



*Chartered Insurance
Institute of Nigeria*

Chief Examiners' Report

April 2022

Intermediate In Insurance

(101-109)

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
CANDIDATES SHOULD VISIT & UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS ETC ON THE FOLLOWING SITES naicom.com (NAICOM), nigeriainsurers.org (NIA); ncrib.net (NCRIB); nigeriailan.com (ILAN); ciinigeria.com (CIIN)	
INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT. ANY CANDIDATE CAUGHT AND/OR FOUND TO BE 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).	
STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!	

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I01
INSURANCE LAW

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two 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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I01 - INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

Question was intended to test the candidates' knowledge of the classes of insurance business as provided by the Insurance Act. Attempt was 75% whilst 65% of those who attempted the question passed it. Those who failed it made wild guesses and assumptions, and it is suspected that those ones did not read and practice well for the examination. Candidates are enjoined to prepare well for future examinations. This will involve reading and studying well the coursebook.

Question 2

This tested the knowledge of the impact of the case of HEDLEY BRYNE as it relates to professional liability. Attempt was poor - 35%. Of this only 20% got it right. Error common to all the candidates who failed was that they did not read the facts of the case. Candidates are advised to master the facts of *locos classicos* - landmark cases in the coursebook even though one is not asking that they read all the cases in the book.

Question 3

Tested the candidates understanding of the course of role of law. 80% attempted but good performance was low - less than 15%. It was clear candidates' preparation was poor. Common error was that candidates deviated from the question therefore going off-mark. Candidates are enjoined to some seriousness into their preparation for future examination(s).

Question 4

Tested knowledge of the concept of 'freedom of contract' and the efforts of the parliament and courts to aid the weaker parties in contract bargains. All the candidates attempted it while good performance was 80%. Candidates wrote long story in their response. Candidates are advised to be direct and concise in their responses in future examination, it will save time for them to tackle difficult questions.

Question 5

Designed to test the candidates understanding of the duties of an agent to his principal of attempt was good and performance was above 80%. Question was direct and straight forward.

Question 6

A practitioner's question designed to test the candidates' understanding of the concept of Insurable interest. Performance on this aspect of the question was good. The 'B' part was to test the practical aspect of the definition of the concept. Performance was poor and revealed candidates did not have an in-depth knowledge of the concept. Going forward candidates need to attend tuition centres lectures to get in-depth teaching and preparation for the future examination.

Question 7

A textbook question to test the candidates' understanding of the basis of liability in the law of tort and exceptions. Attempt was a good one but overall performance was not encouraging. Almost 90% of those who attempted the question scored below average. Adequate preparation is recommended.

Question 8

This is a direct textbook question. Attempt was almost 100% but overall performance was poor - less than 25%. Common noticeable error is lack of adequate preparation on part of the candidates. Candidates are urged to prepare well in the future. This will involve self-denial, sacrifices and being focused and serious about the examination.

Question 9

Set to test candidates' knowledge of the nature of claims under the concept of Indemnity. Only 15% of the candidates attempted the question. Performance was equally low. Hard work involving serious learning by candidates is advised. Candidates need to cover 90% of the Course book to put them in a good position to attempt and pass this course.

Question 10

Was intended to test candidates' understanding of the concepts of Subrogation and Abandonment by bringing out the differences between the two concepts that are often linked together. Only 45% of the candidates attempted but did not give the requirements of the question resulting in poor performance- 25% pass. Adequate preparation for this examination is recommended.

Question 11

This was designed to get to know if the candidates know the origin and operation of the concept of contribution. Attempt was 92% with over 60% pass rate. Performance could be better if the candidate had prepared well. There is need for candidates to prepare holistically and not do haphazard preparation for examination. Inadequate preparation was the bane of many candidates.

Question 12

Tested the candidate's knowledge of process of law making in a democracy. Attempt was 100% and pass rate 95%.

Question 13

Tested the candidates' knowledge of the concept of insurance interest. Very popular with the candidates. Attempt was 94-96%. The performance was above 80%. Notwithstanding, the performance could be better if candidates would read and digest the course book and have the correct attitude to examination.

Question 14

Tested the candidates' understanding of the concept of 'STRICT LIABILITY' or NO-FAULT LIABILITY. Question looked strange to the candidate as both attempt and performance were poor. The only reason for this could be lack of adequate preparation-seemed the candidates chose which part of the course book to read and not to read. Cover-to-cover reading of the course book is recommended.

Question 15

Optional question in Part II of the question paper. Designed to test what the candidates knew about how terms may be implied into the contract of parties. Not many candidates attempted this question, 25%, of which less than 10% of them passed the question. Again, it is recommended that candidates prepare adequately for this and other examinations.

Question 16

Set to test the dynamics involved in insurance agency work. Question was popular with the candidates - 96% attempted it. Pass rate was just 40%. Common error was that candidates rather than read their books, used industry experience which did not carry them far. Adequate preparation is recommended.

Question 17

Sought to examine the circumstance that would make an insured to get less than indemnity. Attempt was 90%, while the pass rate was less than 30%. Candidates are to spend more time in preparing for future examination(s).

Question 18

Set out to test the understanding of nature of contract which is a key part of Business/Financial/Economic relations. Over 80% did not attempt the question, which is considered good and relevant.

Comments on Overall Performance

Again, we witness abysmal performance in this course this diet. Same common errors by candidates. It is observed that foreign candidates performed better again this time.

Suggestions on improvement (if any)

Candidates are advised to prepare adequately and more seriously for future examination(s).

I01 - INSURANCE LAW

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. According to the Federal Republic of Nigeria Insurance Act 2003, Section 2 stated the main classes of insurance as two. List these two (2) main classes and state the any three (3) categories under each class. **(10 marks)**

Solution

- a) The two classes of insurance, according to the Act are:

- Life Insurance Business and
- General Insurance Business.

(2 marks for each correctly stated class)

The categories are:

- **Life Insurance Business:**
 - Individual Life Insurance Business
 - Group Life Insurance and Pension Business
 - Health Insurance Business
- **General Insurance Business:**
 - Fire Insurance Business
 - General Accident Insurance Business
 - Motor Vehicle Insurance Business
 - Marine and Aviation Insurance Business
 - Oil & Gas Insurance Business
 - Engineering Insurance business
 - Bonds Credit Guarantee and Suretyship Insurance Business
 - Miscellaneous Insurance Business

(1 mark each for correct categories. Maximum of 3 to be graded per class. Sub-Total: 6 marks)

(Grand Total: 10 marks)

2. Briefly discuss the importance of the case of *Hedley Brune v. Heller and Partners* (1963), with at least four (4) points. **(8 marks)**
- (b) How has the case been extended in recent times to negligent professional work. **(2 marks)**

Solution

- (a) The case of Hedley **Byrne** v. Heller & Partners (1963) *changed the law of the tort of negligent mis-statement (2marks)*. Before the case, there was no liability for negligent words or advice given to anyone by professionals. This position was changed by the decision in the case. With the decision, liability could arise in tort for negligent statement. *(2marks)*

Liability will arise where:

- there is a “special relationship” between the parties where it is reasonable for the claimant to rely on the advice given. There need not be a contractual relationship between the parties;
- the giver of the advice can reasonably **foresee that** the advice is likely to be **acted upon and the recipient is likely to suffer if it is inaccurate.**
- the advice is in fact acted upon, causing loss to the claimant.
- the concept of Reliance. It is to the effect that the Claimant must have relied on the misstatement or misleading information made by to him by the Defendant which caused him damage i.e. loss.

(2 marks for each complete and correctly stated point. Maximum of 2 to be graded.

Sub-Total: 4 marks)

(Grand Sub-Total: 8 marks)

(b) In recent times, the Rule in the case has been extended to apply to negligent professional work generally e.g. drawing up plans, carrying out a survey and similar activities. Also, actual reliance on the part of the claimant is not necessary again provided there was an assumption of responsibility towards the claimant by the defendant.

(2 marks)

(Grand Sub-Total: 10 marks)

3. List any four (4) main components of the concept of the “rule of law”.

Solution

The five main components of the “rule of Law” are:

- the powers **exercise** by politicians and officials must have proper foundation and be based on an **authority** given to them by law. There should be separation of power and adherence to it.
- law should be reasonable and predictable.
- there should be equality before the law.
- no one should be **punished** or deprived of his/her property, status or other rights unless they are given a fair hearing by an impartial court or tribunal.
- every citizen to have access to the courts which will defend the liberties and freedom of individuals.

(2½ marks for each correctly stated component. Maximum of 4 to be graded.

Grand Total: 10 marks

4. (a) Explain the theory of “freedom of contract” in relation to terms of a contract.

(2 marks)

b. In what ways and for what purpose have the courts and Parliament intervened to correct the principles embedded in the theory in (a) above? **(8 marks)**

Solution

(a) The “*freedom of contract*” theory stipulates that people should be allowed to make arrangements on any terms they like. The Courts should not intervene in the contracts of full-fledged adults without any disabilities even if the contract is disadvantageous to them. **(2 marks)**

(b) However, both the courts and Parliaments have increasingly stepped in to regulate and control contracts made by firms and individuals to protect consumers (2 *marks*) and those whose bargaining positions may be weak (2 *marks*).

Different countries/Parliaments/legislative arms of government have enacted laws in this respect e.g. The Sales of Goods Act 1979 and the Consumers Rights Act 2015. The effect of this is that parties are not wholly free to agree what terms they like (2 *marks*). Law now imply terms into the contracts of parties which they did not expressly agree (2 *marks*). The courts may refuse to enforce the terms the parties themselves agreed upon if found **contrary to good conscience** (2 *marks*).

(2 marks for correct and completely stated point. Maximum of 4 to be graded. Sub-Total: 8 marks). (Grand Total: 10 marks)

5. Highlight any three (3) duties of an agent to his principal and any two (2) remedies available to the principal in case of breach by his agent.

Solution

The duties of an agent to his principal are:

- (i) obedience to principal’s instructions;
- (ii) exercise of proper care and skill;
- (iii) personal performance of duties;
- (iv) act in good faith toward the principal;
- (v) account for monies received on behalf of the principal.

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

The remedies available to the principal in case of breach of his agent are:

- (i) Sue the agent for breach of contract or sue the agent in tort in some cases.
- (ii) Dismiss the agent for serious breach (e.g. taking of bribe) without notice or compensation.
- (iii) Sue the agent or the donor to recover a bribe paid to the agent.
- (iv) If the breach is fraudulent, to rescind any contract made through the agent and refuse commission.
- (v) Sue the agent for account if the agent fails to disclose full financial details of his agency dealings.

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

(Grand Total: 10 marks)

6. (a) What is insurable interest? **(2 marks)**
 (b) Briefly explain these factors as two key elements of the concept of insurable interest:
 (i) Economic or financial interest. **(4 marks)**
 (ii). Current interest, not Merely an Expectancy. **(4 marks)**

Solution

(a) Insurable interest is the legal right to insure arising out of a financial relationship recognised at law between the insured and the subject-matter of insurance. **(2 marks)**

(b) (i) **Economic or Financial Interest:** This is one of the key elements of the concept of insurable interest. This means that the insured is to stand in a position in relation to the subject matter of insurance that the existence of it gives him a benefit and the loss of it gives him a loss capable of being calculated in financial terms.

However, the insured need not specify the exact nature of his interest in the subject matter or the of amount his interest at the time of the contract. The bottom line is that the interest must be capable of financial valuation. The exception is life insurance because no amount of money can be put on human life.

For example, in *Lucena v. Crawford (1806)*, Sir Lawrence, J. stated that "a man is interested in a thing to whom advantage may arise or prejudice happen from the circumstances which may attend to it ... To be interested in the preservation of a thing is to be so circumstanced with respect to it as to have benefited from its existence, prejudice from its destruction".

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

(ii) **Current Interest not Merely an Expectancy:** The interest of the insured in the subject matter of insurance to confer on him an insurable interest is one that is real, present and not futuristic. As explained in *Lucena v Crawford (1806)*, "suppose the case of the heir at law of a man who has an estate worth €20,000 who is 99 years of age, upon his death bed interstate, and incapable from lunacy of making a will, there is no man who will deny that such an heir at law has a moral certainty of succeeding to the estate, yet the law will not allow that he has any interest, or anything more than a mere expectancy". Therefore, mere expectancy rather than current interest will suffice.

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

(Grand Total: 10 marks)

7. (a) The law of torts does not on the other hand usually concerns itself with why the defendant behaved in the way he did i.e. with his motive or malice. Briefly discuss. **(6 marks)**

- (b) Enumerate two (2) of the three general rules when the statement above will not apply. **(4 marks)**

Solution

- (a) Liability in the law of torts may depend on negligence or intent of the defendant but basically, the law of tort does not concern itself with the reason why a defendant behaved in particular way to cause the tortious wrong.

Therefore, **once** the **law** forbids the doing of **or** act an omission, **it** will not matter with what intention – malice or motive, the defendant did it. A wrongful act done with best of intention is still unlawful. Also, if an act is done with the best of motive, the doer will still be liable if the act is unlawful.

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

- (b) However, the general rule will not apply if:
- (a) malice is an essential ingredient of the tort e.g. malicious prosecution and malicious falsehood;
 - (b) in the tort of defamation, certain defences are not available except there is malice;
 - (c) liability in nuisance may be based on availability of malice.

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

8. (a) Describe warranties as terms of an insurance contract. **(4 marks)**
(b) In what three (3) ways may warranties be classified or created in an insurance contract? **(6 marks)**

Solution

- (a) Warranties are the most important terms in an insurance contract and they bring about the most drastic effects if they were broken although the Insurance Act 2003 has brought about some changes to bear on this definition.

Or A warranty is an insurance contract used to be described as a term which, if broken, allowed the insurers to repudiate the contract as a whole. In this regard, it was regarded as being similar in effect to what is described as a condition in the law of contract.

Or

A warranty is essentially a promise made by the insured relating to a fact or to something which they agree to do. A warranty may relate to past or present facts or it may be a continuing warranty which the insured promises that a state of affairs will continue to exist or they will continue to do something.

(2 marks for any correctly stated description. Maximum of 2 descriptions to be graded. Sub-total: 4 marks)

(b) The three ways by which warranties may be created or made in an insurance contract are:

- (i) Expressly; (ii) Impliedly; or
(iii) by basis of the contract clauses.

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

(Grand Total: 10 marks)

9. (a) Why is a claim under a policy of indemnity described as a claim for unliquidated damages? **(2 marks)**

(b) In what two (2) ways can betterment arise in determining measure of indemnity in a damaged building that is the subject matter of an insurance contract? **(8 marks)**

Solution

(a) A claim under a policy of indemnity is described as a claim for unliquidated because the exact amount of the compensation is not known in advance but it is to be fixed afterwards on the basis of the loss actually suffered. **(2 marks)**

(b) Betterment can arise in determining measure of indemnity in a damaged building that is the subject matter of an insurance contract:

(i) when a damaged building is repaired, certain parts of the structure will often have to be renewed so that when the work is complete, the building is likely to be in a better condition than it was before the loss e.g. when the roof of a building is in poor condition, with little useful life remaining, has to be replaced following a fire. Reconstruction may include new plumbing, new electric wiring and re-decoration.

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

(ii) where the quality of the building is improved in the course of carrying out repairs e.g. an extra storey/floor may be added to the building or a sprinkler system installed during reconstruction.

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

(Grand Total: 10 marks)

10. (a) Define subrogation. **(4 marks)**

(b) Abandonment is often linked with subrogation and has the same general purpose of preventing the insured from recovering more than an indemnity.

Enumerate the differences between the two concepts with at least two (2) points? **(6 marks)**

Solution

(a) Subrogation is the *right of one person, having indemnified another under a legal obligation to do so, to stand in the place of that other and avail himself of all the rights and remedies of that other, whether already enforced or not.*

(2 marks for each complete and correctly stated phrase. Sub-Total: 4 marks)

(b) Subrogation gives the insurer to pursue a claim against a third party for loss of the subject matter, abandonment and salvage confer rights only over the subject matter itself.

An action by way of subrogation in court cannot be brought in the insurer's own name (with one exception though), an insurer who accepts abandonment becomes the owner of the goods. An insurer can make profit on the abandoned property, subrogation allows insurer to recover no more than their own payment. Subrogation operates automatically as a result of the principle of indemnity, abandoned property needs not be accepted by the insurer.

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

(Total: 10 marks)

11. (a) What is a contribution condition? **(2 marks)**
(b) What is the common law rule or principle that the concept seeks to override or change? **(4 marks)**
(c) Give any two (2) of four examples of the concept. **(4 marks)**

Solution

(a) A contribution condition is a clause that sets out how the loss is to be met if the insured has another policy which covers it. **(4 marks)**

(b) The common law rule or principle that the concept seeks to override or change is the common law rule that allows an insured the latitude to sue/claim against any of his multiple insurers in any order and for such proportion of the loss he thinks fit which position is acceptable to insurers.

The effect of the condition is to change or override the common law rule to the effect that an insured who has more than a policy for the same risk can claim against the insurers in any order and for such proportion of the loss as he thinks fit.

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

- (c) The examples of this concept are:
(i) escape clauses; (ii) other non-contribution clauses;
(ii) more specific Insurance clauses (iv) rateable proportion clauses.

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

(Grand Total: 10 marks)

12. Briefly explain the step by step process involved in the enactment of a Public Bill into an Act of Parliament.

Solution

The step-by-step process involved in the enactment of a Public Bill into an Act of Parliament are:

(i) **First Reading of the Bill:** this could be termed to be a mere formality where the Clerk of the House reads all the title of the Bill to inform members of its existence. It is then printed and published.

(ii) **Second Reading of the Bill:** here, the merits of the Bill is debated in the House. Votes are taken to determine whether or not to proceed with it **Alternatively**, the Bill may be referred to the **Standing Committee**, which is the second reading committee which may recommend whether or not the Bill should be read a second time. If it **is** voted that the Bill should be read a second time, it goes to the **Committee Stage**. Here, details of the Bill are discussed, amendment may be proposed and voted upon. It then moves to the Report Stage. At the **Report Stage**, the Bill as amended is reported to the plenary. The amendments to the Bill may be debated and may be sent back to the **Standing Committee** for further work.

(iii) **The Third Reading:** this is the final opportunity for debate is offered. The final stage is the Presidential Assent after which the Bill becomes an Act of Parliament.

- **(1 mark for each correctly stated step (Sub-Total: 3 marks). 1 mark for each correct and complete explanation (Sub-Total: 6 marks) . 1 mark for logical presentation. Grand Total: 10 marks)**

13. How does insurable interest arise at “*common law*” and in “*contract*”?

Solution

Insurable interest may be created or arise:

At Common Law: in some situations, insurable interest is presumed to exist where:

- every person is assumed to have an unlimited interest in his own life; or
- at ownership: ownership of a thing carries with the right to insure.

In Contract: a person can acquire an insurance interest by his contractual right. For example, the landlord rather than the tenant is normally liable for maintenance of the property which liability can be of the property which liability can be passed to the tenants in the Tenancy Agreement. This in turn will give the tenant the right to insure the property as he acquires insurable interest in the purposely.

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

14. (a) Explain strict liabilities stating another term **by** which it is known. **(4 marks)**
- (b) Ryland v. Fletcher (1868) is NOT an example of strict liabilities. True or False. **(2 marks)**
- (c) Enumerate any two incidents where malice is relevant in tort. **(4 marks)**

Solution

(a) Sometimes a person may be held liable even though their actions are neither intentional nor negligent (**2 marks**). This is called strict liability, in other words, “no-fault liability” (**2 marks**). **(Sub-Total: 4 marks)**

(b) True. **(2 marks)**

(c) Some incidents where malice is relevant in tort are:

- malice is an essential ingredient in one or two minor torts;
- in the tort of defamation, certain defences are not available if there is malice;
- in the tort of nuisance, some actions which are normally reasonable will be held unreasonable if motivated by malice.

(2 marks for each correct and completely stated incident. Maximum of 2 to be graded. Sub-Total: 4 marks)

(Grand Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) Enumerate and explain three (3) ways that terms may be implied under implied terms in an insurance contract. **(18 marks)**

(b) Enumerate any two (2) of the three (3) categories that contracts made by minors will fall into. **(6 marks)**

(c) List three (3) contracts that must be made in writing and cannot be implied. **(6 marks)**

Solution

(a) In an insurance contract, terms may be implied in one of the three way as stated and explained below:

(i) **term implied in facts:** a term is implied is one which is not actually stated but is presumed to be intended by the parties. In some cases, the term in question may be implied because it relates to something which is so obvious that it goes without saying.

(ii) **terms implied by custom or usage:** terms can be implied by the custom of the market in which the parties to the contract operate, or the usages of a particular locality or trade.

(iii) **terms implied in law:** in many contracts, the rights and duties of the parties may be based on terms which the law automatically applies to the agreement.

(2 marks for each correctly stated way. 2 marks for each correct and complete explanation. Maximum of 2 points to be graded. Sub-Total: 18 marks)

(b) The three (3) categories that contracts made by minors will fall into are:

- contracts which are binding;
- contracts which are binding unless repudiated;

- contracts which are not binding on the minors.
(3 marks for each correctly stated category. Maximum of 2 to be graded. Sub-Total: 6 marks)

(c) The contracts that must be made in writing and cannot be implied are:

- * bills of exchange; * cheques and promissory notes;
- * the transfer of shares in a registered company; * some consumer credit
- * contracts of marine insurance.

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

(Grand Total: 30 marks)

16. It is a peculiarity of insurance practice that an agent as an intermediary may act at different times, at/on behalf of both the proposer/insured and the insurer.

Concisely enumerate the circumstances when:

- (a) the agent will be taken as acting for proposer; and **(15 marks)**
 (b) the agent will be taken as acting for the Insurer. **(15 marks)**

Solution

(a) The agent is taken to be acting as an agent for the proposer in the following instances:

- when the agent advises the proposer about the sort of insurance he needs and recommends a general type of policy. The proposer will be the agent's principal in this circumstance;
- if no authority is given by the insurers and the only recognition the agent receives from the insurer is the payment of commission;
- when the agent fills in, alter or add to the answers in the proposed form and the proposer knew or ought to have known of this;
- when the agent completes a form on the proposer's behalf and the form incorporates a wording to the effect that if the form is completed by someone other than the proposer that person is deemed to be the agent of the proposer;
- when the agent and proposer are in collusion to defraud the insurer;
- when the agent advises proposer about how to formulate his claim.

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

(b) The agent is taken to be acting as an agent for the insurer in the following instances:

- when the agent has express authority from the insurer to receive and handle proposal forms;
- when the agent handles form in accordance with previous course of business with the insurer and within an implied authority that has arisen;
- when the agent is instructed by the insurer to ask questions and fill in the answers on the proposal form;
- when the agent surveys and describes the property on the insurer's behalf;

- when the agent acts without authority but the insurer subsequently ratifies or has ratified such in the past;
 - when the agent has express or implied authority to collect premiums.
- (3 marks for each correct and completely stated circumstance. Maximum of 5 to be graded. Sub-Total: 15 marks)**
(Grand Total: 30 marks)

17. Concisely review any four (4) circumstance that will make the insured get less than an indemnity.

Solution

The following are the circumstances that will make the insured get less than an indemnity:

- (i) The sum insured or limit of liability.
- (ii) Other policy limits.
- (iii) Underinsurance and Average Clauses.
- (iv) Excess or Deductible.
- (v) Franchise.

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

(i) **Policies with sum insured or indemnity limit** cannot pay more. Therefore, the insured cannot recover more even where the loss measured by indemnity principle, is a higher figure. The only exception is liability insurance where costs and expenses incurred in connection with liability claims may be payable over and above the limit of liability.

(ii) **Other Policy Limits:** within the overall sum insured, or limit of indemnity, there may be further separate limits for particular types of loss or particular types of property e.g. a typical household contents policy will often restrict cover on individual 'valuables' to say 5% of the total sum insured. In this situation, the insured may not receive adequate indemnity were the risk insured to happen. If the sum insured or limit of indemnity is not large enough to meet the loss, the insured will clearly not obtain a full indemnity.

(iii) **Under-Insurance and Average Clauses:** Under insurance occurs when the insured's sum insured is unable to carry the loss suffered by him because it is inadequate. This means that the insured's contribution to the "insurance pool" from which he wants to draw, is not full and therefore this will affect what he gets from there. When there is under insurance, the concept of "average" is introduced into the bargain. By this, the insured is considered to be his own insurer for the aspect of the risk for which premium is not paid. In sum, the insured will get less than an indemnity in the circumstances.

(iv) **Excess or Deductible:** excess clause or deductible is a clause which provides the insured bears the first amount of any loss, expressed either as a sum of money or a

percentage of the loss. The effect of this is to relieve the insurers from having to deal with small losses and to reduce the size of every claim payment which is made.

(v) **Franchise:** similar to excess in that no liability is borne by the insurer for any loss which than the franchise figure. However, once the franchise is exceeded, the claim is payable in full.

**(2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total per term: 5 marks. Sub-Total: 20 marks)
(Grand Total: 30 marks)**

18. In some cases, the law requires formality as an essential requirement for formation of a valid contract. However, the general rule is that most contracts can be made without any writing or other formalities and only a limited number of contracts are subject to formal roles.

(a) Enumerate the four (4) categories of contract that serve as exceptions to the formality rule. **(12 marks)**

(b) Give an example of each of the four categories. **(12 marks)**

(c) Enumerate any three (3) types of fraud in insurance claims. **(6 marks)**

Solution

(a) One of the five essentials for the formation of a valid contract is formality which may stipulate that a contract be concluded in one form or the other. However not all contracts observe the formality rule. There are categories of formality for those which do not have to observe the rule. The categories of contract that serve as exceptions to the formality rule are:

(i) contracts which must be under seal;

(ii) contracts which must be in writing;

(iii) contracts which must be evidenced in writing by a “note or memorandum”;

(iv) contracts where one party must give certain written particulars to the other.

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

(b) The examples of:

(i) **contract under seal:** a deed must be signed and witnessed. Example is a lease of more than **3 (three)** of years.

(ii) **contracts which must be in writing:** examples are bills of exchange; cheques and promissory notes; the transfer of shares in a registered company; some customer credit (hire purchase) transactions; contracts of marine insurance.

(iii) **contracts which must be evidenced in writing:** example is a contract of guarantee;

(iv) **contracts where one party must supply certain written particulars to the other:** examples are employment contracts; tenancy agreement.

(3 marks for each correctly stated example. Maximum of 1 to be graded under each category. Sub-Total: 12 marks)

(c) The following are various types of fraud in insurance claims:

- falsification of loss whereby the insured makes a claim when they have suffered no loss;
- deliberate loss whereby a policyholder deliberately causes the loss in order to bring a claim;
- exaggeration of a loss by a policyholder;
- lying about the circumstances of a genuine loss.

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

(Grand Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I02
COMMERCIAL PROPERTY AND
BUSINESS INTERRUPTION 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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I02 - COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION
INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

Question dealt with the sources of information to an insurer, over 70% of the candidates passed the question.

Question 2

Candidates were required to mention business expenses. More than 70% of the candidates performed well in the question.

Question 3

Candidates were asked to state the objectives addressed by the survey of a risk after a large claim. Less than 25% of the candidates performed well.

Question 4

This question dealt on underwriting criterion of "acceptance category" in respect of construction. Less than 5% of the candidates passed.

Question 5

This question dealt with reinsurance. 60% of the candidates passed the question.

Question 6

Candidates were required to give reasons for business interruption losses. Less than 30% of candidates passed the question.

Question 7

Candidates were to discuss insured profit and others. Well performed question with more than 60% passing the question.

Question 8

Candidates were to state major causes of fire incident. 70% of candidates passed the question.

Question 9

Candidates were to discuss issues on electrical apparatus. Less than 5% of candidate passed the question.

Question 10

Candidates were to mention generic terms for construction material. Less than 2% of the candidates passed the question.

Question 11

Candidates were to mention purposes of surveillance of theft risk. 55% of candidate passed the question.

Question 12

Candidates were to discuss average and inflation. 60% of the candidates passed the question.

Question 13

Candidates were to discuss money. The performance was very bad, with only 4% of candidate passing the question.

Question 14

Candidates were to enumerate specified contingences. 40% of the candidates passed the question

Question 15

Candidates were asked to describe company's financial statement. It was poorly answered with less than 10% passing the question.

Question 16

Candidates were to discuss the job of company secretary and calculate gross profit. It was poorly answered with only 2% passing the question.

Question 17

Candidates were expected to calculate financial ratios with only 2% passing the question.

Question 18

Candidates were expected to calculate premium written from financial account. It was poorly answered with less than 5% passing.

Comments on Overall Performance:

The performance was below average.

Suggestion(s) on improvement (if any):

Candidates should be advised to attend lectures for the course and adequately prepare by studying the coursebook back-to-back.

COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION INSURANCES I02

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. List five (5) sources of insurance information/data in your country.

Solution

The sources of insurance information/data in Nigeria are:

- (i) The Regulator (National Insurance Commission - in Nigeria)
- (ii) Insurance Association (Nigerian Insurance Association - in Nigeria)
- (iii) Professional Body (Chartered Insurance Institute/Chartered Insurance Institute of Nigeria)
- (iv) Professional Insurance Associations
- (v) Central Banks
- (vi) Ministry of Finance (Insurance Department)
- (vii) Bureau of Statistics / Federal Office of Statistics
- (viii) Insurance Magazines

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

2. (a) List six (6) types of business expenses that appear in a management account. **(6 marks)**
- (b) What is opening and closing stock? **(4 marks)**

Solution

- (a) The various types of business expenses that appear in an account are:

- (i) opening stock
- (ii) closing stock;
- (iii) purchases;
- (iv) power;
- (v) remuneration;
- (vi) advertising;
- (vii) rent and rates;
- (viii) lightening and heating;
- (ix) depreciation;
- (x) repairs and renewals;
- (xi) transport and packaging;

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

- (b) **Opening and Closing Stock** are the headings used in a business financial account to show the measure of the amount of stock (including work-in-progress where applicable) held at the beginning (opening) and end (closing) of the financial year.

(2 marks for each correctly explained term. Sub-Total: 4 marks)

(Grand Total: 10 marks)

3. What objectives are aimed to be addressed by having a survey of a risk carried out for a risk that a large claim had occurred on previously?

Solution

The objectives are to:

- identify specific problems which affected the way the loss occurred;
- how it was dealt with;
- with a view to eliminating that cause of loss and/or
- minimizing damage should the event recur.

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

4. If an acceptance risk is described under the underwriting criterion of “acceptance category” in respect of construction and tenure and it is also a single risk with no high-risk properties within the risk, what information should be compulsorily stated in the policy?

Solution

The information that should be compulsorily stated in the policy for an acceptance risk described under the underwriting criterion of “acceptance category” in respect of construction and tenure, which is also a single risk with no high-risk properties within the risk are:

- (i) a full description of the insured’s business;
- (ii) an accurate state of the address of the risk;
- (iii) a description of construction;
- (iv) a statement that it is in simple tenure.

(2½ marks for each complete and correctly stated information. Grand Total: 10 marks)

5. (a) In one sentence, explain the term “reinsurance”. **(2 marks)**
(b) Enumerate any two (2) scenario when it is the appropriate times for an insurer to use facultative reinsurance. **(8 marks)**

Solution

(a) The term “reinsurance” is used to describe a contract between an insurer and reinsurer whereby the insurer cedes parts or all of the risks insured to the reinsurer.

(2 marks)

- (b) The scenario when it is appropriate for an insurer to use facultative reinsurance are when:
- (i) treaty capacity has been filled;
 - (ii) the risk is outside the terms of the treaty;
 - (iii) the risk is of an unusual kind.

(4 marks for each correct and completely stated scenario. Maximum of 2 to be graded.

Sub-Total: 8 marks)

(Grand Total: 10 marks)

6. What are the main reasons why business interruption losses cannot generally be detailed on a claim form, apart from the general questions such as name, policy number, e.t.c.?

Solution

The main reasons why business interruption losses cannot generally be detailed on a claim form, apart from the general questions such as name, policy number, e.t.c. are:

- the formular for dealing with the claim is similar as between each basis of cover (insured profit, gross revenue, gross rentals, e.t.c.) but the form would have to provide space for all the variations;
- it is practically impossible to provide the correct amount of space on the form for all the items which go into the settlement; the adjustment formular for the special circumstances' clause, the savings items, their adjustment for uninsured working expense and the text for average;
- all the work in both the above cannot be done until the end of the indemnity period in any event.

**(5 marks for each correct and completely stated reason. Maximum of 2 to be graded.
Grand Total: 10 marks)**

7. Explain the following:

- | | |
|-------------------------------------|-----------------------|
| (a) insured profit or gross profit; | (b) indemnity period; |
| (c) maximum indemnity period; | (d) excess. |

Solution

(a) **Insured Profit or Gross Profit:** this is defined in the wording and translates into the formular known as the difference basis. **(2½ marks)**

(b) **Indemnity Period:** is the actual period that the business is affected by a real-life event. **(2½ marks)**

(c) **Maximum Indemnity Period-** is the theoretical maximum foreseeable period of interruption as calculated by the insured **(2½ marks)**

(d) **Excess:** is the amount which the insured bears for each and every loss. **(2½ marks)**

(Total: 10 marks)

8. List five (5) five major causes of fire incident increases in recent times.

Solution

They major causes of fire incident increases in recent times are:

- lack of effective firefighting and preparation policy;
- practicing more firefighting item for fire prevention policies;
- carelessness and negligence;
- implementation policy;
- absence of firefighting equipment/personnel;
- inefficient firefighting equipment;
- electrical fires;
- arson;
- other causes like natural elements, faulty wiring, gas apparatus, etc.

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

9. Electrical apparatus is designed to work at high speeds and may use and produce enormous amounts of power. Enumerate any four (4) main challenges that may arise in connection with the use of electrical apparatus.

Solution

The main challenges that may arise in connection with the use of electrical apparatus are:

- (i) overload; (ii) lack of maintenance
(iii) power leads; (iv) external factors; (v) environment.

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

10. Enumerate four (4) generic terms for construction materials.

Solution

The generic terms for construction materials are:

- (i) factory produced panels; (ii) composite panel;
(iii) sandwich panels; (iv) built-up/cladding system;
(v) site-assemble panels.

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

11. Give any four (4) purposes of surveillance on theft risk.

Solution

The purposes of surveillance on theft risk are:

- (i) view everyone who wishes to gain access to the premises, or at least to hear them if a remote two-way telephone is used;
(ii) provide the watcher with an opportunity to grant or delay access;
(iii) take action upon discovering unauthorized access;
(iv) call police for help;
(v) provide a deterrent to the potential thief.

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

12. (a) Enumerate any two (2) types of average. **(6 marks)**

- (b) To protect the insured against under-insurance caused by the effects of inflation, underwriters have over the years produced various alternative schemes. List the two (2) alternative schemes that are currently in use.

Solution

(a) The types of average that we have are:

- (i) pro rata average; (ii) two condition average;
(ii) special condition of average.

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

- (b) The two (2) alternative schemes that are currently in use are:
 (i) index linking; and
 (ii) day one basis (adjustable and non-adjustable).
(4 marks for each correctly stated alternative. Sub-Total: 4 marks)

Grand Total: 10 marks

13. (a) Define "money" as defined in the Policy. **(2 marks)**
 (b) List four (4) items identified as money in money insurance. **(8 marks)**

Solution

(a) Money is defined in the Policy as "negotiable and non-negotiable money belonging to the insured or for which insured is responsible".

(2 marks)

- (b) The items identified as money in money insurance are:
 (i) postal and money order; (ii) banker's drafts;
 (iii) cheques (iv) cross warrants; (v) postage;
 (vi) bills of exchange and securities for money; (vii) revenue;
 (viii) national insurance and holiday with pay stamps;
 (ix) national insurance and holiday with par cards; (x) war bonds;
 (xi) national saving certificate; (xii) credit company sales voucher;
 (xiii) premium savings bonds and franking machine impressions;
 (xiv) luncheon vouchers; (xv) trading stamps; (xvi) vat invoices.

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

(Grand Total: 10 marks)

14. Enumerate any ten (10) specified contingencies in property insurance.

Solution

The specified contingencies in property insurance are:

- (i) spontaneous combustion; (ii) earthquake; (iii) storm;
 (iv) riot, civil commotion and malicious damage; (v) aircraft;
 (vi) explosion; (vii) terrorism; (ix) subsidence;
 (x) impact by own and third party vehicles; (xi) flood;
 (xii) sprinkler leakage (xiii) escape of water/burst pipes.

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

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. The insured has insured his building on reinstatement basis which has suffered has a loss. An adjuster was appointed by the insurer and the adjuster report reveals as follows:

Sum Insured (Declared Value): ~~₦~~85,000.00

Value at the Time of Loss:	₦90,000.00
Cost of Repair:	₦40,000.00

- (a) (i) What is the **maximum** percentage of the cost of reinstating the whole property for average to apply? (2 marks)
- (ii) Calculate the reinstatement insured value showing the formular first. (6 marks)
- (iii) Calculate the cost of repair if normal condition of average applies. (6 marks)
- (b) Supposing the reinstatement cost at the time of reinstatement is the sum of ₦104,500.00. Calculate the reinstatement cost of repairs. (10 marks)
- (c) Briefly explain the principle of contribution. (6 marks)

Solution

- (a) (i) The **maximum** percentage of the cost of reinstating the whole property for average to apply is **115%**. (2 marks)

(ii) Reinstatement Insured Value = Declared value + 15% (3 marks)
= 85,000 + 17,750 (2 marks)
= ~~₦97,750.00~~ (1 mark)

(Sub-Total: 6 marks)

(iii)
$$\frac{\text{Sum Insured}}{\text{Value at the time of loss}} * \frac{\text{Cost of Repairs}}{1}$$
 (3 marks)
=
$$\frac{85,000}{90,000} * \frac{40,000}{1}$$
 (3 marks)
= ~~₦37,778.00~~ (2 marks)

(Sub-Total: 6 marks)

- (b) The reinstatement cost of repairs =
$$\frac{\text{sum insured}}{\text{Full value at the time of loss}} * \text{cost of repair}$$
 (4 marks)

$$\frac{85,000}{104,500} * \frac{40,000}{1} \text{ (3 marks)}$$

= ~~₦32,538.85~~ (3 marks)

(Sub-Total: 10 marks)

- (c) Contribution is a corollary of the principle of indemnity (2 marks) which occurs when two or more insurance policies cover the same property (2 marks). In the event of a loss, the affected insurers will contribute to provide indemnity to the insured and under common law and prevent him from making a profit from his loss (2 marks).

(Sub-Total: 6 marks)

(Grand Total: 30 marks)

16. Johnson Supermarket at Cinema Street, Ebute-Metta has approached you to buy a stock policy to cover the items in their shop. The business enterprise has estimated the maximum value at risk for the year January 31st 2021 to January 1st 2022 to be ₦200,000.00. The rate of 0.15% is to be calculated on the provisional premium of 75% charged. The business made the following declarations:

Monthly Declaration	Amount (₦)	Monthly Declaration	Amount (₦)
January	160,000.00	July	130,000.00
February	150,000.00	August	150,000.00
March	140,000.00	September	180,000.00
April	140,000.00	October	180,000.00
May	120,000.00	November	190,000.00
June	110,000.00	December	180,000.00

Calculate the following, showing the workings:

- (a) Provisional Premium; (b) Total Declaration;
 (c) Average Declaration; (d) Earned Premium;
 (e) Additional Premium.

Solution

(a) Provisional Premium = ₦200,000.00 X 0.15 (3 marks)
 = ₦300.00 (1 mark)
 i.e. 75% of ₦300.00 = ₦225.00 (2 marks)
(Sub-Total: 6 marks)

(b) Total Declaration = ₦ (160,000.00 + 150,000.00 + 140,000.00 + 140,000.00 +
 120,000.00 + 110,000.00 + 130,000.00 + 150,000.00 + 180,000.00
 + 180,000.00 + 190,000.00 + 180,000.00) (4 marks)
 = ₦1,830,000.00 (2 marks)
(Sub-Total: 6 marks)

(c) Average Declaration = $\frac{₦1,830,000.00}{12}$
(4 marks)

= $\frac{₦1,830,000.00}{12}$ (2 marks)
(Sub-Total: 6 marks)

(d) Earned Premium = ₦152,000.00 * 0.15% (4 marks)
 = ₦228.75 (2 marks)
(Sub-Total: 6 marks)

(e)	Additional Premium	=	Earned Premium – Provisional Premium	
				(3 marks)
		=	₦228.75 - ₦225.00	(2 marks)
		=	₦3.75	(1 mark)
			(Sub-Total: 6 marks)	
			(Grand Total: 30 marks)	

17. (a) Briefly describe the four (4) types of fidelity guarantee policies available. **(20 marks)**
- (b) The original purposes of Business All Risks Policy were to provide fire contingencies, theft and accidental damage insurance for simple “non-hazardous” risks. List any five (5) of such risks. **(10 marks)**

Solution

- (a) The following are the types of fidelity guarantee policies that are available:
- (i) **Individual Policy:** this is the type of policy issued where one employee is covered by name for a stated amount.
 - (ii) **Collective Policy-** also named collective. The policy incorporates a schedule containing the names and duties of all guaranteed individuals. The amount of guarantee is set apart each year, which can be an individual sum or a floating sum over the whole schedule. The continual revision as a result of staff changes is a disadvantage unnamed collection where employees are covered by category e.g. two manager, twenty-four cashiers, etc. The amount of guarantee can be on either a floating or per capita basis.
 - (iii) **Blanket Policy-** this is where a sum covers a schedule of unnamed policy which includes all employees without showing names or positions. These policies are only suitable for an employer with a substantial organisation as no enquires are made by insurers about employees. It must also be undertaken by the employer and the reference obtained must be made available to the insurer in the event of a claim.
 - (iv) **Position Policy-** this is usually issued for local government guarantees where instead of using names, the “position” is guaranteed for a specific amount so that a change in the person holding the position does not affect the cover.

(3 marks each for correctly stated type of fidelity guarantee policy. 2 marks for each correct and completely stated point under each type of stated policy. Sub-total = 5 under each type. Grand Total: 20 marks)

- (b) Some samples of simple “non-hazardous” risks are:
- (i) computer; (ii) vehicle washing plans; (iii) exhibition;
 - (iv) office business machine; (v) deeds, documents, plans, etc.;
 - (vi) cups, trophies and regalia; (vii) museums and art galleries;
 - (viii) scientific equipment; (ix) vending machine;

- (x) musical instrument; (xi) portal telephones and cameras;
- (xii) deterioration of refrigerated stocks; (xiii) furniture in transit/storage;
- (xiv) fuel installations and pimps; (xv) bulk liquid stores.

(2 marks each for correctly stated type of risk. Maximum of 5 to be graded.

Sub-Total: 10 marks)

(Grand Total: 30 marks)

18. (a) Most businesses, regardless of their size, are heavily reliant on the use of IT systems, networks and data; which have opened such businesses to cyber-attacks. Some of the risks associated with cyber-attacks are now available under the term cyber-insurance where most composite insurers now offer a specific cyber cover solution. State the typical cover for the following type of stated risks below:

- (i) personal and/or corporate data
- (ii) hacked or compromised systems including denial of service attacks
- (iii) digital publication
- (iv) theft of funds
- (v) risks caused by a cyber incident
- (vi) risks resulting from a cyber business interruption event **(18 marks)**

(b) Cyber insurance requires specialist underwriting and as such is often conducted by specific cyber underwriters. Enumerate any four (4) of the underwriting considerations reviewed by such specialist underwriters.

(12 marks)

Solution

(a) The cover applicable to the stated risks are:

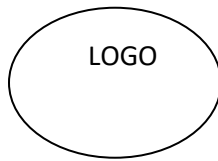
- (i) data breach liability
- (ii) network security liability
- (iii) media liability
- (iv) hacker theft cover
- (v) business interruption
- (vi) restoration costs for data and programmes.

(3 marks each for correctly stated applicable cover. Sub-Total: 18 marks)

(b) The following are the underwriting considerations reviewed by specialist underwriters when underwriting cyber insurance:

- (i) security of internet connection; (ii) security of devices and software;
- (iii) controls over access to data and services;
- (iv) protections in place against viruses and other malware;
- (v) procedures to ensure devices and software are kept up to date;
- (vi) business continuity planning; including backup and disaster recovery procedures. **(3 marks each for correctly stated type of risk. Maximum of 4 to be graded. Sub-Total: 12 marks)**

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I03
INSURANCE BUSINESS AND FINANCE

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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I03 – INSURANCE BUSINESS AND FINANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

The question is quite straight forward and was well attempted by the candidates. Most of them listed more than four points of the NIA's role are. 89% of the candidates that attempted the question passed it.

Question 2

Some candidates got the acronym IFRS wrong, few of them drew a sketch to illustrate the ACL approach given by Dr. John Adar. The part 'B' was well attempted. The pass rate is 69% which is above average.

Question 3

Candidates' performance in defining MBO was impressive. The performance on the (B) part was fair. 55% of the candidates that attempted it passed.

Question 4

Above 63% of the students passed this question. The performance was fair.

Question 5

The candidates seemed to have a very good idea of this question and the pass rate was 75%.

Question 6

Majority of the students did not understand this question. They did not understand what a delegated authority is and did not understand what a binding authority is. The performance was 7% good.

Question 7

Majority of the candidates attempted the question and their performance was slightly below average. The pass rate was 42%.

Question 8

The (A) part of the question was well understand while (B) part was poorly understood. Above 29% of the candidates passed the question.

Question 9

All the candidates attempted this question and their performance was excellent. About 82% of the candidates passed this question.

Question 10

The pass rate of the candidates that attempted was below average as only about 42% passed it.

Question 11

A significant number of candidates were able to describe the capital of a trading company, along the composition of an asset. Attempt was good and about 62% recorded good performances.

Question 12

While some candidates exhibited very good understanding of the component of cash flow statement and were able to explain each of these activities, some had problems explaining the 'cost of sales'. Overall, only about 21% of all candidates that attempted this question passed.

Question 13

Only few candidates were able to state the formula for stock turnover ratio and also to calculate the stock turnover ratio numerically. Only 40.71% of the candidates recorded good performance.

Question 14

Shockingly, a lot of candidates did not understand this meaning of the acronym "IBNR". They also did not understand or know the accounting body that existed in Nigeria before the FRCN. They could not describe "UPR" too. Only 39% of candidates passed this question.

Question 15

This question was intended to test the candidates' knowledge of some component of a company's financial statement. Majority of the candidates attempted the question out of which only 17% of them passed.

Question 16

The (a) part of the question was intended to test the knowledge of the job of company's secretary. Nearly all the candidates that attempted this part stored excellently. The (b) part, most candidates missed or got the "cost of sales" wrong in arriving at the gross profit. About 35% of the candidates that attempted this question scored above the pass mark.

Question 17

The question tested the candidates' understanding of an insurance company's liquidity position. A simple case study was presented to present a proper scenario. The attempt was fair but the percentage of pass was poor as only 10% of the candidates passed. The main reason for the mass failure of the question was that majority of candidates got this formula wrong. They inverted the formula for calculating the liquidity position for a company.

Question 18

This question dealt with the candidates understanding of the “Earned and Unearned premium” in insurance underwriting Account. The candidates’ performance was not encouraging. Only 44% of the candidates that attempted the question scored above average.

Comments on Overall Performance:

The overall performance of the candidates was not encouraging. It was poor. Only about 42% candidates out of 113 candidates that sat for the examination passed. That is, only about 37% of the candidates scored 50 marks and above.

Suggestion(s) on Improvement (if any):

The outcome of this examination indicates the low level of preparation that the candidates had before taking the examination. Due to the fact that. This is a compulsory Course, candidates are enjoined and encouraged to study thoroughly the assigned course book of the Institute. Candidates also have to read and understand the basic elements of underwriting and financial aspects of underwriting.

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

1. What is the full meaning of NIA? Enumerate any four (4) of roles of the body. (10 marks)

SolutionNigeria Insurers Association. (2 marks)

Some of the roles are:

- to protect, promote, and advance the common interest of insurers
- to advise members on any action by government or any authority in connection with any legislation or policy
- to advise or consult with the government regarding any act by it or its agencies with regard to any matter relating to insurance
- to guide and assist members in complying with any statute, regulation and government directive relating generally to the insurance business
- to create better understanding of insurance by all sections of the community
- to maintain constant dialogue with other trade associations
- to consult, co-operate with any individual, association within or outside Nigeria having objectives similar to those of the Association
- to promote cordial relationship among members

(2 marks for any correctly stated role. Maximum of 4 roles to be graded. Sub-Total: 8 marks)**(Grand Total: 10 marks)**

2. (a) In accounting standard world, what does the acronym *IFRS* stand for? (1 mark)

- (b) The Management Writer, Dr. John Adair, through his Action Centered Leadership (ACL) approach provides a useful explanation of a team leader role. List and explain the key three (3) areas he identified.

(9 marks)**Solution**

- (a) IFRS: International Financial Reporting Standard (1 mark)

- (b) The three key areas that Dr. John Adair identified through his Action Centered Leadership (ACL) approach are the:

- (i) **task:** the Primary need to get the job done;
- (ii) **team:** the need to build a cohesive unified team, a bunch of star players does not always equate to a team;
- (iii) **individual:** understanding the variety of individual needs.

(1 mark for each correctly identified area. 2 marks for the complete and correct explanation. Sub-Total per area = 3 marks. Sub-Total: 9 marks)**(Grand Total: 10 marks)**

3. What is *Management by Objectives (MBO)*?

Solution

MBO is a process of defining objectives (2 Marks) within an organisation (2 Marks) so that both management and employees agree to the objectives (2 Marks) and understand what they need to do (2 Marks) in order to achieve them (2 Marks).

(Grand Total: 10 marks)

4. (a) What is the name given to an action by a Company seeking a listing for the first time on the Nigerian Stock Exchange? **(2 marks)**
(b) For most companies, the annual accounts will contain three key accounts (otherwise also called statements). Enumerate any two (2) of these three statements. **(8 marks)**

Solution

- (a) The name given to an action by a company seeking a listing for the first time on the Nigerian Stock Exchange is called Initial Public Offering. **(2 marks)**
(b) The three statements in a company's annual accounts are the:
(i) Income Statement (also called a Profit and Loss Account) **(4 marks)**
(ii) balance Sheet (also called a Statement of Financial Position) **(4 marks)**
(iii) directors' report signed by a director or the company secretary. **(4 marks)**
(Any 2 of the corrected statements are to be graded. Sub-Total: 8 marks)

(Grand Total: 10 marks)

5. Insurance organisations have a valuable function to perform within the society by insuring the wealth of the country. In Nigeria, there are different types of insurance, enumerate the four (4) main types.

Solution

The four different types of insurance companies are a:

- (i) composite company (ii) life company
(iii) general business company (Non-Life Company) (iv) takaful company **(2½ marks for each correctly stated type. Total: 10 marks)**

6. (a) Some insurance companies allow delegated authority to be used in their underwriting process. They delegate this authority to a party known as what?
(b) What is a binding authority in the underwriting process?

Solution

- (a) The party to whom insurance companies delegate their authority to in the underwriting process is called the "coverholder". **(5 marks)**
(b) A binding authority in the underwriting process is an agreement **(2 marks)** which sets out the scope **(1 mark)** and extent **(1 mark)** of the authority delegated to the coverholder **(1 mark)**.

(Grand Total: 10 marks)

7. (a) Define liquidity? **(4 marks)**
(b) Define shareholders equity, stating how it is calculated. **(6 marks)**

Solution

(a) The amount of cash **(2 marks)** which a business has or has access to **(2 marks)** is known at its liquidity. **(Sub-Total: 4 marks)**

(b) Shareholders equity is the stake shareholders have in the company **(2 marks)**. It is calculated as the total value of all the assets in the business **(2 marks)** less the total value of all the liabilities **(2 marks)**. **(Sub-Total: 6 marks)**

(Grand Total: 10 marks)

8. (a) What is *finance income*? **(2 marks)**
(b) What are the two underlying assumptions used in IFRS? Briefly explain them. **(8 marks)**

Solution

(a) Finance income is the income earned on any investments held during the year, usually 1st January to 31st December in any given year. **(2 marks)**

- (b) The two underlying assumptions used in IFRS are:
(i) **Accrual Basis:** The effect of transactions and other events are recognized when they occur and not as cash is received or paid.
(ii) **Going Concern:** The financial statements are prepared on the basis that an entity will continue in operation for the foreseeable future.

(2 marks for correctly stated assumption. 2 marks for correct explanation. 4 marks per assumption. Sub-total: 8 marks) (Grand Total: 10 marks)

9. Enumerate any five (5) senior personnel positions expected to be available in a typical insurance company.

Solution

The following are the senior personnel positions expected to be available in a typical insurance company:

- | | |
|-------------------------------------|--------------------------------------|
| (i) Chief Risk Officer | (ii) Head of Internal Audit |
| (iii) Head of Technical Operations | (iv) Head of Marketing |
| (v) Head of Claims | (vi) Head of Underwriting |
| (vii) Marketing Director | (viii) Head of Human Relations (HR) |
| (ix) Head of Information Technology | (x) Head of Strategy Operations |
| (xi) Head of Investment | |

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

10. List the four (4) incidental advantages of budgeting.

Solution

The following are the four incidental advantages of budgeting:

- (i) unification of effort;
- (ii) planning;
- (iii) financial awareness;
- (iv) basis of comparison

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

11. (a) Describe the Capital of a trading company. **(4 marks)**

(b) Complete the boxes that make up the basic accounting equation below:

Assets = _____ + _____ **(6 marks)**

Solution

(a) The capital of a trading company is the sum of the equity **(1 mark)** and long-term debt **(1 mark)** used to finance the business **(2 marks)**.

(4 marks)

(b) Assets = Equity + Liability **OR**

Assets = Liability + Equity

(3 marks for each correctly stated parameter. Sub-Total: 6 marks)

(Grand Total: 10 marks)

12. (a) A cash flow statement analyses the cash flows into those arising from three

(3) activities. Enumerate and briefly explain these three (3) activities.

(6 marks)

(b) What will be the cost of sales for an organisation with a turnover of

₦1,000.00 and a gross profit of ₦200.00? **(4 marks)**

Solution

(a) The three activities that are analysed in a cash flow statement are the:

(i) operating activities; (ii) investing activities (iii) financing activities

(Candidates are required to enumerate and briefly explain what has been enumerated.)

1 mark for the correct listing; 1 mark for correct explanation. Sub-total per function: 2 marks. Sub-Total: 6 marks)

(b) Cost of Sales = Turnover *less* Gross Profit **(2 marks)**

= ₦1,000.00 - ₦200.00 **(1 mark)**

= ₦800.00 **(1 mark)**

(Sub-Total: 4 marks)

(Grand Total: 10 marks)

13. (a) What is the formula for Stock Turnover Ratio? **(4 marks)**

(b) If a company has annual cost of sales of ₦12,000,000.00 and holds an average stock of ₦6,000,000.00, calculate the Stock Turnover Ratio?

(6 marks)

Solution

- (a) The Stock Turnover Ratio = Cost of Sales / Average Stock (4 marks)
(b) Stock Turnover Ratio = $\frac{₦12,000,000.00}{₦6,000,000.00}$ (3 marks)
= 2 times per year (3 marks)
(Grand Total: 10 marks)

14. (a) Which body existed in Nigeria prior to the establishment of the Financial Reporting Council of Nigeria (FRCN) in 2011? (3 marks)
(b) (i) Briefly explain the phrase “Unearned Premium Reserve” (UPR) (3 marks)
(ii) In claim reserving, the acronym IBNR stands for what? (4 marks)

Solution

- (a) Nigerian Accounting Standards Board (NASB) (3 marks)
(b) **Unearned Premium Reserve (UPR):** is the reserve specifically made from the proportion of premium that relates to the unused period of cover. (3 marks)
(c) **IBNR:** Incurred But Not Reported. (4 marks)
(Grand Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

- 15) (a) Briefly describe the following accounts that are included in the Company's financial statements:
(i) the Income Statement (ii) the Balance Sheet
(b) What is:
(i) Zero-Based Budgeting (ZBB) (ii) Insider Dealing?

Solution

(a) (i) **The Income Statement:** this *shows the results of the company as a consequence of transactions during the accounting period. It sets out the income, expenses, tax and the profit or loss.* (3 marks for each coloured phrase; Sub-Total: 9 marks)

(ii) **The Balance Sheet:** *this is a statement of financial position of the business at a point in time. That is, at a particular date, which is the end of the accounting period or year-end date.* (3 marks for each coloured phrase; Sub-Total: 9 marks)

(b) (i) **Zero- Based Budgeting Method** *relies on managers to justify their expenditure from a fresh standpoint. Rather than looking at the amount of expenditure, which was budgeted for an item in the previous budget period. ZBB requires managers to start a position of a having nothing in their budget for the item in question.*

(3 marks for each coloured phrase; Sub-Total: 9 marks)

(ii) **Insider Dealing** is the misuse of confidential *information* by making investment decisions using information that should be confidential. **(3 marks)**

(Grand Total: 30 marks)

16) (a) Briefly describe the job of a “company secretary”? **(9 marks)**

(b) A company bought 1000 units of product at ₦2,000.00 each and sold 900 units for ₦3,500.00 each during its financial year. Calculate: its:

(i) gross profit (ii) gross profit percentage ratio. **(21 marks)**

Solution

(a) The Company Secretary is the *personnel* **(3 marks)** that **carries out the administrative operations of a company** **(2 marks)** which *ensures that the Companies and Allied Matters Act and the Nigerian Stock Exchange Listing Rules* **(2 marks)** are complied with **(2 marks)**. **(Sub-Total: 9 marks)**

(b) Sales or Turnover = ₦3,500 x 900 units = ₦3,150,000.00 **(4 marks)**
Cost of Sales = ₦2,000 x 900 units = ₦1,800,000.00 **(4 marks)**

(i) **Gross Profit** : Sales less Cost of Sales = ₦3,150,000 - ₦1,800,000 = ₦1,350,000 **(4 marks)**

(iii) **Gross Profit Percentage Ratio**: (Gross Profit/ Sales or Turnover) x 100 **(4 marks)**
(₦1,350,000 / ₦3,150,000) x 100 = 42.85% or 43% **(5 marks)**

(Grand Total: 30 marks)

17) (a) XYZ insurance Plc wanted to know its *liquidity position ratio* as at December 31, 2020. So the Board of Directors instructed the Chief Executive Officer (CEO), Mr. James Abubakar, to present to them the ratio when next the Board sat. The CEO, then asked the Chief Financial Officer (CFO), Mrs. Chinasa Ojo, ACA to calculate the ratio.

The company had the following financial details as at year end 2020.

- Total Liabilities : ₦180billion
- Cash Balances: ₦50billion
- Investment in Federal Government of Nigeria Treasury Bill: ₦40billion

Required :

- (i) What is the generalised formula for calculating the liquidity position ratio?
(ii) Calculate the Liquidity position ratio as at December 31, 2020.
(iii) If by the end of *Year 2021*, another calculation is done that results in a *lower ratio*, what is the implication for the liquidity position for the XYZ Insurance Plc?

(b) The Risk Appetite Statement (RAS) of an insurance entity is critical for its overall success as a business concern and it is the responsibility of the board of directors of an insurance company to determine the company's risk appetite.

Describe three (3) uses of the RAS by an insurance company. (15 marks)

Solution

(a) (i) Generalised Formula for Liquidity Position Ratio:
Total Liabilities/(Cash + Investment) (5 marks)

(ii) The Liquidity Ratio = ₦18billion/(₦50billion + ₦40billion) (3 marks)
= ₦180billion/₦90billion = 2 (2 marks)

(iii) The implication for the liquidity position is that there is now *Greater Liquidity* for the company. (5 marks)

(Sub-Total: 15 marks)

(b) Some uses of the RAS by an insurance company are:

1. to set the risk acceptance criteria
2. to set an investment policy
3. to set a reinsurance policy
4. to set financial and risk policy statements.

(Candidates are required to state the uses and explain them. 3 marks for each correctly stated use. 2 marks for each correct explanation. Sub-Total per use: 5 marks.)

Grand Sub-Total: 15 marks)

(Grand Total: 30 marks)

18. You had just been promoted as an associate insurance analyst in an insurance company. The Finance Director of the company was interested in knowing the figures for the *Earned* and *Unearned* premiums for a particular year. He then asked you to clarify after presenting you with the following details.

The company sold an annual policy for ₦500,000.00 on 1 July 2019 , another annual policy for ₦250,000.00 on 1 January 2020, and yet another annual for ₦700,000.00 on 1 July 2020.

- (i) what was the Premium written in 2020? (5 marks)
(ii) what was the *Unearned Premium* as at December 31, 2020? (7 marks)
(iii) what was the *Earned Premium* in 2020? (10 marks)

(b) Define Corporate Governance and provide a scenario-based example with your definition. (8 marks).

Solution

(a) (i) The Premium written in 2020:
₦250,000.00 (2 marks)
+ ₦700,000.00 (2 marks)
₦ 950,000.00 (1 mark)

(Sub-Total: 5 marks)

(ii) The Unearned Premium as at December 31, 2020 :
 The premium on annual policy sold on July 1, 2020 was ₦700,000.00(2 marks)]
 But only half the premium related to 2020, which was ₦350,000.00
 Therefore, the Unearned Premium as at December 31, 2020 was **₦350,000.00**
 (5 marks)
(Sub-Total: 7 marks)

(iii) The Earned Premium in 2020:

The premium written in 2020	₦950,000.00	(3 marks)
Less: unearned premiums at 31/12/2020	(₦350,000.00)	(3 marks)
Plus: unearned premiums at 31/12/2019	<u>₦250,000.00</u>	(3 marks)
Equals: Premiums Earned in 2020	<u>₦850,000.00</u>	(1 mark)

(Sub-Total: 10 marks)
(Grand Sub-Total: 22 marks)

(b) Corporate Governance refers to the system by which companies are directed and controlled. **(3 marks)**

(Candidates are required to also include a scenario-based example, which should earn 5 marks if correctly and completely stated. If not, commensurate marks should be allotted depending on the level of supply. Grans Sub-Total: 8 marks)

(Grand Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I04
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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I04 - BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

Candidates failed to give a good definition of who a promoter is but has a better knowledge of the documents required to be submitted. Only few candidates scored well.

Question 2

Candidates performed very well and were able to describe well the factors of production required. Good performance overall.

Question 3

Most of the candidates were able to mention the players in the insurance market and scored very well. Popular question which was well answered by most candidates.

Question 4

Candidates performed well and were able to explain Mergers and Acquisitions, but were deficient in explaining economics of scale and Economics of scope.

Question 5

Candidates did very well in the question showing a good understanding of the concept of demand.

Question 6

Correct answers were just on the average. Candidates did not exhibit clear understanding of the question.

Question 7

The question is in two parts. Candidates answered very well the SWOT aspect but had difficulties in the PESTLE aspect. Score was low generally.

Question 8

Question was to test candidates' knowledge of what international trade and inflation are. Good performance as they exhibited good understanding with over 70% doing well.

Question 9

Attempted by most candidates but answers were not completely satisfactory. It appears that candidates used residual knowledge to answer the question.

Question 10

Candidates were required to give advantages of each of the concept of tariffs, quotas and subsidies. They only merely stated without stating/making any arguments. Performance was poor.

Question 11

This question tested candidates' knowledge on the effect of unemployment in the insurance industry was generally well answered. Good performance overall.

Question 12

The candidates performed averagely well with a few showing clear understanding of direct tax. They were able to give examples as requested.

Question 13

Well answered on the average. About 80% of the candidates attempted and almost all of them know about OAU (now AU). Relatively good performance overall.

Question 14

Although some candidates did not understand the question, many have a good idea of benchmarking and liquidity management. The question was well attempted and scores were good.

Question 15

Very popular question that was well attempted. Performance was very good. Most of the candidates showed very fine understanding of economic systems.

Question 16

Few candidates attempted the question. Understanding of the concept of elasticity of demand was not well answered. Good score was generally average.

Question 17

A popular question but candidates' answers were superficial dwelling more on the regulatory functions only of CBN. The question on the money aspect was well answered.

Question 18

Very few candidates attempted the question. Score was average.

Comments on overall performance:

On the average, one out of every two candidates passed but could be better. A good understanding of this course will help us to produce professionals who can discuss intelligently with other professionals on broad economic matters.

Suggestion(s) on Improvement (if any):

Candidates should ensure that they refrain from selective reading by going through all the chapters in the coursebook.

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

1. a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,

i) who is a “promoter”? **(4 marks)**

ii) enumerate any three (3) documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application. **(6 marks)**

Solution

a) A “promoter” is **the applicant** making a **request to get approval from NAICOM to operate as either an insurance company or a reinsurance company in the Nigeria Insurance market** space.

(1 mark for each correctly stated/bolded point. Sub-Total: 4marks)

ii) The following are the documents

- a) letter of intent
- b) profile of directors
- c) current CV of the proposed CEO
- d) sworn declaration of non-disqualification of the proposed directors
- e) proposed company name
- f) draft memorandum of association of the proposed company
- g) draft articles of association of the proposed company
- h) evidence of financial soundness of the shareholders supported by sworn affidavit confirming such
- i) evidence of confirmation (clean bill of health) from the primary regulator and approval by the regulator (where necessary)
- j) holding company structure and funding – where applicable
- k) class of insurance to be transacted (whether general, life or reinsurance)

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

(Grand Total: 10 marks)

2. In the context of how resources can be categorized, write short notes on the following:

- | | |
|-------------|----------------------|
| (a) Capital | (b) Entrepreneurship |
| (c) Labour | (d) Land |

Solution

(a) **Capital:** This includes goods, like machinery, vehicles and industrial buildings, which are used in production. Economists refer to capital as anything used in the production process that is man-made.

(b) **Entrepreneurship** – Entrepreneurship (or enterprise) is a special kind of labour responsible for risk-taking, innovation and business organisation. Entrepreneurs are responsible for new inventions, organising the other factors of production into effective business units and bearing the risks of production.

(c) **Labour** – This includes all the physical and mental human attributes used in production.

(d) **Land** – This includes all agricultural land, the sites used for production activities and all natural resources used in production. Thus, land includes everything that is usually referred to as a natural resource, including the land surface itself. It also includes the other resources provided by nature that may be needed to produce a particular product or service.

(2½ marks for each complete and correctly stated definition. Total: 10 marks)

3. (a) Enumerate any five players in the insurance market.
(b) Also enumerate any five external companies which the insurance industry obtains services and products from, in the course of the insurance duties.

Solution

Solution:

- (a) The players in the insurance market are:
- | | |
|-----------------------------------|-----------------------------------|
| * buyers of insurance; | * composite insurance companies; |
| * life insurance companies; | * general insurance companies; |
| * Lloyd's of London; | * proprietary companies; |
| * mutual companies; | * reinsurance companies; |
| * captive insurance companies; | * insurance brokers; |
| * independent financial advisers; | * retailers as insurance sellers; |
| * direct insurance; and | * internet sales of insurance. |

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

- b) The companies and providers can include, but are not restricted to:
- | | | |
|---|--|--------------------|
| * legal firms; | * accountants; | * auditors; |
| * actuaries; | * surveyors; | * claims services; |
| * data management; | * IT specialists; | |
| * medical service providers; | * management consultants; | |
| * advertising and public relations companies; | * facilities management; | |
| * investment service providers; | * transport and vehicle suppliers; and | |
| * surveyors and risk management entities. | | |

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

(Grand Total: 10 marks)

4. Write the meaning of the following terms:
- (a) Minimum Efficient Scale (b) Economies of Scale
 (c) Economies of Scope (d) Mergers (e) Acquisitions

Solution

- (a) **Minimum Efficient Scale:** is the level of output at which a firm's unit production costs are minimised in the long run.
- (b) **Economies of Scale:** are long-run unit costs savings achievable by increasing the scale of production.
- (c) **Economics of Scope:** are long-run cost savings achievable by producing a wider range of goods and services within a single firm, compared with specialist production in separate firms.
- (d) **Mergers:** are voluntary amalgamations of two or more (roughly equal) companies into a new company.
- (e) **Acquisitions:** occurs when one company takes over another and becomes the new owner.

(2 marks for each complete and correctly stated definition. Total: 10 marks)

5. Enumerate any four (4) factors that may affect demand aside from the price.

Solution

Factors that may affect demand aside from the price are:

- | | |
|--------------------------|--|
| * consumers' incomes; | * prices of substitutes and complements; |
| * consumers' tastes; | * expectations |
| * distribution of income | |

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

6. Define a perfect competition market and enumerate the four assumptions of the model perfect competition market.

Solution

Perfect Competition: is a theoretical market structure consisting of many small firms producing identical products, which acts as a standard against which to compare real-world industries. No market in the real world is perfectly competitive but some have many of the characteristics. The Stock Exchange where a particular company share sold by one broker will be no different from one sold by a competitor and some agricultural markets where one farmer's crop will be similar to many others' clearly have some features of perfect competition. The markets for currencies within freely floating exchange rate regimes are also highly competitive.

(2 marks for correct and complete definition of a perfect competition. It need not to be this long/comprehensive. Sub-Total: 2 marks)

The assumptions of the model of perfect competition are:

- a. There are many small buyers and sellers such that no individual buyer or seller can influence the market price.
- b. There is complete freedom of entry into and exit from the industry – in particular, there are no barriers to entry.
- c. There is perfect knowledge among buyers and sellers, so that all market participants know the prices and quality of the goods being produced.
- d. The good being produced by all the firms in the industry is homogeneous – i.e. there are no brand loyalties and no way of distinguishing between the product of one firm and that of any other firms.

**(2 marks for each correct and completely stated assumption. Sub-Total: 8 marks)
(Grand Total: 10 marks)**

7. (a) What is SWOT Analysis? **(4 marks)**
(b) What does the acronym PESTLE stands for? **(6 marks)**

Solution

- (a) A SWOT analysis involves examining the (internal) strengths **(1 mark)** and weaknesses of the organisation **(1 mark)**, together with the (external) opportunities **(1 mark)** and threats that it faces **(1 mark)**.
(4 marks)

PESTLE: The acronym PESTLE stands for the **political, economic, socio-cultural, technological, legal and environmental issues** that may affect an organisation and its performance.

**(1 mark for each correctly stated acronym. Sub-Total: 6 marks)
(Grand Total: 10 marks)**

8. Explain the terms: (a) “international trade” and (b) “inflation”.

Solution

(a) International Trade: refers to the exchange of goods and services across international borders, and consists of exports (i.e. sales of domestically produced goods and services to overseas buyers) and imports (i.e. domestic purchases of goods and services from overseas sellers). In most countries, international trade represents a significant share of gross domestic product. International trade is very important in the expansion of the economy of a country because it allows for the development of markets, creates employment, reduces the rate of poverty, and breaks monopolies by discouraging the domination of a market by a few.

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

(b) Inflation: is a persistent rise in the average level of prices in a country. The ‘rate of inflation’ is measured as the annual percentage increase in a country’s average level of prices; deflation is a persistent fall in the average level of prices (i.e. it is negative

inflation) and hyperinflation is an uncontrolled accelerating rate of inflation which can lead to the complete breakdown of a country's monetary system.

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

9. Enumerate any five (5) legitimate main sources of revenue to the Government.

Solution

The main sources of revenue to the Government are:

- * taxes
- * loans
- * grants and aids
- * licence
- * savings
- * rents and rates
- * fees, fines and royalties
- * earnings from government investments.

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

10. State any four (4) main arguments for tariffs, quotas and subsidies.

Solution

The main arguments for tariffs, quotas and subsidies are:

- to protect domestic producers and therefore employment;
- to reduce imports and therefore improve the balance of payments;
- to protect strategic industries;
- to protect infant industries;
- to prevent 'dumping'.

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

11. Enumerate any five (5) probable effects of an increase in unemployment on the insurance industry.

Solution

The probable effects of an increase in unemployment on the insurance industry are as follows:

- potential for increases in social disruption leading to increased claims;
- possible increased government intervention in the economy including regulation to combat unemployment;
- potential for protectionist measures in a country which then results in corresponding measures in overseas countries, resulting in damage to the insurance industry;
- disproportionate effects of unemployment on industry sectors and individuals leading to imbalance in insurers portfolio of risks;
- claims incidence rates in general will increase as people will ensure they take the benefit of their insurance cover, with some making claims that are valid but may not have been paid in more positive economic circumstances;

- claims on payments protection policies, i.e. unemployment cover, will increase significantly;
- theft and crime rates are likely to increase as some individuals judge that they lack an income to purchase the goods and services they require;
- the incidence of fraudulent claims and claims with exaggerated financial values is likely to increase as businesses and individuals attempt to make up for declining profits/incomes;
- the demand for certain types of insurance will change as people seek basic protection of income, mortgage/ credit repayments or health. Public provision of certain services will decline at the same time. Non-essential insurances will be less attractive as will the very goods and services they are protecting, e.g. travel;
- premium income will be reduced as wage-rolls and turnover fall. Policy adjustments will result in return premiums. This reduces investment income and ultimately profits;
- there might be a knock-on effect in the insurance industry, forcing redundancies;
- there may be skills shortages in the insurance industry despite unemployment. The right mix of skills will include policy wording technicians, loss adjusters and claims managers; and
- if the country is in recession, spending on risk management is likely to reduce, leading to insurance claims due to lack of maintenance and reduced health and safety standards. Risk managers of commercial companies could be made redundant in a cost-cutting exercise.

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

12. (a) Define direct tax.
(b) State four (4) examples of direct tax.

Solution

(a) **Direct Tax** - is a form of tax is imposed directly on the income earners such as an individual or corporate organisation. **(2 marks)**

(b) Examples of direct tax are:

- | | | |
|-----------------------|---------------------|------------|
| * personal income tax | * company tax | * poll tax |
| * capital tax | * capital gains tax | |

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

13. List out five (5) purposes of the O.A.U. Charter.

Solution

The purposes of the OAU Charter are:

- to promote the unity of African States;
- to promote the solidarity of African States;

- to coordinate and intensify their cooperation and efforts to achieve a better life for the peoples of Africa;
- to defend their sovereignty;
- to defend their territorial integrity;
- to defend their independence;
- to eradicate all forms of colonialism from Africa; and
- to promote international cooperation, having due regard to the Charter of the United Nations and the Universal Declaration of Human Rights.

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

14. Briefly explain the terms:

(a) benchmarking; and (b) liquidity management.

Solution

(a) **Benchmarking:** is the process that compares one's own organisation with its peers to identify and learn from best practice. In addition, it allows a company to compare its own progress with that of a comprehensive standard. For example, a company's growth can be measured against the growth of the country's economy as a whole, or an insurance company's combined operating ratio can be compared with peer group companies.

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

(b) **Liquidity Management:** is concerned with safeguarding the ability of an organisation to meet its short- and long-term payment obligations as they occur. The treasury department of a business is responsible for maintaining the appropriate level of liquidity at a given period of time. Insurance companies increasingly use stress testing and scenario analysis to evaluate the impact of sudden stress events (e.g. a large claim incident) on the liquidity of the firm.

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

(Grand Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. Enumerate and explain the three main types of economic system which address the questions of what to produce, how to produce and for whom to produce.

Solution

The three main types of economic system which address the questions of what to produce, how to produce and for whom to produce are the:

- (i) free market economies;
- (ii) planned economies;

(iii) mixed economies.

(i) **Free Market Economies:** is also known by a variety of other names. “Capitalist” economy and the “free enterprise” economy are also terms used to describe this type of economic system. There are five main characteristics of a free market economy and these are – private ownership, profit motive, price mechanism, importance of money and competition. Based on these there are no true free market economies in existence in the world today. However, these characteristics are of great importance and you should ensure they are well understood. Proponents of free market economies argue that the combination of the price mechanism, the profit motive and competition creates a dynamic and enterprising economy.

(2½ marks for correctly stated type of market. 2½ marks for each correct and completely stated explanation. Maximum of 3 explanations to be graded. Sub-Total: 7½ marks. Grand Sub-Total: 10 marks)

(ii) **Planned Economies:** in the free market system, resource allocation decisions are decentralised. In a planned economy, these decisions are made by the government in a centralised manner. Today, due to the political changes that took place in Eastern Europe in the late 1980s, the planned economy is almost a thing of the past. It is difficult to find an example of an economy that has all the characteristics of a planned system. Perhaps North Korea is the closest to the planned economy model. Certainly, in the past, the best examples of planned economies were often found in countries with communist political regimes.

The main characteristics of this type of economic system are outlined as follows:

- enterprises are owned and run by the Government;
- decisions about what goods and services to produce are made by a team of central planners;
- prices within the planned economy are not determined by market forces.

Theoretical support for planned economies was provided by the writings of Karl Marx.

(2½ marks for correctly stated type of market. 2½ marks for each correct and completely stated explanation. Maximum of 3 explanations to be graded. Sub-Total: 7½ marks. Grand Sub-Total: 10 marks)

iii) **Mixed Economies:** a mixed economy is a combination of a free market economy and a planned economy. Almost all economies in the world today are mixed economies – they differ in that some tend towards the free market (sometimes known as capitalist mixed economies) while others tend towards planned markets (sometimes known as socialist mixed economies). This is why the characteristics of free market and planned economies need to be understood. This means that some resource allocation decisions are made by the market, while other resources are allocated by the government. Furthermore, different parts of the economy within a country will be run in different ways and therefore display different characteristics. All mixed economies are composed of two

main sectors. The public sector is owned and run by the government and the private sector is owned and run by private entrepreneurs, although the government can also regulate the private sector without actually gaining ownership. Public services can also be provided by the private sector through 'outsourcing', so perhaps some of these definitions are breaking down.

(2½ marks for correctly stated type of market. 2½ marks for each correct and completely stated explanation. Maximum of 3 explanations to be graded. Sub-Total: 7½ marks. Grand Sub-Total: 10 marks)

(Grand Total: 30 marks)

16. (a) Explain "elasticity of demand", giving an example. **(10 marks)**
 (b) Write out the formula for the price elasticity of demand **(6 marks)**
 (c) Enumerate and explain any two (2) main determinants of the price elasticity of demand **(14 marks)**

Solution

(a) 'Elasticity of demand' is a measure of how much the quantity demanded for a good **(3 marks)** responds to changes in one of the influencing factors**(3 marks)**, with all other factors remaining unchanged **(3 marks)**. For example, price elasticity of demand measures how much quantity demanded responds to a change in price, and income elasticity of demand measures how much quantity demanded responds to a change in income. So, elasticity is a measure of how sensitive demand is to changes in factors such as the good's price and consumers' incomes. **(1 mark).****(Grand Sub-Total: 10 marks)**

(b) Price Elasticity of Demand = $\frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$ **(3 marks)**
(3 marks)

(Grand Sub-Total: 6 marks)

(c) The main determinants of the price elasticity of demand are:

- **availability of substitutes:** demand will be more elastic, the more substitutes a good has, and the closer they are as substitutes;
- **proportion of income spent on the good:** goods like cars that take up a large proportion of a household's spending will tend to have more elastic demand than goods like pepper that take up only a small proportion;
- **time:** since it takes time for buyers to become aware of and react to price changes, many goods have inelastic short-term demand, but more elastic long-term demand.

(3 marks for each correctly stated determinant. 2 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each determinant. Maximum of 2 determinants to be graded. Sub-total per determinant: 7 marks. Grand Sub-Total: 14 marks)

(Grand Total: 30 marks)

17. Money is said to be a strong defence in all business transactions.
- (a) Enumerate the four main functions of money. **(20 marks)**
- (b) Enumerate any five objectives of any central bank in an economy. **(10 marks)**

Solution

- (a) The main functions of money are:
- (i) **Medium of Exchange:** money facilitates transactions by acting as a medium of exchange or as a means of payment that is acceptable to both buyers and sellers. Some rather interesting things have been accepted as money in history. Without money, transactions involving the exchange of goods and services could only take place by barter (i.e. swapping units of one good for units of another).
- (3 marks for each correctly stated function. 2 marks for each complete and correctly stated explanation. Sub-Total: 5 marks)**
- (ii) **store of wealth:** in the absence of inflation, money keeps its value and so can be saved as a form of wealth. It therefore enables people to postpone purchases until some future date, if they wish.
- (3 marks for each correctly stated function. 2 marks for each complete and correctly stated explanation. Sub-Total: 5 marks)**
- (iii) **unit of account:** money is one of the most widely used of all units of measurement. In Nigeria, naira and kobo are used in all price quotations, in business accounts and in the national accounts. It is further the principal means of measuring the value of an object and it therefore also allows people to compare values easily.
- (3 marks for each correctly stated function. 2 marks for each complete and correctly stated explanation. Sub-Total: 5 marks)**
- (iv) **standard for deferred payments:** many transactions involve contracts that demand payment at some date in the future. In the vast majority of cases, it is more convenient to express this required future payment (or debt) in money terms. On the assumption that there are not dramatic depreciations or appreciations in the value then money is likely to function far better at this task than volatile commodity assets for example.
- (3 marks for each correctly stated function. 2 marks for each complete and correctly stated explanation. Sub-Total: 5 marks)**
- (v) To sum up, the existence of money in the economy provides us with a convenient unit of measurement for expressing and comparing current and future values; by retaining its own value, it acts as a store of wealth; and, most importantly, it facilitates economic transactions by acting as a medium of exchange.

(Grand Total: 20 marks)

- (b) The objectives of the CBN are:
- ensure monetary and price stability;
 - issue legal tender currency in Nigeria;
 - maintain external reserves to safeguard the international value of the legal tender currency;
 - promote a sound financial system in Nigeria;
 - act as Banker to the Federal Government;
 - provide economic advice to the Federal Government.
 - provide financial advice to the Federal Government.

**(2 marks for each complete and correctly stated objective. Maximum of 5 to be graded. Sub-Total: 10 marks)
(Grand total: 30 marks)**

18. Corporate Social Responsibility (CSR) is a responsibility that firms are increasingly devoting time and resources towards. Enumerate and duly explain any five (5) main drivers of CSR and the benefits of such drivers.

Solution

The Main Drivers and Benefits of CSR	
Drivers	Benefits
Corporate Identity	The management of large global organisations have found it essential to focus more on the CSR issues to protect corporate identity. The initiative has been prompted by large institutional failure and the need to protect established reputations.
Government and Regulations	Several corporate governance failures in multinational organisations have resulted in strict regulatory initiatives to protect the interest of customers and society.
Competitive Advantage	Organisations have found that investment in CSR produces intangible assets as a function of corporate value that ultimately provides competitive advantage for their business.
Pressure From Institutional Investors and Civil Society	The growing demand for long-term sustainability and socially responsible investment from institutional investors, corporate and consumer activists and the wider public.
Employee Recruiting and Retention	A strong CSR policy can be used to recruit and retain employees, and to help create or maintain an atmosphere of pride within the organisation.

Risk Management	Scandals and accidents can, almost overnight, destroy reputations that often require decades to build up. These events often draw negative publicity and attention from regulators and the courts. A strong CSR programme can help prevent such episodes from occurring or can work to limit damage in the event they occur. Alternatively, CSR offers effective management of both upside and downside risk and provides scope to secure business opportunities.
Brand Differentiation	Companies can use CSR to differentiate themselves from competitors with the aim of increasing sales and market share. This can be seen simply as an extension of the companies advertising and marketing activities. CSR can also be used to ensure that a company's corporate goals are aligned with those of its customers.
Avoidance of Government Interference	Organisations that make efforts to be good citizens may be more successful at avoiding excessive regulatory intervention.

(2 marks for each correctly stated driver. 2 marks for each complete and correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total per driver: 6 marks. Grand Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I05
BUSINESS STATISTICS AND OPERATIONS RESEARCH

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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I05 - BUSINESS STATISTICS AND OPERATIONS RESEARCH

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

This question examined the knowledge of the candidates on the standard for the conduct of insurance business. All the candidates attempted this question but performance was above average. 90% of the candidates that attempted this question did very well.

Question 2

This question examined the knowledge of the candidates on statistics. All the candidates that attempted this question performed above average. 90% of the candidates that attempted the question did very well.

Question 3

This question examined the knowledge of the candidates on population and census. All the candidates attempted this question and performance was above average. 90% of the candidates that attempted the question did very well.

Question 4

This question intended to test the candidate's knowledge of the reasons for data collection. The performance of the candidates was above average.

Question 5

This question examined the knowledge of the candidates on the limitations of personal interview and importance of graphs and diagram. Of all the candidates, 90% that attempted this question did very well.

Question 6

This question examined the knowledge of the candidates on computation of median. The performance of the candidates in this question was below average.

Question 7

This question examined the knowledge of the candidates on how to draw bar chart, in fact 98% of the candidates that attempted this question performed above average.

Question 8

This question examined the knowledge of the candidates on probability theory. The performance of the candidate is averagely okay. 90% of the candidates that attempted this question did very well.

Question 9

This question examined the knowledge of the candidates on operations research. The performance of the candidates was below average. 90% of the candidates that attempted this question did not do well.

Question 10

This question examined the knowledge of the candidate on types of operation model that are used in data analysis. All the candidates who attempted this question performed below average. 75% of the candidates that attempted this question did not do well.

Question 11

This question intended to test the knowledge of the candidates on assumption of linear programming. Most of the candidates did not attempt this question and 65% of the candidates that attempted this question perform below average.

Question 12

This question examined the knowledge of the terminologies in operations research. All the candidates that attempted this question performed below average.

Question 13

This question examined the knowledge of candidates on the characteristics of simple queue theory. Almost all the candidates attempted this question and good performance was average.

Question 14

This question examined the knowledge of candidates on transportation problem. 75% of the candidate that attempted this question scored below average.

Question 15

This question examined the knowledge of candidates on some methods of data collection, merits and demerits of such method of data collection. 95% of the candidates that attempted this question scored above average.

Question 16

This question examined the knowledge of the candidates on the formulation of linear programming. 90% of the candidate that attempted this question scored below average.

Question 17

This question examined the knowledge of the candidates on transportation problem and method of finding initial feasible solution to transportation problems. 95% of candidates that attempted this question scored below average.

Question 18

This question examined the knowledge of candidates on conditional probability. 90% of the candidate that attempted this question did very well and they scored above average.

Comments on Overall Performance:

The overall performance of the candidate is not encouraging because only 40% of the candidates passed this course.

Suggestion(s) on Improvement (if any):

From the performance of the candidates based on the questions attempted, it shows that the candidates do not understand the principle of operations research. The Institute should organise tutorial class on operations research across the centers.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers. Enumerate any two (2) of the stated minimum information that insurance institutions are required to update their websites as stated in the circular. **(10 marks)**

Solution

As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers. The stated minimum information that insurance institutions are required to update their websites as stated in the circular major focus in the circular are:

- the average timeline to settle claims (for various classes of insurance)
- business location and contact telephone number of all its branches
- the complaint procedure.

2. (a) Define Statistics. **(2 marks)**
 (b) Enumerate and briefly explain any two (2) of the four major branches of statistical inference. **(8marks)**

Solution

(a) Statistics is concerned with scientific methods for collecting, organizing, summarizing, presenting and analyzing data as well as deriving valid conclusions and making reasonable decisions on the basis of this analysis. **OR** Statistics is concerned with the systematic collection of numerical data and its interpretation.

(2 marks for any complete and correctly stated definition. Sub-Total: 2 marks)

(b) The four major branches of statistical inference are:

- (i) **estimation theory:** we estimate the unknown value of the population parameter based on the sample observations. Suppose we are given a sample of people registered for life assurance policy in XYZ insurance company, based upon the total number of people registered, it is possible to estimate the average number of people that registered for life assurance.
- (ii) **tests of hypothesis:** there is a statistical hypothesis, which is some statement about the probability distribution, characterizing a population on the basis of the information available from the sample observations.
- (iii) **non-parametric statistics or non-parametric tests:** is the branch of statistics that is not based solely on parameterized families of probability distributions. Non-parametric statistics is based on either being distribution-free or having

a specified distribution but with the distribution's parameters unspecified statistics.

- (iv) **sequential analysis or sequential hypothesis testing:** is statistical analysis where the sample size is not fixed in advance. Instead data are evaluated as they are collected, and further sampling is stopped in accordance with a pre-defined stopping rule as soon as significant results are observed

(2 marks for any correctly stated branch. 2 marks for each complete and correct explanation. Sub-Total per branch: 4 marks. Maximum of 2 branches to be graded.

Sub-Total: 8 marks)

(Grand Total: 10 marks)

3. (a) (i) When is a population said to be a finite population? **(2 marks)**
(ii) When is a population said to be an infinite population? **(2 marks)**
(b) State any three (3) merits of the census method. **(6 marks)**

Solution

(a) (i) A population is said to be finite if it consists of finite number of units, or unit that are countable in nature. **(2 marks)**

(ii) A population is said to be infinite if it has infinite number of units i.e unit not countable and can take value at certain range. **(2 marks)**

(b) The merits of the census method are:

- the data are collected from each and every item of the population;
- the results are more accurate and reliable, because every item of the universe is required;
- intensive study is possible;
- the data collected may be used for various surveys, analyses e.t.c.

(2 marks for each correctly stated merit. Maximum of 3 to be graded. Sub-

Total: 6 marks)

(Grand Total: 10 marks)

4. Enumerate any five (5) reasons for collecting statistical information.

Solution

The reasons for collecting statistical information are:

- to make accurate decision;
- to develop accurate theories;
- to analyze the process involved in observation and interpreting;
- to back up argument ;
- to make approach more strategic ;
- to identify problem.

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

5. (a) Enumerate any two (2) limitations of direct personal interview. **(4 marks)**
 (b) List any three (3) importance/usefulness of diagrams and graphs. **(6 marks)**

Solution

(a) The limitations of direct personal Interview are:

- it is very costly and time consuming;
- it is very difficult, when the number of persons to be interviewed is large and the persons are spread over a wide area;
- personal prejudice and bias are greater under this method.

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

(b) The importance/usefulness of diagrams and graphs are:

- they are attractive and impressive;
- they make data simple and intelligible;
- they make comparison possible;
- they save time and labour;
- they have universal utility;
- they give more information;
- they have a great memorising effect.

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

(Grand Total: 10 marks)

6. Compute median for the following data.

Class	0-20	20-40	40-60	60-80	80-100	100-120	120-140	140-160	Total:
Frequency (f)	10	15	15	20	8	8	6	8	90

Solution:

Here values in multiples of 10, so width of the class interval is 10.

Class	Frequency	Cummulative	Mid-Value
0 - 20	10	10	10
20 - 40	15	25	30
40 - 60	15	40	50
60 - 80	20	60	70
80 - 100	8	68	90
100 - 120	8	76	110
120 - 140	6	82	130
140 - 160	8	90	150
Total	90	90	

(0.25 mark for each correctly filed coloured number. Sub-Total: 4 marks)

$$\frac{N}{2} = \frac{90}{2} = 45; \quad \text{Class is } 30 - 40 \quad \text{(1 mark)}$$

Here $L = 60$, $N = 90$, $f_m = 20$, $c = 20$, $cf = 40$
(1mark)

$$\text{Median} = L + \left(\frac{\frac{N}{2} - cf}{f_m} \right) \times c \quad (2\text{marks})$$

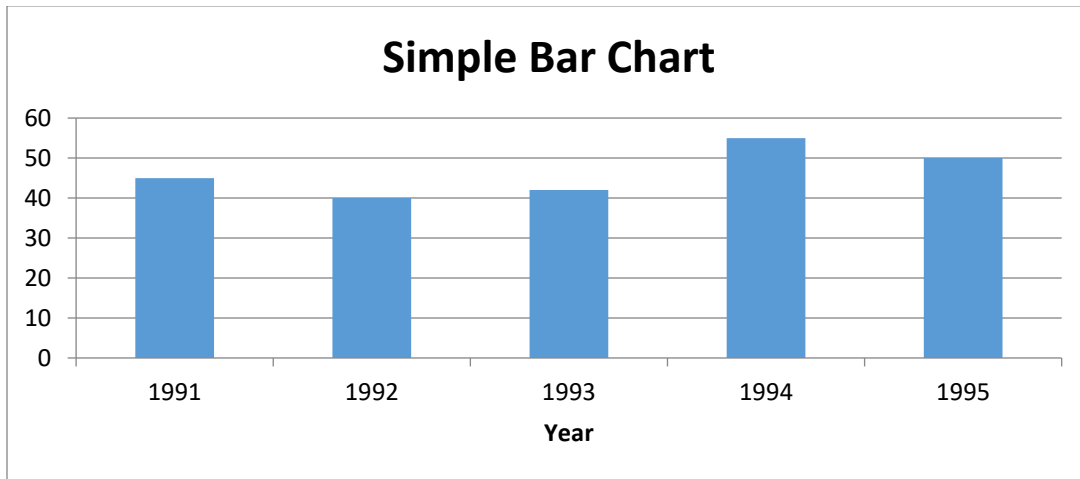
$$\begin{aligned} \text{Median} &= 60 + \left(\frac{45 - 40}{20} \right) \times 20 \quad (1\text{mark}) \\ &= 60 + 5 \\ &= 65 \quad (1\text{mark}) \end{aligned}$$

(Grand Total: 10 marks)

7. Represent the following data by a bar chart.

Year	1991	1992	1993	1994	1995
Production (in tonnes)	45	40	42	55	50

Solution



(2marks for each bar) (Grand Total: 10 marks)

8. (a) State the basic rules of probability. **(4 marks)**

(b) In a certain company, two training workshops are available in a month. An employee has 0.85 probability of been selected to attend the first, 0.75 probability of attending the two workshops. What is the probability that an employee selected will attend the second workshop?

(6 marks)

Solution

The following rules are applicable in probability theory whether it be objective or subjective probability:

Let event A be in sample space S, then

(i) $P(A) \geq 0$ **(1 marks)**

(ii) $P(S) = \sum P(A_i) = 1$ (1 marks)

Then for every event A, $0 \leq P(A) \leq 1$ (1 mark)

$P(A^1) = 1 - P(A)$ 1 mark where A^1 means "not in A".

(sub-total: 4 marks)

(b)

Solution

Let M_1 be the event that he attends the first workshop

Let M_2 be the event that he attends the second workshop

$P(M_1) = 0.85$, $P(M_1 \cap M_2)$

$$P(M_2/M_1) = \frac{P(M_1 \cap M_2)}{P(M_1)} \quad (2 \text{ marks})$$

$$= \frac{0.75}{0.85} \quad (2 \text{ marks}) = 0.882 \quad (2 \text{ marks}) \quad (\text{Sub-Total: 6 marks})$$

(Grand Total: 10 marks)

9. (a) Define the phrase "operations research". (1 mark)

(b) State any three (3) reasons why Managers use "operations research specialists" in their respective organisations. (9 marks)

Solution

Operations research can be defined as the scientific method, involving the use of carefully constructed models based on some measurable variables which has to do with recognition of risk and uncertainty; **OR** a quantitative approach to problem solving for executive management. (1 mark)

(b) The reasons why Managers use operations research specialists are when there are needs to address:

- challenges that are complex and that also involve many variables;
- the fact that there are "data" which describes the decision environment;
- the need for defining goals of the decision maker in order to be able to describe in quantitative terms;
- workable models that are available for the challenges at hand.

(3 marks for each correct and completely stated reason. Maximum of 3 to be graded.

Sub-Total: 9 marks)

(Grand Total: 10 marks)

10. (a) Enumerate any five (5) types of operation models that are used in data modelling. (4 marks)

Solution

The types of operation models that are used in data modelling are:

- | | | | |
|---|----------------------------|---|--------------------|
| * | Resource Allocation Models | * | Queueing Models |
| * | Inventory Models | * | Replacement Models |

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

11. In Linear Programming Model, there are five assumptions made to ensure it is applicable and successful. Enumerate and briefly explain these five (5) assumptions.

Solution

The assumptions are:

- (i) **linearity:** it is assumed that decision variables are of the first power. There is no provision for higher powers like squares and cubes in any of the equations and inequalities.
- (ii) **divisibility:** values of the decision variables are allowed to be fractions and need not be integers alone.
- (iii) **deterministic parameters:** it is assumed that the values of the parameters are known and are constant. This means that the model assumes a static state. It is pertinent to point out that in real life situation, there are probabilistic model parameters.
- (iv) **non-negativity:** all decision variables must take on non-negative values.
- (v) **additivity:** the linearity concept also implies that the total measures of the objective function and the total usage are additive in nature.

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

12. Define any five (5) of the following terms as used in Simplex Method.

- (a) Basic Feasible Solution
- (b) Slack Variable
- (c) Infeasibility
- (d) Surplus Variable
- (e) Unboundedness
- (g) Degeneracy
- (h) Alternative Optimal

Solution

(a) **Basic Feasible Solution:** is a solution in the form of m variables only corresponding to m linearly independent vectors in A (matrix of all coefficient) is called a *Basic Feasible Solution (BFS)* in n vector where $m \leq n$. Basic Feasible Solution are finite variables.

(b) **Slack Variable:** this is the variable added to the left hand side of the constraint to make the inequality \leq to be equality.

(c) **Infeasibility:** after reaching the final solution of a linear programming problem one or more artificial variables are still positive, then there is no feasible solution i.e the artificial variables appear in the solution indicates that the solution is not feasible.

(d) **Surplus Variable:** this is the variable subtracted from the left hand side of the constraint to make the inequality \geq to be equality.

(e) **Unboundedness:** if all the entries of a pivot column are either zero or negative, it will be difficult to find the minimum ratio that determines which variable leaves the basis. If this happens, in Linear Programming Problem, then the problem is said to be unbounded.

(g) **Degeneracy:** this is a basic Feasible Solution of a Linear Programming Problem is said to be degenerated, if at least one of the basic variable is zero.

(h) **Alternative Optimal:** whenever, a non-basic variable (i.e a variable which is not in the solution has a zero entry in the Z - C row of an optimal tableau then bringing that variable into the solution will produce a solution which is also optimal). This observation indicates the presence of an *Alternate Optimal Solution*.

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

13. Enumerate any five (5) characteristics of a simple queue.

Solution

The characteristics of a simple queue are:

- (i) it has a single queue and single service point;
- (ii) there are discrete customers from an infinite population of potential customers. e.g. customer in the bank or air craft waiting to take off;
- (iii) there is an infinite maximum queue;
- (iv) there are no simultaneous arrivals customers at a queue;
- (v) the queue discipline is on a first served based i.e. with no priorities and that the customer leaves before being served;
- (vi) the queue is in a steady state of operation. (the theory for system in transient state just after the operations have started is more complicated);
- (vii) the number of arrivals in a unit of time follow the poisson distribution;
- (viii) service times are random, and follow a negative exponential distribution;
- (ix) traffic intensity is less than 1.

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

14. (a) Outline the four (4) necessary information that are required in the development of a transportation problem model.

Solution

The necessary information that are required in the development of a transportation problem model are:

- there should be Supply quantity (capacity) of each origin;
- there should be demand quantity of each destination;

- there should be transportation cost for each origin and destination;
 - the Demand must be equal to supply; if not we introduce a dummy market of a dummy warehouse.
- (2½ marks for each complete and correctly stated information. Grand-Total: 10 marks)**

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) (i) What is a sample? **(2 marks)**
- (ii) Differentiate between primary and secondary data. **(4 marks)**
- (b) Explain the following methods of data collection, stating two (2) merits and one (1) demerits on each:
- (i) direct interview method; **(8 marks)**
 - (ii) postal questionnaire method; **(8 marks)**
 - (iii) information from correspondents. **(8 marks)**

Solution

(a) A sample can be described as a portion or fraction chosen from the population. **OR** It can also be defined as a finite subset of statistical individuals defined in a population. **(2 marks for each correct and completely stated definition)**

(ii). The difference between primary and secondary data is that *primary data* is data collected at first hand for specific raw purpose e.g. social survey, industrial survey; **(2 marks)**; while *secondary data* is an already existing information collected for use **OR** data obtained from someone's else record. **(2 marks) (Sub-Total: 4 marks)**

(b) (i) **Direct Interview Method:** Here, the interviewers visit the respondent at home, shop, office, market place or on the street to ask questions. **(2 marks)**

Advantages

- People usually respond when confronted in person
- Interviewer note specific reaction and eliminate misunderstanding about the question
- Interviewer is able to give his personal assessment of the responded

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

Disadvantages

- Expensive – Time consuming
- Bias of interviewer if not well trained
- Decline response in face-to-face interview.

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

(ii). **Postal Questionnaire Method:** in this case, a set of questions (document is usually referred to as a questionnaire) is mailed to the respondent who answer and return the completed questionnaire to the office of origin. [3 Marks]

Advantages

- It is cheap and quick
- More reliable information could be obtained
- Confidential questions are answered
- No bias from interviewer

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

Disadvantages

- Problem of non-response
- No interviewer was present to explain ambiguous questions
- Wrong person may complete the form
- **(2 marks for each correctly stated demerit. Maximum of 1 to be graded. Sub-Total: 2 marks) (Grand Sub-Total: 8 marks)**

(iii) **Information from Correspondents Method:** here, data are collected by keeping record of events immediately such an event occurs or as soon as after their occurrences e.g. birth, death, divorces, e.t.c. (3 marks)

Advantages

- More efficient
- Reliable information collected

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

Disadvantages

- Very costly
- Burden of reporting

(2 marks for each correctly stated demerit. Maximum of 1 to be graded. Sub-Total: 2 marks) (Grand Sub-Total: 8 marks) (Grand Total: 30 marks)

16. A manufacturer of bags makes three types of bags X, Y and Z which are processed on three machines. M_1 , M_2 and M_3 Bags. X requires 4hours on machine M_1 , 6hours on machine M_2 and 4hourson Machine M_3 . Bag Y requires 6hours on machine M_1 , 4 hours on machine M_2 and 4hours on machine M_3 and Bag Z requires 10 hours on machine M_2 and 4 hours on machine M_3 . There are 16 hours of time per day available on machine M_1 , 20 hours of time per day available on machine M_2 and 30 hours of time per day available on machine M_3 . The Profit gained from bag X is ₦6.00 per unit, from bag Y is ₦10.00 per unit and from bag Z is ₦8.00 per unit.

(a) Formulate a Linear Programming Problem on the above. (6 marks)

(b) What should be the daily production of each type of bag so that the products yield the maximum profit using simplex method? **(24 marks)**

Solution

(a) Let X_1 , be X type of bag

Let X_2 , be Y type of bag

Let X_3 , be Z type of bag

The objective function is $6X_1 + 10X_2 + 8X_3$ **(1 mark)**

The Linear Programming can be shown to be:

For the machine 1 $4X_1 + 6X_2 \leq 16$ **(1 mark)**

For the machine 2 $6X_1 + 4X_2 + 10X_3 \leq 20$ **(1 mark)**

For the machine 3 $4X_1 + 4X_2 + 8X_3 \leq 30$ **(1 mark)**

The Linear programming problem is

Maximize $z = 6X_1 + 10X_2 + 8X_3$

s.t $4X_1 + 6X_2 \leq 16$ **(1/2 mark)**

$6X_1 + 4X_2 + 10X_3 \leq 20$ **(1/2 mark)**

$4X_1 + 12X_2 + 8X_3 \leq 30$ **(1/2 mark)**

$X_1, X_2, X_3, \geq 0$ **(1/2 mark)**

(b) $Maxz = 6X_1 + 10X_2 + 8X_3$

S.t $4X_1 + 6X_2 + X_4 = 16$ **(1/2 mark)**

$6X_1 + 4X_2 + 10X_3 + X_5 = 20$ **(1/2 mark)**

$4X_1 + 4X_2 + 8X_3 + X_6 = 30$ **(1/2 mark)**

$X_1, X_2, X_3, X_4, X_5, X_6, \geq 0$ **(1/2 mark)**

Table 1

B, V	CB	X ₁	X ₂	X ₃	X ₄	X ₅	X ₆	X _B	Minimum Ratio
X ₄	0	4	6	0	1	0	0	16	8/3
X ₅	0	6	4	10	0	1	0	20	15/2
X ₆	0	4	4	8	0	0	1	30	
Z _j		0	0	0	0	0	0	Z=0	
C _j		6	10	8	0	0	0		
Z _j - C _j		-6	-10	-8	0	0	0		

(4 marks)

(1 mark for row where X₄ appeared) (1 mark for row where X₅ appeared)

(1 mark for row where X₆ appeared) (1 mark for row where Z_j - C_j appeared) (sub-total : 4 marks)

The solution is not optimum but feasible

X₂ is the incoming variable (1/2 mark)

X₄ is the outgoing variable (1/2 mark)

R₁ = 1/3R₁, (1/2 mark) R₂ = -2/3R₁+R₂, (1/2 mark) R₂ = -2/3R₁+ R₃, (1/2 mark)

Table 2

B, V	CB	X ₁	X ₂	X ₃	X ₄	X ₅	X ₆	X _B	Minimum Ratio
X ₂	5	2/3	1	0	1/3	0	0	8/3	** 14/15
X ₅	0	5/3	0	5	-2/3	1	0	14/3	29/15
X ₆	0	2/3	0	4	-2/3	0	1	29/3	
Z _j		10/3	5	0	5/3	0	0	Z= 40/3	
C _j		3	5	4	0	0	0		
Z _j - C _j		1/3	0	-4	5/3	0	0		

(1 mark for row where X₂ appeared) (1 mark for row where X₅ appeared)

(1 mark for row where X₆ appeared) (1 mark for row where Z_j - C_j appeared) (sub-total : 4 marks)

The solution is not optimum but feasible (1 mark)

X_3 is the incoming variable (1/2 mark)

X_5 is the outgoing variable (1/2 mark)

$R_1 = R_1$, (1/2 mark) $R_2 = 1/5R_2$, (1/2 mark)

$R_2 = -4/5R_2 + R_3$, (1/2 mark)

Table 3

B, V	CB	X_1	X_2	X_3	X_4	X_5	X_6	X_B
X_2	5	2/3	1	0	1/3	0	0	8/3
X_3	4	1/3	0	1	-2/15	1/5	0	14/15
X_6	0	-2/3	0	0	-2/5	-4/5		49/15
		1						
Z_j		14/3	5	4	17/15	4/5	0	$Z = 256/15$
C_j		3	5	4	0	0	0	
$Z_j - C_j$		5/3	0	0	17/15	4/5	0	

(1 mark for row where X_2 appeared) (1 mark for row where X_3 appeared)

(1 mark for row where X_6 appeared) (1 mark for row where $Z_j - C_j$ appeared) (Total : 4 marks)

The solution is optimum and feasible (1 mark)

$X_2 = 8/3$, (1 mark) $X_3 = 14/15$. (1 mark) and $Z = 256/15$ (1 mark)

(Sub-Total: 24 marks)

(Grand Total: 30 marks)

17. Olanrewaju Sand and Gravel Company Limited, has been contracted to provide top soil for the residential housing developments. Top soil can be supplied from different farms as follows:

Demand for the top soil generated by the construction project is:

Project	Weekly Capacity Cubic Metres
1	110
2	170
3	120

The manager of the sand and gravel company limited has estimated the cost per cubic meters to transport over each of the possible routes as follows:

	Project 1	Project 2	Project 3
A	4	2	8
B	5	1	9
C	7	6	3

- (a) Arrange the information into a transportation matrix table. **(4 marks)**
 (b) Formulate this information as a linear programming problem. **(9 marks)**
 (c) Obtain the initial feasible solution using
 (i) North-West Corner Rule; (ii) Least Cost Rule. **(16 marks)**
 (ed) Which of the methods in (c) and (d)above is preferable and why. **(1 mark)**

Solution

a. Transportation Table for Olanrewaju Sand and Gravel Company Limited is:

	Project 1	Projects 2	Projects 3	Supply
Farm A	X ₁₁ <input type="text" value="4"/>	X ₁₂ <input type="text" value="2"/>	X ₁₃ <input type="text" value="8"/>	120
Farm B	X ₂₁ <input type="text" value="5"/>	X ₂₂ <input type="text" value="1"/>	X ₂₃ <input type="text" value="9"/>	150
Farm C	X ₃₁ <input type="text" value="7"/>	X ₁₂ <input type="text" value="6"/>	X ₃₃ <input type="text" value="3"/>	130
Demands	110	170	120	

(1 mark for farm A in a row) (1 mark for farm B in a row) (1 mark for farm C in a row)

(1 mark for either Demand row or Supply column) (Total : 4 marks)

b. $\text{Min } Z = 4X_{11} + 2X_{12} + 8X_{13} + 5X_{21} + X_{22} + 9X_{23} + 7X_{31} + 6X_{32} + 3X_{33}$ **(2 marks)**

s.t. $X_{11} + X_{12} + X_{13} = 120$ **(1 mark)**

$X_{21} + X_{22} + X_{23} = 150$ **(1 mark)**

$X_{31} + X_{32} + X_{33} = 130$ **(1 mark)**

$X_{11} + X_{21} + X_{31} = 110$ **(1 mark)**

$X_{12} + X_{22} + X_{32} = 170$ **(1 mark)**

$X_{13} + X_{23} + X_{33} = 120$ **(1 mark)**

$X_{ij} \geq 0$ for all pairs of (i,j) **(1 mark)**

(Sub-Total: 9 marks)

c. (i) Using the North-West Corner Rule, Initial Feasible Solution is:

To From	M ₁	M ₂	M ₃	Supply
W ₁	110 <input type="text" value="4"/>	10 <input type="text" value="2"/>	<input type="text" value="9"/>	120
W ₂	<input type="text" value="5"/>	150 <input type="text" value="1"/>	<input type="text" value="9"/>	150
W ₃	<input type="text" value="7"/>	10 <input type="text" value="6"/>	120 <input type="text" value="3"/>	130
Demands	110	170	120	400

(1 mark each for any 4 allocation in the table that is 110, 10, 150,10, 120)

$$X_{11}, =110, X_{12} = 10, X_{22} = 150, X_{32} = 10, X_{33} = 120 \quad (2 \text{ marks})$$

$$\text{Total Cost } Z = 4(100) + 2(10) + 1(150) + 6(10) + 3(120) \quad (1 \text{ mark})$$

$$\text{Total Cost} = 400 + 20 + 150 + 60 + 360 = \text{N}990.00 \quad (1 \text{ mark})$$

(Sub-Total: 8 marks)

(ii) Using the Least Rule, Initial Feasible Solution is:

To From	M ₁	M ₂	M ₃	Supply
W ₁	100 <input type="text" value="4"/>	20 <input type="text" value="2"/>	<input type="text" value="9"/>	120
W ₂	<input type="text" value="5"/>	150 <input type="text" value="1"/>	<input type="text" value="9"/>	150
W ₃	10 <input type="text" value="7"/>	<input type="text" value="6"/>	120 <input type="text" value="3"/>	130
Demands	110	170	120	400

(1 mark each for any 4 allocation in the table that is 100, 10, 150,20, 120)

Solution is;

$$X_{11} = 100, X_{13} = 20, X_{12} = 150, X_{31} = 10, X_{33} = 120 \quad (2 \text{ marks})$$

$$\text{Total Cost } Z = 4(100) + 2(20) + 150(1) + 7(10) + 3(120) \quad (1 \text{ mark})$$

$$\text{Total Cost } Z = 400 + 40 + 150 + 70 + 360 = \text{N}980.00 \quad (1 \text{ mark})$$

(Sub-Total: 8 marks)

(e) Comparing the two solutions, the cost from the least rule that is N60.00 less than the one from the North-West Corner Rule. Therefore, the Least Cost Rule gives better approximation than the North-West Corner Rule. **(1 mark)**

(Grand Total: 30 marks)

18. (a) Three companies $D_1, D_2,$ and D_3 produce lamp bulbs some of which are defective. The proportions of defective in each company D_1, D_2, D_3 are respectively $\frac{1}{2}, \frac{1}{8}, \frac{3}{4}$. A company is selected at random and a bulb is drawn from it. If the selected bulb is found to be defective. What is the probability that is from the First company?

(12 marks)

(b) In a certain company, two training workshops are available in a month. An employee has 0.55 probability of been selected to attend the first, 0.45 probability of attending the two workshops. What is the probability that an employee selected will attend the second workshop. **(8 marks)**

(c) In a certain college, 4% of the men and 1% of the women are taller than 1.8m, furthermore, 60% of the students are women. If a student is selected at random and is taller than 1.8m, what is the probability that the student is a man? **(10 marks)**

Solution

(a) $P(D_1) = P(D_2) = P(D_3) = \frac{1}{3}$. **(2 marks)**

Let K be the event that the bulb selected is defective.

$P(K/D_1) = \frac{1}{2}$ $P(K/D_2) = \frac{1}{8}$ $P(K/D_3) = \frac{3}{4}$ **(2 marks)**

$P(D_1/B) = \frac{P(D_1) \cdot P(K/D_1)}{P(D_1) \cdot P(K/D_1) + P(D_2) \cdot P(K/D_2) + P(D_3) \cdot P(K/D_3)}$ **(3 marks)**

$$= \frac{\frac{1}{3} \cdot \frac{1}{2}}{\frac{1}{3} \cdot \frac{1}{2} + \frac{1}{3} \cdot \frac{1}{8} + \frac{1}{3} \cdot \frac{3}{4}}$$

(3 marks)

$$= \frac{4}{11}$$

=0.3636 (0.37 approximately) **(2 marks)**

(Sub-Total: 12 marks)

(b)

Let A_1 be the event he attends the first workshop **(1 mark)**

Let A_2 be the event he attends the second workshop **(1 mark)**

$P(A_1) = 0.55$, **(2 marks)** $P(A_1 \cap A_2) = ?$

$P(A_2/A_1) = \frac{P(A_1 \cap A_2)}{P(A_1)}$ **(2 marks)**

$$= \frac{0.45}{0.55}$$

(1 mark)

$$= 0.82$$

(1 mark)

(Sub-Total: 8 marks)

(c) Let $A = \{ \text{the student who is taller than 1.8m} \}$.

We want to compute $P(W/A)$, i.e. the probability that a student is a man given that the student is taller than 1.8m.

$$P(W) = 0.06 \quad (1 \text{ mark})$$

$$P(M) = 0.40 \quad (1 \text{ mark})$$

$$P(A/W) = 0.01 \quad (1 \text{ mark})$$

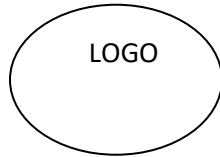
$$P(A/M) = 0.04 \quad (1 \text{ mark})$$

$$P(W/A) = \frac{P(W) P(A/W)}{P(W) P(A/W) + P(M) P(A/M)} \quad (3 \text{ marks})$$

$$= \frac{(0.06)(0.01)}{(0.06)(0.01) + (0.40)(0.04)} \quad (2 \text{ marks})$$

$$= 0.7273 \quad (1 \text{ mark})$$

(Sub-Total: 10 marks)
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRTL 2022 DIET EXAMINATION PAPER

SUBJECT I06
OPERATIONAL MANAGEMENT

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- 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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I06 - OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

Question on simple regulatory issues. 47% pass rate. Candidates are advised to take regulatory issues more seriously.

Question 2

CRM should be a familiar topic to candidates. 79% per rate. Fair attempt.

Question 3

66% pass rate fair attempt. Candidates demonstrated fair understanding of what is expected of them.

Question 4

6% pass rate is a poor performance "Call Centre" should be a popular theme among candidates. Answers differed largely from expectations.

Question 5

47% pass rate. Question is friendly but attempts were not technical but residual.

Question 6

61% pass rate. Fair attempt. More studies could have improved performance.

Question 7

66% pass rate. More of residual knowledge than technical.

Question 8

3% pass rate. Question on strategic change appears unfriendly. Candidates are advised to be more studious.

Question 9

39% pass rate. More serious studies could have earned better performance.

Question 10:

57% pass rate. Very friendly but technical question.

Question 11: 24% pass rate. This is poor with reference to the question. Question on "what is communication" should be a bonus but most relied on residual knowledge.

Question 12:

21% pass rate. Observation similar to question 11 above.

Question 13:

23% pass rate. Advised to work harder. Question is direct and friendly enough.

Question 14:

64% per rate. Fair attempt.

Question 15:

46% candidates attempted question mainly on planning. 19% pass rate is poor.

Question 16:

40% of candidates attempted the question on communication and coaching. Pass rate is 29%. Not good enough.

Question 17

67% of candidates attempted the question on HR. 25% pass rate is poor.

Question 18

44% of candidates attempted the question on leadership. 42% pass rate can be better if candidates gave quality time to studying.

Comments on Overall Performance:

Candidates should devote better time for studies. Questions are simple, direct but technical. Residual knowledge alone can achieve excellent performance.

Suggestion(s) for Improvement (if any)

While advising candidates to study harder, subsequent questions will be made more direct and simplified. Candidates' response to questions must be professional hence the standard expectation cannot be compromised.

I06 - OPERATIONAL MANAGEMENT

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

(1) List the five (5) compulsory insurances according to NAICOM directive for the Nigerian Insurance Industry.

Solution

The five (5) compulsory insurances according to the NAICOM directive for the Nigerian Insurance Industry are:

- (i) Statutory Group Life Insurance
- (ii) Builders' Liability Insurance
- (iii) Occupiers' Liability (Public Building) Insurance
- (iv) Healthcare Professional Indemnity Insurance
- (v) Motor Third Party Insurance
- (vi) Marine (Import) Insurance

(2 marks for each correct answer. Total: 10 marks)

(2) (a) Briefly explain, with two distinct point, what customer relationship management is. **(6 marks)**

(b) In one sentence, differentiate between external customer and internal customer. **(4 marks)**

Solution

(a) CRM is:

- about getting closer to the customer;
- building relationships with customers; and
- understanding their needs and offering products and services that meet the needs of the clients.

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

(b) **External customers** are those who are not on the company's payroll **(2 marks)**, while **internal customers** are those people who work for the organisation **(2 marks)**.

(Sub-Total: 4 marks) (Grand Total: 10 marks)

(3) (a) Briefly explain tele-sales and tele-marketing. **(6 marks)**

(b) Briefly explain bench marking. **(4 marks)**

Solution

(a) **Tele-sales** are sales made whereby sales agent will fulfil sales roles over the telephone **(3 marks)**; while **tele-marketing** are where/when marketing agents will make potential customers become aware of products and services over the telephone **(3 marks)**.

(b) Bench marking is a process that allows a company to compare its standard with that of a comprehensive standard. It usually means the establishment of performance measures that enable a company to analyse its efficiency against competitors or leaving companies in the industry.

**(2 marks for each complete and correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 4 marks)
(Grand Total: 10 marks)**

(4) Call center management is about two key aspects. Enumerate these two (2) aspects and briefly explain them.

Solution

Call Center Management is about two key aspects. These aspects are:

- managing the call traffic/workflow
- managing the people.

(Candidates are required to also explain the two key aspects appropriately. 3 marks for each correctly stated key aspect. 2 marks for each complete and correctly stated explanation. Sub-Total per aspect: 5 marks. Grand Total: 10 marks)

(5) (a) According to Henry Fayol, define control. **(4 marks)**
(b) Performance standards may be quantitative or qualitative. Explain these two terms and give two (2) examples of each standard. **(6 marks)**

Solution

(a) According to Henry Fayol, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and the principles established. It is to point out the weaknesses and errors in order to rectify them.

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

(b) **Quantitative:** Quantitative standard of appraisal are the parameters that can be measured directly other than the opinion of the superior. **Examples are:** premium earned, market share, rate of collections, e.t.c. while **Qualitative:** Qualitative standard of appraisal are the parameters that are measured by the opinion of the superior.

Examples are: altitude of employees, of customers, relationship in workplace, e.t.c.

**(1 mark for each for definition and 1 mark for each example. Maximum of 2 examples to be graded under each term. Sub-Total: 3 marks. Grand Sub-Total: 6 marks)
(Grand Total: 10 marks)**

(6) Enumerate any four (4) characteristics of a successful project.

Solution

The characteristics of a successful project are:

- stated objectives and deliverables are achieved;
- delivered on time;

- within budget;
- perform to an agreed specification;
- meet pre-defined success criteria;
- satisfy the sponsor and beneficiaries.

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

(7) Enumerate and briefly explain the four (4) effects of stress in an organisation.

Solution

The four effects of stress in an organisation are:

- high absenteeism;
- high staff turnover;
- industrial relations problems;
- poor quality control.

(Candidates are required to also explain each correctly stated effect of stress. 1 mark for each correct explanation. 1½ marks for each correctly stated stress type.

Sub-total per effect: 2½ marks. Grand Total: 10 marks)

(8) State the four (4) key elements in the successful management of strategic change in an organisation and explain any two (2).

Solution

The four key elements in the successful management of strategic change in an organisation are:

- elements of successful change management;
- clear communication of strategy, objectives and corporate values;
- involvement of line managers in implementation of decision making;
- commitment of senior management.

(Candidates are required to also explain any two of the correctly stated effect of stress. 2 marks for each correctly stated key element. 1 mark for each correct explanation. Maximum of 2 elements to be explained on. Grand Total: 10 marks)

(9) The objectives of an appraisal interview are threefold. Enumerate these threefold and explain any two (2) of them.

Solution

The objectives of an appraisal interview are:

- to agree the level of performance;
- to agree ways to improve performance;
- to agree the results to be expected in the job for the period ahead.

(Candidates are required to also explain any two of the correctly stated objective. 2 marks for each correctly stated objective. 2 marks for each correct explanation.

Maximum of 2 objectives to be explained on. Grand Total: 10 marks)

(10) Tuckman Model of Team Development suggests four stages. List them.

Solution

Tuckman Model of Team Development suggest four stages. These four stages are:

- (i) forming (ii) storming (iii) norming (iv) performing
(2½ marks for each correctly stated stage. Total: 10 marks)

(11) (a) Define communication to show its essentials. **(6 marks)**

(b) Hearing is not listening. List two (2) of the three basic stages of active listening.

Solution

(a) Communication is the sharing of information **(2 marks)**, attitudes, thoughts, feelings and idea. It is a two-way **(2 marks)** process and is transmitted through **(2 marks)** words, tones and behavior. **(Sub-Total: 6 marks)**

(b) The three stages of active listening are:

- making an effort to hear something;
- considering with thoughtful attention;
- involves interpretation and understanding.

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

(Grand Total: 10 marks)

(12) Enumerate any four (4) disadvantages of face-to-face communication.

Solution

The disadvantages of face-to-face communication are that it is:

- less permanent;
- more time consuming;
- needs to be planned/ organised;
- more effort;
- more personal skills required.

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

(13) (a) Managers have been advised not to delegate two (2) classes of tasks.

Enumerate these two classes of task. **(6 marks)**

(b) Knowing one's prime time of day is valuable. Enumerate two (2) ways you can maximize your prime time of day. **(4 marks)**

Solution

(a) Managers have been advised not to delegate the following classes of tasks:

- those which they have been asked expressly to carry out personally;
- those which involve the interpretation of instructions from more senior management.

(3 marks for each correct and completely stated class of risk. Sub-Total: 6 marks)

- (b) Two ways by which one can maximise one's prime time of day are:
- it is best time to handle creative, complex or planning work
 - problems will be solved more quickly as this in the time when the brain is working at its peak
- (2 marks for each correct and completely stated way. Sub-Total: 4 marks)**
(Grand Total: 10 marks)

- (14) (a) Business component contains three resources: Material, Financial and Human resources. Give two (2) examples of each of the resources.
 (b) Separate in meaning, the word Entrepreneur and Intrapreneur

Solution

S/No	Resources	Example
1	Material	Plant, equipment, office space, vehicle
2	Financial	Cash, bank, loans, share capital
3	Human	Permanent staff, temporary, full-time, part time, outsourced

- (b) **Entrepreneurs** are leaders who create wealth **(2 marks)**; while **intrapreneurs** are employees who exhibit entrepreneurial characteristics and behaviors **(2 marks)**.
(Sub-Total: 4 marks) (Grand Total: 10 marks)

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) There are various key areas that should be covered in planning which will allow organisations to achieve their objectives when such areas are effectively looked into and planned for. Enumerate any seven (6) of such key areas. **(18 marks)**
 (b) (ii) Define what a Balanced Scorecard is. **(4 marks)**
 (ii) List all the perspectives of a balanced scorecard. **(8 marks)**

Solution

(a) The key areas that should be covered in planning which will allow organisations to achieve their objectives when such areas are effectively looked into and planned for are:

- setting objectives;
- identifying what needs to be done for these objectives to be achieved;
- creating the most appropriate organisation structure;
- allocating management duties and responsibilities to senior managers;
- agreeing and establishing a consistent management style;
- agreeing and setting budget;

- agreeing staff incentives;
- setting sales target;
- planning the most efficient use of material resources;
- setting timetables and deadlines;
- identifying contingency plans.

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

(b) A balanced scorecard is a **management approach (1 mark)** that **measures the activities of an organisation (1 mark)** from **four perspectives (2 mark)**. **(Sub-Total: 4 mark)**

(ii) The perspectives of a balanced scorecard are:

- * financial perspective
 - * customer perspective
 - * internal perspective
 - * learning and growth perspective
- (2 marks for each correctly stated perspective. Sub-Total: 8 marks)**

16. (a) Identify the acronym SUCCESS as the seven steps to success in motivation. **(14 marks)**

(b) Coaching is about helping people to fill their development gaps. For call/contact centers, identify four (4) advantages and four (4) disadvantages of coaching. **(20 marks)**

Solution

(a) The acronym for success in motivation is:

- S-** support the team by sharing knowledge
- U-**nderstand the peoples' needs and limitations
- C-**ollate and analyze data
- C-**ommunicate clearly and efficiently
- E-**ncourage enthusiasm and ideas for the team
- S-**et specific targets for the team and individuals
- S-**upport colleagues in achieving team goals

(2 marks for each correctly stated meaning of the acronym. Sub-Total: 14 marks)

b) Coaching is about helping people to fill their development gaps. . For call/contact centers, the advantages and disadvantages of coaching are:

S/No	Advantages	Disadvantages
1	everything is seen and heard	can be time consuming
2	problems can be dealt with quickly	staff may be nervous
3	it is easy to demonstrate	other people can overhear
4	system interaction can be seen	staff will be on best behavior
5	agent is getting quality time	may not be seeing the real picture

(2 marks for each correctly stated advantage/disadvantage. Maximum of 4 to be graded under each column. Sub-Total under each column: 8 marks. Grand Sub-Total: 16 marks)
(Grand Total: 30 marks)

17. (a) "Person Specification" means identifying the attributes of the person in an interview. Enumerate any five (5) attributes of a person you will look out for in an interview while being guided by the "person specification" as studied in the course. **(10 marks)**
- (b) (i) Define competency. **(3 marks)**
- (ii) Enumerate four (4) characteristics of competency. **(8 marks)**
- (c) Enumerate three (3) reasons why "internal promotion" has become one of the cheapest and safest sources of recruitment. **(9 marks)**

Solution

(a) The attributes of "person specification" are:

- * physical makeup
- * educational and business attainments
- * general intelligence e.g. computing skills
- * interests
- * disposition e.g. ability to interact with others
- * circumstances e.g. flexibility to work overtime.

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

(b) Competency can be defined as the **underlying characteristics of an individual** (1 mark) which is **casually related** (1 mark) to **effective or superior performance** (1 mark).
(3 marks)

(ii) The characteristics of competency are:

- * motion
- * behavior
- * attitude
- * knowledge
- * anything that can be relatively measured.

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

c) The reasons why internal promotion has become one of the cheapest and safest sources of recruitment are:

- there is less need for orientation and training when an existing staff member is appointed;
- there is pre-existing familiarity between the promoted staff member and their colleagues;
- there is internally verifiable track record of achievements;
- the high cost of external recruit agencies is avoided.

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

(Grand Total: 30 marks)

18. (a) Enumerate three (3) features of transformational theory of leadership according to B. M. Bass. **(9 marks)**
- (b) Organisations can stimulate an intrapreneurial culture by creating three (3) new staff roles. Briefly explain them. **(9 marks)**
- (c) Enumerate and explain in a sentence, the four (4) principal roles of the facilitator. **(8 marks)**
- (d) Briefly explain the Douglas McGregor's Theory X. **(4 marks)**

Solution

- (a) According to B. M. Bass, the features of transformational leadership are that:
- the leader treats each subordinate on their own merits and seek to develop followers through delegation, coaching and mentoring
 - the leader encourages free thinking and emphasizes reasoning before any action is taken
 - the leader creates an optimistic, clear and attainable vision of the future, thus encouraging others to raise their expectations
 - the leader makes personal sacrifices, takes responsibility for their own actions and shares glory with others

(3 marks for each complete and correctly stated feature. Maximum of 3 to be graded.

Sub-Total: 9 marks)

- (b) The ways of stimulating intrapreneurial culture in an organisation are through the use of:
- **An idea champion:** an employee who generates an idea and takes responsibility for developing that idea within the organisation;
 - **A sponsor:** a person within the same organisation who is charged with nurturing the new concept and is given organisation resources to develop it;
 - **A godfather:** typically, the chief executive who has the authority to back the development of the concept and who persuades others to buy into the idea.

(2 marks for each correctly stated way. 1 mark for correct explanation of the stated way. Sub-Total per way: 3 marks. Sub-Total: 9 marks)

- (c) The four principal roles of the facilitator are:
- **teacher:** shows how things are done
 - **guide:** provides wise counsel and appropriate advice
 - **coach:** provides direct instruction to fine-tune individual performance
 - **leader:** leads by exemplifying the values of the organization and the team
- (1 mark for each correctly stated role. 1 mark for the correct one-sentenced explanation. Sub-Total per role: 2 marks. Grand Sub-Total: 8 marks)**

- (d) **Theory X:** the theory says that the average human being has inherent dislike for work and will avoid it if possible **(3 marks)**. As a result of this, most people must be coerced, controlled, directed, threatened with punishment to get them to put forth adequate efforts towards achieving organization objectives **(1 mark)**. **(4 marks)**

(Grand Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I07
MARINE AND AVIATION INSURANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two 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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I07 - MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

25% of the candidates passed. The duties of the Minister of Aviation are expected to be known by candidates. The duties appear very broad and specialized to candidates. Candidates are advised to take good note of such important administrators of the aviation industry.

Question 2

25% of the candidates passed. Knowledge of geography is of importance to both Marine and Aviation. Candidates probably overlooked the geographical aspects. They should study them thoroughly.

Question 3

33% pass rate. The knowledge of names of seas is essential in marine insurance. Candidates either did not study that aspect as required or they forgot the names of the seas. Candidates should endeavor to know sea names.

Question 4

42% passed. Knowledge of clean cargoes carried by Tanker vessels is important. Candidate either did not study that aspect or could not understand what is meant by clean cargo. Candidates should discern what is important and pay special attention to them.

Question 5

17% pass rate. To test types of bills of lading. Candidates did not take good note of the variations in bills of lading. They should note the circumstances affecting the type of bill of lading issued.

Question 6

75% pass rate. Four (4) candidates scored full marks to test the knowledge of acronyms of international organisations. Candidates should take more interest in international organisations.

Question 7

0% pass. Limitation of liability for Marine Claims is a very important aspect Marine Insurance Claims. Candidates should study this aspect well.

Question 8

67% pass rate. Four (4) candidates scored full marks. The question was to test the knowledge of the various types of policy coverage. Candidates should keep such knowledge at their fingertips.

Question 9

75% pass rate. To test the knowledge of reinsurance terms. Candidates should be conversant with reinsurance because of its importance in both Marine and Aviation Insurances.

Question 10

25% pass rate. To test the knowledge of perils listed in the institute Time Clause hulls. Candidates should have a good knowledge of the perils covered.

Question 11

83% pass rate. To test understanding of what is involved in Marine Insurance. Candidates came up with good definitions of Marine Insurance. Candidates should try to master other aspects of their course books as they have done to the definition of Marine Insurance.

Question 12

50% pass Rate. Three (3) candidates scored full marks. The question was to test the knowledge of insurance principles as they apply to aviation insurance. Candidates performed well.

Question 13

0% pass rate. The question was to test the knowledge of section ii: legal liability to third parties (other than passengers). Candidates should endeavor to study the coverage provided by each section of the policies.

Question 14

33% passed. The question was to test the knowledge of the tripartite roles of NPA as a landlord, an operator and a regulator. Candidates should study the different roles thoroughly.

Question 15

50% pass rate as only four (4) candidates attempted the question which was to test the knowledge of sesame production and export. (a) was well answered better than the (b) part.

Question 16

8% pass rate. The question was to test the knowledge of the use of documentary credit in importation of goods. Candidates should pay attention to this important aspect of oversea trading.

Question 17

0% pass rate. (a) was to test the knowledge of definition of proximate cause and (b) was to test the principle of proximate cause. Candidates should be able to define proximate cause, as it is important in claims handling.

Question 18

25% pass rate. The question was to test the knowledge of the responsibilities of NCAA in the Nigerian Aviation Industry. A lot of candidates were offering thought-out answers. Candidates should study the facts thoroughly and present them concisely.

Comments on Overall Performance:

Overall performance was poor and showed inadequate preparation for the examination.

Suggestions on improvement (if any):

Candidates should create time to prepare for the examination, ensuring that they cover their coursebook thoroughly.

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

1) What are the 4 (four) duties of the Aviation Minister in Nigeria as it relates to the control of air navigation?

Solution

The duties of the Aviation Minister in Nigeria as it relates to the control of air navigation are as follows:

- formulation of policies and strategies for promotion and encouragement of civil aviation in Nigeria;
- fostering the sound economic policies that assure the provision of efficient and safe services to air carriers and other aviation stakeholders;
- facilitating greater access to air transport in a sustainable manner;
- ensuring that Nigeria's obligations under international agreements are implemented.

(2½ marks for each correct and completely stated duty. Maximum of 4 to be graded.

Total: 10 marks)

2) What are the geographical names of the following?

- (a) The imaginary circle lying midway between North and South Poles.
- (b) The earth's yearly movement round the sun.
- (c) June 21, in the Northern Hemisphere.
- (d) The angular distance of a place east or west of the Greenwich Meridian.
- (e) The imaginary line drawn along longitude 180 degrees, with minor deviations, not to bisect land masses.

Solution

The geographical names are:

- | | | |
|----------------|------------------------------------|----------------------|
| (a) Equator. | (b) Revolution. | (c) Summer solstice. |
| (d) Longitude. | (e) International Date Line (IDL). | |

(2 marks for each correctly supplied name. Total: 10 marks)

3) Enumerate any five (5) important seas.

Solution

The following are names of important sea:

- | | | |
|--|--------------------------------------|----------------------|
| (a) North Sea. | (b) Mediterranean Sea and Black Sea. | |
| (c) Arabian Sea (and Arabian or Persian Gulf). | | |
| (d) Red Sea. | (e) Sea of Japan | (f) South China Sea. |
| (g) Sea of Japan. | (h) Tasman Sea. | (i) Gulf of Mexico |
| (j) Gulf of St. Lawrence. | (k) Baltic Sea. | |

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

4. List five (5) “clean” cargoes carried by Tanker vessels.

Solution

The following are examples of “clean cargoes” carried by tanker vessels:

- | | | | |
|-------------------|------------------------|----------------------|----------------|
| (i) Gas; | (ii) Oil; | (iii) Petrol; | (iv) Kerosene; |
| (v) Aviation oil. | (vi) Gasoline. | (vii) Molasses. | (viii) Wine. |
| (ix) Chemicals. | (x) Liquefied gas, and | (xi) Vegetable oils. | |

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

5. Which are the 5 (five) ways of classifying a Bill of Lading?

Solution

A bill of lading can be classified into the five following types:

- (i) clean; (ii) received for shipment; (iii) shipped; (d) claused, and (e) through.

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

6. What are the full forms of the following acronyms?

- (a) IMO (b) UNCTAD (c) ICAO (d) IATA (e) CAA.

Solution

The full forms of the acronyms are:

- (a) International Maritime Organisation.
- (b) United Nations Conference on Trade and Development.
- (c) International Civil Aviation Organisation.
- (d) International Air Transport Association.
- (e) Civil Aviation Authority.

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

7. State, briefly 5 (five) types of claim that may be limited under the Convention on Limitation of Liability for Maritime Claims.

Solution

The types of claims that may be limited under the Convention on Limitation of Liability of Maritime Claims (1976) are:

- loss of life or personal injury on board or in connection with the operation of the ship;
- damage to property on board or in connection with the operation of the ship;
- loss resulting from delay in the sea carriage of cargo, passengers and luggage;
- loss resulting from infringement of rights other than contractual rights, in ship and salvage operations;
- claims for salvage or contribution in general average;
- claims for oil pollution damage from tankers;
- claims against a nuclear ship for nuclear damage.

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

8. State the types of marine policy that provide the covers described below:
- (a) Insures the subject matter for a period of time.
 - (b) Insures the subject matter from one place to another irrespective of the length of time taken.
 - (c) Covers both a voyage and a period of time.
 - (d) Insures a vessel in course of building irrespective of the time taken.
 - (e) A cargo policy expressed in general terms to cover a number of shipments to be declared.

Solution

The types of Marine Policy that provide the covers described in (a)-(e) are as follows:

- (a) Time Policy; (b) Voyage Policy. (c) Mixed policy.
- (d) Construction Policy (e) Open Policy or Open Cover.

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

9. Explain, in one sentence each the following reinsurance terms:
- (a) cession (b) line (c) retention (d) retrocession (e) treaty.

Solution

The terms are explained as follows:

- (a) **Cession:** The particulars of a risk being transferred by one insurer to another or to a reinsurer.
- (b) **Line:** The amount of the retention of the direct insurer, whereby a reinsurer may accept one or more, or a fraction of such line.
- (c) **Retention:** The amount retained by a reassured when effecting reinsurance.
- (d) **Retrocession:** The laying off of liability accepted by a reinsurer to another reinsurer.
- (e) **Treaty:** A reinsurance contract usually effected to cover the whole or a certain section of the reassured's business.

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

10. List any five (5) perils covered by the Institute Time Clauses (Hulls).

Solution

This insurance covers loss of or damage to the subject-matter caused by:

- perils of the seas, rivers, lakes or other navigable waters;
- Fire & explosion;
- violent theft by persons from outside the vessel;
- jettison;
- piracy;
- contact with land conveyance, dock or harbor equipment or installation;
- earthquake, volcanic eruption or lightning;
- accident in loading, discharging or shipping cargo or fuel;
- bursting of boilers, breakage of shafts or latent defect in machinery or hull;
- negligence of Master Officers Crew or Pilots;

- negligence of repairers or charterers provided such repairs or charterers are not an Assured here under;
- barratry of Master Officers or Crew contact with aircraft, helicopters or similar objects or objects falling therefrom, provided that such loss or damage has not resulted from want of due diligence by the Assured, Owners or Managers, or superintendents or any of their onshore management.

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

11. In what five (5) ways does Marine Insurance Act 1906 define “Marine Insurance”?

Solution

Marine Insurance Act 1906 defines Marine Insurance as follows:

- (i) a contract of Marine Insurance is a contract, whereby the insurer undertakes;
- (ii) to indemnify the assured;
- (iii) in a manner and to the extent thereby agreed;
- (iv) against marine losses, that is to say;
- (v) the losses incident to marine adventure.

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

12. Enumerate 5 (five) general principles of insurance that apply to Aviation Insurances.

Solution

Five (5) general principles of insurances that apply to Aviation Insurance are:

- (i) utmost good faith; (ii) insurable interest;
- (iii) indemnity; (iv) subrogation; (v) contribution.

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

13. State the coverage provided in Section II: Legal Liability to Third Parties (other than passengers) of London Aircraft Insurance Policy (AVN 1C).

Solution

The coverage provided in Section II: Legal Liability to Third Parties (other than passengers) of London Aircraft Insurance Policy (AVN 1C) is as follows:

- the insurers will indemnify the insured for all sums that the insured becomes legally liable to pay as damages
- including costs,
- in respect of accidental bodily injury,
- or property damage.
- caused by the aircraft or by any person or object falling therefrom.

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

14. Indicate which of the following roles of Nigerian Ports Authority is a Landlord’s, Regulator’s or an Operator’s role:

- (a) Provision and Operation of port facilities.

- (b) Ensuring efficient management of ports operations.
- (c) Provision of ports services.
- (d) Cleaning and improving waterways.
- (e) Pollution control.

Solution

- (a) Landlord and Operator's role.
- (b) Regulator's role.
- (c) Operator's role.
- (d) Landlord's role.
- (e) Regulator's role.

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

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) Discuss briefly the production and export of Sesame Seeds in Nigeria. **(20 marks)**
- (b) What local trading activities occur in Nigeria between the harvesting and export of Cocoa beans? **(10 marks)**

Solution

(a) The following are crucial information on the production and export of Sesame in Nigeria:

- Nigeria is the second largest sesame producer in Africa and the seventh in the world.
- The seed is also referred to as Benin seed or Simsim.
- Sesame seed is an oil-bearing seed with high oil content.
- Its yield is as high as 44-60 percent.
- It thrives well in the temperate and tropical regions of the world.
- Nigeria produces the white coloured seeds which are food grade products and the brown colour strain which produces oils for cosmetic and other uses.
- The white coloured variety is produced mainly in Nasarawa State, whilst
- The brown variety is produced in Kano, Jigawa and Katsina States.
- Major local markets include Shaba and Kantin Kwari in Kaduna State, and Banadu, Birnikudu and Gwaram in Jigawa State.
- The products are packed in 80-100 kg bags and loaded in container for export.
- Destinations include South Korea, India, Middle-East, USA, Europe.
- Sesame seeds trade is very lucrative to Nigerian Exporters, notwithstanding the low Naira Exchange Rate.

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

(b) The local trading activities between the harvesting and export of cocoa beans are:

- Small buyers visit individual farms to buy cocoa crop.
- The small buyers sell to wholesale buyers, who in turn sell to exporters or the small buyers sometimes sell directly to exporters.
- Farmers co-operatives combine cocoa from several farms to sell to different agencies.
- The co-operatives purchase cocoa from farmers and sell directly to exporters.
- The co-op may also export the product.

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

(Grand Total: 30 marks)

16. Outline 10 (ten) steps in the process of paying for imported goods by Documentary Credit.

Solution

The following are steps in the process of payment for imported goods by Documentary Credits:

- the importer and exporter conclude a sales contract, providing payment through documentary credit;
- the importer instructs their bank known as the issuing bank, to prepare credit in favour of the exporter;
- the issuing bank asks a bank in the exporter's country, usually the exporter's bank, to advise the credit to the exporter;
- the exporter would ascertain that the documentary credit matches the terms of the agreement in the sales contract. Any discrepancy found will be amended;
- the exporter then sends the goods to the importer;
- the exporter presents the document as well as the bill of exchange to the bank nominated in the documentary credit as paying/accepting/negotiating bank;
- the paying/ accepting/negotiating bank checks the document, and if they are in order either pays the exporter (under a sight credit) or at a later date (under a deferred payment credit);
- the paying bank sends the documents to the issuing bank;
- the issuing bank checks the documents and if they are in order, reimburses the paying/accepting/negotiating bank, as previously arranged;
- the importer pays the issuing bank the amount due on terms which have been agreed;
- the issuing bank releases the documents to the importer;
- the importer uses the documents to take delivery of the goods.

(3 marks for each complete and correctly stated information. Maximum of 10 to be graded. Grand Total: 30 marks)

17. (a) What is the legal definition of Proximate Cause?

(b) State any five (5) principles of proximate cause.

Solution

(a) The legal definition of proximate cause was given in *Pawsey V. Scottish Union and National* (1908) as follows:

- proximate cause means the active;
- efficient cause that sets in motion;
- a train of events which brings about a result;
- without the intervention of any force;
- started and working actively from a new and independent source.

(3 marks for each of the breakdown above. Sub-Total: 15 marks)

(b) The principles of proximate cause are as follows:

- The insured peril need not be the initial cause;
- The insured peril must not be a direct result of the operation of an excepted peril, unless the policy wording specifically overrules it;
- Damage as the direct result of an insured peril is covered, even though the immediate peril causing that damage is not mentioned in the policy, unless the policy specifically excludes the result;
- Property can be covered even though the named peril does not actually cause damage to the insured property, so long as the named peril does operate and its results cause loss to the insured;
- The risk insured against must actually take place;
- Further damage to the subject-matter, due to attempts to minimize a loss already taking place, is covered;
- The intervention of a new act is outside the doctrine;
- Last straw cases, where the original peril has meant that loss was more or less inevitable, the original peril will be the proximate cause, even though the last straw comes from another source.

(3 marks for each of the breakdown above. Maximum of 5 to be graded. Sub-Total: 15 marks)

(Grand Total: 30 marks)

18. What are the responsibilities of the Nigerian Civil Aviation Authority (NCAA), to the Nigerian Aviation Industry?

Solution

The responsibilities of the Nigerian Civil Aviation Authority (NCAA), to the Nigerian Aviation Industry are as follows:

- the registration of any aircraft in Nigeria and issuance to the owner thereof, a certificate of registration;
- the establishment and maintenance of a system or register for recording the title to or any interest in any aircraft registered in Nigeria;
- the prohibition of any Nigerian or foreign registered aircraft from operating within the Nigerian airspace, unless a certificate of airworthiness in respect thereof is issued or validated under the regulations in force, with respect to the aircraft;

- the inspection and regulation of aerodromes, inspection of aircraft factories, and the prohibition or regulation of the use of aerodromes which are not licensed, in pursuance of the regulations;
- the prohibition of any person from engaging in air navigation, in any capacity whatsoever, unless the authority determines that such a person satisfies the requirements of this act and the regulations made there under;
- ensuring the efficiency and regularity of air navigation and the safety of aircraft, persons and property carried in aircraft, and preventing aircraft from endangering persons and properties;
- the prohibition of aircraft from flying over such areas in Nigeria as may be prescribed;
- the issuance, validation, renewal, extension or variation of any certificate, license or any other documents required by the regulations; custody and production, cancellation, suspension, endorsement and surrender of any such documents;
- the registration of births and deaths occurring in aircraft and of the particulars of the persons missing from aircraft;
- the collation and maintenance of a data bank of aviation and aircraft accidents, incidents and occurrences and to promote accident prevention programmes.

(3 marks for any stated responsibility. Maximum of any 10 to be graded.

Grand Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I08
AVIATION AND SPACE 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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I08 - AVIATION AND SPACE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Not Applicable

Comments on Overall Performance:

No candidate presented self for the course.

Suggestion(s) on improvement (if any):

Not Applicable.

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT I09
INSURANCE PRACTICE AND REGULATION

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two 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 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I09 - INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

Chief Examiner's Comments

Question 1

This question was fairly attempted as a coursebook evaluation question but less than 20% passed it possibly because they could not recall it.

Question 2

This was also fairly attempted and only few did well. I suggest the question is repeated but with more simplified workings for better understanding.

Question 3

A popular question which was excellently answered. More than 80% passed it. This is motivating and encouraging.

Question 4

This question on arbitration was poorly answered as many candidates did not know the Arbitration Conciliation Act 2004.

Question 5

This was poorly attempted as most of the candidates did not know why insured should not accept liability on behalf of the insurer. Over 70% failed it.

Question 6

This question on insurer's capacity, Co-Insurance and Co-Reinsurance was well answered and over 80% passed it excellently.

Question 7

Proposal form question was a popular one and almost all the candidates excellently performed in answering it.

Question 8

The candidates wrote several contents of survey report but could not identify the most important ones as requested.

Question 9

This is another popular question on risk management and over 70% of the candidates did very well.

Question 10

Excellently answered question as most of the candidates defined commercial insurance with relevant examples.

Question 11

Most of the candidates did justice to this third party motor insurance except few who missed one or two covers provided.

Question 12

Good attempts and solutions preferred. Over 80% passed it.

Question 13

50% of the candidates got the ethical standards while the rest misunderstood the intention of the examiner.

Question 14

About 50% of the candidates only mentioned the titles while the rest could give explanation as requested by the examiner.

Question 15

Good coursebook question but over 40% of those who attempted it could not recall some of the expectations.

Question 16

Most of the candidates struggled to understand the question which was about the pool as reinsurance alternative. Less than 40% passed it.

Question 17

Most of the candidates attempted the question well but 50% over failed to emphasis items (b) and (c) correctly.

Question 18

This was a loaded question. Few candidates attempted it and they had average performance.

Comments on Overall Performance:

All said and done, about 50% of the candidates passed the paper but no distinction was recorded.

Suggestion(s) on Improvement (if any):

Since most of the students are assured to be new in the industry, there is need for more coaching and tutorial for better performance in the future.

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

1. According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,

- i) who is a “promoter”? (4 marks)
 ii) enumerate any three (3) process or action to be taken at the registration stage of the application. (6 marks)

Solution

- i) A “promoter” is **the applicant making a request to get approval from NAICOM to operate as either an insurance company or a reinsurance company in the Nigeria Insurance market space.**

(1 mark for each correctly stated/bolded point. Total: 4marks)

- ii) The following are the processes or actions to be taken at the registration stage of the application:

- (a) pre-registration interview
- (b) publication of applicant to members of public
- (c) notification of success or otherwise after 21 days of publication
- (d) issuance of letter of success
- (e) evidence of payment of registration fee
- (f) issuance of certificate of registration.

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

(Grand Total: 10 marks)

2. There are common characteristics acceptable to the market of insurable risks. Enumerate three (3) of such characteristics **(6 marks)** and explain any two (2). **(4 marks)**

Solution

The common characteristics acceptable to the market of insurable risks are:

1. Pure Risk

The risk is what is known as pure risk. That is, one that results only in a loss to the insured, such as fire, flood, or illness. Speculative risks, those that could result in either a loss or a gain, such as trading risks or investment, are not usually insurable.

2. Determinable

It must be possible to quantify the loss in financial terms, otherwise the insurer could not calculate a premium and would not know how much to pay as a claim.

3. Fortuitous
The risk must be fortuitous, i.e. random, rather than inevitable. Wear and tear is inevitable and would usually be insured. The main exception is life assurance.
4. Homogeneity
Preferably, there should be a large number of units exposed to similar risk if the insurer is to be able to create a common pool. One-off risks such as parts of a film star's anatomy can be insured, but are extremely difficult to price.
5. Insurable interest
There must be a recognized relationship between the insured and the loss, e.g. ownership of the property. This is the fundamental difference between insurance and gambling.
6. Independence
As far as possible, the risk should be independent of each other, so that a single event does not affect a large number at the same time, and so give rise to catastrophe loss.
7. Public Policy
It is against public policy any one should insure the benefits of a crime. Such contract would be declared illegal.

(2 marks for each correctly mentioned characteristic. Maximum of 3 to be graded. Sub-Total: 6 marks)
(2 marks each for explanation. Maximum of 2 to be graded. Sub-total: 4 marks)
(Grand Total: 10 marks)

- 3(a) Can the Chartered Insurance Institute of Nigeria withdraw professional certificates issued to member. Provide a "yes" or "no" answer to the question. (2 marks)
- (b) In not more than three (3) sentences, explain voluntary codes in Nigerian Insurance Industry. (6 marks)
- (c) Enumerate the type of risk satellites present to insurer. (2 marks)

Solution

- (a) Yes.
(2 mark for each correctly stated point. Sub-total: 2marks)
- (b) **These are codes voluntarily adopted by which insurance industry sought to regulate itself. Voluntary codes to preempt government/state regulations. Voluntary codes were drawn up by members themselves. The codes in form of rules are voluntary as the name suggest.**
(2 marks for each correctly stated/bolded point. Maximum of 3 to be graded. Sub-total: 6marks)

(c) Space Risk

One modern development is the provision of insurance to those who are involved with satellites. These satellites are now used for a wide range of telecommunications purposes. Underwriting decisions initially had to be taken without the knowledge of past performance and losses. A number of risks can be covered, the main ones being material damage during testing or launch, as well as while in orbit, and loss of revenue.

(2 marks. Sub-total: 2 marks)

(Grand Total: 10 marks)

- 4(a) Who is an arbitrator in insurance business?
(b) Who appoints an arbitrator when required in insurance business?
(c) On whom is the arbitrator decision binding?
(d) Can arbitrator be appointed when liability is not accepted?
(e) Which law in Nigeria dwells on arbitration?

Solution

- (a) Who is an arbitrator in insurance business?
An Arbitrator is a person(s) independently appointed to look at the merits of complaint concerning the amount to be paid as claim by the insurer to insured. It should be noted that liability must have been admitted already.
(1 marks for correctly stated definition. Sub-total: 2 marks)
- (b) Who appoints an arbitrator when required in insurance business?
An arbitrator can be jointly appointed by insurer and insured on agreement
(2 marks. Sub-total: 2 marks)
- (c) On whom is the arbitrator decision binding?
The arbitrator's decision is binding on the insurer
(2 marks. Sub-total: 2 marks)
- (d) Can arbitrator be appointed when liability is not accepted?
When liability is not accepted by insurer, arbitrator cannot be appointed.
(2 marks. Sub-total: 2 marks)
- (e) Which law in Nigeria dwells on arbitration?
In Nigeria market, the applicable law is the Arbitration and Conciliation Act (CAP 18), 2004.

(2 marks. Sub-total: 2 marks) (Grand Total: 10 marks)

- 5(a) In liability claims, the insured must not admit liability. Please enumerate two (2) reasons why written permission of the insurer is required for this. **(4 marks)**
- (b) Does this apply to when an insured crashes his/her car with Third party under Motor Insurance. Justify your responses with reasons. **(6 marks)**

Solution

- 5(a) Reasons why written permission of the insurer is required before liability is admitted are;
1. because the insurer wishes to control any subsequent litigation
 2. because it will issue of the law that can be subjected to test or further test.
 3. To avoid sentiment and wrong admission of liability
- (2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-total: 4 marks)**

- (b) **Yes. It applies.**

Insurer has warned not to admit fault. It is usually written on motor certificate cover and policy document.

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

- 6(a) Explain the meaning of the following words/phrases:
- (i) insurers 'capacity'; (ii) co-insurance? (iii) Co-Reinsurance? **(6 marks)**
- (b) Can an insurer go ahead on co-insurance without the insured's knowledge? **(1 mark)**
- (c) Can insured arrange co-reinsurance and why? **(3 marks)**

Solution

- (a) (i) insurers 'capacity'
- Insurer's capacity represents financial limit on the size of risk which it can accept (without inability to meet all obligations). However, by purchasing reinsurance, insurer that accept risk directly from insured can increase the capacity. Limit to the size of business insurer can accept in terms of monetary value from insured at any time.
- (2 marks. Sub-total: 2 marks)**

- (ii) co-insurance?
- Insured can present business/risk with high or very high value which will make the premium to be paid high also. To avoid one single insurer bearing/carrying such, many insurers will be called upon to share by co-insuring the risk and equally share the premium. When loss occurs, the claim amount will be shared as per existing size.
- (2 marks. Sub-total: 2 marks)**

(iii) Co-Reinsurance?

Insurers will accept/write risk on 100% particularly large risk then privately go ahead to negotiate with other insurers to accept a proportion of the risk. The insurer will share the risk on basis of type/forms of reinsurance already agreed upon.

(2 marks. Sub-total: 2 marks)

(b) Can an insurer go ahead on co-insurance without the insured's knowledge? No. It is technically wrong for insurers to go ahead on co-insuring without insured knowledge.

(1 marks. Sub-total: 1 mark)

(c) Can insured arrange co-reinsurance and why?

1. No. Insured cannot arrange co-reinsurance
2. Reinsurers are not usually disclosed to insured
3. Reinsurance or co-reinsurance is on pre-arrange form with the insurer and not Insured
4. When there is loss/claim, the insurer must pay 100% to the insured.

(1 mark for each correctly stated point. Maximum of 3 to be graded. Sub-total: 3 marks)

(Grand Total: 10 marks)

7. Enumerate five (5) questions that are common and that you expect to find in a proposal form.

Solution

The common questions that are found in a proposal form are;

1. The full name of the insured or insured person
2. The full name address of insured and or location of the risk
3. The periods the insurance is required
4. The occupation or nature of business of insured
5. The financial limit upon which premium will be calculated
6. The previous insurance or claims experiences of the proposer

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

8. Enumerate two (2) important items that should be included in a risk survey report.

Solution

Some items found in a risk survey report are;

1. Full description of the risk/subject matter of insurance without any doubt
2. An assessment of the level of risk
3. The value/sum insured and its adequacy
4. Attendant or possible physical hazard

5. Possible estimation of likely loss amount when loss occur
6. Recommendation on loss prevention or risk improvement necessary

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

9. Risk management consultants perform insurance- related services. List four (4) points (as related to insurance practice and regulations) on how this is carried out.

Solution

1. Broad risk management reviews
2. Advice on loss controls
3. Risk and insurance audit
4. Disaster recovery planning
5. Captive feasibility studies
6. Loss forecasting and reserve analysis
7. Self-insurance programmes
8. Use of industry-wide data for companies and benchmarking

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

10. Explain commercial insurance in two (2) lines/sentences.

Solution

Commercial Insurance is the name given to the kind of insurances bought by non-personal buyers. The commercial insurance buyer can be industry, commerce and/or public authorities. Commercial insurances ranges from small shops, businesses and tradesmen, to large multinational corporations with thousands of employees and operations in many countries. The degree of complexity of the underwriting required will obviously vary with the sheer size of the risk but certain basic principles are recognizable.

Commercial insurances for very small businesses are being sold in the same way as personal insurance via online completion of proposals, instant decisions on acceptability, conditions, and automated quote.

The essence of the task facing the underwriter presented with a proposal form is that they have to evaluate the hazard associated with the risk being proposed. In some cases, they may be able to do this merely from reading the proposal form and, if necessary, corresponding with the proposer. In large cases, this is simply impossible.

This is where the broker may help. As mentioned earlier, the broker on these large cases will be in a position to prepare the case for the underwriter. This may mean

site inspections by the broker and the preparation of plans and reports on the relevant aspects of the risk

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

11. Enumerate at least four (4) principal covers that motor third party insurance policy can provide.

Solution

1. Bodily injury or death caused to the third party
2. Damage to third party's property
3. Legal cost and expenses
4. Driving Other Vehicles Extension

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

- 12(a) List two (2) categories of people that can be covered under the Group Life Insurance under the Pension Reform Act law in Nigeria. (4 marks)
- (b) Specify how the sum insured per participant is arrived at. (4 marks)
- (c) Who pays the premium on group life insurance? (2 marks)

Solution

- (a) Employees, all employees working on the inception date or the anniversary date in future year.

(4 marks. Sub-total: 4 marks)

- (b) Specify how the sum insured per participant is arrived at.
The sum assured is calculated with minimum of 3 times annual total emolument of each staff

(4 marks. Sub-total: 4 marks)

- (c) The payment of premium is by the employer.

(2 marks. Sub-total: 2 marks)

Grand Total: 10 marks

- 13(a) You will recollect that over time in consideration of issues concerning ethical standards some points emerged, enumerate any four (4) of these considerations.

(8 marks)

- (b) Briefly define "ethical standards".

(2 marks)

Solution

- (a) I

1. Most insurance practitioners are aware of a need for integrity and honesty, but are not often specifically refer to ethics.
2. As business activities seem driven by the need to be competitive and for cost to be minimized, people are routinely pressurized to compromise their own standards.

3. Ethical questions can be put on hold when promotion for meeting financial/monetary targets is paramount.
 4. Speeches on ethical standards by industry leaders are not supported by ethical behaviour being rewarded.
 5. More training will help on business ethics particularly on insurance services.
 6. Various companies operating in insurance industry need to regularly define and review what constitutes ethical behaviour and standard for its employees
 7. Since insurance is based on principle of trust, the industry has to respond to issues of unethical behaviour promptly.
 8. Members of CIIN clearly recognize that there will not be a major shift in attitudes and business practices except ethical standards/rules compliance and financial success go hand in hand.
- (2 marks for each correctly stated point. Maximum of 4 to be graded. Sub-total: 8 marks)

(b) Ethical standards can be defined as:

1. Information and guidance on rules to members of Professional bodies particularly insurance operators/practitioners that must be followed.
 2. Set of rules regulatory for observance and displayed by professional insurance person/body spearheaded by NAICOM expected to be implemented by CIIN
 3. Rules and behaviour to be displayed by professionals in insurance that will give suppliers and consumers of insurance fair treatment so that insurance as trade/profession will not appear low in the public esteem (eyes)
- (2 marks for each correctly stated point. Maximum of 1 to be graded. Sub-total: 2 marks)

(Grand Total: 10 marks)

14. Enumerate five (5) main points why we have State Regulation in Insurance.

Solution

The reasons why State regulate insurance are given below:

1. Maintain solvency

To ensure insurance companies maintain reasonable level of fund/capital and withstand “shocks” or unforeseen losses without going out of business.

2. Equity

Complex form of contract is insurance, it is then necessary and essential that control exist for protection of all parties involved particularly policyholders.

3. Competence

This is to ensure those that deals in such transaction are competent persons and able to fulfil all promises/pledges.

4. Insurable interest

To ensure insurable interest exist at the appropriate level/times to avoid element of gambling which comes under separate regulations.

5. Provision of certain form of insurance

Government needs to regulate some forms and in fact all compulsory insurances in line with the laws.

6. National insurance

Insurers formally authorized to provide social insurance that was before exclusive provision of government such as unemployment, sickness, pensions, widow benefits and others hence state regulation.

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

Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

- 15.(a) Enumerate three (3) classes of person that can notify claim on the policy either on maturity or early death while explaining Life Assurance claims. (20 marks)
- (b) Explain a measure of the maximum probable loss and the use by risk surveyors and underwriters. (10 marks)

Solution

(a) The classes of person that can notify claim on the policy either on maturity or early death are;

1. Policyholder's family
2. The executors of their estate
3. The assignee in the case of creditor on debtor or mortgage

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

Life Assurance Claims

The procedure for notification and handling of claims under life assurance is quite different. With life assurance there are primarily two types of claims: a pre-specified date claims e.g. the maturity of savings or endowment policy; or, a significant, unscheduled event involving the policyholder e.g. death or accident/illness. In purely, technical terms a maturity is not a claim but, as it leads to a payment to the insured under an insurance policy, like a claim.

With maturities and other pre-specified events, the insurer tends to take the lead, initiating communication with the insured in the two to three months in advance of the date, to identify the policyholder's need and wishes as regards the proceeds which will be paid.

(4 marks for each correctly stated point. Maximum of 2 to be graded. Sub-total: 8 marks)
(2 marks. Sub-total: 2 marks.)
Total: 20 marks

(b) **Measure of probable loss**

Estimated Maximum Loss (EML) as it is known is the maximum that the risk surveyor believes will be the subject of a loss whenever it may occur. Usually calculated on estimation taking into accounts things that can cause losses. The reason for calculating MPL is to give the underwriter an idea of the maximum which is likely to be lost.

The use of MPL by underwriters and risk surveyors can be seen in this simple illustration in fire insurance.

A single building insured for N5,000,000 when fire occurred and spread the entire N6,000,000.00 can be loss in a worst situation. Here the MPL or EML will be given 100%.

However, if that building has been divided into three but communicating to each other and fire started from one part, the worst could be that two can be affected if each building is N2,000,000, then the MPL or EML will be given between N3,000,000.00 or N4,000,000.00 which can be given as between 50% or 65%.

Underwriter can consider impact of good features example fire resisting walls, fire extinguishers at risk location and reduce the MPL (for reinsurance premium and placement accordingly)

One point the surveyor would have to remember is that the MPL they have just calculated is only for fire damage. The building could, for example, be in the flight path for a major airport and run the risk of being destroyed by aircraft. Dividing walls would be protection against such risks.

(3 marks. Sub-total: 3 marks. Total: 10)
Grand Total: 30 marks

16. How does insurance operate by pools whilst explaining fully 4 (four) reasons for sharing risk by means of co-insurance and reinsurance.

Solution

Insurers operate by Pools in cases where the risk is very high. Again, where it is not possible to place all the reinsurance which is required. These Pools are made up of organizations (insurers) with the same risk problem. Example, oil rig operations, earthquake. Contributions to the Pool will be assessed by an underwriter and in this way members can achieve some of the benefits of the common pool.

(2 marks for each correctly stated/bolded point. Total: 10marks)

The reasons for sharing risks by means of co-insurance and reinsurance are given below:

1. Security

One of the reasons for the purchase of insurance is that the insured wants to be relieved from uncertainty of loss – buying insurance and having adequate cover provides peace of mind.

2. Stability

The insurer can also avoid fluctuations in claims cost from year to year and within a year by the purchase of reinsurance or having co-insurers where a lead emerged.

3. Capacity

The insurer may have a financial limit on the size of risk which it can accept. By purchasing reinsurance, the primary insurer can increase the capacity it has to accept business.

4. Catastrophes

Loss or occurrence that takes very large size in financial amount and number of people could cause financial problems which the insurer would want to avoid, hence some of the risk transferred to reinsurer.

5. Macro Benefits

It allows risk to be spread around the marketplace and the world. By placing reinsurance with a number of companies, perhaps from different countries, the impact of risk does not fall solely on one economy.

(5 marks for each correctly stated point. Maximum of 4 to be graded sub-total: 20 marks)

Grand Total: 30 marks

17(a) Explain what is meant by conditions precedent to liability, with an explicit example. **(6 marks)**

(b) Enumerate on any three (3) things that can limit the amount insurer will pay to an insured as claim settlement. **(15 marks)**

(c) State three (3) divisions of Fidelity Guarantee **(9 marks)**

Solution

(a) Condition precedent to liability are conditions relating to claims and these conditions must be complied with for insurer to regard claim as valid. Example: prompt notification of claims, utmost good faith and payment of premium in advance. Failure can make an insurer repudiate a particular claim.

(3 marks for definition and 3 marks for example. Sub-total: 6 marks)

(b) Three things that can limit the amount insurers pay as claim settlement are;

- Nature of cover
- The adequacy of the cover
- The sum insured
- Application of any condition which can limit the amount payable.

Nature of cover

The nature of cover will limit the amount payable as claim. For example, where a policyholder declines to make use of the insurers' replacement goods/approved repairer network, and insisted on making their own arrangements, some insurers will restrict the amount that they will offer in compensation to that which they would have paid under their approved scheme.

Adequacy of cover

When cover is adequate. For example, when a car is insured on Third Party, the cover is limited. So, the cover may not be adequate, if the car damaged property more than the N1million limit, then the level of cover is not adequate.

Sum assured

The sum insured can limit the amount paid as claims settlement. The insured cannot be paid any amount above the sum insured particularly during general increase in value/prices and the insured did not review the value upward.

Application of conditions

Application of condition can limit the amount paid as claims settlement in case of application of policy excess, franchise, and/or deductibles. In case of liability policy, policy condition will specify limit accordingly.

(5 marks each. Maximum of 3 to be graded. Sub-total: 15 marks.)

(c) Three divisions of Fidelity Guarantee are:

1. Commercial Guarantee

These will be effected by employers in respect of persons who have some post within the company where they may be in a position to perpetrate some form of fraud.

2. Local Government

These are the local government equivalent of the commercial guaranteed. Effected by the local government in respect of employees who have some post within the company where they may be in a position to perpetrate some form of fraud.

3. Court bonds

From time to time, it is necessary for the courts to entrust the property or affairs of the individual to someone else but before doing so they will require that “administrator” to supply a bond or financial guarantee which can be utilized to make good any losses due to malpractices.

4. Government bonds

Example is the customs and excise duty bond which guarantee that if dutiable goods, intended for export, and on which no duty is payable, find their way into the home market or are stolen, the duty will be paid by the bond should the owners or manufacturer fail to pay.

(3 marks each for correctly stated point. Maximum of 3 to be graded. Sub-total: 9 marks.)
Grand Total: 30 marks

- 18(a) Discuss the features of survey report in general business insurance underwriting. (15 marks)
- (b) Explain how claim(s) is/are being handled by reinsurance company in the reinsurance market. (10 marks)
- (c) Enumerate any two (2) methods of resolving complaints and disputes arising from claim settlement. (5 marks)

Solution

- (a) The surveyor will prepare a report for the underwriter. The report will cover a number of features which are:
1. Description of risk
This will include the plan of the premises in the case of a property risk, the process being carried on the premises, details of the insured etc.
 2. Assessment of the level of risk
This will take into account all relevant hazards factors, both moral and physical, and provide the underwriter with some idea of the degree of risk which they are being asked to accept.
 3. Measure of maximum probable loss (MPL)
 4. Generally, the surveyor and the underwriter discuss negative and positive features and jointly agree on the appropriate EML or MPL. This MPL or Estimated Maximum Loss (EML) is the maximum that the surveyor believes will be the subject of loss. The MPL takes no account of any good features which may be present.
 5. Recommendation and loss prevention
The surveyor will also make known to the insured what steps should be taken to protect the risk
 6. Surveyor’s view on the adequacy of insurance being requested

Adequacy in many classes of insurance will mean the sum insured. The adequacy of cover is an extremely important issue for the insured and the underwriter will want to ensure that the insured is not under-insuring the risk. The surveyor loss prevention

(3 marks each for correctly stated point. Maximum of 5 to be graded. Sub-total: 15 marks.)

(b) How claims are being handled by reinsurance company in the reinsurance market.

The business of reinsurance is international. Individual reinsurers seek the same protection as insureds and primary insurers. They are not immune from unexpected loss levels and can secure an element of financial stability in their account by purchasing reinsurance for themselves.

The way claims are processed depends very much on the class of business involved and whether the claims are for major or minor losses. The claims procedure are as follows

- ❖ Examination of the question of coverage
 - Does the policy exist, what are the conditions of the original policy and what is the sum insured?
 - Have there been any amendment?
 - What is the commencement date of the original policy and when does it end?
 - Is the risk mentioned in claim covered under the policy?
- ❖ Is the reinsurance cover to be refused as a result of the reinsured failing in any of its duties?
- ❖ Does the claim fall within the period of insurance?

The reinsurer would have to consider the handling of the claim on the underlying insurance contracts to see if it can add anything to the insurer's handling of the contract. The amount of consideration of the underlying claim on the original insurance policy would depend on the nature of the reinsurance contract. For example, a facultative reinsurer would consider underlying claims more extensively than a treaty reinsurer. The reinsurer would have to consider the merit of the claim together with the terms and conditions under the reinsurance contract itself.

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

(c) The methods of resolving complaints and disputes arising from claims are:

1. Use of arbitration in claims disputes

Disputes concerning the amount to be paid, liability under the policy having been admitted, are usually the subject of policy conditions. Policies usually carry an

arbitration condition which states that the insured must refer any such disputes to arbitration.

2. Alternative Dispute Resolution

It is an essential feature of any of the methods of alternative dispute resolution that an outsider (or third party) is brought in to help reach agreement, and that this third party is entirely independent. It is also important that they are not able to impose any resolution upon parties.

3. Mediation and Conciliation

Typically, in a mediation procedure, there is provision that a third party selects a mediator who is provided with the written statements of both parties. They discuss the case in detail with each of the parties and tell them what their opinion is on strictly without-prejudice basis.

4. Mini-trial structured settlement procedure

Here the parties appoint a neutral person to sit as a chairman of a tribunal composed of the chairman and a senior representative of each of the parties. It is important that the representatives are not people immediately connected with dispute but that they also have authority to reach a compromise as and when they see fit.

5. Expert appraisal

Parties can refer their dispute to an expert in that particular field for them to give an opinion. Whilst this opinion will not subsequently be binding upon the parties, the expert can nonetheless influence their approach to subsequent negotiations.

6. Run-off

If an insurer finds that a class of insurance is unprofitable and decides to reallocate its resources to a more attractive opportunity, it will need to stop writing new business and run-off account. The process that has to be adopted is more complicated and protracted than that in most other industries.

(2^{1/2} marks each for correctly stated point. Maximum of 2 to be graded. Sub-total: 5 marks.)

Grand Total: 30 marks