internet. Business transactions can be carried out swiftly and efficiently, with instant payment of goods by credit cards or debit cards. (2 marks). (4 marks)

(ii) The distinct distribution features presented by the use of the internet are:

- a direct link between customers and business to complete transactions or swap information more easily;
- technology that lets companies by-pass traditional distributors;
- a way for organisation to develop and deliver new products and services for new customers;
- a way for organisations to use the internet to become the dominant players on the electronic channel of a specific industry or segment, controlling access to customers and selling new business rules.

(2 marks each correct and completely stated feature. Sub-Total: 8 marks)

(c) Organisations design marketing distribution channels to achieve the following objectives:

- to make the product or service available to the customers;
- to ensure that promotional efforts is devoted to the product or service as close as possible to the customer;
- to provide the highest level of customer service;
- to gather feedback from customers about the market.
- to gather feedback from intermediaries about the market.

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

(Grand Total: 34 marks)

14(a) When prioritising overseas market, which six (6) aspects of each market is an organisation likely to examine? (12 marks)

(b) Write short notes on the marketing terms:

(i) International marketing research (6 marks)

(ii) International marketing objectives. (6 marks)

(c) There are some barriers to communicating marketing messages in different international markets. Outline the four (4) barriers. (10 marks)

Solution

(a) The aspects to look out for are:

- physical and geographical environment;
- legal environment;
- political environment;
- cultural environment;
- competitive environment;
- local infrastructure.

(2 marks for a correctly stated aspect. Grand Sub-Total: 12 marks)

(b) (i) **International Marketing Research:**

- through market research organization that would want to sell their products and services in foreign markets can minimize their risks inherent in coping with the unfamiliar environment;
- IMR covers a broader range of subject than does domestic market research;
- these areas include data on economic, political and cultural environment, distribution and transport system; and regulations on products and packaging;
- secondary data sources can also be used extensively;
- research may find respondents in many countries more difficult;
- conducting survey research is ordinarily more difficult in the international arena but not impossible.

(2 marks for each correctly stated point. Maximum of 3 to be graded, 6 marks in total)

(Grand Sub-Total: 12 marks)

(ii) **International Market Objectives**

- profitability objectives for both domestic and international trade are much the same;
- they include return on investment, return on assets managed, growth, cash flow and market share;
- economic objectives should be specified for each foreign market and may vary from one country to the other;
- objectives in entering global market are aimed at improving overall profitability by reducing costs, increasing revenue or both;
- economies of scales may be the driving force to move into foreign market
- comparative advantage in factory cost or quality tied to the production of a given product is important.

(2 marks for each correctly stated point. Maximum of 3 to be graded, 6 marks in total)

(c) Some barriers to communicating marketing messages in different international markets are:

- legal barrier- for instance, some countries do not allow advertising targeted at children;
- where the local culture does not understand or like the marketing message;
- where local competition has been established longer and is closer to the people;
- where the message has been properly communicated due to poor local skills.

(2½ marks for each correctly stated barrier. 10 marks in total)

(Grand Total: 34 marks)