



Chartered Insurance

Institute of Nigeria

Chief Examiners' Report

October 2022

Intermediate Level (101 to 109)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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 OCTOBER
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 Comment:

Question 1

Practitioner's question set to test how familiar candidates were with the regulatory body in the insurance industry. 99% attempted the question but performance was less than average. Candidates used residual knowledge to answer the question hence, the poor performances. Candidates are enjoined to get acquainted with happenings in the Industry.

Question 2

Candidates were tested on the jurisprudence of criminal trial. The question is a textbook question; performance was below average. The common error is that candidates did not read their course book while preparing for the examination. It is important that candidates read their coursebooks whilst preparing for this paper. 99% of the questions are usually from the course books.

Question 3

The question dealt with an aspect of the law of tort. Performance was above average; candidates had a good understanding of the question. Those who did understand the question have had inadequate preparation as the question was also a text book question.

Question 4

The question was to test candidates' knowledge of the definition and types of contracts. Performance was poor as candidates did not seem to understand the requirement of the question. This must be due to lack of preparation; future candidates are advised to prepare well for the examination.

Question 5

The question was to test candidates' knowledge on creation of an agency relationship through the doctrine of ratification. Attempt was good and performance was good. 75% of those who attempted the question passed; while 25% of them were just hovering about with head-knowledge by beating around the bush and they missed the point required to be made. Adequate preparation is also recommended.

Question 6

The question was designed to test candidates' knowledge of the concept of "utmost good faith". Question was popular with the candidates; attempt was good and so was performance. The other part in (6b) was designed to test candidates on pre-contractual issues to be considered vis-a vis some statutory provisions. Performance was dismally poor in this part. The candidates' understanding of the question (b) part was poor. Once again, adequate preparation is recommended.

Question 7

The question was set to test if the candidates could distinguish between joint and collective insurances. Attempt was 98%, performance was about 75% good. Those who did not do well obviously did not study the coursebook as this was a textbook question.

Question 8

The question was a practitioner's question from the textbooks. Attempt was 98% whilst performance was 90%. Obviously, the question came from one area of the course book well mastered by the candidates.

Question 9

This was also a practitioner's question and it was well grasped by the candidates. Attempt was good and pass rate was above 60%. Failure must have been due to lack of good preparation by the concerned 40% candidates who failed. Adequate preparation is recommended for future examinations.

Question 10

This was a practical question set to make the candidates practicalize their knowledge of the concept of subrogation. Attempt was good, pass rate is also above 60%. It was observed that candidates did not connect the definition to the scenario in the question. The principles for resolving the issues in the question are contained in the definition of the concept of subrogation.

Question 11

This question was to test candidates understanding of the nature and types of legislation, collectively delegated legislation and its examples. Attempt was good and performance was equally good.

Question 12

This question was to test candidates' knowledge of the exceptional circumstances that will make an agent not to personally perform his agency tasks and not be liable. Question was well understood and performance was good as well.

Question 13

This was a popular question with the candidates as it related to a popular insurance concept. Performance was good. 75% of those that attempted the question passed it.

Question 14

This was also a practitioner question; how does insurance see fraud and what remedies are available to an insurer on when fraud is perpetuated. Attempt was about 55%. The ones that failed did not understand the concept being tested and need to prepare better for the next examination.

Question 15

The question was designed to test the candidates' understanding on the concept of subrogation; when will an insurance company be prevented from exercising this right. Attempt was average and performance was average. Those who read their course books got good marks, those who did not - failed woefully. It is recommended that future examinations are well prepared for.

Question 16

This was a practitioner's question as the question relates to practical aspects of insurance practice. 50% of those who attempted it did not give the required answers to the questions. Few understood the (d) and (f) part.

Question 17

This question related to how an agency relationship can be ended. Attempt was good and performance was 95%. Although the (b) part was a bit of a challenge to the candidates. Adequate preparation is recommended for future examinations.

Question 18

This was also a textbook question intended to test if candidates understood the differences between insurance contract and wagering contract. Attempt was good and performance was equally good.

Comments on Overall Performance

There is an observed improvement this diet from the candidates who presented themselves for the examination.

Suggestions on Improvement

They are as have been made under the comments from the Chief Examiner as captured above.

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

1. The Nigerian Insurers Association is a self-regulatory and an umbrella body for all registered insurance companies in Nigeria. Carefully enumerate any four (4) functions of the body.

Solution

The functions of the Nigerian Insurers Association are:

1. Prescription and enforcement of self-regulation and code of ethics.
2. The protection and advancement of the common interests of insurers transacting any class of insurance business in Nigeria.
3. The creation of a better understanding of insurance by all sections of the society.
4. Making input into Government policies on insurance and acting as the mouth-piece of the industry.
5. Training and development of all professionals and persons engaged in insurance business as well as sharing of experience at meetings of Technical Committees.
6. Promotion of research and dissemination of statistics.

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

2. (a) What does the term "Inquisitional Legal System" mean, which country is it operational and which of the courts? (4 marks)
- (b) Enumerate any three (3) characteristics of the Nigerian legal system that distinguishes it from other legal systems. (6 marks)

Solution

- (a) The term "Inquisitional Legal System" means that court does not remain neutral in the case before it but plays an active part in discovering the truth of the matter. It operates in Continental Europe legal system.

(3 marks for correctly stated meaning. 1 mark for stating the country. Total: 4 marks)

- (b) The characteristics of the Nigerian Legal System that distinguishes it from other legal systems are:

- (i) age and continuity; (ii) little codification; (iii) judge made law;
 (iv) independence of the judiciary;
 (v) adversarial system; (vi) rule of law

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

3. (a) What does the “strict liability rule” stipulate? (2 marks)
 (b) State the case in which “the rule” was established. (2 marks)
 (c) Does “the rule” admit of any exceptions? If yes, enumerate any two (2) of such exceptions. (6 marks)

Solution

(a) Strict liability rule stipulates that liability can arise even where there is no fault or negligence.

(2 marks for correctly stated stipulation. Sub-Total: 2 marks)

(b) The rule was established in the case of RYLANDS V FLETCHER (1868) – a person who, for his own purposes, brings on his lands and collects and keeps there anything likely to cause mischief if it escapes, must keep it at his peril and if he does not do so, is prima facie answerable for all the damage which is the natural consequence of its escape.

(2 marks for correctly stated fact of the case. Sub-Total: 2 marks)

(c) Yes, “the rule” admit an exception. (2 marks)

The exceptions to the rule are as follows:

- (i) consent of the claimant; (ii) act of God;
 (iii) unexpected act of a stranger; (iv) statutory authority

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

4. (a) Give a succinct definition of a contract. (2 marks)
 (b) Distinguish between any two pairs of the following:
 (i) contracts under seal and simple contracts; (4 marks)
 (ii) unilateral and bilateral contracts; & (4 marks)
 (iii) void and voidable contract. (4 marks)

Solution

(a) A contract is a legally binding agreement, one that the courts will recognize and enforce. An example is contract of insurance as contained in the insurance policy.
 (2 marks for succinct definition. Sub-Total: 2 marks)

(b) (i) **Contract Under Seal and Simple Contracts.**

Contract under seal or simple contract or contract by deed, is a formal contract which is in writing and is witnessed, sealed and delivered.

Every other contract not in this form are simple and informal contracts.

(2 marks for each correct and completely stated point. Maximum of 1 to be graded under each term. Sub-Total: 4 marks)

(ii) **Unilateral and Bilateral Contracts**

Under unilateral contract only one party is legally bound to keep the promise made e.g. a promise by owner to pay a reward for lost property may be legally binding but only on the party who offers the reward. No one is legally obliged to find the property and hand it in but the owner must pay the reward if

someone does so. In bilateral contract, the two parties make and are bound by their promise e.g. in insurance contract, the insured is bound to pay premium and the insurer is legally bound to pay valid claims in return.

(2 marks for each correct and completely stated point. Maximum of 1 to be graded under each term. Sub-Total: 4 marks)

(iii) Void and Voidable Contracts

Void contracts are those contracts with no legal force in it. Voidable contracts is one in which one of the parties or both parties at his or their election, void or set aside for various reasons.

(2 marks for each correct and completely stated point. Maximum of 1 to be graded under each term. Sub-Total: 4 marks)

5. How can an agency relationship be created retrospectively? Define the applicable term and enumerate any three (3) scenarios of factors that need to be present before it can be created or done.

Solution

An agency relationship can be created retrospectively through the process of RATIFICATION(2marks). Ratification is subsequent acceptance of an unauthorized task (2marks). Ratification will take place if the following factors are present.

- The agent doing the act must purport to do it in the principal's name and behalf and not on the Agents behalf.
- The principal must be the person the agent had in mind when he was doing the act.
- The principal must have the full knowledge of the circumstances relevant to the act or most have waived for their inquiry.
- The principal must have existed and have had the contractual capacity to do the act at the time it was done.
- Ratification must take place within a reasonable time.
- Void or illegal acts cannot be ratified.
- The whole contract must be ratified.

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

Grand Total: 10 marks

6. (a) What is "utmost good faith" in relation to insurance contracts? (2 marks)

(b) What changes have the following Acts brought to bear on precontractual information?

(i) Consumer Insurance (Disclosure and Representations) Act, 2012 of the United Kingdom (Consumers Insurance). (2 marks)

(ii) The Insurance Act 2015 (Non-Consumer Insurance) U.K. (4 marks)

(iii) The Insurance Act 2003 (Nigerian Act) (2 marks)

Solution

a) Insurance contracts are contracts of utmost good faith. Utmost good faith means that both the insurer and the insured have a duty to deal honestly and openly during the period of their contractual relationship.

(2 marks for correctly stated point).

b) (i) **Consumer Insurance (Disclosure and Representations) Act.**

It abolished the pre-contractual duty of disclosure for consumers and replaced this with the duty to take reasonable care not to make a misrepresentation.

(2 marks for correctly stated point).

(ii) **The Insurance Act 2015 (Non-Consumer Insurance)**

It replaced the insured's pre-contractual information duty in non-consumers insurance with the duty of fair representation of the risk. It reformed the remedy for breach of duty of fair representation of the risk.

This imposes two duties on the parties to the contract viz;

(a) duty not to misrepresent any matter relating to the insurance – duty to tell the truth;

(b) duty to disclose all material facts relating to the contract – duty not to conceal anything.

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

i) **The Insurance Act 2003 (Nigeria)**

The Insurance Act 2003 is an offshoot of the common law but however it provides that parties to the contract have:

- a duty not to misrepresent any fact relating to the insurer;
- a duty to disclose all material facts as requested by the insurer.

(2 marks for correctly stated point. Sub-Total: 2 marks). Grand Total: 10 marks

7. Describe and distinguish between “joint” and “composite” insurance policies

Solution:

- a joint insurance policy is indivisible, that is, a breach of one insured can cause the whole policy to fail. a joint insurance implies a situation whereby it is a sort of co-insurance – more than one insured is under a single policy. (2 marks)
- composite insurance policy, a breach or default by one does not invalidate the whole of the policy or that of the defaulter only provided that the other party is innocent. (2 marks)
- to distinguish between the two, the interests of the insured persons need to be explained. where the insured have a common interest in the subject matter of the insurance, the policy is joint e.g., joint owners of property. (2 marks)
- where the interests are different e.g., lessor/lessee, mortgagor/mortgagee, the policy will be composite. (1 mark)

- it is possible for joint owners of property to insure on joint and composite bases. (1 mark)
- under joint, the right of joint insureds stands or falls together. Under composite insurance policy, each party has a separate interest and can make an independent claim. (2 marks)

Grand Total: 10 Marks

8. (a) Briefly explain the concept of proximate cause. (4 marks)
 (b) Enumerate any three (3) scenario that will amount to a fraudulent claim by an insured? (6 marks)

Solution:

a) The concept of proximate cause has to do with the issues of causation – the operation of one peril and another; the chain of events that lead to the happening of the risk insured against which cause is attributable to the happening of the event insured against. Is the first or the last or the one in the middle. It means the loss in question must result directly from the operation of all insured peril if the insurance is to respond to the loss.
 (2 marks for correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks).

b) The scenarios that will amount to a fraudulent claim by an insured are:
 * falsification of a loss; * deliberate loss;
 * exaggeration of a loss;
 * lying about the circumstances of a genuine loss

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

9. Define and distinguish the concepts of “abandonment” and “salvage” and how they operate in case of:
 (a) Marine insurance; and (b) Non-Marine insurance.

Solution

Abandonment is defined as the action of giving up the subject matter to the insurer (1 mark). Salvage is defined as is the right of the insurer to take over the subject matter is salvage (1 mark)

The difference between abandonment and salvage in Marine insurance.

Marine insurance deals with both losses and constructive total losses. Abandonment is automatic in total losses case. In the case of constructive total loss, the insured must serve notice of abandonment on the insurers if he wishes to be paid for a total loss.
 (2 marks for correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks).

The difference between abandonment and salvage in non-marine insurance.

Under this, the concept of constructive total loss does not apply. Losses are either total or partial and once the insurer pays off the insured, the concepts of abandonment and salvage becomes operational.
 (2 marks for correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks). Grand Total: 10 marks

10. Mr. A recovered the sum of ₦3m from his insurer – ABC & Company Limited for damage to his property caused by fire which occurred between the signing of the contract and completion of sale to a third party. Mr. A eventually got paid the full purchase price by the third party- the buyer, notwithstanding the fire damage. Briefly discuss the principle of insurance law involved in this scenario and advice the insurance company – ABC Insurance Company on the way forward; with four (4) complete points.

Solution:

The principle of law involved in this scenario is the concept of subrogation. Subrogation is the right of one person having indemnified another under a legal obligation to do so, to stand in the place of the other and avail himself of all the rights and remedies of that other whether already enforced or not. (3 marks). The concept is operational where the insured has recovered for the same loss twice. (1 mark). In the scenario, Mr. A has received doubly from the event that happened. He got paid the full price and secondly the insurance money.

In *Castellain v. Preston (1883)*, the fact of which are similar to the one under consideration, it was held that the seller had to pay or refund the insurance money back to his insurer from the money paid to him by the buyer. (2 marks)

Therefore, ABC Insurance company is advised to demand a refund of the insurance money paid to Mr. A. The company has a good chance of succeeding in an action in court. (4 marks)

Grand Total: 10 marks

11. (a) What is delegated legislation? (4 marks)
(b) List the three (3) forms of delegated legislation? (6 marks)

Solution:

- a) Delegation legislation is the law made by other organs of the government other than the legislature having being enabled to do so by the Act of Parliament called Enabling Act or Parent Act. Under this, delegated or Subordinated legislation are made.

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

- b) The three forms of delegated legislation are:

* statutory instruments; * orders-in-Council; * bye-laws

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

12. (a) Enumerate any two (2) instances when an agent can delegate his duties towards his principal to a sub-agent and not be held to be in breach of his duty? (4 marks)
(b) List the two (2) main rights of an agent and can the agent protect these rights against the principal? (6 marks)

Solution:

- a) **An Agent can delegate his duties** towards his principal in the following circumstances:
- where there is an express authorization by the principal, the agent can delegate his duties;
 - where the authority to delegate is implied from the circumstances e.g., routine clinical and administrative tasks given to employees;
 - if the trade custom permits delegation;
 - if necessity warrants delegation.

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

- b) **The two (2) main rights of an agent are:**

* remuneration right; & * right of indemnity.

Yes, the agent can protect these rights against the principal.

(2 marks for correctly stated right. 2 marks for the correctly stated affirmative response. Sub-Total: 6 marks). Grand Total: 10 marks

13. What are the five (5) conditions for the operation of the concept of contribution?

Solution:

The five (5) conditions for the operation of the concept of contribution are:

1. two or more policies of indemnity must exist;
2. each of the policies must insure the subject matter of the loss;
3. each of the policies must cover the peril which brings about the loss;
4. each of the policies must insure the same interest in the subject matter;
5. each policy must be liable for the loss.

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

14. (a) What is an insurance fraud? Explain in two (2) simple sentences. (4 marks)
(b) What are the remedies available to an insurer when it is established that an insured has made a fraudulent claim? (6 marks)

Solution:

- a) An insurance fraud is any act committed to defraud an insurance process. It occurs when a party to the contract claimant attempts to obtain some benefits or advantage that such a party is not entitled to.

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

- b) The remedies available to an insurer when it is established that an insured has made a fraudulent claim are:

- (i) under the common law, established forfeiture of the entire claim;
However, the Insurance Act 2015 has provided a codification of other remedies as follows:
- (ii) S12 (1): insurer can repudiate and be free from liability to pay the claim.
- (iii) insurer can recover any sums paid in respect of the fraudulent claim and treat the contract as terminated from the date of the fraudulent act;
- (iv) S12(2): the premium paid is not refundable;

- i) S13: it relates to the fraud of an employee in an Employers' Liability Insurance. The fraud of one employee will not affect the right of the innocent employees and even the contract will not be affected.
(2 marks for correctly stated point. Maximum of 3 to be graded. Sub-total: 6 marks). Grand Total: 10 marks

Part II

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

Each question carries 30 marks.

15. Explicitly explain the circumstances that may make an insurer consider a waiver of its subrogation rights.

Solution:

Subrogation is a right that an insurer acquires after he has settled his insured. However, the insurer may waive this right in the following circumstances:

- a) *in co-insurance cases*: subrogation will usually be denied in this circumstance.
- b) *under public policy*: this will happen in employment situation where an employee injures a fellow employee negligently. For the sake of smooth industrial relations, insurers would give up their subrogation right. See *Lister v Romford Ice and Cold Storage Morris V Ford Motor Co.* which show the readiness of the courts to uphold the resolve of insurers to waive their subrogation right in cases of employment.
- c) *under market agreement(s)*: insurers do agree amongst themselves to waive subrogation right. This type of agreement often affects their subrogation right against third parties. This is to prevent extra administration costs, wasteful and expensive litigation that may result in insurers owing themselves. Insurers do not want to be "pound-swapping" because claiming from each other brings no good to the insurers.
- d) *contractual waiver of subrogation*: by this, an insurer may agree with his insured not to exercise subrogation right against certain persons that are associated with the said insured. This, the insurer will do by including in the policy a "subrogation waiver clause" Also, the way in which two or more persons have arranged their insurance may persuade the court to hold that there should be no exercise of subrogation rights e.g. if in a non-consumer contract, the contract states "the person shall have the benefit" of the insurance arranged by another, the court may assume that the intention was to exempt that person from any liability for a loss to be covered by the insurance.

(5 marks for each correctly stated circumstance. 2½ marks for each correct and completely stated point. Maximum of 2 points to be graded under each circumstance. Sub-total per Circumstance: 10 marks. Maximum of 3 to be graded). Grand Total: 30 marks

16. How is indemnity measured in policy relating to:
- | | |
|---------------------------------|-----------|
| (a) machinery and equipment; | (4 marks) |
| (b) manufacturer's stock; | (4 marks) |
| (c) wholesale and retail stock; | (4 marks) |
| (d) marine insurance; | (4 marks) |
| (e) farming stock; | (4 marks) |
| (f) liability insurances; | (4 marks) |
| (g) Pecuniary insurances. | (4 marks) |

Solution:

- (a) **machinery and equipment:** indemnity is measured based on:
- the course of repair less an allowance for wear and tear, if applicable or
 - the course of replacement, less wear and tear, if repair is not possible.
- (4 marks)
- (b) **manufacturer's stock:** indemnity will include raw materials, work-in-progress and finished stock. The measure of indemnity is what it will cost at the time and place of the loss to replace the goods or return them to conditions they were before they were destroyed.

For raw materials, the measure will be the replacement cost including the cost of delivery. In case of other stock, it will be cost of raw materials and other cost incurred in reproducing the half-made or fully completed goods. (4 marks)

(c) **wholesale and retail stock:** indemnity will be measured based on the cost of the time of loss of replacing the stock including transport and handling costs to the insured's premises. In case of obsolete stock, the measure of indemnity will be based on the market price. (4 marks)

(d) **marine insurance:** marine insurance recognizes valued and unvalued policies. Most marine insurances are valued policy. As for the unvalued, measure of indemnity is insurable value i.e. value of the subject matter of insurance at the inception of the risk. This is the amount recoverable in the event of a total loss. For partial loss, amount recoverable is dependent on what is insured. For example, ship-it is reasonable cost of repairs; while for goods, it is the proportion of the insured value. (4 marks)

(e) **farming stock;** for livestock and produce, measure of indemnity will be based on the local market price and for other commodities, the insured is not entitled to any potential profit on date. (4 marks)

(f) **liability insurances:** the measure of indemnity is the judgment debt as awarded by the court or as negotiated by an out-of-court settlement by parties together with cost and other allied expenses like solicitors' fee, payment to experts as the case may be. (4 marks)

(g) **pecuniary insurances:** the indemnity here relates to various types of financial loss e.g. business interruption insurances and credit insurances. For

business interruption, measure of indemnity is difficult to establish because the profit to be made is not predetermined or known if fire or damage to property did not occur. As for credit insurance, indemnity will be the amount of bad debt less any recoveries. (6 marks)

Grand Total: 30 marks

17. (a) List any five (5) ways by which an ordinary agency relationship may be terminated. (10 marks)
- (b) Briefly discuss the effects of termination on the:
(i) principal; (ii) agent; (iii) the third party. (20 marks)

Solution:

- (a) The ways by which an ordinary agency relationship may be terminated are:
* by agreement between the parties; * through lapse of time;
* by performance of the agency task or assignment;
* through withdrawal of authority by the principal;
* by renunciation by the agent; * through bankruptcy;
* from death of either principal or agent;
* from insecurity; * from frustration.
(2 marks for correctly stated way. Maximum of 5 to be graded. Sub-Total: 10 marks).

- (c) The effects of termination on the:
- i) **Principal:** is that any outstanding right that he has subsists notwithstanding the termination. Any breach committed by the agent prior to the termination is actionable at the instance of the principal. (6 marks)
- ii) **Agent:** is that the earned commission up to the point of termination is payable. Also, any indemnity in respect of expenses previously incurred, still covers the agent. (6 marks)
- iii) **The Third Party:** is that the principal will still be liable to the third party, if the latter has to notice of the termination of the agency relationship. However, where the termination is as a result of operation of law - death of the agent, the agency authority terminates automatically and the third party has no reward against the principal. (8 marks)

Grand Total: 30 marks

18. Enumerate and briefly explain five (5) distinct differences between an insurance contract and a wagering contract.

Solution

The differences between an insurance contract and a wagering contract are given below:

S/N	Insurance Contract	Wagering Contract
1	The insured is required to have a financial interest in the subject matter of the contract.	The interest is limited to the stake to be won or lost.
2	The object is to protect the insured against loss and their identity is known before the event.	Either party may win or lose and the loser cannot be identified until after the event.
3	The insured is under the pre-Contractual information duty.	Full discount is not required of either party
4	In most cases, payment is made Only by way of indemnity-ie for a loss which has been insured.	The stakes are not paid by way of indemnity. Payment is made without suffering any loss before hand.
5	The contract is enforceable at law.	Neither party can enforce the contract in court.

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CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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:

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I02 - COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION
INSURANCES

INSTRUCTIONS TO CANDIDATES

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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 Comment:

Question 1

The question was based on NAICOM objectives; candidates that attempted the question did well. 80% pass rate.

Question 2

A text book question to test candidates' understanding of property insurance per was impressive. About 70% pass rate.

Question 3

This was also a compulsory question. Candidates' performance was on the average. About 60% pass rate.

Question 4

The question was to test the candidates' understanding of physical and moral hazard. Only about 10% pass rate.

Question 5

The question was to test candidates' understanding of reinsurance. The performance rate was about 70%.

Question 6

The question was based on business interruption. Attempt was poor, candidates need to read well for proper understanding.

Question 7

This is a text book question on indemnity and reinstatement. A lot of the candidates did not grasp the meaning. Performance was poor, they need to read well.

Question 8

The question was based on terms that the candidates should be in a position to understand. Performance was poor.

Question 9

A textbook question, candidates' performance was good. About 90% pass rate.

Question 10

The question was to test candidates' knowledge of composite panels. Candidates' performance was not too impressive.

Question 11

Text book question, candidate's performance was good. 90% pass rate.

Question 12

The question was intended to test candidates' knowledge of fire and special perils. Performance was on the average, about 70%.

Question 13

Text book question on standard fire contingencies. 80% of the candidates demonstrated good knowledge.

Question 14

Candidates' knowledge on Fidelity Guarantee was very poor. Candidates need to have a good grasp of FG.

Question 15

Compulsory question on basic survey, candidates' knowledge was very weak and vague. Performance was poor for those who attempted it.

Question 16

Optimal question, the candidates that attempted it performed woefully. Candidates need to study hard in Business Interruption Insurance.

Question 17

The question was to test candidates' knowledge of law of average and its application. Performance was poor.

Question 18

The question is optional to test candidates' knowledge of property damage and property event. Performance was poor for the few that attempted the question.

Comments on Overall Performance

The overall performance was not very encouraging, about 40% pass rate. Candidates are expected to read very wide and put their practical experience copiously.

Suggestions on Improvement

The candidates should be encouraged to attend tutorial classes where available.

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

1. The Nigerian Government in 1997, through NAICOM Act, established the National Insurance Commission. State any five (5) objectives for establishing the Commission.

Solution

The objectives for establishing the Commission are to:

1. Establish standards for the conduct of insurance business in Nigeria.
2. Approve rates of insurance premiums to be paid in respect of all classes of insurance business.
3. Approve rates of commissions to be paid in respect of all classes of insurance business
4. Ensure adequate protection of strategic Government assets and other properties.
5. Regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria.
6. Act as adviser to the Federal Government on all insurance related matters.
7. Approve standards, conditions and warranties applicable to all classes of insurance business.
8. Protect insurance policy- holders and beneficiaries and third parties to insurance contracts.
9. Publish, for sale and distribution to the public, annual reports and statistics on the insurance industry.
10. Liaise with and advise Federal Ministries, Extra Ministerial Departments, statutory bodies and other Government agencies on all matters relating to insurance contained in any technical agreements to which Nigeria is a signatory.
11. Contribute to the educational programmes of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute.
12. Carry out such other activities connected or incidental to its other functions under this Decree.

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

2. (a) Define the term “property insurance”. (2 marks)
(b) Enumerate and explain any four (4) types of commercial property risks. (8 marks)

Solution

(a) Property insurance is the business of effecting and carrying out contracts of insurance against risks of loss of a damage to material property. (2 marks)

(b) Commercial property risks are as follows:

- property insurance, either on a fire and specified contingences basis or all alternatively ‘all risks’;
- business interruption covering the reduction gross profit or revenue as a result of a shortage in turnover due to an insured contingency;
- engineering risks associated with explosion of boilers or breakdown of machinery and the subsequent interruption to the buyers;
- contractors ‘all risks’ against damage to plant or to holdings in the course of construction;
- theft of property usually arising out of violent entry to or exit from the premises;
- goods on transit to cover loss or damage to goods while in vehicles.
- money insurance to cover loss through “all risks”.

(2 marks each for any correctly stated point. Maximum of 4 points to be graded. Total: 8 marks). Grand Total: 10 marks.

3. (a) Explain the aim of Business Interruption (BI) Insurance. (4 marks)
(b) List three (3) ways that the business interruption policy achieves this aim. (6 marks)

Solution

The aim of business interruption (BI) insurance is to replace the lost income/profit which would have been achieved by the business if the interruption to the business had never happened. (4 marks)

(b) The ways business interruption policy achieve its aims are given below:

- continuing to pay that part of the ongoing costs and expenses which cannot be paid out of the reduced income;
- making up short fall in net profit;
- paying for extra costs incurred in order to prevent the loss in income;
- paying for extra costs incurred in order to reduce the loss in income.

(2 marks each correct and completely stated way. Maximum of 3 to be graded. Sub-Total: 6 marks). Grand Total: 10 marks.

4. (a) Enumerate any two (2) differences between moral and physical hazards. (4 marks)
- (b) List three (3) technical terms commonly used in Business Interruption underwriting decisions. (6 marks)

Solution

(a) The differences between moral and physical hazards are:

S/N	Moral Hazards	Physical Hazards
1	They are intangible	They are tangible
2	They relate to attitude of the insured	They relate to physical factors that increase risk
3	They are not easily quantified	They are easily quantified
4	They cannot be easily measured	They can easily be measured

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

(b) The technical terms commonly used in Business Interruption Insurances underwriting decisions are:

- * warranties or conditions precedent to liabilities;
- * excess; * deductibles * franchise * average

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

5. (a) Explain the term “reinsurance”. (2 marks)
- (b) Enumerate any two (2) instances when facultative reinsurance is used. (8 marks)

Solution

(a) Reinsurance is a natural extension of the fundamental concept of insurance, namely the sharing of risks. It may also be defined as the further provisions of insurable risk from the insurance companies to the reinsurance companies.

(2 marks any correct explanation of the term by the candidate. Sub-Total: 2 marks)

(b) The instances when facultative reinsurance is used are:

- where treaty capacity has been filled;
- where the risk is outside the terms of the treaty;
- where the risk is of an unusual kind.

(4 marks each for any correctly stated instance. Maximum of 2 points to be graded. Total: 8 marks). Grand Total: 10 marks.

6. Enumerate any two (2) reasons why business interruption losses cannot generally be detailed on a standardized claim form, apart from the general questions such as name, policy number, e.t.c.

Solution

The reasons why business interruption losses cannot be detailed on a standardized form are:

- the formula for dealing with the claim is similar as between each basis of cover (insured profit, gross revenue, gross rentals) 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 formula for the special circumstances clause, the savings, 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 each for any correct and completely stated point. Maximum of 2 points to be graded.

Total: 10 marks).

7. What are the distinctions between “indemnity settlement” and “reinstatement”.

Solution

The term indemnity settlement means that the insured is put back into the same (financial) position as occupied by the insured immediately before the damage by the method of settlement made by the insurer (5 marks).

The reinstatement method is governed by the reinstatement condition. In practice, this means that, where damaged property has been part of the work or needs maintenance or repainting, the insurer can require the insured to contribute the cost of dealing with previous wear and tear which replacement (or repair) will produce. (5 marks).

Grand Total: 10 marks

8. Explain the following terms:

- (a) average; (b) maximum indemnity period;
(c) rate of gross profit; (d) standard turnover.

Solution

(a) **Average** is the penalty for under insurance. It makes the insured a co-insurer for his risk. (2½ marks).

(b) **Maximum Indemnity Period** is the number of months cover selected by the insured. It is critical and usually calculated to cover the longest for seeable period of interruption. (2½ marks).

(c) **Rate of Gross Profit** is gross profit expressed as a percentage of turnover which, but for the insured event, would have been earned on the turnover during the indemnity period. (2½ marks).

(d) **Standard Turnover** is the turnover during the twelve-month period immediately before the event which corresponds is the indemnity period. (2½ marks). **Grand Total: 10 marks.**

9. Heat can be transferred from one substance to another in three ways.
(a) Enumerate any two (2) of these three ways: (2 marks)
(b) Explain any two (2) from the enumerated ways in (i) above. (8 marks)

Solution

(a) The ways by which heat can be transferred are by:
* conduction; * convection; * radiation.
(1 mark each for any correctly stated way. Maximum of 2 points to be graded. Sub-Total: 2 marks).

(b) **Conduction:** this takes place when two articles with different temperatures come into contact with each other. The heat in the other body is transferred into the cooler body, until the level of heat becomes the same in each.

Convection: this describes the air currents created in a still atmosphere when a body is introduced whose temperature is higher than that of the atmosphere. The heat from this body is transferred to the surrounding air.

Radiation: this occurs from anybody at a higher temperature than its surrounding. Heat is radiated or 'lost' from every surface of the hot body until the air has attained the by then reduced temperature of the body
(2 marks each for any correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total per term: 4 marks. Grand Sub-Total: 8 marks). Grand Total: 10 marks.

10. Enumerate any five (5) advantages of composite panels.

Solution

The advantages of composite panels are:
* mechanical durability; * thermal insulation; * hygiene;
* alteration of layout; * vermin resistance;
* ease and speed of actual construction; * cost advantage
(2 marks each for any correctly stated advantage. Maximum of 5 to be graded. Total: 10 marks).

11. Give two (2) complete examples of possible causes of sprinkler leakage.

Solution

Some examples of possible causes of sprinkler leakage are:

- a sprinkler head damaged by accidental impact;

- accidental, sudden release of heat from a portable heater or a portable plant for applying heat;
 - freezing of water in the installation, resulting in a burst pipe or other leakage;
 - a mechanical defect in the installation, of which the insured is unaware.
- (5 marks each for any correct and completely stated example. Maximum of 2 to be graded. Total: 10 marks).

12. In a fire and special perils policy, there are some items that are classified as “theft attractive items”. List any five (5) of such items.

Solution

The items that are classified as “theft attractive items” in a fire and special perils policy are:

- CDs and DVDs;
- precious stones or metal in articles made there from;
- mobile phones and portable audiovisual equipment;
- audio visual and computer equipment and accessories;
- photographic/camcorder equipment and accessories;
- fur suede and leather goods;
- metal particular non-ferrous metal;
- fashion clothing;
- tobacco and goods made from tobacco;
- wines and spirits.

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

13. (a) What are the three (3) risks covered under the standard fire contingencies. (6 marks)

(b) Define the term “fire”, in two different ways, in the absence of a legal definition of the term. (4 marks)

Solution

(a) The three (3) risks covered under the standard fire contingencies are:

* fire; * lighting; and * limited explosion.

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

(b) Fire can be defined as:

- actual ignition; **or**
- something on fire which should not have been on fire; **or**
- an event which must be accidental or fortuitous as far as the insured is concerned.

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

14. Enumerate any five (5) focus areas that a fidelity guaranty policy would cover.

Solution

The focus areas that a fidelity guaranty policy would cover are:

- criminal acts or criminal damage committed by an employee in respect of tangible property;
- forgery; * securities fraud;
- computer fraud or funds transfer fraud;
- robbery, safe burglary by third parties; * corporate card fraud;
- robbery or safe burglary of tangible property other than money of securities;
- robbery or third-party criminal damage to or the unexplained disappearance of money, or securities.

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

Part II

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

Each question carries 30 marks.

15. A survey is vital in risk underwriting processes especially for business establishments.

(a) fully explain five (5) reasons for carrying out a theft risk survey. (10 marks)

(b) enumerate any ten (10) items that would be included in a theft business risk survey. (20 marks)

Solution

(a) Some reasons for carrying out a theft risk survey are:

- to work within an insurer's capacity to accept the risk;
- to determine the size of the risk in relation to the size of the insurer's portfolio;
- to determine the amounts to be insured on target goods;
- to assess the location of the risk;
- to know the level of protection available;
- to understand the details of the proposer such as nature of business, when established, loss experience and previous declinature.

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

(b) The items that would be included in theft business risk survey are:

- * business type; * when the business was established;
- * provision for losses; * previous conviction;
- * whether post-loss security components have been carried out;
- * previous declinature or special term;
- * location and postcode of risk;
- * whether occupied outside of business hours;
- * target stocks computers, tools, e.t.c. * goods stored in the open;

- * construction of premises;
- * intruder alarm;
- * other tenant;
- * key holder control;
- * safe/strong room/security cage;
- * remote or residential area.
- * physical protection;
- * link to centered alarm station;
- * moral hazard;
- * estimated maximum loss;
- * distance from police station;
- * staff turnover;

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

16. Obi Okonkwo insured his house with two different insurers and as stated below.

	Sum Insured (₦)
Compact Insurer	100,000.00
(subject to average, ₦250.00 excess and 20% insured co-insurance clause)	
Destiny Insurer	180,000.00
(subject to average, sum insured value of ₦200,000.00 and adjusted loss of ₦5,000.00)	

- (a) Using independent liability method, apportion the claim. (20 marks)
 (b) State the five (5) conditions that must be in place for contribution to arise. (10 marks)

Solution

(a) Apportionment: Independent liability of 'Things Fall Apart'

$$= \frac{100,000}{200,000} \times \text{₦5,000} \quad (2 \text{ marks})$$

$$= \text{₦2,500} \quad (2 \text{ marks})$$

Less excess = 2,250 - 250 = ₦2,250 (2 marks)

Less 20% co-insurance clause = ₦450 (2 marks)

i.e. ₦2,250 - ₦450 = ₦1,800 (2 marks)

Independent liability of 'No longer at Ease'

$$= \frac{180,000}{200,000} \times 5,000 = \text{₦4,500} \quad (2 \text{ marks})$$

Total of the Independent Liabilities of both Policies = ~~₦6,300.00~~ (2 marks)

Therefore, 'No Longer at Ease' will recover from 'Things Fall Apart' = .

$$\frac{\text{₦1,800} \times 4500}{\text{₦6,300}} \quad (2 \text{ marks})$$

$$= \text{₦1,285.71} \quad (4 \text{ marks})$$

(Sub-Total: 20 marks).

- (b) The five (5) conditions that must be in place for contribution to arise are:
- The policies must cover the same subject matter of insurance
 - The insured peril which cause the loss must be common to all
 - The same insured interest in the lost must be common to all policies.
 - The policies must be in force at the time of the loss.
 - The policies must be contracts of indemnity.
- (2 marks for each correct and completely stated condition. Sub-Total: 10 marks). Grand Total: 30 marks.

17. (a) A fire occurs at a factory, the declared value being ~~₦~~800,000.00 subject to average. The loss adjuster provides these as the relevant figures:

value at the time of loss: ~~₦~~840,000.00
 loss on indemnity basis ~~₦~~105,000.00

Adjust the claim. (10 marks)

(b) On the same loss, the adjuster has noted that it was insured on reinstatement basis with the following figures:

value on reinstatement basis: ~~₦~~920,000.00i08
 loss on reinstatement basis: ~~₦~~114,800.00.

It was also reported by the loss adjuster that the value at the time of reinstatement was in the region of ~~₦~~1,105,000.00 instead of ~~₦~~920,000.00

(i) state the formular for calculating average on reinstatement basis. (2 marks)

(ii) apportion the losses. (12 marks)

(iii) calculate the difference between the reinstatement amount and that of indemnity basis. (6 marks)

Solution

(a) $\frac{\text{Sum Insured}}{\text{Value}} \times \text{Loss}$ (4 marks)

$$= \frac{800,000}{840,000} \times 105,000 \quad (4 \text{ marks})$$

$$= \text{₦}100,000 \quad (2 \text{ marks})$$

(Sub-Total: 10 marks).

(b) $\frac{\text{Reinstatement sum insured}}{\text{Cost of reinstatement}} \times \text{reinstatement claim}$ (2 marks)

$$(c) \frac{20,000}{105,000} \times 14,000 \quad (6 \text{ marks})$$

$$= \text{₦}94,914 \quad (6 \text{ marks})$$

$$(d) \text{₦}100,000 - \text{₦}94,914 = \text{₦}5,086 \quad (6 \text{ marks})$$

(Sub-Total: 20 marks). Grand Total: 30 marks.

18. (a) What is the difference between the “property events” and the “Property Damage All Risks”. (10 marks)
- (b) Enumerate ten (10) causes which insurers will NOT insure in a property policy. (20 marks)

Solution

(a) The difference between the “property events” and the “property damage all risks” lies mainly on their definitions and covers; The definition of damage in the all risk policy has ‘accidental’ before ‘loss’ or destruction of property e.t.c. while the events policy offers a choice of contingencies to be insured, each of which has its own exclusion and excess as appropriate, all followed by the exception applicable to the property damage section as a whole.

(Candidates should be awarded 5 marks for any correct and completely stated explanation/difference. 1 explanation should be graded on each term. Sub-Total: 10 marks)

(b) The causes which insurers will NOT insure in a property policy are:

- * its own inherent vice, wear and tear, e.t.c.;
- * trade risk of the insured;
- * pollution;
- * normal settlement of new structures, new erosion, defective design or material
- * property insured by a marine policy;
- * cursed death with by more specific policies;
- * property insured elsewhere;
- * property undergoing any process of production or application of heat
- * vehicles, property in course of construction
- * specific contingency exclusions;
- * fraud;
- * property in the open;
- * consequential loss;
- * sonic bangs
- * fragile or target goods;

(2 marks each for any correctly stated cause. maximum of 10 to be graded. Sub-Total: 20 marks). Grand Total: 30 marks.

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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 OCTOBER
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 Comment:

Question 1

The question was well attempted and recorded 87% pass rate out of the 176 candidates that attempted the question. This is a compulsory section. Few candidates failed because of errors in listing regulatory authority- Stock Exchange, PENCOM, NAICOM as trade associations instead of direct requests as captioned hence, loss of marks.

Question 2

The pass rate under this question was 78%. Candidates' wrote volume on functions and classes of executive directors instead of giving distinguished features of executive directors and non-executive directors as part time and full time respectively.

Question 3

A well attempted question which majority of the candidates failed and gave disappointing answers. More than 80% of the candidates got the answers wrong. They either did not read or understand the question well enough.

Question 4

A well attempted question, majority of the candidates got it wrong as they did not know the key participants in the insurance industry. Some of the candidates also gave scanty answers and some went off-line from the question. It is clear that our candidates are not reading to understand and they also refuse to put what goes on in their offices to practice.

Question 5

Performance in this question was poor with many candidates using their knowledge of general insurance to equate agricultural insurance policies. Only about 30% got the answer correctly.

Question 6

Performance was average in this question that seeks to test the knowledge of the candidates in an aspect of HR procedure. A little over 50% did justice to this question.

Question 7

This is a technical question, but it was evident that the candidates did not understand the question, hence they either avoided it or write out of context. Less than 30% scored up to 5 marks out of the allotted 10 marks.

Question 8

This is supposed to be a straightforward question. Candidates were supposed to score easy marks but that did not happen hence, less than half of the candidates did not score up to 8 out of 10 marks.

Question 9

The question was based on forecasting, the candidates gave a layman definition. In (9b), candidates were able to list out the points, this shows that they have a good idea of forecasting.

Question 10

The steps in accruing at cash value and cash equivalents at the beginning of the year was not followed accurately. Majority got the final answer correctly but the steps was not followed appropriately

Question 11

The performance on this question was poor as the candidates took the actuary critical core functions for actuary's descriptions in their answers. Pass rate is less than 13% of candidates that attempted the question.

Question 12

The performance of the candidates on this question was impressive. However, few of the candidates mixed up the reinsurance liabilities reinsurance methods.

Question 13

Pass rate was 71%, the few candidates who failed wrote laboriously on liquidity, solvency and activity ratio instead of profitability ratio has examined.

Question 14

Not all candidates attempted the question and majority of those who attempted it got it wrong. Pass rate is below average. Candidates still have a long way to go if they want to become insurance professionals.

Question 15

This very relevant question was avoided by many as just about 10-15% of the candidates attempted the question and those who did gave surface answers. The issue of risk-based supervision has been very important to the industry that every practitioner should be abreast. Performance was poor.

Question 16

The candidates who understood the topic performed well. It is an optional question so most did not attempt it (Less than 50%)

Question 17

The question was to test the knowledge of the candidates on RAS of an insurance entity. Majority of them listed the uses without detailed explanation. In 17b, the incentives for selling up captive insurance companies was enumerated and explained by the good candidates. Performance was above average.

Question 18

The question was well attempted. The common error is that candidates took ethics as behavior of competitors. Few did not understand the perspectives of the balanced score card. Over 70% of the candidates understood the solvency and liquidity.

Comments on Overall performance:

The average pass rate recorded in this course can be better. The course is new and the candidates may not be familiar with the texts yet. Hopefully, they would study more and perform better in future diets.

Suggestions on Improvement:

The candidates should study harder to get familiar for this recently introduced new course. Candidates also should be able to relate practicality to answering some of the questions. Most importantly, candidates should ensure that they understand what they are studying as majority of the questions are coursebook questions, yet their performances were below average.

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

1. The Nigerian Insurance Industry is an amalgam of different trade associations and professional bodies. You are required to list any five (5) of them and the arm of the industry they belong to.

Solution

S/N	Trade Association/Professional Body	Arm of the Industry
1	Professional Reinsurance Association of Nigeria (PRAN).	Reinsurance
2	Nigerian Council of Registered Insurance Brokers (NCRIB).	Broking/Insurance Brokers
3	Nigerian Insurers Association (NIA)	Registered Insurers
4	Chartered Insurance Institute of Nigeria (CIIN)	Insurance Education
5	Association of Registered Insurance Agents of Nigeria (ARIAN)	Insurance Agency/ Agents
6	Institute of Loss Adjusters of Nigeria	Loss Adjusting/Loss Adjusters
7	Nigerian Actuarial Society	Actuaries
8	National Association of Insurance Consumers in Nigeria	Buying public/insurance buyers

(1 mark each for correctly named trade association/professional body and 1 mark each for stating the arm of the industry correctly, total mark for each point 2 marks. Maximum of 5 associations to be graded. Total: 10 marks)

2. There are two (2) different types of directors in a typical Insurance company. List and describe them.

Solution

The two different types of directors in a typical Insurance company are:

- (i) **Executive Directors (ED)**: they work full time in the company and are given management responsibility for running parts of the business.
- (ii) **Non-Executive Directors (NED)**: they work part time and are chosen for their particular area of expertise and do not perform an executive management role in the company.

(2 marks for each correctly stated type. 3 marks for each correct and completely stated explanation. Sub-total per type: 5 marks). Grand Total: 10 marks

3. Enumerate the four (4) causes of variances in Variance Analysis.

Solution

The four (4) causes of variances in 'variance analysis' are:

- * inadequate pricing;
- * higher expenses than planned;
- * random events;
- * operating efficiency

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

4. (a) The Insurance market typically consists of three (3) key participants, list any two (2) of these three participants. (4 marks)
 (b) List the two (2) sub-members of the listed participants in (a) above (6 marks)

Solution

(a) Insurance consists of the following participants:
 * sellers; * buyers; * middlemen
 (2 marks for each correctly stated participant. Maximum of 2 to be graded. Sub-Total: 4 marks).

(b) The sub-members of the listed participants in (a) above are:
 i. **Sellers:** insurance companies (or reinsurance companies)
 ii. **Buyers:** general public. *industry and commerce. *public authorities;
 iii. **Middlemen:** insurance brokers *insurance agents *other intermediaries
 (3 marks for each correctly stated sub-member. Maximum of two participants to be graded. Sub-Total: 6 marks). Grand Total: 10 marks

5. (a) What is the full meaning of NAIC? (2 marks)
 (b) Enumerate any four (4) agricultural insurance covers provided and underwritten by NAIC. (8 marks)

Solution

(a) NAIC means Nigerian Agricultural Insurance Corporation. (2 marks)
 (b) The agricultural insurance covers provided and underwritten by NAIC are:
 * Subsidized Livestock Policy/Cover; * Commercial Corps Policy/Cover
 * Commercial Livestock Policy/Cover; * Multiperil Cover/Policy
 * Subsidised Crops Policy/Cover.
 (2 marks for each correctly stated type of cover. Maximum of 4 to be graded. Sub-Total: 8 marks). Grand Total: 10 marks

6. List the five (5) steps in a typical recruitment process by the Human Resources Department of an insurance company.

Solution

The five (5) steps in a typical recruitment process by the Human Resources Department of an insurance company are:

1st: Sign-Off; 2nd: Recruitment; 3rd: Interview;
 4th: Job Offer; 5th: Induction.

(2 marks for each correctly stated/ordered step. Total: 10 marks)

7. (a) Insurance companies and insurance brokers, in order to record the amounts that are owed to them by other parties in their ordinary scope of business, raise some documents. What are these documents called? (4 marks)
 (b) Companies incur some *finance costs* in order to finance their businesses. Enumerate these three (3) costs. (6 marks)

Solution

(a) The document issued by insurance companies and brokers , in order to record the amounts that are owed to them by other parties in their ordinary scope of business are called “invoices or debit notes or fee notes” .

(4 marks for any of the correctly stated word above. Maximum of 1 to be graded. Sub-Total: 4 marks)

(b) The three cost of loans made to the company are:

* bank loans; * mortgages; * corporate bonds.

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

8. According to the IFRS framework, the usefulness of financial information is enhanced if it has some characteristics. What are these four (4) characteristics?

Solution

The four (4) characteristics that enhances the usefulness of financial information are:

* comparable; * verifiable; *timely; * understandable.

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

9. Under the context of budgetary planning and control,

(a) what is “forecasting”? what is another name that it can be called? (4 marks)

(b) what does forecasting cover? (6 marks)

Solution

(a) Forecasting is the method by which budgets are put together by the directors and senior managers. It is also called predicting. (4 marks)

(b) Forecasting cover the following:

- levels and types of business that will be transacted;
- the turnover the business produces;
- income, such as investment returns.

(3 marks for each correct and completely stated cover. Maximum of 2 to be graded. Sub-Total: 6 marks). Grand Total: 10 marks.

10. The following details are extracts from ABC Limited Cash Flow Statement for the Year Ended 31/12/20XX

Net Increase in Cash and Cash Equivalents ₦1,000.00

Cash and Cash Equivalents at the Beginning of the Year - - -

Cash and Cash Equivalents at the End of the Year ₦1,500.00

What was the value for Cash and Cash Equivalents at the Beginning of the Year?

Solution

Cash at the end of the year less Net Increase in Cash and Cash Equivalent: (4 marks)

₦1,500 - (₦1,000) (3 marks)

= ₦500 (3 marks)

(Grand Total: 10 marks)

11. Actuaries are widely employed in both Life and Non- Life (General) businesses in the insurance industry. Of these actuaries, there is a Chief Actuary that is responsible for some critically core functions. List and describe these four (4) cores functions.

Solution

The core functions of a Chief Actuary are:

- technical pricing of new products;
- technical pricing of existing products;
- calculation of claims reserves;
- calculation of risk-based capital requirement;
- calculation of investment risks for funds supporting technical reserves;
- mentoring/grooming of team members.

(Candidates are required to also describe the function. 1½ marks for each correctly stated function. 1 mark for correct description. Sub-Total for each function: 2½ marks. Maximum of 4 functions to be graded. Grand Total: 10 marks.)

12. (a) In insurance industry, there are what are known as “acquisition costs”. Briefly explain these costs. (6 marks)
- (b) What are Reinsurance Liabilities? (4 marks)

Solution

(a) Acquisition costs are amounts *paid to intermediaries who have placed business with the company* and *other direct costs of acquiring the business such as policy issue costs*. (3 marks for each coloured phrase. Sub-Total: 6 marks)

(b) **Reinsurance liabilities** means all liabilities and obligations of the Company based upon or arising under the covered contracts e.g. obligations to make payments to various partners, loss adjustment expenses, defence costs, e.t.c. (4 marks for any correct and completely stated explanation. Sub-Total: 4 marks) Grand Total: 10 marks.

13. (a) What are the main profitability ratios? (9 marks)
- (b) The acronym ROE stands for what? (1 mark)

Solution

(a) The main profitability ratios are:

- * Gross Profit Ratio;
- * Operating Profit Ratio;
- * Net Profit Margin;
- * Return On Capital Employed

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

(b) **ROE** stands for Return on Equity (1 mark)

Grand Total: 10 Marks

14. (a) What does a combined ratio above 100% indicate for underwriting performance review? (4 marks)
- (b) Within the context of measuring financial performance of an entity, differentiate between *Profitability* and *Productivity*. (6 marks)

Solution

(a) A combined ratio above 100% indicates for underwriting performance review that:

- (i) it generally indicates a poor underwriting performance;
- (ii) probable record of catastrophe losses;
- (iv) below acceptable standard of Enterprise Risk Management;
- (v) poor Management and/or Governance.

(4 marks for any correct and completely stated indicator. Maximum of 1 to be graded. Sub-Total: 4 marks).

(b) Within the context of measuring financial performance of an entity, **Profitability**: compares the money value of the outputs with the money value (the cost) of the inputs; the difference between the two is profit which can be expressed either as an amount of money or as a ratio; while **Productivity**: compares inputs and outputs directly, so does not use money as measuring rod.

(2 marks for each correct and completely stated explanation/difference. 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) One of the key motives for NAICOM's push for higher capital requirement for insurance and reinsurance companies is to engender a risk-based supervision regime rather than rule-based or principle-based supervision. Differentiate between *Risk-Based Supervision* and *Rule-Based Supervision*. (24 marks)
- (b) What does ORSA stand for? (2 marks)
- (c) Write out the formula for straight line depreciation? (4 marks)

Solution

(a) Risk – Based Supervision

- It seeks to regulate and supervise each insurer based on its profile to take and tolerate risk; (4 marks)
- It pays attention to insurance unique risk profile; (4 marks)
- It focuses on a higher level of risk management approach. (4 marks)

Sub-Total: 12 marks

(b) Rule – Based Supervision

- It regulate the whole industry on a blanket basis; (4 marks)
- It is based on principles and not fully on unique risk profile; (4 marks)
- It focuses mainly on the compliance with rules and regulations. (4 marks)

Sub-Total: 12 marks

(c) ORSA stands for Own Risk and Solvency Assessment

(2 marks)

(d) Depreciation (Straight Line Formula) :

$$\frac{\text{Cost of Asset} - \text{Scrap or Residual Value}}{\text{The Life of the Asset}}$$
 (2 marks)

(2 marks)

Grand Total : 30 marks

16. (a) Define Corporate Governance. (3 marks)
- (b) In an insurance firm, the responsibility for Risk Control lies with the head of the department. However, controls come in many forms as risks are managed through the use of more than one control. What three (3) controls are available for the use for the Heads of the following Departments.
- (i) underwriting (9 marks)
- (ii) Claims (9 marks)
- (iii) Information Technology (9 marks)

Solution

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

(b) (i) **Underwriting:**

- Limits of authority for individual underwriters;
- Second review of quotations by senior underwriter;
- Regular review of pricing schedules;
- Monitoring of aggregation (or risk accumulation) practices.

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

(ii) **claims:**

- All claim payments reviewed by second member of staff;
- Claim validity checking;
- Reinsurance coverage reviewed by senior management;
- Ex-gratia payment review by the Board

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

(iii) **information technology:**

- Back-up records on a daily basis
 - Relocation Contingency plans
 - Anti - virus and intrusion software
 - Data Security and quality management.
- (3 marks for each correct and completely stated control. Maximum of 3 to be graded.
Sub-Total: 9 marks). Grand Total: 30 marks

17. (a) 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. List and explain three (3) uses of the RAS by the insurance company. (21 marks)
- (b) Enumerate any three (3) of the main incentives for setting up Captive Insurance companies. (9 marks)

Solution

(a) The Risk Appetite Statement (RAS) would be used by the insurance company to set:

- the risk acceptance criteria;
- an investment policy;
- a reinsurance policy and
- other financial and risk policy statements.

(Candidates are required to explain after listing the uses. 4 marks for each correctly listed use. 3 marks for each correct explanation. Sub-Total per use: 7 marks. Sub-Total: 21 marks)

(b) The main incentives for setting up Captive Insurance companies are:

- to obtain the full benefits of the group's risk control techniques by paying premiums based on its own loss experience;
- avoidance of the direct insurer's overheads;
- obtaining a lower overall risk premium level by purchasing reinsurance at a lower cost than that required by the conventional or direct insurer; and
- to achieve their risk financing objectives.

(3 marks for each correctly listed incentive. Maximum of 3 to be graded. Sub-Total: 9 marks). Grand Total: 30 marks

18. (a) Explain "*business ethics*". (6 marks)
 (b) (i) What is a *Balanced Scorecard*? (6 marks)
 (ii) List the four (4) perspectives of a balanced scorecard. (8 marks)
 (c) With reference to a company's financial position, differentiate between *Solvency* and *Liquidity* (10 marks)

Solution

- (a) **Business Ethics** are the standards and moral conduct that a company or business sets itself in its dealings within the organization and outside, within the business and social environment as a whole. It concerns the application of moral principles and how individuals conduct themselves in social affairs. (6 Marks)
- (b) (i) A balanced scorecard is a strategic planning and management system used to align business activities to the vision statement of an organization. (6 Marks)
- (c) The four (4) perspectives of a balanced scorecard are:
 * internal perspective; * financial perspective;
 * customer perspective; * learning and growth.
 (2 marks for each correctly stated perspective. Sub-Total: 8 marks).
- (d) **Solvency** is a measure of the excess of an organization's assets compared to its liabilities (5 marks); while **liquidity**: This is the amount of cash which a business has or has access to (5 marks).

Grand Total: 30 marks.

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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 OCTOBER
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

This is a compliance question. The examiner tested candidates' knowledge on corporate governance framework as applied to insurance industry. The general performance was very poor (about 25%). Majority of the candidates could not obtain any mark from the question. More than 30% of the candidates did not attempt the question. Candidates are advised to be conversant with guidelines issued by the regulator and the current practices in the industry.

Question 2

The examiner tested the concept of deflation and business continuity management. These are textbook questions and were attempted by almost all the candidates. The performance was a little above average (56%). It was glaring that majority of the candidates did not read the coursebook but applied residual or general knowledge. Candidates are advised to study harder in future examinations.

Question 3

The question tested candidates' knowledge on financial planning and the objectives. The performance was somehow encouraging (about 68%). Only few candidates missed the question completely. Candidates are advised to ensure that they cover every aspect of the coursebook to enhance their performance in future examinations.

Question 4

The question tested candidates' knowledge on concept of merger and acquisition. Almost all the candidates attempted the question. They were quite familiar with the question as pass rate was about 90%.

Question 5

The question tested candidates' knowledge on foreign exchange operations. As a compulsory question, many of them made attempt but the performance was very poor, about 20% pass rate. Candidates needs to be more conversant with the whole coursebook.

Question 6

This is another popular question among the candidates. It tested the candidates' basic knowledge of business principles. Almost all the candidates attempted the question and the pass rate was about 95%. Candidates are encouraged to study their coursebooks in their preparation for examinations.

Question 7

This is also a coursebook question. It set out to test the candidates' knowledge of business corporate social responsibility. Over 90% of the candidates attempted the question while the pass rate was less than 20%. Candidates are advised to take every part of the coursebook very seriously.

Question 8

This is a question on the basic principles of taxation and tax system. It was attempted by almost all the candidates but the pass rate is less than 30%. This demonstrates that some of the candidates are not conversant with most part of the coursebook.

Question 9

This question must have been least expected by the candidates as it requires the simple definition of economic as a subject. Unfortunately, all (100%) of the candidates attempted it but the pass rate was less than 40%. The candidates again advised not to overlook any part of the coursebook.

Question 10

The question tested candidates' knowledge on changes impacting the world's economy. All (100%) of the candidates that attempted the question but the pass rate was about 67%. This demonstrated the candidates understanding of the concept.

Question 11

The question tested candidates' general knowledge of business practice and outsourcing opportunity. All the candidates (100%) attempted the question and the pass rate was above 60%.

Question 12

The question tested candidates' knowledge on the economic concept of elasticity of supply. The question was attempted by almost all the candidates and the performance was fair; about 65% of them passed.

Question 13

The question tested candidates' knowledge on marketing. All the candidates attempted the question and the performance was very impressive, over 90% of the candidates passed the question.

Question 14

The question tested candidates' knowledge on disaster management and business continuity management (BCM). All the candidates attempted the question and the pass rate was good, about 85%. This is also quite impressive.

Question 15

This is one of the optional questions. A direct coursebook questions question testing the candidates' knowledge of the concept of production resources. Over 80% of the candidates attempted the questions and the pass rate was more than 70%.

Question 16

This is an optional question. It tested the candidates' knowledge of basic finance concept. It was attempted by over 90% of the candidates but the pass mark was about 40%. Candidates are advised to master these basic financial concepts properly.

Question 17

This is optional question, testing the candidates' knowledge of break-even analysis. Only 2 candidates representing about 3% attempted the question while only one of them passed (50%).

Question 18

This is another optional question, testing the question, testing the candidates' knowledge of the business capital structure. The question was clearly avoided as only 14% of the candidates attempted the question and the pass rate was 0%. That is, none of them passed. Candidates are advised to read wider in preparation for future examinations.

Comments on Overall Performance

With overall pass rate of about 59%, the overall performance is quite fair. The candidates are however advised to read more so as to fill the knowledge gap as revealed by the overall result.

Suggestions on Improvement

As suggested above, there is still room for improvement as obvious knowledge gap is evident in the candidates' performance.

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

1. A good corporate governance structure/framework is a necessity in every industry. The National Insurance Commission (NAICOM), as the Regulator of the Nigerian Insurance Industry, issued a corporate governance guideline for insurance and reinsurance companies. State any five (5) requirements regarding the structure and composition of Insurance and Reinsurance Companies Board of Directors.

Solution

The requirements regarding the structure and composition of Insurance and Reinsurance Companies Board of Directors are:

1. The Structure and Composition of the Board shall be such as to maintain the confidence of the Shareholders and Management.
2. The insurance/reinsurance company shall have not less than seven (7) members and not more than fifteen (15) members on its Board.
3. The Board shall consist of Executive and Non-Executive Directors out of which not more than 40% of the members shall be in the executive capacity.
4. In addition to the provision of Principle 2.7 of the NCCG 2018, no one person shall occupy the position of Chairman and Managing Director/CEO in related insurance companies at the same time.
5. No two members of the same family (nuclear and extended) shall occupy the position of the Chairman and Managing Director/Chief Executive of any Insurance Company.
6. No member of the Board shall draw remunerations beyond the normal entitlements for such appointment.
7. Membership of the Board shall include at least one Independent Director, who does not represent any particular shareholding interest nor hold any business interest. Corporate Governance Guidelines for Insurance and Reinsurance Companies
8. Non-Executive Directors shall not be re-nominated and appointed for more than 3 terms of 3 years each.
9. Appointment of Non-Executive Directors shall be decided by the Board through a defined selection process.
10. The Chief Executive Officer of the Company shall be the person approved by the Commission and shall be a member of the Board throughout his/her tenure.
11. Each Executive Director of the Company shall be a person approved by the Commission and shall be a member of the Board throughout his/her tenure.

12. For purposes of succession, every Insurance/Reinsurance Company shall have an Executive Director (Technical) who shall have minimum qualification and experience equivalent to that of Chief Executive Officer prescribed by the extant Rules.
 13. To represent minority interests, all Public Limited Liability Insurance/Reinsurance Companies shall provide a seat for minority shareholder on the Board;
 14. All nominated members of the Board shall complete and file with the Commission, Personal History Statement (PHS) Form at the point of application to the Commission.
 15. All insurance institutions shall operate independently and the Board and Management shall be responsible and accountable for the conduct /operations of the company irrespective of any relationship with other companies or group,
- (2 marks each for each correct and completely stated requirement. Maximum of 5 points to be graded. Total: 10 marks)**

2. a) What is Deflation? (4 marks)
- b) What is Business Continuity Management (BCM)? (6 marks)

Solution

- (a) Deflation is a situation of fall in the general level of prices. It is a situation of negative inflation'. It is the very opposite of inflation where an amount of money can buy more goods and services than what it could buy previously. (4 marks)
 - (b) Business Continuity Management (BCM) is the process of ensuring that organization is capable of surviving a crisis or a disaster situation or business disruption by getting back to normal business operation or normal mode of working. It is achieved through an effective Business Recovery Plan (BRB). (4 marks)
- (Grand Total: 10 marks)**

3. In the context of financial planning, budgeting and budgetary control, Financial Objectives are said to be SMART. Outline the meaning of each alphabet in the acronym SMART.

Solution

The meaning of each alphabet in the acronym SMART is:

- S - specific goals
- M - measurable goals
- A - attainable goals
- R - relevant goals
- T - timeless or time bound goals.

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

4. Enumerate any five (5) advantages of mergers and acquisition in insurance.

Solution

The advantages of Mergers and Acquisition in Insurance are:

- greater cost efficiency and consequently higher profitability.
- new and larger channels of distribution with bigger sales force.
- gaining a competitive advantage.
- greater capacity to take on bigger risks.
- higher risk retention limit and consequently higher premium retention.
- acquisition on employment of higher and better human and technological resources.
- possibility of horizontal and vertical business integration.

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

5. List out two (2) advantages and two (2) disadvantages of floating exchange rates.

Solution

Term	Advantages	Disadvantages
Floating Exchange Rates	(i) There is automatic adjustment. (ii) There is no need for large foreign exchange reserves. (iii) There is insulation from prices shocks.	(i) The uncertainty could result due to its instability. (ii) It could be inflationary. (iii) Speculations may be destabilizing.

(2½ marks each for correct and completely stated advantage/disadvantage. Maximum of 2 under each column should be graded. Sub-Total: 5 marks)

6. (a) Ethics has very many definitions. Provide any two (2) definitions of “ethics”.

(4 marks)

(b) What is “business culture”?

(6 marks)

Solution

(a) Definitions of ‘ethics’ has been defined as:

- a set of moral principles or values;
- the principles, norms and standards of conduct governing an individual or group;
- moral principles that govern a person’s behavior on the conduct of an activity.

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

(b) Business culture is the model of style of business organization within on establishment or company which determines how different levels of staff communicate with one another as well as employees relate with clients and customers.

(6 marks). Grand Total: 10 marks.

7. (a) Define Corporate Social Responsibility. (4 marks)
 (b) Write short notes on (i) moral and (ii) economic justification for Corporate Social Responsibility. (6 marks)

Solution

(a) Corporate Social Responsibility (CSR) is a form of ethical behavior that requires that an organization understands, identify and eliminate unethical economic, environmental and social behaviors. CSR is sometimes described as a way by which an organization gives back to the society within which it operates. CSR is a corporate objective where by organizations consider and assume responsibility for the impact of their activities on their stakeholders.

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

(b) (i) **Moral Justification for CSR** means the organization are viewed as individuals and are exhorted to be good corporate citizens. This is judged by some companies to be more important than pursuing profit motive. (3 marks)

(ii) **Economic Justification for CSR** assumes that CSR is undertaken because it supports long term profit motive of the organization. (3 marks)

(Sub-Total: 6 marks). Grand Total: 10 marks.

8. Outline three (3) advantages and two (2) disadvantages of direct taxes/direct taxation.

Solution

Term	Advantages	Disadvantages
Direct Taxes/Direct Taxation	(i) Progressive in nature; (ii) They are non-inflationary; (iii) Reduce inequality of income; (iv) Ease of administration; (v) Certainty in tax liability; (vi) Cheap to collect; (vii) Convenient for payers	(i) The uncertainty could result due to its instability. (ii) It could be inflationary. (iii) Speculations may be destabilizing.

(2 marks each for correct and completely stated advantage/disadvantage. Maximum of 3 under advantages and 2 under disadvantages to be graded. Sub-Total: 10 marks)

9. (a) What is Economics? (2 marks)
 (b) There are many categories of "economies". Outline any four (4) of these categories of "economies". (8 marks)

Solution

(a) Economics could be described as the way by which countries, organizations and individuals organize their system of production, consumption, distribution, exchange and finance to achieve the best satisfaction from the insufficient resources. (2 marks)

(b) The categories of economies are:

- * Managerial Economics;
- * Labour Economics;
- * Monetary Economics;
- * International Economics;
- * Environmental Economics;
- * Econometrics;

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

Grand Total: 10 marks.

10. Enumerate four (4) changes that are predicted to have impact on World's economy.

Solution

The changes that are predicted to have impact on World's economy are:

- i. * Brexit;
- * Continuation of digital revolution.
- * Climate Change;
- * Growing an ageing population.
- * Economic and social imbalances; and
- * long-term consequences of the financial crises.

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

11. Differentiate between "outsourcing" and "offshoring".

Solution

Outsourcing is the practice of contracting out a business process to an external organization. It is a means of cost control or cost reduction; outsourcing could be made to specialist that have a better result. (5 marks)

Offshoring is a form of outsourcing contracted to oversees experts or oversees companies or organizations. (5 marks)

Grand Total: 10 marks

12. (a) Write out the formula for the "Price Elasticity of Supply". (4 marks)

(b) Outline any three (3) factor which can affect the supply of insurance. (6 marks)

Solution

(a) Price elasticity of supply = % change in quantity supplied divided by % change in price. (4 marks)

(b) The factors which can affect the supply of insurance are:

- level of premium in the market;
- * level of capacity available;
- the cost of supply of the insurance cover;
- availability of reinsurance;
- * uncertainty – level of claims.

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

Grand Total: 10 marks

13. Enumerate any five (5) out of the seven (7) P's in the marketing mix for insurance companies.

Solution

The seven (7) P's in the marketing mix for insurance companies are:

- * Product; * Price; * Promotion; * Place
* People; * Process * Physical Evidence.

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

14. Outline the five (5) requirements of a robust Business Continuity Management (BCM) Plan.

Solution

The five requirements of a robust Business Continuity Management (BCM) Plan are:

- * leadership; * coordination; * continuity;
* awareness; and * ownership.

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

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

Each question carries 30 marks.

Section B

15. List and explain all the four (4) resources required to produce products in any industry, insurance industry inclusive.

Solution

The four (4) resources required to produce products in any industry, insurance industry inclusive are:

- i. **Capital:** a country's capital consists of all those goods (like machinery, factory building and office blocks) that are used in production. The creation of new is called 'investment'.
- ii. **Entrepreneurship:** it refers to the risk taking involved in the organization of factors of production and development of new product and services.
- iii. **Land:** land includes all the natural resources used in the production of goods and services and all sites for production.
- iv. **Labour:** Labour refers to a country's workforce and includes all the physical and mental human attributes used in production.

(3½ marks each for any correctly stated listing. 4 marks for explanation of each listing). Grand Total: 30 marks

16. Write short notes on the following:

- (a) financial appraisal; (b) tax planning
(c) budget (d) management accounting.
(e) fixed costs v. variable costs.

Solution

- a. **A Financial Appraisal:** which is often associated with project, is a process of assessing the risks and potentials financial implications of a project. A financial appraisal is often initiated for the following purposes: (2marks)
- Identifying the risk and uncertainties;
 - Contributing to the achievement of the project aims;
 - Ensuring the best use of the available resources;
 - Prioritizing the project;
 - Identifying the potential areas of operational errors;
 - Monitoring and evaluation of the financial performance of the project;
 - For project with significant risks, particularly for an insurance company, determining the capital implications of the project.
- b. **Tax Planning** is an important aspect of financial planning. Government gives tax incentives to encourage certain activities and so businesses have tax planning opportunities. Planning, budgeting and financial appraisals are often prepared before tax; however, the tax implications are important to understand as the shareholder return is earned after tax.
- c. **Budgets** are statements, in financial terms, of future planned performance. Budget are usually prepared annually but may be updated more frequently, particularly in markets subject to rapid change.
They are used to:
- show the financial implications of a plan
 - determine the financial resources necessary to achieve the plan;
 - assist in the control of performance against the plan.
- d. **Management Accounting:** Financial accounting deals primarily with the financial information that is usually required by the parties external to the business, e.g., investors, analysts, rating agencies and regulators etc. Management accounting, however, Concentrates on the preparation and communication of reports, by the use of both financial and non-financial information, for the purpose of internal parties, e.g., senior management. The main objectives of this reporting are to assist managers to make appropriate decision to achieve the company's financial objectives.
- e. **Fixed Cost V. Variable Costs:** Fixed cost normally stays the same regardless of changes in the volume of activity or sales, whereas variable cost does vary. For example, property rent and overhead staff salaries are fixed cost, and cost claims, acquisition cost and the cost of raw materials are variable cost of a business. The distinction between fixed cost and variable cost also depends upon the time span. Essentially, in the short-term all cost is fixed and in the long-term all cost is variable. Indirect cost and overhead cost are also terms for describing fixed cost as

they do not directly relate to the volume of output and have to be incurred before the organization can commence trading. Direct or prime cost are also terms for describing variable cost; as they are costs directly attributable to a product.

(3 marks for each correct and completely stated note. Maximum of 3 to be graded under each term. Sub-Total per term: 6 marks. Grand Total: 30 marks)

17. (a) Explain the Cost-Volume-Profit Analysis (CVP). (12 marks)
(b) Outline any six (6) of the assumptions of Cost-Volume-Profit Analysis. (18 marks)

Solution

- (a) **Cost volume-profit analysis (CVP):** Cost volume-profit analysis deals with how cost and profit change with a change in volume. It analyses the effect on profit of changes in such factors as variable cost, fixed cost, selling price, volume and the mix of product sold. (4 marks)

The CVP analysis attempts to answer the following questions:

- what sales volume is required to break even?
- what level of activity is required to generate a desired profit?
- what profit or loss is likely to arise from any given level of production or sales?
- what is the impact on profitability on changes in selling price, variable costs, fixed cost and output?
- how would a change in the mix of product sold affect the break-even and target volume and profit potentials?

(2 marks each for any correctly stated point. Maximum of 4 to be graded. Sub-Total: 8 marks).
Grand Sub-Total: 12 marks.

- (b) The assumptions of cost-volume-profit analysis are:
- expenses can be classified as either variable or fixed;
 - CVP relationships are linear over a wide range of production and sales;
 - sales prices, unit variable cost and total fixed expenses are constant, i.e., will not vary within the relevant range;
 - volume is the only cost driver;
 - cost is only affected with change in activity;
 - the relevant change of volume is specified;
 - everything produced is sold;
 - inventory/stock level will be unchanged;
 - the sales mix remains unchanged during the period. alternatively, if a company sell more than one product, they are sold in the same mix;
 - sales volume approximates production volume and there may be significant inventory balance fluctuations;
 - in real life, the company can react to market conditions and change product mix often;
 - productivity changes due to the change in the economy of scale technology.
- (3 marks each for any correctly stated point. Maximum of 6 to be graded. Sub-Total: 18 marks). Grand Total: 30 marks

18. Write short notes on the following:

- (a) rights issue; (b) preference share capital; (c) retained profit;
(d) venture capital; (e) corporate debt.

Solution

- **Right Issue:** In the right issue, new shares are offered to existing shareholders at a discounted price, which is somewhat less than the present market price. This will raise new capital if the issue is taken up. (3 marks)

Shareholders can:

- i. Exercise their right to buy the share;
- ii. Sell their right to buy the share. In practice this option is only available to large shareholders, the smaller shareholders' profit would be wiped out by dealing fees;
- iii. Do nothing. Usually when the shareholder does nothing, the company sells the shares on their behalf and send them the proceeds.

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

Preference Share Capital: It has the following characteristics:

- i. Preference share do not usually carry voting rights.
- ii. They get their name from the fact that the payment of a preference dividend takes priority over the dividend on ordinary shares.
- iii. They pay fixed dividend to owners.
- iv. Most preference shares are cumulative.
- v. If the company is forced into liquidation, the preference shareholders take priority over ordinary shareholder.

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

- **Retained Profit:** is a good source of long-term finance. Retained profit is owned by the shareholders and so is part of the shareholders' equity. If retained profit are not required by the company then there will be pressure from the shareholders to repay this to them either in the form of a dividend or by purchasing shares. The main drawback of profit as a source of finance is that profit may not be readily available. Recessions and other factors can severely restrict a business's short-term profitability.

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

- **Venture Capital:** This is a pool of risk capital, typically issued to young and small company (often unquoted) by large investors. These types of financing, usually long-term, is often contributed to small businesses with good growth prospect but which are short of funds (thus called risk capital). The source of venture capital generally includes the following:
 - a- private investors
 - b- institutional investors (e.g., investment and pension funds);
 - c- states and local government;
 - d- joint venture between large and small firms.(2 marks each for any correctly stated point. Maximum of 3 to be graded. Sub-Total: 6 marks).

- **Corporate Debts:** A company may issue debt which is often on the stock exchange. Due to the cost involved in issuing corporate debt (also corporate bonds) this is normally only available to large companies that already have a listing. The term of the debt is likely to be from 3 years to 20 years or more.
(2 marks each for any correctly stated point. Maximum of 3 to be graded. Sub-Total: 6 marks).
Grand Total: 30 marks.

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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 OCTOBER
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

The question was intended to test candidates' knowledge of Insurance Act of 2003. Majority of the candidates that attempted the question performed below average.

Question 2

The question dealt with the limitation of operations research. Majority of the candidates that attempted the question performed below average.

Question 3

The question tested candidates' knowledge on the main objectives of classifying data and performance was not encouraging.

Question 4

The question tested candidates' knowledge on the challenges of statistics. 71% of the candidates performed above average.

Question 5

The question tested candidates' knowledge on why the use of sample is preferred to population. 97% of the candidates that attempted the question passed.

Question 6

The question was designed to test candidates' knowledge on the characteristics of a good questionnaire. 94% of the candidates that attempted it scored above average.

Question 7

The question tested candidates' knowledge on direct personal interview. 80% of the candidates that attempted the question performed below average.

Question 8

The question tested candidates' knowledge and understanding on features of probability. Some candidates struggled in the b and c part of the question. However, performance was good as 71% of the candidates performed above average.

Question 9

The question was on time series and candidates' performance was abysmally low.

Question 10

The question tested candidates' knowledge on the characteristics of linear program. Candidates that attempted the question performed excellently.

Question 11

The question tested candidates' knowledge on operations research. Majority of the candidates performed very well. The pass rate is 80%.

Question 12

The question tested candidates' knowledge on cost matrix table. Majority of the candidates that attempted the question performed below average.

Question 13

Almost all the candidates attempted this question and their performance was is above average.

Question 14

Majority of the candidates that attempted the question performed very well.

Question 15

The question tested candidates' knowledge on importance of statistics to insurance and other fields. Majority of the candidates that attempted the question performed above average.

Question 16

The question tested candidates' knowledge on formulation of linear programming problem in production company. The few candidates that attempted the question performed below average.

Question 17

The question tested candidates' knowledge on data grouping. Few candidates were able to secure above average marks.

Question 18

The question tested candidates' knowledge on regression analysis. The candidates that attempted the question secure above average marks.

Comments on Overall Performance

The overall performance was not encouraging.

Suggestions on Improvement

Tutorials should be organized for candidates, majorly on the aspect of operations research.

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

1. The Insurance Act 2003 classified insurance business into Life Insurance and general Insurance. Carefully enumerate any three (3) and any 7 (seven) categories of life insurance and general insurance businesses respectively.

Solution

The Insurance Act 2003 classified insurance business into Life Insurance and general Insurance. Carefully enumerate any three (3) and any 7 (seven) categories of life insurance and general insurance businesses respectively.

In the case of life insurance, there shall be three (3) categories, which are:

- (a) individual life insurance business
- (b) group life insurance and pension business
- (c) health insurance business.

In the case of general insurance, these shall be eight (8) categories, which are:

- (a) fire insurance business
- (b) general accident insurance business
- (c) motor vehicle insurance business
- (d) marine and aviation insurance business
- (e) oil and gas insurance business
- (f) engineering insurance business
- (g) bonds credit guarantee and suretyship insurance business
- (h) miscellaneous insurance business.

(1 mark each for any correctly stated category. 3 under life. 7 under general business). Grand

Total: 10 Marks

2. Enumerate any five (5) limitations to an Operations Research Approach.

Solution

The limitations to an Operations Research Approach are:

- it is often difficult to balance the requirement of reality and simplicity;
- the quality of data collection may be poor;
- the quality of data collection may be inaccurate;
- in many cases, the solution of operations research problems is restricted by the lack of a suitable solution technique;
- the derived solution may be sub-optimal;
- the boundary of the problems may be too narrow.

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

3. Enumerate any four (4) main objectives of classifying data when conducting a research work.

Solution

The main objectives of classifying data when conducting a research work are:

- it condenses the mass of data in an easily assailable form;
- it eliminates unnecessary details;
- it facilitates comparison and highlights the significant aspect of data;
- it enables one to get a mental picture of the information and helps in drawing inferences;
- it helps in the statistical treatment of the information collected.

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

4. (a) Define (i) Descriptive statistics and (ii) Inferential statistics. (4 marks)
(b) Enumerate any three (3) challenges of statistics. (6 marks)

Solution

(i) **Descriptive Statistics:** the term Descriptive Statistics deals with collecting, summarizing, and simplifying data, which are otherwise quite unwieldy and voluminous. It seeks to achieve this in a manner that meaningful conclusions can be readily drawn from the data. (2 marks)

(ii) **Inferential Statistics:** consists of methods that are used for drawing inferences, or making broad generalizations, about a totality of observations on the basis of knowledge about a part of that totality. (2 marks)

(b) The challenges of statistics are:

- statistics is not suitable to the study of qualitative phenomenon;
- statistics does not study individuals;
- statistical laws are not exact;
- statistics table may be misused;
- statistics is only, one of the methods of studying a problem.

(2 marks for each correctly stated challenge. Maximum of 3 to be graded.

Sub-Total: 6 marks). Grand Total: 10 marks.

5. State any four (4) reasons why the use of sample is more preferred to the use of the whole population for most research works.

Solution

Some of the reasons why the use of sample is more preferred to the use of the whole population for most research works are:

- complete enumerations are practically impossible when the population is infinite;
- when the results are required in a short time (sample saves time);
- when the area of survey is wide (large scope);

- when resources for survey are limited particularly in respect of money and trained persons (saves cost);
- when the item or unit is destroyed under investigation (destructive nature of items under study).

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

6. Enumerate any five (5) features of a good questionnaire.

Solution

The feature of a good questionnaire are:

- number of questions should be minimized;
- questions should be in logical orders, moving from easy to more difficult questions;
- questions should be short and simple;
- technical terms and vague expressions capable of different interpretations should be avoided;
- questions fetching yes or no answers are preferable. there may be some multiple-choice questions requiring lengthy answers are to be avoided;
- personal questions and questions which require calculations should be avoided;
- question should enable cross check. deliberate or unconscious mistakes can be detected to an extent;
- questions should be carefully framed so as to cover the entire scope of the survey;
- the wording of the questions should be proper without hurting the feelings or rousing resentment;
- leading questions should be avoided.

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

7. Explain any four (4) advantages of “Direct Personal Interviews”.

Solution:

The advantages of “Direct Personal Interviews” are:

- people willingly supply information because they are approached personally. Hence, more response noticed in this method than in any other method.
- the collected information are likely to be uniform and accurate. The investigator is there to clear the doubts of the informants (respondents).
- supplementary information on informant’s (respondent’s) personal aspects can be noted. Information on character and environment may help later to interpret some of the results.
- answers for questions about which the informant (respondent) is likely to be sensitive can be gathered by this method.

- the wordings in one or more questions can be altered to suit any informant (respondent). Explanations may be given in other languages also. Inconvenience and misinterpretations are thereby avoided
(2½ marks for each correctly stated point. Maximum of 4 to be graded). Grand Total: 10 marks

8. Briefly explain the following terms:

- (a) Experiment; (b) Sample Space; (c) Event;
(d) Mutually Exclusive Events; (e) Independent Events.

Solution:

(a) **Experiment:** This is a statistical process of generating data in which the outcomes are unpredictable. For example, rolling of a die, sales of products per day e.t.c. is an experiment. (2 marks)

(b) **Sample Space:** this is the totality of all possible outcomes of an experiment. For example, if a fair die is rolled, the sample space S is given as $S = (1,2,3,4,5,6)$. (2 marks)

(c) **Event:** it is a statement about one or more outcomes of an experiment. It is a subset of a sample space. (2 marks)

(d) **Mutually Exclusive Events:** two events A and B are said to be mutually exclusive if when event A occurs, event B cannot occur. Here we say the appearance of event A exclude the appearance of event B, for example, if we toss a coin and head turns up, then we cannot at the same time obtain a tail. $P(A \cap B) = 0$ (2 marks)

(e) **Independent Events:** Two events A and B are said to be independent if when even A occurs, it does not prevent the occurrence or non-occurrence of event B. (2 marks)

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

9. List and briefly explain the four (4) components of Time Series.

Solution

The four components of “time series” are:

1. **Trend:** a study of the series of economic and business statistics would reveal that most of them have a natural tendency to increase or decrease over a period of several years. For instance, a scrutiny of agricultural production in Nigeria during the last 30 year would show that the production has been in general on an increase and that the increase has been fairly regular.

(1½ marks for correctly stated component. 1 mark for any correct and completely stated explanation. Sub-Total: 2½ marks)

2. Cyclical Variations: Cyclical variations as they pursue an oscillating movement which, in general, takes the form of a wave, though the distances from peak to trough of the waves are uneven. Such cycles are generally repeated at intervals ranging from about 3 to 10 years and are caused by a complex combination of forces affecting the equilibrium of demand and supply. Cycles generally exhibit semi-regular periodicity as these are neither as regular as are the seasonal variations, nor as accidental as are the random fluctuations. A business cycle may also be referred to as 'four phase' cycle, composed of prosperity, recession, depression and recovery. This swing from prosperity to recovery and back again to prosperity varies both in time and intensity. (2½Marks)

(1½ marks for correctly stated component. 1 mark for any correct and completely stated explanation. Sub-Total: 2½ marks)

3. Seasonal Variations: It is a common knowledge that consumption and production of many commodities, interest rates, bank clearings, etc are marked by seasonal swings. Though the direct and main impact of nature is mainly on agriculture yet climatic conditions, including variations in rainfall, humidity, sunshine, heat, wind and snow do produce variations in almost all other types of industries Climate and custom together play an important role in giving rise to seasonal movements to almost all the industries – primary, secondary and tertiary.

(1½ marks for correctly stated component. 1 mark for any correct and completely stated explanation. Sub-Total: 2½ marks)

4. Irregular or Random Fluctuations

The fourth and last component of time series is obtained after segregating the secular, seasonal and critical variations from the original data of the time series and is variously known as residual, random, irregular or accidental fluctuation. Often these residual values show a substantial rise or fall attributable mostly to numerous non-recurring and irregular circumstances, such as wars, prolonged strikes, revolutions, locust invasions, conflagrations, famines, epidemics droughts, floods earthquakes, severe storms and other acts of God. Seldom could any of these specific forces even crudely be foreseen and as such the question of predictions scarcely arises. (2½marks)

(1½ marks for correctly stated component. 1 mark for any correct and completely stated explanation. Sub-Total: 2½ marks)

(Grand Total: 10 marks)

10. Enumerate any five (5) characteristics of Linear Programming Problem.

Solution

The characteristics of Linear Programming Problem are:

- well defined objective functions;
- alternative course of action;
- additive of resources and activities;
- linearity of the objective function and constraints;

- non-negative of decision variables;
- divisibility of activity and resources;
- finiteness of the activities and resources;
- single valued expectations.

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

Grand Total: 10 marks

11. Highlight five (5) stages in operational research.

Solution

The stages in “operational research” are:

- (i) Definition of Problems and Objectives;
- (ii) Identification of Variables;
- (iii) Construction of a Model;
- (iv) Manipulation of the Model to Produce Solution;
- (v) Testing the Model and the Solution;
- (vi) Implementation of Final Solution;
- (vii) Review and maintenance.

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

12. Given the cost matrix, together with its supply and demand in the table below formulate as a linear programming problem.

	M ₁	M ₂	M ₃	Supply
W ₁	2	3	7	20
W ₂	4	1	5	180
W ₃	7	6	6	300
Requirement	50	150	300	500

Solution

$$\text{Min } Z = 2X_{11} + 3X_{12} + 7X_{13} + 4X_{21} + X_{22} + 5X_{23} + 7X_{31} + 6X_{32} + 6X_{33} \quad (3 \text{ Marks})$$

s.t

$$X_{11} + X_{12} + X_{13} = 20 \quad (1 \text{ Mark})$$

$$X_{21} + X_{22} + X_{23} = 180 \quad (1 \text{ Mark})$$

$$X_{31} + X_{32} + X_{33} = 300 \quad (1 \text{ Mark})$$

$$X_{11} + X_{21} + X_{31} = 50 \quad (1 \text{ Mark})$$

$$X_{12} + X_{22} + X_{32} = 150 \quad (1 \text{ Mark})$$

$$X_{13} + X_{23} + X_{33} = 300 \quad (1 \text{ Mark})$$

$$X_{ij} \geq 0 \text{ for all pairs of } (i,j) \quad (1 \text{ Mark})$$

Grand Total: 10 marks

13. Outline the five (4) classes of queuing system, with its different service points.

Solution

The classes of Queuing System are:

- Single Queue – Single Service Point (2½ Marks)
- Multiple Queues – Multiple Service Points (2½ Marks)
- Single Queues – Multiple Service Points (2½ Marks)
- Multiple Queues – Single Service Points (2½ Marks)

Grand Total: 10 marks

14. What are the four (4) rules of queue discipline or service discipline?

Solution

The rules of queue discipline or service discipline are:

1. First Come First Served (FCFS) (2½ Marks)
2. Last Come Last Served (LCLS) (2½ Marks)
3. Service in Random Order (SIRO) (2½ Marks)
4. General Discipline (GD). (2½ Marks)

Grand Total: 10 marks

Part II

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

Each question carries 30 marks.

15. (a) Explain the importance of statistics to the following sectors of the economy:
- (i) insurance; (ii) agriculture; (iii) economics. (21 marks)
- (b) Explain any three (3) limitations to Statistics. (9 marks)

Solution

(i) **insurance:** statistics are lifeblood of successful insurer as so many multinational insurance companies invaded into our economy in those years, the size and volume of business increases. On one side the stiff competition is increasing whereas on the other side the tastes are changing and new fashions are emerging. In this connection, market survey plays an important role to exhibit those conditions and to forecast the likely changes in future. (7 marks)

(ii) **agriculture:** analysis of variance (ANOVA) is one of the statistical tools developed by Professor R.A. Fisher, plays a prominent role in agriculture experiments. In tests of significance based on small samples, it can be shown that statistics is adequate to test the significant difference between two sample means. In analysis of variance, we are concerned with the testing of equality of several population means. For example, if five fertilizers are applied to five plots each of maize and the yield of maize on each of the plots are given. In such a situation, we are interested in finding out whether the effect of these fertilizers on the yield is significantly different or not. (7 marks)

(iii) **economics:** statistical methods are useful in measuring numerical changes in complex groups and interpreting collective phenomenon. Nowadays the uses of statistics are abundantly made in any economic study. Both in economic theory and practice, statistical methods play an important role. We need to know that statistical data and techniques of statistical tools are immensely useful in solving many economic problems such as wages, prices, production, distribution of income and wealth and so on. Statistical tools like index numbers, time series analysis, estimation theory, testing statistical hypothesis are extensively used in economics. (7 marks)

(b) The limitations to Statistics are:

1. Statistics is not suitable to the study of qualitative phenomenon: Since statistics is basically a science and deals with a set of numerical data, it is applicable to the study of only these subjects of enquiry, which can be expressed in terms of quantitative measurements. As a matter of fact, qualitative phenomenon like honesty, poverty, beauty, intelligence etc, cannot be expressed numerically and any statistical analysis cannot be directly applied on these qualitative phenomenon's. Nevertheless, statistical techniques may be applied indirectly by first reducing the qualitative expressions to accurate quantitative terms

2. Statistics does not study individuals: Statistics does not give any specific importance to the individual items; in fact, it deals with an aggregate of objects or collections of items or individuals. Individual items, when they are taken individually do not constitute any statistical data and do not serve any purpose for any statistical enquiry.

3. Statistical laws are not exact: It is well known that mathematical and physical sciences are exact. But statistical laws are not exact and statistical laws are only approximations. Statistical conclusions are not universally true. They are true only on an average.

4. Statistics table may be misused: Statistics must be used only by experts; otherwise, statistical methods are the most dangerous tools on the hands of the inexpert. The use of statistical tools by the inexperienced and untraced persons might lead to wrong conclusions. Statistics can be easily misused by quoting wrong figures of data. As King says aptly 'statistics are like clay of which one can make a God or Devil as one pleases'.

5. Statistics is only, one of the methods of studying a problem:

Statistical method does not provide complete solution of the problems because problems are to be studied taking the background of the countries culture, philosophy or religion into consideration. Thus, the statistical study should be supplemented by other evidences.

(2 marks for each correctly stated limitation. 1 mark for any correct and complete explanation.

Sub-Total per limitation: 3 marks. Maximum of 3 to be graded. Grand Sub-Total: 9 marks)

Grand Total: 30 marks)

16. (a) A Manufacturer produce two types of kettles, P and Q. Both kettles go through two techniques, first a cutter, second a finisher. Kettle A requires 8 hours of cutter's time and 4 hours of the finisher's time. Kettle B requires 4 hours of cutter's time and 8 hours of the finisher's time. The cutter has 120 hours and finisher 96 hours of available time each month. Profit on one kettle A ~~N~~16.00 and on one kettle B is ~~N~~12.00. Assuming that he can sell all that he produces (a) Formulate the problem as a Linear Programming Problem (LPP). (12 marks)
 (b) Solve using the graphical method. (18 marks)

Solution

Let X_1 be number of Kettle A Produced

X_2 be number of Kettle B Produced (1 mark)

Profit of X_1 will be $16X_1$ (1 mark)

Profit of X_2 will be $12X_2$ (1 mark)

Total time for cutter on Kettle A and B is $8X_1 + 4X_2$ but cutter has available 120 hours.

$\therefore 8X_1 + 4X_2 \leq 120$ Constraint 1 (2 marks)

Finisher time for Kettle A is $4X_1$ (1 mark)

Finisher's time for Kettle B is $8X_2$ (1 mark)

Total time for both Kettle A and B is $4X_1 + 8X_2 \leq 96$, since finisher has available 96 hours.

$\therefore 4X_1 + 8X_2 \leq 96$ Constraint 2 (2 marks)

The LPP is:

$$\begin{aligned} \text{Max } Z = & 16X_1 + 12X_2 \\ \text{s.t} & 8X_1 + 4X_2 \leq 120 \\ & 4X_1 + 8X_2 \leq 96 \\ & x_1, x_2 \geq 0 \end{aligned} \quad (3 \text{ marks})$$

(Grand Sub-total: 12 marks)

b) Solve graphical the LPP

$$\begin{aligned} \text{Max } Z = & 16X_1 + 12X_2 \\ \text{s.t} & 8X_1 + 4X_2 \leq 120 \\ & 4X_1 + 8X_2 \leq 96 \\ & X_1, X_2, \geq 0 \end{aligned}$$

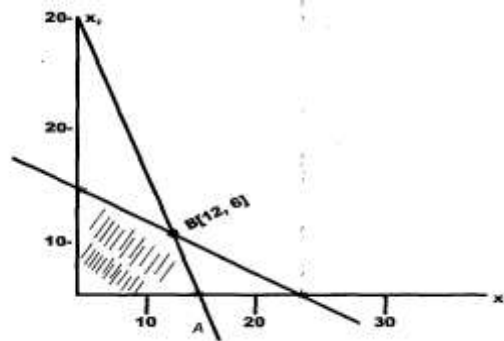
$$\begin{aligned} \text{Step i:} & 8X_1 + 4X_2 = 120 \dots (1) \\ & 4X_1 + 8X_2 = 96 \dots (2) \end{aligned} \quad (2 \text{ marks})$$

$$\begin{aligned} \text{Step ii:} & X_1 = 0, X_2 = 30 \text{ i.e } (0, 30) \\ & X_2 = 0, X_1 = 15 \text{ i.e } (15, 0) \end{aligned} \quad (2 \text{ marks})$$

Points (0,30) and (15,0) will be used to draw the line of equation 1
 For equation 2 $X_1 = 0, X_2 = 12$
 $X_2 = 0, X_1 = 24$ (2 marks)

Point (0,12) and (24,0) will be used to draw line for equation 2

(4 marks)



Step iii: The area that satisfies the two equations (constraints) is shaded above: and the corner points O.A.B & C give the feasible region OABC'. The points are O (0,0) A (15,0) B (12,6) and C (0,12). (1 mark)

It must be noted that point B can be read from the graph, or it can be computed using simultaneous equation method.

Step iv: Test the four corners of the shaded area to see which point yields the maximum value of Z.

Point O (0,0) is $16(0) + 12(0) = 0$ (1 mark)

Point A (15,0) is $16(15) + 12(0) = 240$ (1 mark)

Point B (12,6) is $16(12) + 12(6) = 264$ (1 mark)

Point C (0,12) is $16(0) + 12(12) = 144$ (1 mark)

the greatest points is $Z_B = 264$ with $X_1=12$ and $X_2= 6$ (3 marks)

(Sub-Total: 18 marks)

Grand Total: 30 marks

17. The data below shows the premium of some clients in an insurance company in a given day in thousand naira;

77	33	76	47	41	45	65	41	83	58	55	43	39	55	66	43
66	32	45	36	54	45	41	25	71	69	56	51	61	77	37	57
40	44	68	82	44	38	55	40	47	42	51	32	58	49	66	72
39	51	80	55	62	78	50	51	56	48	38	64	59	45	46	63
68	26	61	49	33	64	45	44	29	45	73	73	92	37	47	55
44	50	45	48	51	36	92	46	72	38	59	53	44	71	57	61
41	39	57	83												

- (a) Construct a group frequency distribution table using the class interval of 25–31, 32–38, e.t.c (18 marks)
- (b) Calculate the mean weight, median weight and modal weight. (22 marks)

Solution

Premium	LB	Tally	f	x	f _i x _i
25 – 31	24.5 - 31.5	III	3	28	84
32 – 38	31.5 - 38.5	HHHHH I	11	35	385
39 – 45	38.5 - 45.5	HHHHHHHHHHHHH III	24	42	1008
46 – 52	45.5 - 52.5	HHHHHHHH	15	49	735
53 – 59	52.5 - 59.5	HHHHHHHH II	17	56	953
60 – 66	59.5 - 66.5	HHHHH I	11	63	693
67 – 73	66.5 - 73.5	HHHHH	9	70	630
74 – 80	73.5 - 80.5	HHH	5	77	385
81 – 87	80.5 - 87.5	III	3	84	252
88 – 94	87.5 - 94.5	II	2	91	182
(3 marks)	(5 marks)	(5 marks)			(5 marks)
			Σf = 100 (1 mark)	(1 mark)	5306 (1 mark)

- (b) Calculate the mean weight, median weight and modal weight. (22 marks)

Solution

(i). $\bar{x} = \frac{\sum f_i x_i}{\sum f_i} \text{ (1 mark)} = \frac{5306}{100} \text{ (1 mark)} = 53.06 \text{ (1 mark)}$

∴ Average premium is 53.06

(ii). Median = Med = $L_1 + \left(\frac{\frac{\sum f}{2} - \sum f_1}{f_m} \right) c \text{ (1 mark)}$

$= 45.5 + \left(\frac{50 - 38}{15} \right) 7 \text{ (1 mark)}$

$= 45.5 + (0.8)7$

$= 45.5 + 5.6$

$= 51.1 \text{ (1 mark)}$

(iii). Mode = M₀ = $L_1 + \left(\frac{f_1 - f_0}{2f_1 - f_0 - f_2} \right) c \text{ (1 mark)}$

$= 38.5 + \left(\frac{24 - 11}{2(24) - 11 - 15} \right) 7 \text{ (1 mark)} = 38.5 + \left(\frac{13}{22} \right) 7$

$= 38.5 + 4.136$

$= 42.636 \approx 43 \text{ (1 mark)}$

(Grand Total: 30 marks)

18. The data below shows the age and premium of some clients in an insurance company in a given day in thousand naira;

Client	1	2	3	4	5	6	7	8	9	10	11	12	13
Age(x)	14	3	5	6	14	9	18	5	16	10	17	11	25
Premium(y)	22	12	15	17	15	19	24	13	27	20	28	18	32

- Fit a regression line $y = a + bx + e_i$
- Determine the expected premium if the age of the client is 40.
- Determine the correlation between the premium and the age.

Solution

X	14	3	5	6	14	9	18	5	16	10	17	11	25	153
Y	22	12	15	17	15	18	24	13	27	20	28	18	32	262
xy	308	36	75	102	210	162	432	65	432	200	476	198	800	3505
x ²	196	9	25	36	196	81	324	25	256	100	289	121	625	2283
y ²	484	144	225	289	225	324	576	169	729	400	784	324	1024	5734

(½ mark each for any 10 of the bolded value in each row] (15 marks)

(a) $Y = a + bx$ (1 mark)

$$b = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2} \text{ (1 mark)} = \frac{13(3505) - (153)(262)}{13(2283) - (153)^2} \text{ (1 mark)}$$

= 0.8738 (1 mark)

$a = \bar{y} - b\bar{x}$ (1 mark) = 20.1538 - (0.8738) 11.769 (1 mark) = 9.8694 (1 mark)

∴ $Y = 9.8694 + 0.8738 (X)$ (1 mark)

Premium = 9.8694 + 0.8738 (Age) (1 mark)

- (b) Determine the expected premium if the age of the client is 40.

Age of 40 → Premium = 9.8694 + 0.8738 (40) (1 mark) = 44.82 = 45 (1 mark)

- c) Determine the correlation between the premium and the age.

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}} \text{ (2 marks)}$$

$$= \frac{13(3505) - (153)(262)}{\sqrt{[13(2283) - (153)^2][13(5734) - (262)^2]}} \text{ (1 mark)}$$

= 0.90098 (1 mark) (Grand Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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 OCTOBER
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

52% pass rate. Average performance. Question is clear but the candidates were unable to clearly state their responses.

Question 2

35% pass rate. Candidates were largely using experience to explain that knowledge of the question.

Question 3

19% pass rate. The question was on an acronym, which is direct and does not require guess work. One either gets it or fails it. Majority of the candidates failed it.

Question 4

30% pass rate. Attempted solutions were more from experience than from the contents in the coursebook.

Question 5

21% pass rate. The question is popular and friendly. More serious candidates would find it easier to answer correctly.

Question 6

35% pass rate. The question is friendly and direct. Candidates need to study harder.

Question 7

72% pass rate. Encouraging concept of SLA is well – understood by the candidates.

Question 8

46% pass rate. The acronym GROW was answered using personal models instead of text model.

Question 9

51% pass rate. Many of the candidates used residual knowledge to approach the answer.

Question 10

65% pass rate. Candidates displayed understanding of concept which appears popular in the workplace.

Question 11

30% pass rate. Candidates approach was based on residual knowledge and not the coursebook. Question on delegation is popular but candidates were not on point.

Question 12

42% pass rate. Candidates mixed up general rewards with financial rewards specifically required.

Question 13

7% pass rate. Candidate efforts were largely based on residual knowledge.

Question 14

6% pass rate. Skills for future managers are misunderstood with general skills of a manager.

Question 15

22% pass rate 42% of candidates attempted the question candidate were largely using general ideas than the text.

Question 16

28% of candidates attempted. Pass rate is 70% this is 8000. Candidates are advised to study harder for improved performance.

Question 17

45% attempted question pass rate is 73% pass rate. Good attempt.

Question 18

60% attempted question pass rate is 33%. Poorly attempted question by candidates in general.

Comments on Overall Performance:

Most attempts were based on residual knowledge. Question is fair and friendly enough.

Suggestions on Improvement

Candidates are advised to study harder for improved performance.

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

1. The Insurance Act 2003 Section 56 states that no insurance should be made on the life of another without insurable interest and Section 64 states that no person shall cause to be constructed any building of more than two floors without insuring with a registered insurer. Explain in details the provisions of the two sections in the Act.

Solution**(a) No insurance to be made on the life of another without insurable interest (Section 56)**

(1) A policy of insurance made by a person on the life of any other person or on any other event whatsoever shall be null and void where the person for whose benefit, or on whose account the policy of insurance is made has no insurable interest in the policy of insurance or where it is made by way of gaming or wagering.

(2) A person shall be deemed to have an insurable interest in the life of any other person or in any other event where he still stands in any legal relationship to that person or other event in consequence of which he may benefit by the safety of that person or event or be prejudiced by the death of that person or the loss from the occurrence of the event.

(b) Insurance of public building (section 64)

(1) No person shall cause to be constructed any building of more than two floors without insuring with a registered insurer his liability in respect of construction risks caused by his negligence or the negligence of his servants, agents or consultants which may result in bodily injury or loss of life to or damage to property of any workman on the site or of any member of the Public.

(2) The duty to insure under subsection (1) of this section shall arise when a building is under construction.

(3) A person who contravenes subsection (1) of this section commits an offence and on conviction shall be liable to a fine of N250,000 or imprisonment for three years or both.

(2½ marks for each correct and completely stated provision. Maximum of 4 to be graded.

Grand Total: 10 marks)

2. Enumerate any five (5) of the leadership traits.

Solution

Some leadership traits with examples are:

- (i) **physical characteristics:** energy, age, height, weight, physical fitness;
- (ii) **personality:** dominance, aggression, self-confidence, creativity, stress tolerance, self-control;

- (iii) **social background:** economic and social status, education and job mobility;
 - (iv) **work orientation:** need to achieve, initiative, empowerment of others, persistence;
 - (v) **intellectual abilities:** logical thinking, intelligence, judgement, linguistic ability, abstract reasoning;
 - (vi) **social skills:** cooperation, amiability. people skills, diplomacy and supportiveness.
- (2 marks for each correctly stated trait. Maximum of 5 to be graded. Total: 10 marks).

3. There is an acronym we can use to listen effectively it is DO LISTEN. Explain the acronym.

Solution

The acronym Do Listen means:

D - Don't Interrupt: Let the other person talk

O - Open Minded: Don't allow your thoughts about what others says distract you.

L - Look Interested: Be interested

I - Invite Responses by asking questions

S - Signs (Verbal) an occasional 'Yes' I see' 'okay'

T - Test understanding/check back:

E - Evaluate Voice Tone: Tone of voice can provide a clue or hidden meanings

N - No distractions/Notes: Put all others distractions out of your mind. Concentrate only on what is being said

(1 mark for each correctly stated meaning = 8marks. 2 marks for following the order. Total: 10 marks).

4. Conflict is a natural part of human condition and there are five (5) basic styles of handling conflicts. Enumerate and briefly explain these five.

Solution

The five basic styles of handling conflicts are:

(i) **accommodation:** Neglecting your concerns to let the other party achieve their needs. Usually leads to smoothing or false cooperativeness;

(ii) **power:** Trying to overpower the needs of others. A win-lose dynamic is often initiated;

(iii) **avoidance:** Characterized by a hopelessness in being able to achieve resolution;

(iv) **negotiation:** Involves settling for 'half a loaf' rather than risking an all-out struggle

(v) **integration:** Mutual problem solving with each party accepting the others goals and seeking ways to achieve the best for both.

(1 mark for each correctly stated style. 1 mark for correct explanation under each style. Sub-Total per style: 2 marks. Grand Total: 10 marks)

5. According to Henley Center, three C's were clearly identified as customer's expectations with regards to telephone service. Identify any two (2) of the three (3) Cs and give an example of each identified one.

Solution

The 3C's of customer expectations with

(i) **Convenience:**

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

(ii) **Cordiality:** to talk to:

- helpful
- knowledgeable
- friendly

(iii) **Consistency:** did what they said they would

- every time
- with the same level of service
- were reliable and predictable

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

6. Enumerate five (5) attributes of a project.

Solution

The attributes of a project are:

- * defined start point; * set of objectives; & * deliverables/output;
- * defined end point; * benefits to the organisation; * a one-off activity;
- * its management takes place outside usual organisational reporting relationships.

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

7. (a) Define service level agreement (SLA) stating two (2) kinds of customers it is applicable to. (6 marks)

(b) State the two (2) reasons why the use of SLA will continue to grow. (4 marks)

Solution

- (a) Service Level Agreement (SLA) are statements that set out the level of service which will be delivered to customers or which has been agreed will be delivered to a specific customer. The customer in this case can either be external or internal; for information only or contractual.

(4 marks for SLA and 1 mark each for the 2 types of customers. Sub-Total: 6 marks)

- (b) The use of SLA will continue to grow for two (2) key reasons who are:

- People now want to know what the level of service they can expect from organisations;

- For business that outsource part of their operations, the level service to be delivered will be built into supplier contract.
(2 marks for each correct and completely stated use. Sub-Total: 4 marks). Grand Total: 10 marks

8. One of the ways of helping the staff to achieve what they want to achieve is the GROW model. State the meaning of the acronym GROW.

Solution

The Grow acronym means:

G - Goal: The goal to be achieved is identified this needs to meet the SMART criteria.

R - Reality: This is a review stage looking at what the current situation is, talking about where things are

O - Options: A brainstorming session to identify as many options as possible that could help the person to achieve the goal they have set.

W - What will you do: All the options are considered and the best ones selected, so an action plan can be developed with agreed timescales.

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

9. Enumerate five (5) difficulties of the 360-degree appraisal method.

Solution

The difficulties of the 360-degree appraisal method are:

- the fear of giving feedback, if negative;
- some people find it difficult to give their opinion;
- some questionnaires are too lengthy, rigid or not relevant to the job
- a focus on reward can limit openness;
- in large organisations, the process may become bureaucratic with some people having to spend a lot of time completing and collating the information;
- people in receipt of feedback not being given the right support to overcome their development.

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

10. Enumerate five (5) advantages of MBO (Management by Objective) in an organisation.

Solution

The advantages of MBO (Management by Objective) in an organisation are:

- better managing through better planning and control;
- clarification of organisational goals within the framework of a long-term plan;
- it helps to convert strategic plan into management action plan and budgets;

- the coordination of individual management targets into the overall scheme ensures that each individual manager knows what is expected of them;
 - it commits individual manager to their targets;
 - it encourages better communication and coordination with the organisation;
 - it helps to identify the need for change in organisation goals for individual managers and provides a system of making such changes.
- (2 marks for each correctly stated point. Maximum of 5 to be graded. Total: 10 marks)

11. For delegation not to be a mere load shedding, it must follow a methodical process. Enumerate five (5) areas that the delegator and delegate must discuss and agree for effective delegation.

Solution

The areas that the delegator and delegate must discuss and agree for effective Delegation are:

- the results to be achieved;
 - the deadlines and the completion dates;
 - the interim checkpoints;
 - the importance, context and the constraints of the task;
 - provide the delegatee with any special authority needed to allow them complete the task;
 - monitor the agreed deadlines rigorously;
 - praise the delegatee for meeting those deadlines.
- (2 marks for each correctly stated area. Maximum of 5 to be graded. Total: 10 marks)

12. Enumerate five (5) examples of financial rewards to a staff of an organisation.

Solution

The examples of financial rewards to a staff of an organisation are:

- * salary;
- * bonuses;
- * overtime payment;
- * productivity payment
- * profit sharing;
- * share option schemes;
- * large town allowance.

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

13. Define the following and give two (2) examples of each.

(a) intrinsic reward; and (b) extrinsic reward.

Solution

Intrinsic rewards are derived from the pleasure which individual associates with doing the job itself. (3 marks) Examples include: using personal, dealing with problems, taking responsibilities for decisions, achieving targets, working with like – minded people.

(1 mark for each correctly stated example. Maximum of 2 examples to be graded.) Grand Sub-Total: 5 marks.

Extrinsic rewards are given to the employee by the organization. (3 marks)
Examples include: salary and wages, performance bonus, car, overtime, holiday pay, pensions contributions.

(1 mark for each correctly stated example. Maximum of 2 examples to be graded.) Grand Sub-Total: 5 marks.

(Grand Total: 10 marks)

14. Enumerate five (5) skills that would be necessary for future managers in the finance Industry to possess.

Solution

The skills that would be necessary for future managers in the finance Industry to possess are:

- * commercial awareness;
- * intellectual dexterity;
- * marketing and selling skills;
- * skills in interpersonal relationship;
- * adaptability;
- * decisiveness;
- * ability to learn rapidly;
- * effective communication;
- * ability to take a broad view;
- * technical competence.

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

Part II

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

Each question carries 30 marks.

Section II

15. (a) Organisations are moving away from “management by command” to “management by consensus”. Briefly explain these two terms with a concise example each. (14 marks)
- (b) Business has become increasingly sophisticated; so is the practice of management. Briefly explain the four (4) changing skills required by the Manager. (16 marks)

Solution

(a) A management by command is a situation where subordinate do as they are instructed, without participating in decision-making process. Management by consensus is a situation where staff or subordinates actively participate in decision making processes.

(Candidates are required to explain these two terms. For each detailed explanation, marks are duly allotted on the explanations to make the grand total to be 14 marks).

- (b) The four (4) changing skills required by the manager are:
- (i) **Earning the respect of subordinates and colleagues:** leading by hierarchy is now challenged. Merit and the worth of employees are more relevant to today’s business. Managers must theory one develops interpersonal skills and empathy with other staff.
 - (ii) **Focusing on Customers:** Manager must be aware of the impact of his decisions on organisation existing and potential customer base.

- (iii) **Multi-Tasking:** With advanced technology and sophisticated communication methods managers need to know a wider range of business disciplines like ICT, finance, human resources etc in addition to their own specialized areas.
- (iv) **Mobility and Global Outlook:** Many organisations now trade internationally with partners. Managers should be able to conduct businesses in different economic, cultural and financial environments. There is need for managers to know about global trends and opportunities and even ways of entering new markets
(3 marks for each correctly stated point. 1 mark each for correct explanation. Total: 16 marks)
(Grand Total: 30 marks)

16. (a) In planning what has to be done in a team, you need to identify “zones of certainty” and “zones of uncertainty”. Explain the two (2) terms; stating a concise example on each. **(14 marks)**
- (b) “Tuckman Model” suggests that teams go through four stages of development: Forming → Storming → Norming → Performing. Identify four (4) essentials each in Norming and Performing. **(16 marks)**

Solution

- (a) (i) **Zones of certainty** is where you have all the information and expertise you need and can plan forward realistically.
- (ii) **Zones of uncertainty** is where you are ignorant and where there is great uncertainty. In this case, of the manager needs to find out from those who know.
(3½ marks for each correct and completely stated explanation. Maximum of 2 explanations are to be considered. 7 marks for each term. Sub-Total per term: 7 marks. Sub-Total: 14 marks)

- (b) The essentials in norming and performing are:
- (i) **Norming:** Where the Team begins to pull together
- Increase in satisfaction; * Resolution of animosity;
 - Developing self confidence;
 - * Being more open and giving feedback
 - Sharing responsibility
- (ii) **Performing:** When the team identity is complete and morale is high.
- Working collaboratively and independently
 - Feeling of team strength
 - Showing confidence in accomplishing tasks
 - Sharing leadership
 - Performing at high levels
- (2 marks for each correctly stated essential. Maximum of 4 on each term to be graded. Sub-Total per term: 8 marks. Grand Sub-total: 16 marks) Grand Total: 30 marks**

17. (a) Dr. Selye identified three stages of stress. Identify and briefly explain the three (3). (18 marks)
- (b) Stress can be caused by job sources and organisation sources. Give three (3) examples each of job-related causes of stress and organisation-related causes of stress. (12 marks)

Solution

- (a) Dr Selye three (3) stages of stress are:
- (i) **Alarm:** First stages that leads to increased heart rate, sweating, shallow breathing, tightening of muscles, stomach spasm. However, these changes release energy and this helps to focus concentration.
- (ii) **Resistance:** The second stage, where the body prepares to resist potential threats. When the threats recede, the body returns to its normal state.
- (iii) **Exhaustion:** The third stage, where there is prolonged to excessive threat. This is a danger state. A stress management approach will be needed to return the body to its normal state.
- 4 marks for each correctly stated point. 2 marks each for correct explanation. Total: 18 marks)
- (b) Stress can be caused by job sources and organisation sources. Give three (3) examples each of job-related causes of stress and organisation-related causes of stress.

Solution

- (i) Job-Related caused of stress
- Work overload
 - Role ambiguity
 - Person mismatch with the job
 - Poor working environment
 - Work hours
- (ii) Organisation – Related Causes of stress:
- Time pressure and deadlines
 - Pressure to achieve ever-increasing targets
 - Pressure on perfect results
 - Poor management style
 - Poor communication
 - Employment security and prospects
 - Office politics
- (2 marks for each correctly stated point. Maximum of 3 to be graded under each class.
Total: 12 marks)
(Grand Total: 30 marks)

18. (a) Call Centers are used to handling a wide range of Customer Relationship issues. Briefly explain the four (4) principal ways they are used. **(16 marks)**
- (b) The Automatic Call Distributor (ACD) is a computerized telephone system capable of handling a high volume of calls. Enumerate seven (7) business benefits of ACD. **(14 marks)**

Solution

- (a) The four (4) principal ways call centres are used are:
- (i) **Telesales:** whereby sales agents will fulfil sales roles over the telephone.
 - (ii) **Telemarketing:** whereby marketing agents will make potential customers become aware of products and services over the telephone.
 - (iii) **Customer Support:** whereby callers can contact a call centre for help with technical or service problems
 - (iv) **Automated Services:** whereby, for example, bank customers can transfer money from one account to another or simply find out their account balances by telephone

(2 marks for each correctly stated way. 2 marks for each correct and completely stated explanation. Sub-Total per way: 4 marks. Grand Total: 16 marks)

- (b) The business benefits of ACD are:
- what is good for the customer is good for the business;
 - it helps with customer satisfaction;
 - it gives businesses control of the telephone traffic;
 - it enables more effective use of resources;
 - it helps in managing calls and resources;
 - it provides real time and historic can information;
 - it can provides touch tome options and automated services;
 - it gives agents wrap tome for handling after call work;
 - it helps management to make informed decisions.

(2 marks for each correct and completely stated benefit. Maximum of 7 to be graded. Sub-Total: 14 marks). Grand Total: 30 marks.

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2022 DIET EXAMINATION PAPER

SUBJECT I07
MARINE AND AVIATION INSURANCE

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I07 – MARINE AND AVIATION INSURANCE

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

Chief Examiner's Comments

Question 1

Poor performance. 89% attempt, 26% success. Top test a general knowledge of the insurance industry. Candidates are required to be generally conversant with on-goings in the insurance industry.

Question 2

Moderately fair performance. 90% attempt, 31% success. Question meant to test the knowledge of jet stream. Some candidates thought jet stream was water, not knowing that it is a band of air. Candidates to study thoroughly and not superficially.

Question 3

Well attempted. 84% attempt, 63% success. A lot of candidates showed good knowledge of specialist vessels. It is important to know the special vessels and their peculiar uses.

Question 4

Good performance. 100% attempt, 95% success. Candidates showed a good understanding of cargoes suitable for carriage by air.

Question 5

Good performance. Attempted by all with 68% success. Question tested the knowledge of factors influencing the exporter's choice of method of payment.

Question 6

Good performance. 84% attempted with 74% success. The question tested the knowledge of the importance and obligation of both shipper and carrier with respect to Bill of Lading.

Question 7

Fair performance. Attempt 89%, Success 53%. Question tested the condition to be met for carriage of goods by road Act 1965 to operate. The candidates who were not able to perform well should pay more attention to the aspect in their studies.

Question 8

Poor performance. 64% attempted the question with no pass recorded. Candidates did not understand what the breach of warranty clause involves. It is a popular clause with shipowners and charterers. Candidates should pay thorough attention to clauses and their uses.

Question 9

Poor performance. Well attempted by candidates, 95% but success percentage only six (6). Question though simple, candidates did not pay profound attention to that aspect of business placement. A thorough study is necessary, not superficial reading.

Question 10

Poor performance. 64% attempted with 9% success. The question is simple and straightforward but enough attention was probably not paid to the aspect of 'deviation' in their studies. Candidates should note this aspect in vessel navigation.

Question 11

Performance moderately fair. 79% attempted with 20% success. Question meant to test the beginning of aviation insurance and the segments of aviation insurance industry. The Airclaims Limited provided services for. Only a few candidates brought up relevant answers. The background of aviation insurance should be known by candidates.

Question 12

A fair performance. 85% attempted with 44% pass success. Question to test knowledge of sovereignty of jurisdiction over air space in various locations. Candidates probably overlooked this simple aspect in their studies. Every part of their course book is important, no matter how simple it appears.

Question 13

Fair performance. 64% attempt, 25% success. To test knowledge of conferences and conventions. Only a few candidates listed a substantial number of conventions. Candidates to pay attention to the conventions and areas covered by them.

Question 14

Poor performance. Attempt 69%, pass 8%. Question to test "users of airport owners' liability insurance". Another simple practical aspect of insurance, either overlooked during the candidates' studies or not thoroughly studied. Deep study of all aspects recommended.

Question 15

Performance was moderately fair. About 50% of the candidates chose the question with success percent of 20. Question is meant to test the understanding a gaining and losing a day when a vessel crosses the IDL from the West and East respectively. (b) the use of warranties in the marine market. Candidates need to study well and understand thoroughly, those aspects of marine insurance.

Question 16

Performance fair. Question meant to test the understanding of the liabilities of each of the sender and the carrier under the carriage of Goods by the Road Act. (b) To test the understanding of the schedule of Lloyd's Marine Policy Cover. Candidates should master thoroughly these important aspects. 35% attempted the question with 33% success.

Question 17

Fair performance. Question chosen by 37% with 39% success. Question tested claims provision of the I.H. Clauses. A number of the candidates understood the clauses. Claims processing should be mastered by candidates as an essential aspect of insurance.

Question 18

Performance poor. 68% chose the question with 8% success. Question was simple and straightforward; perils covered by the I.C.C. (b). But candidates did not pay sufficient attention to them in their studies. It is essential to properly understand the perils covered and excluded.

Comments on Overall Performance

Overall performance encouraging, especially with as much as 20 candidates for the examination. This is a record performance. Candidates are advised to keep up their courage and remain determined to succeed and they will succeed, by the grace of God.

Suggestions on Improvement

Candidates are advised to create conducive study environment for themselves, remain persistent in their studies and check themselves for their level of understanding at the end of each study period.

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

1. The current syllabus of the Chartered Insurance Institute of Nigeria makes provision for the acquisition of additional professional certification after becoming an Associate or Fellow of the Institute. In what areas of specialization can the post AIIN certificates (qualifications) be acquired?

Solution

Qualification or certificate in:

- | | |
|---------------------------------|-----------------------------|
| (a) Microinsurance; | (b) Takaful insurance |
| (c) Insurance Broking Practice; | (d) Loss Adjusting Practice |
| (e) Special Risk Insurance. | |

(2½ marks each for any correctly stated post qualification certificate. Maximum of 4 points to be graded. Total: 10 marks)

2. (a) What is jet stream and in what area of the earth is it found? (4 marks)
 (b) In what part of the continents are Mediterranean Climate found and what are the conditions of winter and summer there? (6 marks)

Solution:

(a) A Jet stream is a narrow band of fast flowing air at altitudes just below the top of the troposphere (2 marks). It is found in the mid-latitudes (2 marks).

(Grand Sub-Total: 4 marks)

(b) Mediterranean climate is found on the west side of the continent between latitudes 30 degrees and 40 degrees (2 marks). Winter is generally warm and wet (2 marks) and summer is usually hot and dry (2 marks).

(Grand Sub-Total: 6 marks)

(Grand Total: 10 marks)

3. List five (5) specialist vessels.

Solution:

The following are specialist vessels.

- | | | |
|---------------------|-------------------|----------------------------|
| * passenger's ship; | * container ship; | * RoRo (Roll on, Roll off) |
| * car carriers; | * reefer vessels; | * Log/Timber carriers, and |
| * others. | | |

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

4. Enumerate five (5) commodities that are typically carried in Air Cargo traffic.

Solution:

Commodities that are typically carried in Air cargo traffic include:

- fashion goods of all descriptions; * perishable cargo;
- ;

- cargoes which are volumetric and have low weight in relation to their size; * livestock;
 - cargo with high technological content; * electronic toys;
 - specialised chemicals or medical products;
 - cargoes which have a short market life; * tv and video appliances;
 - computers and goods related to recording; * express parcel services.
- (2 marks for each correctly stated commodity. Maximum of 5 to be graded. Total: 10 marks)

5. List 5 (five) factors that will influence an exporter's choice of the method of payment by his overseas buyer.

Solution

The factors that will influence an exporter's choice of the method of payment by his overseas buyer are:

- the usual contract terms adopted in the overseas buyer's country;
- what competitors may be offering;
- how quickly funds are needed;
- the life of the product;
- market and exchange regulations;
- the availability of foreign currency to the buyer; and
- whether the cost of any credit can be afforded by the buyer or exporter.

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

6. Under COGSA 1971, what are the two (2) obligations of the shipper and the three (3) obligations of the shipowner whilst issuing the Bill of Lading?

Solution

The two (2) obligations of the shippers are:

- to give the particulars of the goods to be stated on the bill of lading, and
- to indemnify the carrier against loss, damage or expense arising from inaccuracy of such particulars.

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

The three (3) obligations of the shipowner are:

- to issue to the shipper a bill of lading stating the particulars of the goods and
- noting the apparent order or condition of the goods thereon
- when the goods are actually loaded, to note on the received for shipment bill of lading, the name of the ship on which the goods have been loaded, and the date of the shipment; the bill of the lading thus becoming shipped bill of lading

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

7. What 5 (five) conditions must be met by a contract of carriage by road, under the Carriage of Goods by Road Act 1965?

Solution

The five (5) conditions to be met by a contract of carriage by road, under the carriage of Goods by Road Act 1965 are:

- there must be a contract of carriage for reward;
- the contract so made must be one for the carriage of goods;
- the carriage must be effected by road;
- the carriage is to be carried out by certain categories of vehicles;
- the contract must have international status.

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

8. In what five (5) categories of risk coverage, is the shipowner allowed to conditionally breach warranty by the "Breach of Warranty Clause"?

Solution

The shipowner is allowed to conditionally breach warranty in the following categories of risk coverage:

- (i) cargo; (ii) trade; (iii) locality;
(iv) stowage (v) salvage services; & (vi) date of sailing

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

9. Enumerate any four (4) circumstances when a Marine Insurance Contract is deemed to have been concluded?

Solution:

A marine Insurance is deemed to have been concluded in the following circumstances:

- when an underwriter writes a line on the slip, it gives rise to a binding contract,
- between the underwriter and the assured or reassured for whom the broker is acting when they present the slip.
- the underwriter is therefore bound by their line,
- subject only to the contingency of having to sign down on closing to some extent,
- if the slip turns out to have been oversubscribed.

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

10. In what 5 (five) circumstances is deviation or delay in prosecuting the voyage contemplated by the policy excused?

Solution:

Deviation or delay in prosecuting the voyage contemplated by the policy is excused:

- where authorized by any special term in the policy;

- where caused by circumstances beyond the control of the master and their employer;
- where reasonably necessary in order to comply with an express or implied warranty;
- where reasonably necessary for the safety of the ship or the subject-matter insured;
- for the purpose of saving human life, or aiding a ship in distress where human life may be in danger;
- where reasonably necessary for the purpose of obtaining medical or surgical aid for any person on board the ship;
- where caused by the barbarous conduct of the master or crew, if barratry be one of the perils insured against

(2 marks for each correct and completely stated circumstance. Maximum of 5 to be graded.

Total: 10 marks)

11. (a) What are the names of the first 2 (two) companies that started Aviation Insurance in UK? (4 marks)
- (b) To which three (3) aviation stakeholders did Airclaims Limited provide technical information in the early days of Aviation Insurance? (6 marks)

Solution:

- (a) The name of the two pool companies that started aviation Insurance in the UK are:

- British Aviation Insurance Company Limited; (2 marks), and
- Aviation and General Insurance Company Limited (2 marks).

(Grand Sub-Total: 4 marks)

- (b) Airclaims Limited provided technical information on aviation to the following aviation stakeholders:

- * manufacturers; * operators; * insurers; and
- * other parties needing it.

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

12. In accordance with Public International Law, who has exclusive sovereignty over the following?

(a) Airspace over land. (4 marks)

(b) Airspace over the high seas. (3 marks)

(c) Outer space. (3 marks)

Solution

(a) The state has exclusive sovereignty over the airspace above it and its territorial waters. (4 marks)

(b) No one has exclusive sovereignty over the outer airspace above the high seas. It is free. (3 marks)

(c) No one has exclusive sovereignty over the outer space, as it is considered the province of all mankind. (3 marks)

(Grand Total: 10 marks)

13. Mention any 5 (five) of the Conference, Conventions and Protocols held in development of International Law (Aviation).

Solution:

Conference, Conventions and Protocols held in the development of international Law (Aviation) are as follows:

- 1925 Paris Conference;
- 1944 Chicago Convention;
- 1955 Hague Protocol;
- 1961 Guadalajara Convention;
- 1999 Montreal Convention
- * 1929 Warsaw Convention;
- * 1952 Rome Convention;
- * 1961 Guatemala Protocol
- * 1975 Montreal Additional Protocols;

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

14. (a) What two (2) organisations are the main users of Airport Owners' and Operators' Liability Policy?
- (b) What common names are given to the three (3) sections of Airport Owners' and Operators' Liability Policy?

Solution:

(a) The two (2) organizations that are the main users of the Airport Owners' and Operators' Liability policy are:

- Organizations that provide Airports, and
- Organizations that provide facilities at the Airport

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

(b) The Common names given to the three (3) sections of the Airport owners' and Operators' Liability Policy are:

- Section I: Premises Liability.
- Section II: Hangar Keeper's Liability, and
- Section III: Products Liability

(2 marks each for each correct and completely stated section. Sub-Total: 6 marks). Grand total: 10 marks

Part II

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

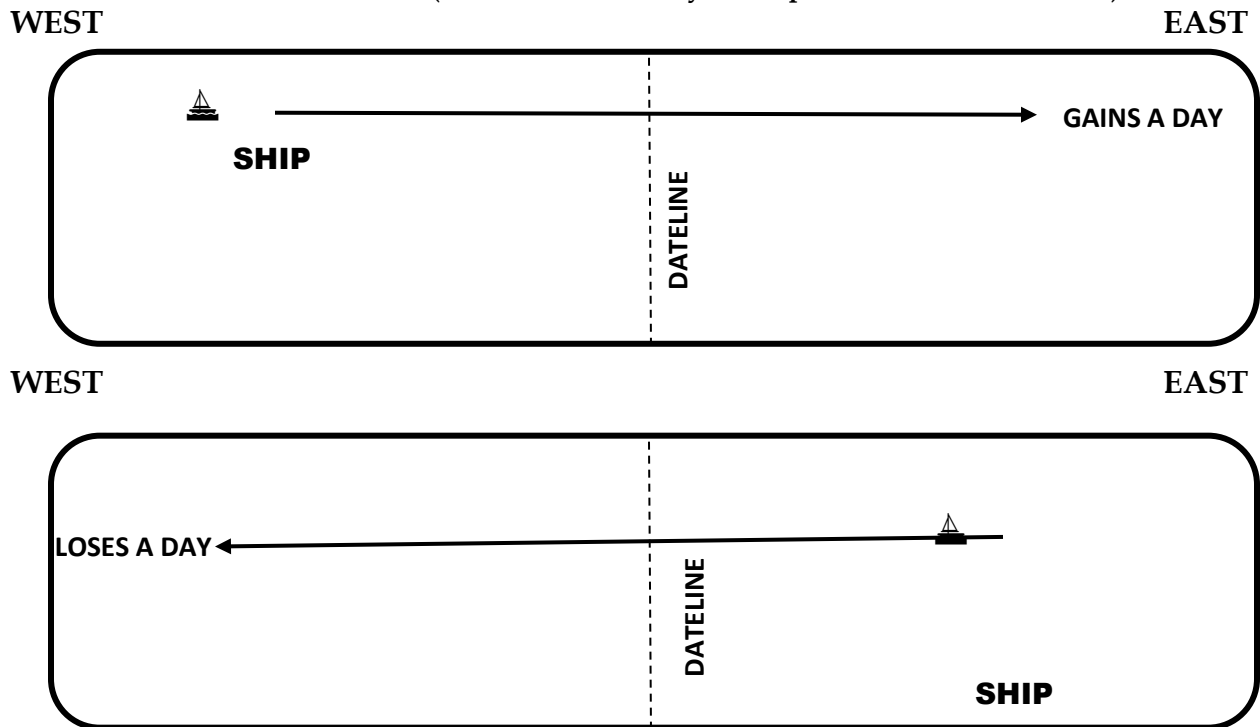
Each question carries 30 marks.

15. (a) (i) How is a day (24 hours) either gained or lost, on crossing the International Date Line (Longitude 180 degrees)? Fully explain all scenarios. (13 marks)
- (ii) Illustrate your answer with diagrams. (10 marks)
- (b) What are the Institute Warranties and how are they handled between underwriters, shipowners and charterers? (7 marks)

Solution:

- a) i. How a day (24 Hours) is either gained or lost, on crossing the International Date Line (Longitude, 180 degrees).
- Traveling eastward from the Greenwich Meridian (0 degree) to the International Date Line (180 degrees) 12 hours is gained
 - Moving forward, that is crossing the International Date Line to the East, 24 Hours (a day) is gained
 - On the other hand, moving backward from the Greenwich Meridian (0 degree) to the International Date Line, 180 degrees) 12 Hours is lost.
 - On crossing the International Date Line to the west, 24 Hours (a day) is lost.
 - This explains why two places just either side of the International Date Line have a time difference of approximately 24 Hours (a day).

(13 marks for correctly stated point. Sub-Total: 13 marks).



(5 marks each for each diagram. Sub-Total: 10 marks).

- b) Institute warranties are the special wordings used by the underwriters to restrict the areas of the world a vessel can navigate during the seasons of severe weather.
- When vessels trade within the limitation of the institute warranties, basic Insurance premiums are charged by the underwriters.

- However, Ship owners negotiate with the underwriters that charterers may have the option to break the warranties in respect of certain areas on payment of extra premium.
- Such extra premiums incurred for breaking warranty are usually paid by charterers, provided that it does not exceed the minimum scale with Llyod's of London.
- The new international Hull clauses (IHC) 1/11/03, has incorporated the Institute Warranties as "Navigating Limits"
- The new clauses (1/11/03) provide that the policy cover is suspended for the duration of any breach of trading provisions, unless underwriters are advised and additional premiums/charges in conditions agreed.

(3½ marks each for any correctly stated point. Maximum of 2 points to be graded. Sub-total: 7 marks). Grand total: 30 marks

16. (a) Enumerate the liabilities of both the sender and the carrier, under the Carriage of Goods by Road Act 1965, with at least six (6) different liabilities.

(20 marks)

(b) List any four (4) important information contained in the schedule of Llyod's Marine Policy (MAR91).

(10 marks)

Solution:

(a) The liabilities of both the sender and carriers, under the carriage of goods by the Road Act are as follows:

- Sender: The sender is liable for various types of damage and expenses due to defective packing;
- Unless the defect was apparent or known to the carrier at the time they took over the goods and they made no reservations concerning it.
- The carrier is liable for either total or partial loss of goods.
- The carrier may dispute that total or partial loss has occurred, claiming that it is only delay
- However, where goods have not been delivered within 30 days of expiry of the agreed time limit, it may be held that the goods are lost.
- Where there is stated time limit in the consignment note, the goods shall be held to be lost if not delivered within 60 days from the time the carrier took over the goods.
- The carrier is presumed to be liable for goods that arrive damaged, delayed or short delivered, but it must be established that the goods were not damaged whilst being taken over by the carrier or reservations have not been made concerning the amount, weight and number accepted for carriage.

- The carrier shall not be held liable if the loss, damage or delay was caused by the wrongful act, instruction or neglect of the claimant; inherent vice of the goods,
- Or through circumstances which the carrier could not avoid and the consequences of which they were unable to prevent
- The burden of proving that loss, damage or delay was due to one of these cause rests upon the carrier.

(4 marks each for any correctly stated point. Maximum of 5 points to be graded. Sub-Total: 20 marks).

(b) The important information contained in the schedule of Llyod's Marine Policy (MAR91) include:

- the name of the assured; * special conditions;
- details of the subject matter insured * endorsements
- summary of the pertinent clauses; and * warranties.

(2 marks for each correctly stated information. Maximum of 45 to be graded. Sub-Total: 10 marks)

(Grand Total: 30 marks)

17. In Part-3 Claims Provisions, of International Hull Clauses (1/11/03), what are the requirements of the following clauses:

- duties of the assured;
- duties of underwriters in relation to claims;
- recoveries.

Solution:

(a) The requirements of the clauses are as follows:

i. duties of the assured:

- The assured is under obligation to provide information in the claims process
- The clause makes it a condition precedent to the underwriter's liability that the assured make a fair presentation of its claim.
- It is a new clause that reflects the market position on claim.

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

ii. Duties of Underwriters in Relation to Claims

- The Underwriter is under obligation to give prompt consideration to making a payment on account, and
- Making a decision in respect of claim within 28 days of receipt of the average adjuster's final adjustment.
- It is a new clause that reflects the market practice on claims payment.

(5 marks for each correct and completely stated duties. Maximum of 2 to be graded. Sub-Total: 10 marks).

iii. Recoveries

- The assured is required to pursue recoveries against third parties and must keep underwriters advised of progress.
- The clause alters the normal allocation of recoveries between underwriters and the assured.
- The normal rule is to allocate it on a “Top Down” basis with the underwriters having the first call on recovery funds until they have recovered everything they had paid.
- With this clause, recovery is apportioned pro-rata between insured and uninsured losses (including the deductible), thus amending the position under ITC

(5 marks for each correct and completely stated requirement. Maximum of 2 to be graded.

Sub-Total: 10 marks).

(Grand Total: 30 marks)

18. List 10 (ten) of the risks covered by the Institute Cargo Clauses “B” (1/1/09).

Solution:

The risks covered by the Institute Cargo Clauses “B” (1/1/09) are:

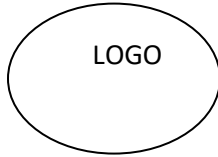
Loss of or damage to the subject matter insured reasonably attributable to:

- Fire or explosion;
- Vessel or craft being stranded, grounded, sunk or capsized;
- Overturning or derailment of land conveyance;
- Collision or contact of vessel, craft or conveyance with any external object other than water;
- Discharge of cargo at port of distress;
- Earthquake, volcanic eruption or lightning.

Loss or damage of the subject matter insured caused by:

- General average sacrifice.
- Jettison or washing overboard.
- Entry of sea, lake or river water into the vessel, craft, hold, conveyance, container, lift van or place of storage.
- Total loss of any package lost overboard or dropped whilst loading onto or unloading from vessel or craft.

(3 marks for any correctly stated risk type. Maximum of 10 to be graded. Grand Total: 30 marks).



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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 OCTOBER
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

Question 1.

Poor performance. Only one candidate sat for the paper. Question was meant to test general knowledge of the insurance industry. Candidate is most likely to be a new entrant. Needs to have a general knowledge of the institute and the insurance industry in general.

Question 2

Poor performance. Question meant to test the knowledge of HAGUE protocol and Warsaw convention which both deal with jurisdiction in case of Aircraft Accidents and claims. Candidate gave an answer about how an aircraft flies, showing that he/she did not study the said protocol and convention.

Question 3

Poor performance. Question intended to test the knowledge of some legal definitions relating to claims proceeding. Candidate tried to define the terms in relation to an aircraft. Candidate should study the other aspects of the course book thoroughly.

Question 4

Poor performance. Question meant to test the knowledge of the contents of an aviation/space insurance policy form. Candidate wrote lengthy irrelevant sentences about aircraft cover, pilots and spare parts.

Question 5

Poor performance. Question simply asked the axes of a plane in flight. Candidate failed to show the technical knowledge required. Candidate needs to study and understand the technical aspect of the course.

Question 6

Poor performance. Question tested [a] the indemnity provided to 3 parties in Aviation Insurance and [b] Discounts granted in Aviation Insurance. Candidate had a faint general idea about [a] giving the answer as 'financial compensation and reinstatement [b] Candidate failed to specify the discount's required i.e. those given after the expiration of an aircraft policy.

Question 7

Poor performance. Question demanded the knowledge of the functions of the Directorate of Aerodrome and Airspace standards. Candidate wrote almost a page about flights, equipment, training, passengers and a crew without even mentioning the word "Aerodrome"

Question 8

Poor performance. Question meant to test the knowledge of the convention related to offences committed on board an aircraft flight. Candidate did not understand the question at all. It shows that the candidate did not study the conventions which are well itemized in the course book. Candidate should endeavor to cover thoroughly all aspects of the course book.

Question 9

Poor performance. Question intended to test the knowledge of the segments of aviation and space insurance market. Candidate did not understand this aspect. Needs to possess the knowledge of the various segments of the aviation & space insurance market.

Question 10

Poor performance. Question meant to test practical knowledge of arrangement or placing a deductible aviation and space insurance. Candidate was just guessing answers wrongly. Needs to study course book well.

Question 11

Poor performance. Question meant to test the process of aviation claims adjustment. Claim processing is vital in aviation insurance practice. Candidate did not bring out the substantial facts required, rather was writing about crash landing, blood test history of pilot, black box etc.

Question 12

Poor performance. Questions meant to test the areas of application of the satellite. Candidate failed to bring out the areas of application as required. Needs to study this aspect of the satellite well.

Question 13

Poor performance. Question to test the categories of passengers claim. Candidate did not understand the requirement of the question. Wrote about property, bodily injury death and permanent disability of the passenger. Question seems to be technical.

Question 14

Poor performance. To test the knowledge of some Aviation Statutes listed out. Candidates failed to state the areas which the Acts apply to candidate needs to acquaint self with the provisions of the various Acts.

Question 15

Poor performance. Question to test the basic knowledge of space Insurance i.e. the two categories. Candidate tried to write about space ships. Candidate requires a thorough understanding of the space insurance.

Question 16

Not chosen by the candidate.

Question 17

Not the candidate's choice.

Question 18

Poor performance. Question to test the knowledge of {a} factors that govern the choice of location of captive insurers {b} factors influencing the rating of an aircraft. These are fundamental technical knowledge required for an aviation insurance practitioner. Candidate need to devote more time to his/her studies.

Comments on overall performance:

The overall performance is poor, typical of a new entrant into the aviation and space insurance course. Candidate is enjoined to avail himself/herself, to study better and endeavor to complete all aspects of the course book.

Suggestions on improvement:

Candidate is enjoined to create more conducive time for his/her studies and seek assistance from relevant practitioners around him/ her when need be.

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

1. The current syllabus of the Chartered Insurance Institute of Nigeria makes provision for the acquisition of additional professional certification after becoming an Associate or fellow of the Institute. In what areas of specialization can the post AIIN certification (qualifications) be acquired?

Solution

Qualification or certificate in:

- | | |
|---------------------------------|-----------------------------|
| (a) Microinsurance; | (b) Takaful insurance |
| (c) Insurance Broking Practice; | (d) Loss Adjusting Practice |
| (e) Special Risk Insurance. | |

(2½ marks each for any correctly stated post qualification certificate. Maximum of 4 points to be graded. Total: 10 marks)

2. List any four (4) of the substantive elements that significantly govern air travels as it relates to the Hague Protocol and the Warsaw Convention

Solution

The substantive elements that significantly govern air travels as it relates to the Hague Protocol and the Warsaw Convention are:

- (a) before a court of domicile of the carrier;
- (b) before a court in the principal place of business of the carrier;
- (c) before a court where the carrier has a place of business through which the contract was made;
- (d) before a court at the place of ultimate destination of the contract of carriage.

(2½ marks for each correct and completely stated element. Total: 10 marks)

3. Briefly explain the following phrases as it relates to Aviation Insurance

- (a) a deposition. (3 marks)
- (b) the purpose of a pre-trial conference. (3 marks)
- (c) the definition of "flight" under the Hague Convention 1970? (4 marks)

Solution

- (a) A deposition is a proceeding in which the person requested to appear (the dependent) can be asked questions under oath by attorneys for any of the parties. (3 marks)

- (b) The purpose of a pre-trial conference is to reduce the number of cases appearing before the courts and whether a pre-trial settlement can be reached or if the action will ultimately go to trial. (3 marks)

- (i) Flight commences once the external doors of the aircraft are closed and lasts until the doors are opened for disembarkation. 'Flight' continues if the aircraft has to make a forced landing. Convention does not apply to military customs. (4 marks)

(Grand Total: 10 marks)

4. The schedule of an aviation/ space insurance policy will have some certain details. Enumerate any five (5) of these details.

Solution

The details on the schedule of an aviation/ space insurance policy headings are:

- (i) Coverage; (ii) exclusions; (iii) conditions;
(iv) limit of indemnity; (v) cancellation clause.

(Candidates are allowed to write any of the breakdown of the above as stated in the coursebook. 2 marks to each correctly stated detail. Maximum of 5 to be graded. Total: 10 marks)

5. (a) What are the names of the three (3) axes covering the three (3) focal points around the centre of gravity of an aircraft where the aircraft is required to be controlled? (6 marks)
(b) What does the term “free flight” refer to? (4 marks)

Solution

(a) The three (3) focal points around the centre of gravity of an aircraft where the aircraft is required to be controlled are: the pitch axis (2 marks), the roll axis (2 marks) and the yaw axis (2 marks). (Sub-Total: 6 marks)

(b) “Free Flight” unassisted or unconstrained flight as the flight of a rocket or missile without guidance or after fuel exhaustion. (4 marks)
(Grand Total: 10 marks)

6. (a) What is the indemnity provided by third-party policies issued by aviation insurers? (4 marks)
(b) Some types of discounts may be given after the expiration of an aircraft policy. What are these types of discounts? (6 marks)

Solution

(a) Third party indemnity in aviation insurance compensates for all sums which shall be legally liable payable as damages in respect of bodily injury, including death and damage to property. (4 marks)

(b) The discounts that may be given after the expiration of an aircraft policy are: (i) no claim bonus (2 marks); (ii) profit commission (2 marks); and (iii) good experience ratio (2 marks). (Sub-Total: 6 marks)
(Grand Total: 10 marks)

7. List any five (5) functions of the Directorate of Aerodrome and Airspace Standards (DAAS) which is a Directorate that has its objective to ensure that the provision of aviation safety and security at all Nigerian aerodromes and the airspace.

Solution

The functions of the Directorate of Aerodrome and Airspace Standards (DAAS) are:

- (i) Ensure compliance of aerodrome operator/owner to the ICAO and National standard of Bird/wild life management.

- (ii) Conduct aerodrome related incident investigation
 - (iii) Aeronautical studies of proposed tall structures to prevent hazards to air navigation
 - (iv) Evaluation of aerodrome/heliport facilities across country
 - (v) Issuance of obstacle clearance certificate to person/organisation intending to construct tall structures within or outside the aerodrome environment
 - (vi) Inspection of aerodrome operational activities including airside management, aero bridge operation.
 - (vii) Ensuring that aerodromes and airspace in Nigeria are safe and secure in accordance with the convention on international civil aviation of Nigeria civil aviation Regulation (Nigeria Cars)
 - (viii) Review ICAO state letters on the subject of Aerodromes and Airspace
 - (ix) Oversight and licensing of ground handling - operation and activities ensure compliance
 - (x) Providing expertise and support on request to the accident investigation Bureau (AIB)
 - (xi) Coordination of aeronautical frequency planning assignment and enforcement of interference with ICAO in matter relating to aeronautical frequency.
 - (xii) DAAS also collaborate with Navigations/Aid flight inspection and surveillance (NAFIS)
- (2 marks for each correct and completely stated function. Maximum of 5 to be graded. Total: 10 marks.)**

- 8
- (a) What are the three (3) conventions in force related to offences committed on board an aircraft in flight? **(6 marks)**
 - (b) What insurance covers are available in respect of cargo? **(4 marks)**

Solution

- (a) Conventions in force related to offences committed on board an aircraft in flight are:
- The Tokyo Convention 1963 **(2 marks)**
 - The Hague convention 1970 **(2 marks)**
 - The Montreal convention 1971 **(2 marks)**
- (Sub-Total: 6 marks)**
- (b) The insurance covers that are available in respect of cargo are: (i) cargo liability **(2 marks)**; and cargo all risk **(2 marks)**. **(Sub-Total: 4 marks)**
- (Grand Total: 10 marks)**

9. List any four (4) segments that the aviation and space insurance market is fundamentally divided into five segments as it relates to the aerospace industry.

Solution

The segments of aviation and space insurance markets are:

- operators of corporate aircraft; * private operators;
- airlines; * airport authorities;
- manufacturers and servicing of aircraft and other equipment.

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

10. (a) State any two (2) ways by which deductible insurance can be arranged in aviation and space insurance. (4 marks)
- (b) (i) Under the aircraft laying-up returns clause, what return of Premium will typically be made? (4 marks)
- (ii) When will the premium in (i) above be usually made? (2 marks)

Solution

(a) The ways by which deductible insurance are arranged are:

- Standard level of deductible can be lowered by operators buying deductible policy; (2 marks)
- Insurers may allow insured to offer a lower premium than competitors with a higher deductible. (2 marks)

(Sub-Total: 4 marks)

- (b) (i) Under the aircraft laying-up returns clause, the return of Premium that will typically be made is 75% of the difference between the flight rate and the ground rate for any lay-up of 30 days or more. (4 marks)
- (ii) In the (i) above, the premium in (i) above, the return of premium will be made at the expiry. (2 marks) (Grand Total: 10 marks)

11. Enumerate five (5) aspects that a claims adjuster must be satisfied with to validate a claim in aviation and space insurance.

Solution

The aspects that a claims adjuster must be satisfied with to validate a claim in aviation and space insurance are:

- (i) description and registration number of the aircraft;
- (ii) manufacturer, model, nationality and registration mark and serial number
- (iii) name of owner, operator and hirer if any;
- (iv) qualification of pilot-in-command and nationality;
- (v) date and time of the accident or incident;
- (vi) last point departure and point of intended landing of the aircraft;
- (vii) number of crew and passenger abroad killed and seriously injured;
- (viii) description of accident or incident and the extent of damage to the aircraft so far as known;
- (ix) presence and description of dangerous goods on board the aircraft.

(2 marks for each correct and completely stated aspect. Maximum of five (5) to be graded. Sub-Total mark: 10)

12. Satellites are used for five (5) main applications, list these applications.

Solution

The main applications that satellites are used for are:

- climate and environmental monitoring
- safety and security
- land stewardship i.e., conservation of natural resources.
- development maps remote rural areas.
- space science outside

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

13. In aviation and space insurance, there are various categories that passenger claims may be divided into. Enumerate any four (4) of these.

Solution

In aviation and space insurance, the various categories that passenger claims may be divided into are:

- (i) carriage subject to international law;
- (ii) carriage subject to statutory conditions imposed by a State;
- (iii) carriage subject to IATD conditions of carriage;
- (iv) carriage subject to such conditions as the operator may impose Rd 12H

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

14. For any four (4) of the statutes below, list the area in the aviation industry that the statutes apply to

S/N	Statues	Applicable Areas
a	Air Carrier Areas Act 1996	???
b	Air Transportation Safety Act 1974	???
c	Aviation Security Improvement Acts 1990	???
d	General Aviation Revitalization Act 1994(GARA)	???
e	Air transportation Safety and System Stabilization Act 2001	???
f	Aviation transportation Security Act 2001	???

Solution:

S/N	Statues	Applicable Areas
a	Air Carrier Areas Act 1996	Disability Discrimination in travel
b	Air Transportation Safety Act 1974	Against aircraft hijacking
c	Aviation Security Improvement Acts 1990	Establishes office of Secretary of Transportation
d	General Aviation Revitalization Act 1994(GARA)	States limit of time to bring civil action against manufacturer for damages, death or injury

e	Air transportation Safety and System Stabilization Act 2001	Issuance of \$10 billion-naira Federal loan guarantee air earners
f	Aviation transportation Security Act 2001	Standardized pre-flight passenger and cargo screening in the nation's airports

(2½ marks each for any correctly stated space on the table. Maximum of four (4) 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. Usually, space insurance coverage fall into only two categories. List and explain these two (2) categories.

Solution

- (i) Space and Satellite insurance a type of property and casualty insurance that is primarily for satellites and rockets.
- (ii) The most commonly insured items are the satellites, GPS navigation, and weather (among other things) and rocket that blast them off into space.

(Candidates are required to fully explain these two categories.

Correct listing of the two categories are 5 marks each.

2½ marks for each correct and completely stated explanation. Maximum of 4 to be graded under each list. Sub-Total per list: 15 marks. Grand total: 30 marks)

- 16(a) There are first party and third-party types of cyber risk in nature, which has been described as the biggest and most systemic risk facing the insurance market in the last half century. Enumerate two (2) examples each of first party risks and third-party risks. (8 marks)

- (b) Fully explain the following circumstances between the Warsaw Convention System and the Montreal Convention 1999 as it relates to how they guide the affairs of air travels within member participating nations:

(i) the interaction; (12 marks)

(ii) the similarities. (10 marks)

Solution

a. A first party claim is a claim you make directly against your own insurance or directly borne by the policyholder or insured e.g., first party data is data that insured has collected directly. (4 marks)

Third party refers to damages alleged by client or other parties for which the insured may be liable. Example of damaged caused by insured to others property. If you crash your car to someone's wall. (4 marks)

(Sub-Total: 8 marks)

(b) (i). Montreal Convention 1999 sets rules of compensation for travel disruptions whether they are flight delays flight cancellations or boarding biennials among countries that are signatories.

(Candidates are required to fully explain this. Sub-Total: 12 marks)

(ii) Uniformity was a goal of both treaties Montreal convention provide for equitable compensation for death or injury to passengers and luggage and cargo in international air carriage. Warsaw convention is an international agreement limits of liability for freight, baggage and bodily injury on international flights.

(Candidates are required to fully explain this. Sub-Total: 10 marks)

(Grand Total: 30 marks)

17(a) List any four (4) of the documents that an aircraft engaged in international navigation is required to carry in the aircraft in compliance with Article 29 of the Chicago Convention 1944. **(8 marks)**

(b) (i) Enumerate the three (3) sources by which law itself is created in the Aviation Industry, with very brief explanations. **(6 marks)**

(ii) There are various reasons why major aviation litigation take place in federal courts. Concisely state any four (4) of these reasons. **(16 marks)**

Solution

(a) The documents that an aircraft engaged in international navigation is required to carry include:

- | | |
|--|------------------------------------|
| (i) the aircrafts certificate of registration; | (ii) airworthiness; |
| (iii) appropriate license for crew; | (iv) log book requires; |
| (v) radio apparition; and | (vi) passengers and cargo manifest |

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

(b) The three sources of law in the aviation industry are:

- | | |
|------------------------------------|--------------------------|
| (i) Federal Statutes and treaties; | (ii) The common law; and |
| (iii) Session law. | |

(Candidates are required to fully explain this. Sub-Total: 6 marks)

(ii) Most major aviation litigation takes place in – federal courts for following reasons

- The jury pool of federal district is often larger than its state counterpart. And greater cross-section of society tends to make damage awards less arbitrary.
- Federal courts tend to have smaller caseloads and federal judges are obligated to comply with civil justice expense and Delay Reduction Plans so that actions proceed more quickly, this lowering cost.
- Federal judges are appointed for life by the president with approval from congress and, in theory are more impartial than state judges elected by local political machines

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 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 OCTOBER
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

The question was not well understood by all the candidates as most of them were not well acquainted with NAICOM regulations.

Question 2

The question tested the candidates' knowledge on Reinsurance. Attempt was over 90% while performance was commendable as most candidates scored above average.

Question 3

This is a practical question almost all the candidates are expected to attempt it and at least all scored good grades on it.

Question 4

This question was well understood by most of the candidates and most of them did very well as the pass rate was 95%.

Question 5

This question was well answered by most of the candidates and all of them did very well with at least 90% of the candidates scoring above average.

Question 6

The candidates did not show a good understanding of the (A) part of the question while the (B) part was well understood, invariably 50% did very well.

Question 7

80% of the candidates who attempted (a) & (b) did not understand the questions, while the (c) part was well understood and answered correctly.

Question 8

The candidates mostly did not get the full meaning of NAICOM, as some of them who answered it were totally out of point and only a few got it correctly. This is embossing for candidates in the second level of the professional examination.

Question 9

The question was not well understood by the candidates as they wasted time in writing irrelevant responses which resulted in poor performances.

Question 10

The number of candidates who understood the question were not up to 50% as they did not follow the procedure as outlined in the textbook. Consequently, the answers were not properly interpreted.

Question 11

This question was a walkover for all the candidates as 99% of them got it right and therefore it was a success.

Question 12

The candidates scored well above 65% as they have a good knowledge of the question.

Question 13

Performance of candidates on these questions was well above average as most answered accurately and 70% pass mark was recorded on the question.

Question 14

The question was explicit but most of the candidates did not understand and just a few of them understood the term "arbitration". This is quite worrisome for intermediate level candidates.

Question 15

The candidates who attempted the question were able to define an intermediary but could not answer who appoint an agent. The second part also was not fully understood and these earn them a lower mark.

Question 16

About 40% of the candidates who attempted the question were not highly impressive as many did not attempt because it was an optional question.

Question 17

Candidates showed a good understanding of the question and performed well in the question with 80% of them answering the question correctly.

Question 18

This question was avoided by majority of the candidates. Attempt was less than 30% and those who attempted it were writing irrelevant responses.

Comments on Overall Performance:

The overall performance was not commendable in view of the simplicity of the questions but those who studied very well did excellently well.

Suggestions on Improvement

I would suggest that most of the questions that were not well attempted should be re-learned by the candidates for greater understanding.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. National Insurance Commission (NAICOM) has consistently introduced regulations using circulars and guidelines to ensure cohesive and progressive Nigerian Insurance Industry. Carefully enumerate any five (5) guidelines issued in the last 15 years.

Solution

Some of the guidelines are:

- * Bancassurance Guideline;
- * Takaful Guideline;
- * Webb Aggregators Guideline;
- * Market Conduct Guideline.
- * Corporate Governance Guideline;
- * Microinsurance Guideline;
- * Guidance on IFRS;

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

2. (a) Explain the meaning of insurer's capacity.
 (b) What do you understand by co-insurance?
 (c) What do you understand by co-reinsurance?
 (d) Can an insurer go ahead on co-insuring without insured knowledge?
 (e) Can an insured arrange co-reinsurance and why?

Solution

- (a) 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 momentary value from insured at any time. **(2 marks)**
- (b) 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 occurred the claim amount will be shared as per existing size. **(2 marks)**
- (c) Insurer 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 insurers will share the risk on basis of type/forms of reinsurance already agreed upon. **(2 marks)**
- (d) It is technically wrong for insurer to go ahead on co-insuring without insured knowledge. Since each co-insurers must be known to the insurer and all names of co-insurer must appear on the policy document. **(2 marks)**
- (e) No insured cannot arrange co-reinsurance. **(1 mark)**
 This is because:

- (i) Reinsurers are not usually disclosed to the insured;
 - (ii) Reinsurance or co-reinsurance is on pre-arranged form with the insurer and not insured;
 - (iv) When there is loss/claim the insurer must pay 100% to the insured;
- (1 mark - on any of those points stated above)**
(Total: 10 marks)

3. (a) List the category(ies) of people that can be covered under the Group Life Insurance under the Pension Reform Act and the condition(s) attached. **(4 marks)**
- (b) Under the Pension Reform Act law in Nigeria specify how sum insured per participant are arrived at. **(3 marks)**
- (c) Who pays the premium on Group Life Insurance? **(3 marks)**

Solution

Categories of people that can be covered under the Group Life Insurance under the Pension Reform Act and the condition(s) attached are:

- (a) Employees, all employees working at the inception date or the anniversary date in future year. **(4 marks)**
 - (b) Under the Pension Reform Act law in Nigeria, the sum insured per participant is arrived at by calculating with minimum of 3 times Annual total emolument of each staff. **(3 marks)**
 - (c) The payment of premium is by the Employer. **(3 marks)**
- (Total: 10 marks)**

4. (a) How does insurance company set itself up to operate a pool.
- (b) Enumerate an idea and/or belief that makes the insurer pool work.

Solution

(a) Insurance company set itself up to operate a pool by gathering together people who want insurance protection go ahead to take contribution in the form of insurance premium to form the pool. The money is from many people from where payment shall be made to few. **(5 marks)**

(b) The pool idea and belief can work because not everyone in the pool will have a loss in any one year. The contributions have to be enough to meet total losses in any one year and much amount left over to cover operating cost and profit from investment. **(5 marks)**

(Grand Total: 10 marks)

5. Enumerate any four (4) functions that Lloyd's Agents can carry out.

Solution

The functions of Llyod's agent are:

- Lloyd's Agents are the source of much of the information published
- Lloyd's Agent conduct survey on risk for coverage
- Lloyd's Agent can also arrange post loss inspection and survey

- Lloyd's Agent can be appointed as claims-setting agent
- Lloyd's Agent can also act for insurance companies on a world-wide basis
- Lloyd's Agent can be individual or organization but work as agents of the corporation of Lloyd's.

(2½ marks each for any correct and completely stated function. Maximum of 4 to be graded.

Total: 10 marks)

6. (a) What does Fidelity Guarantee Insurance cover? (4 marks)
 (b) Enumerate and explain at least (2) two divisions of Fidelity Guarantee. (6 marks)

Solution

- (a) Fidelity Guarantee provide insurance against loss by reason of the dishonestly of persons holding positions of trust or and handling financial transactions on behalf of employer. (4 marks).
- (b) (i) **Commercial Guarantee:** This is in respect of persons who have some post within the employers company where fraud can be carried out.
 (ii) **Government Bonds:** This is issued for customs and excise bond which guarantees that if dutiable goods intended for export but on which no duty is payable instead find their way into home market or stolen, the duty will be paid by the bond should the owner or manufacturer fail to pay.
 (iii) **Local Government Bonds:** Bond for local Government fee, payment and due that is similar to commercial guarantee when fraudulently handled.
 (iv) **Court Bond:** Bond is respect of property looked after pending the result of litigation and or the administration of the affairs of minors. The courts will entrust the property or affairs to someone else. The administrator will supply a bond or financial guarantee in form of Court Bond.

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

Grand Total: 10 marks

7. (a) Nigeria launched its first Satellite on September 27, 2003. Where was this launched? (2 marks)
 (b) Name the class of insurance that the launched satellite will be duly covered all for all known risks. (2 marks)
 (c) Who are reinsurance brokers? and enumerate any two (2) functions they have. (6 marks)

Solution

- (a) Nigeria satellite was launched in Russia. (2 marks)
 (b) Th class of Insurance that covers the risk is Aviation Insurance. (2 marks)
 (c)i. Reinsurer brokers are specialist that assist buyers in arranging the correct covers and choosing the most appropriate reinsurers because of possession of knowledge of reinsurance and world reinsurance markets. (2 marks)

ii. The functions of re-insurance brokers are:

- the selection of appropriate reinsurers;
- determination and arranging correct covers;
- having good knowledge of reinsurance and application;
- being familiar with world reinsurance markets.

(2 marks for each correct and completely stated function. Maximum of 2 to be graded. Sub-

Total: 4 marks)

(Grand Total: 10 marks)

8. (a) NAICOM regulates insurance operations in Nigeria, give the full meaning of NAICOM. (2 marks)
- (b) Enumerate four (4) of the statutory functions of NAICOM. (8 marks)

Solution

(a) NAICOM means National Insurance Commission of Nigeria. (2 marks)

(b) Some of the statutory functions are:

- maintaining confidence in the Nigeria Insurance Industry;
- promoting public understanding of the Insurance Industry;
- securing the appropriate degree of protection for insurance consumer
- acting as both supervisory and regulatory body;
- where problems arise NAICOM can conduct investigation if appropriate and discipline;
- prosecute those responsible for breaching its rules;
- supervising the whole industry and conducting market surveillance.

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

Grand Total: 10 marks.

9. (a) Explain "All Risk Insurance" in three (3) sentences. (6 marks)
- (b) Enumerate any two (2) recognised role of the CIIN. (4 marks)

Solution

All risk insurance sentences are:

- (a) (i) Insurance cover for wider range of accidental loss or damage
- (ii) Insurance cover for items or good wherever such loss/damage might occurred.
- (iii) Wider insurance beyond fire or theft for some categories of goods i.e jewelries, lap top and others
- (iv) Provision of all risks insurance cover except for those things/risk specifically excluded
- (v) General cover insurance above "standard" that can be arranged on unspecified goods/item on lump sum insured

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

(b) The roles of CIIN are:

- (i) provision of Ethical standards for insurance profession in Nigeria
- (ii) enforcing ethical standard in the practice of Insurance Profession in Nigeria
- (iii) sanctioning members through recommendation of disciplinary committee
- (iv) carrying out functions under the provisions of the Act that established it.
- (v) can set up the “disciplinary Committee” and “investigation panel”.

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

10. NAICOM requires insurers to put in place procedures for claims notification, state any four (4) of these procedures.

Solution

NAICOM requires insurers to put in place the following procedures for claims notification:

- to be in line with policy conditions but shall be fast through specified means;
- insurer to require communication with a letter and or completion of necessary claim form;
- claim notification delivered to insured to any intermediary to be transmitted to insurer not later than 2 working days;
- claim form must be issued to policyholder or claimant, agent or brokers-not later than 2days of receiving notification of claim;
- claim supporting documents must be demanded and submitted alongside completed form to insurer;
- insurer shall respond promptly to notification of a claim;
- insurer claim department and brokers must be accessible easily during claim;
- insurer to advise policyholder of the consequences of submitting a false or incomplete statement (which could include criminal prosecution).

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

11. Enumerate any five (5) segmented buyers of insurance in Nigeria.

Solution

The segmented buyers of insurance (in Nigeria) are:

- * Individuals and families;
- * Parastatals;
- * Conglomerates;
- * Multinationals;
- * Government (Federal, State, Local) and their agencies;
- * Manufacturing industrial concerns;
- * Banking industry;
- * Small and medium scale industries;
- * Health Institutions;
- * Tourist and hospitality industries, hotels;
- * Transport industry;
- * Other corporate bodies;
- * Educational institutions;
- * Oil and energy industry.

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

- 12 (a) Explain to a prospective insurance customer, any four (4) things to look for when (conducting) a search on the market. (8 marks)
- (b) State the meaning of 'NIA' in the Nigerian insurance market. (2 marks)

Solution

- (a) The things to look out for when conducting search on the market, by a prospective insurance customer are:
- price
 - policy exact wordings
 - policy limits for liability insurance
 - coverage or extent of cover
 - risk control advice
 - regulation for paying claims
 - financial security of insurer (if and when available)
 - go through brokers, agent, risk management expert or other experts in the field of insurance operations
- (2 marks each for any correctly stated "thing". Maximum of 4 to be graded. Sub-Total: 8 marks).
- b. The meaning of NIA is The Nigerian Insurers Association (2 marks).
- Grand Total: 10 marks**

13. Briefly explain four (4) main reasons why we have State regulations of and in Insurance.

Solution

Some of the reasons why we have State regulation, of and in, insurance are:

- (i) **To Maintain Solvency:** To ensure insurance companies maintain reasonable level of fund/capital and withstand shocks or unforeseen losses without going out of business.
- ii. **For Equity:** Complex form of contract is insurance, it is then necessary and essential that control exist for protection of all parties involved particularly policyholders
- iii. **For Competence:** This is to ensure those that deals in such transactions are competent persons and able to fulfil all promises/pledges.
- iv. **Insurable Interest:** To ensure insurable interest exist at the appropriate level/times to avoid element of gambling which comes under separate regulations.
- v. **Provision of Certain Form of Insurance:** Government needs to regulate some forms and in fact all compulsory insurances in line with the laws.
- vi. **For National Insurance:** Insurers formally authorized to provide soul insurance that was before was exclusive provision of government such as unemployment, sickness pensions widows benefits and other hence state regulation.

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

14. NAICOM Article 3.7.0 in Business Practice Guidelines requires procedures for insurers handling of complaints. Enumerate any five (5) of the procedures.

Solution

The procedures in the required article of the guidelines are:

- when complaint is received, insurer to acknowledge receipt of same within 2 working days;
- procedures showing how complaint is to be kept informed about development spelt out;
- keeping record of each complaint received and measures taken for its resolution;
- insurer to accept complaints whether notified by phone or in writing;
- top management of insurance company(ies) to ensure proper management of all complaints;
- insurer to draw attention to arbitration clause in the policy document;
- ensure arbitrator is independent not former employee or intermediary of the insurer.

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

Part II

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

Each question carries 30 marks.

15. (a) In relation to this course, who is an:
- (i) insurance intermediary; (7 marks) (ii) insurance broker (13 marks)?
- (b) What does Directors and Officers Liability Insurance cover? (4 marks)
- (c) Between the insurance agent and the insurance broker, who needs Directors and Officers Liability Insurance and why? (6 marks)

Solution

- a. i) **Insurance Intermediary:** the course book defines Intermediary as an agent authorized by a party called the principal (Agent). The Agent is an appointed representative of insurer that offers products of only one or a small number of insurers. (7 marks)
- ii) **Insurance Broker:** insurance broker is a full-time agent with access to a wide range of insurers. Expert in the field of insurance that can be referred to as insurance consultants must be incorporated by CAC, Registered by NCRIB and licensed by NAICOM. Insurance broker by regulations shall establish and maintain at all times a client's accounts into which all monies particularly premium, claim and recoveries shall be paid. (13 marks)

b. **Directors and Officers Liability Insurance:** the policy when granted will provide cover for defense costs as well as the amount of compensation for which a director may be liable to pay through the courts it is a new entrant into insurance policies (particularly liability aspect) in Nigeria. **(4 marks)**

(b) Insurance broker will need directors' and officers' liability insurance. Insurance agent is an individual but broker is incorporated organization with directors. **(6 marks)**

Grand Total: 10 marks).

16. (a) State the name of the established organisation that regulates and authorise all insurance operations in Nigeria explaining how it is carried out in at least three ways. **(14 marks)**

(b) State insurance operators expected to maintain professional indemnity insurance by law and specify the recommend amount of indemnity required. **(16 marks)**

Solution

(a) The name of the organization that regulates and authorize all insurance operations in Nigeria is National Insurance Commission **(4 marks)** and its functions are:

- Maintaining confidence in the Nigeria Insurance
- Industry through surveillance and transaction monitoring
- Promoting public understanding of the insurance industry, through enlightenment and consumers protection
- Securing the appropriate degree of protection for consumers by registration and setting guidelines
- Through monitoring and reducing financial crime such as money laundering, fraud and dishonesty and market misconduct that contravene any of its released guideline or market practice or rule.

(2½ marks for each correct and completely stated function. Maximum of 4 to be graded. Sub-Total: 10 marks). Grand Sub-Total: 14 marks.

(b) i The Insurance operators that are required by law to have professional indemnity insurance are;

- insurance brokers **(4 marks)**
- insurance loss adjusters. **(4 marks)**

ii. The amounts are;

10 million Naira or 50% of its annual brokerage income **(4 marks)**

5 million naira or 50% of professional annual fees **(4 marks)**

Preceding year whichever is the greater for loss adjuster

(Sub-Total: 16 marks) Grand Total: 30 marks

