

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

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

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

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

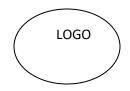
(ILAN); clinigeria.com (CIIN)

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

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

OF ANY SUCH INCIDENCE(S).

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I01 - INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

Question one was intended to test the candidates' knowledge regarding the name of their professional Institute as acronym "CIIN" and its code of ethics. Attempt was high and performance alright -90%/85% respectively. The only error noticed was by a few, less than 1%, who referred to CIIN as Chartered Institute of Insurance of Nigeria instead of Chartered Insurance Institute of Nigeria.

Question 2

The question tested the candidate's knowledge of the nature and characteristics of the Nigerian Law. Many attempted it and performance was almost 100% pass rate as the candidates understood the requirements of the question.

Question 3

It tested the candidates' knowledge of understanding of the workings of the National Assembly-especially the scope of its mandate. 90% of the candidates attempted the question. 50% passed it, especially the first part. The candidates' answers were not in tandem with the marking scheme because it appeared many uses general knowledge in their responses to the question which was inadequate to give a good performance. Candidates are enjoined to endeavor to study their course books as questions are majorly from there.

Question 4

This question tested the candidates' knowledge of a type of contract - that is contract contrary to public policy. Over 90% attempted the question. Performance was about 60%. The question is a text book question and candidates could have performed better if they studied their course books.

Ouestion 5

Question 5 was intended to see if the candidates understood the concept of contributory negligence as a mitigating factor in award of damages for liability in the law of tort. Attempt was about 70% and good performance was above 45%. The reason for the average performance was that candidates used residual knowledge in answering the question. The question was a textbook question and therefore direct and an easy one. This is indicative on lack of adequate preparation. candidates are enjoined to prepare well for future examination.

Ouestion 6

This was a practitioner's question. It tested candidates' understanding of the operation of the concept of subrogation. Attempt was good but good performance was average. The problem is lack of adequate preparation for the examination owing to over confidence. Going forward, candidates should endeavor to prepare well for future examination and not to assume anything.

Question 7

This was set to test the candidates' knowledge of the three main limitation periods in law. Attempt was about 70% and good performance was average. Though the question came from the course book, it seemed that it came from one area of the coursebook that candidates usually gloss over. Candidates are enjoined to read and cover every aspect of the course book as the course - Insurance

Law, is not only about popular concepts like insurable interest, subrogation, contribution and like concepts which are popular with the candidates.

Question 8

This was designed to test the candidates' understanding of an aspect of the formation of a valid contract. The question was very popular with the candidates. They rushed to answer it without a good grasp of its requirements. Performance was therefore below average. It is important that candidates read, understand and cover effectively the entire course book to guarantee their good performance.

Question 9

This tested candidates' understanding of method of interpretation of words used in contractual documents like an insurance policy. Attempt was good so also was performance, 90%/80% respectively.

Question 10

This tested the candidates' understanding of an aspect of agency doctrine – disclosed/undisclosed principal and his agent. The attempt was good, likewise the performance. The question was popular with the candidates for obvious reason.

Ouestion 11

This tested the candidates' knowledge of the concept of misrepresentation in insurance. Attempt was good but good performance was only 40%. Main reason for this was inadequate answers supplied by candidates which did not meet the requirements of the question which are in the course book. Adequate preparation is recommended for good performance in future examination.

Question 12

This question tested candidates' knowledge of an aspect of insurance contract – its formation. Attempt was 70% while performance was 50%. Performance could have been better if candidates read their course books well in preparation for the examination.

Ouestion 13

This was designed to test candidates' understanding of an aspect of the concept of insurable interest-its creation in an insurance contract. Attempt was good, almost 100% but performance was average as most candidates answered based on their general knowledge of the concept which was not in tandem with the solutions provided in the course book. A thorough coverage and understanding is all topics in coursebook is important and hereby recommended for future examination.

Question 14

This was on agency concept – relationship of a disclosed principal with his agent and third-party and when time will run for the purpose of limitation of action. The candidates did not attempt the question well and the few who attempted did not perform well. The reason for this is the seeming mix-up in the question. The two parts do not go together- the two questions were two unrelated topics which created confusion. However, if the candidates read well, it would not have been an

issue. It is still recommended that candidates read the coursebook well and get familiar with its every aspect to be in good position to write the examination in future.

Question 15

This tested candidates' knowledge of the concept of legal personality. Attempt was average. Performance was poor. The question came from an aspect of the course book which is "loathsome" to the candidates. Candidates should get used to all the aspects of the coursebook.

Question 16

This tested candidates' knowledge on the concept of insurable interest. Attempt was over 90%, and the performance was good (78%).

Question 17

This question tested candidates on the relevance of standard form contracts- contracts that are cases on a template created and designed by one of the parties. Candidates avoided the question because they did not understand the requirements of the question which are patently written in the coursebook. Going forward, candidates are enjoined to read the course book for the examination.

Question 18

This tested candidates' knowledge of the concept of privity of contract and why the concept is inapplicable to Insurance. Attempt was good and performance was good as well.

Comments on overall performance:

Overall performance is below average. This is due to myriads of reasons already touched in the report.

Suggestions on improvement (if any):

Suggestions are as made above as well. Candidates should get used to all the aspects of the coursebook and prepare well for the examinations.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

- 1. (a) What is the full meaning of CIIN. (2 marks)
 - (b) Enumerate any four (4) central code of ethics of CIIN. (8 marks)

Solution

(a) CIIN means Chartered Insurance Institute of Nigeria.

(2 marks)

- (b) The central code of ethics of CIIN are:
 - (i) to act responsibly and with integrity in their professional activities at all times to their clients and society as whole;
 - (ii) compliance with the code of ethics, all relevant law and regulatory requirement and appropriate code of ethics and code of conduct;
 - (iii) to uphold professional's standard in all dealing and relationship;
 - (iv) to uphold and respect the confidentiality of information required in professional and business relationship;
 - (v) to apply objectivity in making professional judgment and in giving opinions and statement.

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

2. Enumerate any four (4) major characteristics of the Nigerian Legal System (a.k.a. Nigerian Law).

Solution

The major characteristics of Nigerian Legal System (a.k.a. Nigerian Law) are:

- * age and continuity;
- * little codification
- * judge-made law

- * independence of the judiciary
- * adversarial system

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

- 3. (a) What is an "Act of Parliament"? Who makes it? And for who? (4 marks)
 - (b) Enumerate any three (3) uses, in legal theory, that an "Act of Parliament" can be used for? (6 marks)

Solution

(a) An "Act of Parliament" is the law (2 marks) made by the National Assembly in Nigeria (the Senate and Federal House of Representatives) (1 mark) for the whole of the Federation of Nigeria or a part thereof (1 mark)

(4 marks)

- (b) An Act of Parliament in legal theory, can be used:
 - * to create entirely new law;

- * to overrule what already exists;
- * to modify or extend existing principles of common law;
- * to repeal or modify existing statute.

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

- 4. (a) When will a contract be termed "contrary to public policy"? (4 marks)
 - (b) Give any three (3) examples of contract that are "contrary to public policy". (6 marks)

Solution

- (a) A contract will be termed "contrary to public policy" if even though the contract does not involve commissioning of a legal wrong or forbidden by any statute (2 marks), it may still produce results that are harmful to the public or that are socially undesirable (2 marks).

 (4 marks)
- (b) Some examples of contract that are "contrary to public policy" are:
 - * contracts tending towards sexual immorality;
 - * contract that affects the freedom of marriage;
 - * contracts that involve trading with an enemy especially during war time;
 - * contracts made to break the law of a friendly nation;
 - * contracts made to deceive public authorities;
 - * contracts made to corrupt public life;
 - * contracts that pervert the course of justice.

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

5. "Contributory Negligence" is a plea in mitigation of liability rather than a true defence in the law of tort" Discuss briefly.

Solution

Contributory Negligence arises where the claimant is partially to blame for the ills that befell him at the hand of another. It used to be a complete defence at common law in that where the defendant pleaded could successfully prove it, he would go scot free and the claimant would be without any remedy. However, with the enactment of the Law Reform (Contributory Negligence) Act 1945, Contributory Negligence ceased to be a complete defence.

Section 1 of the Act provides as follows:

"Where any person suffers damage as the result partly of the of the fault of any other person or persons, a claim in respect of that damage shall not be defeated by reason of the fault of the person suffering the damage, but the damages recoverable thereof shall be reduced to such extent as the court thinks just and equitable having regard to the claimant's share in the responsibility for the damage".

The net effect is that the damages that would be awarded against the defendant would be reduced to the extent that the claimant himself was to blame especially where:

- * the cause of the accident was in some part, the claimant's own behavior;
- * the claimant's behavior made the result of the accident more serious
- * the combination of the two.

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

- 6. (a) What is subrogation in insurance? (4 marks)
 - (b) Enumerate any reason why the law allow subrogation. (2 marks)
 - (c) In what two (2) ways does subrogation operate? (4 marks)

(a) Subrogation in insurance is the right of one person, having indemnified another under a legal obligation to do so, (2 marks) to stand in the place of that other and avail himself of all the rights and remedies of that other, whether already enforced or not. (2 marks)

(4 marks)

- (b) The law allows subrogation in order to:
 - * prevent the guilty party from being left "off the hook" and ensures that he does not escape his financial responsibility simply because his victim has been careful enough to arrange insurance;
 - * prevent unjust enrichment of the insured;
 - * prevent the insured from profiting unfairly from the loss and to preserve the principle of indemnity.

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

- (c) The two ways by which subrogation operate are:
 - * where the insured has succeeded in recovering for the same loss twice; and
 - * where the Insured has not received compensation from another source prompting an insurer which has indemnified the insured to bring an action against the third party.

(2 marks for each correct and completely stated way. Sub-Total: 4 marks) (Grand Total: 10 marks)

- 7. Under the Limitation Act 2004, the victim of a civil wrong is allowed a limited period of time to bring a court action against the wrongdoer.
 - (a) What are the three (3) main limitation periods provided for in the law? (6 marks)
 - (b) How does the "time limit" run? Give a concise example. (4 marks)

Solution

- (a) The three main limitation periods stipulated by law are:
 - three (3) years for claim in libel or slander;
 - three (3) years for personal injury claims;
 - six (6) years for most of other tort actions (property damage claims)

(2 marks for each correct and completely stated limitation period and on what. Sub-Total: 6 marks)

(b) The "time limit" begins to run when the course of action accrues i.e. when the situation (loss or damage) occurs although in some cases, the duration may be modified e.g. when the injured party is under some form of disability- a minor or being in a state of unsound mind.

(2 marks for correct and complete definition. 2 marks for a concise example. Sub-Total: 4 marks) (Grand Total: 10 marks)

8. In order for a valid contract to be established, parties must show the intention to create legal relations. Briefly discuss with any two (2) exceptions to this rule.

Solution

One of the validating elements of a contract is the intention of parties to create legal relationship i.e. to show and demonstrate the readiness to be bound by the promises that they exchange. Otherwise an enforceable contract may not be established. (2 marks). However, the foregoing is a general rule to which there are exceptions.

These exceptions are:

- first, parties may by the terms of the contract, state that the agreement would not have a binding effect on them;
- secondly, with respect to non-consumer (business) or commercial transactions, the intention to be bound is presumed and it is imputed to parties by law;
- thirdly, social and domestic arrangements are not expected to create binding legal and enforceable contracts.

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

9. State and explain any two (2) common law rules developed by the Court to help resolve doubts about the meaning of words used in contracts, especially insurance contracts.

Solution

The common law rules developed by the court to help interpreting the words in contractual documents especially insurance policy are:

- Ordinary /Literal Meaning: the court would interpret the words by giving the words their ordinary or literal meaning;
- **Technical Meaning:** if by giving literal or ordinary meaning to a word, an absurdity will result, the court would apply the technical meaning which is the intended meaning;
- Contextual Meaning: the court would interpret a word in its immediate or wider context to give it its appropriate meaning. In this wise the following are important: 'Noscitur a sociis" (meaning of a word may be known by the company it keeps), "ejus dem generis rule" (general words which follow specific words are taken to refer to things of the same kind) and "expressio unis est alterius" (specifying one thing means exclusion of all other things not mentioned).
- Contra Proferentem Rule: ambiguity or ambiguous words in insurance policy would be resolved against the drafter who intends to take advantage of it. Where there are inconsistencies e.g. where printed words conflict with word that are hand written or typed, the court would hold that the latter takes precedence because it is assumed that parties intended to adapt a standard form to meet the need of their particular case.

(3 marks for each correctly stated rule. 2marks for a correct and completely stated explanation. Sub-Total per rule: 5 marks. Maximum of 2 rules to be graded. Total: 10 marks)

- 10. (a) With reference to the law of Agency, who is a "disclosed principal"? (2 marks)
 - (b) Can an agent of a disclosed principal be sued or liable on the contract having linked the "disclosed principal" to the "third party"? State any two (2) conditions justifying your response. (8 marks)

- (a) A "disclosed principal" is one whose existence is known to the third party at the time that the contract is made. (2 marks)
- (b) When an agent contracts on behalf of his principal, he normally should drop out of the scene. He cannot be sued or be liable on the contract. However, in certain circumstances, the agent may still be sued. (2 marks) Some of the circumstances are as follows:
 - where the agent signs a deed, he may be liable on it, even though he is known to be contracting as an agent;
 - trade customs sometimes make an agent personally liable on a contact;

• agents who sign their names on a negotiable instrument (such as a cheque or bill of exchange) may be liable on it unless they indicate that they are signing on behalf of their principals.

(3 marks for each correct and completely stated scenario backing up the response. Maximum of 2 to be graded. Sub-Total: 6 mark) (Grand Sub-Total: 8 marks) (Grand Total: 10 marks)

11. Misrepresentation is a false statement of fact that induces the other party to enter into a contract. Enumerate any four (4) examples of misrepresentation in insurance.

Solution

The following are examples of misrepresentation in insurance:

- i. where a proposer for theft insurance says that the premises he presents for insurance are protected by alarm when they are not;
- ii. where a proposer for Motor insurance declares that his vehicle car has not been modified in any way, when the vehicle had been modified;
- iii. where a proposer for life assurance gives his age as 25 years, when in fact, the proposer is 35 years;
- iv. where a proposer for property insurance states that the property sought to be insured is in a good state of repair when it is in a poor condition (e.g. it has leaking roof or broken windows);
- v. where a proposer for property insurance implies, in respect of a previous fire at his home, that the fire had occurred at other premises and had been the fault of the contractors but in fact, the fire had been at his house.

 $(2\frac{1}{2}$ marks for each correct and completely stated example. The list is not exhaustive here. Maximum of 4 to be graded. Total: 10marks)

- 12. In a typical insurance contract, with a valid invitation to treat between the insured and insurer,
 - (a) who is an offeror and who is an offeree?

(2 marks)

- (b) is communication of acceptance of an offer necessary to establish an insurance contract? Briefly explain. (4 marks)
- (c) enumerate any two (2) important issues that must be agreed upon by the insurer and the insured for there to be an effective acceptance of offer. (4 marks)

- (a) In the preliminary step to concluding an insurance contract, there is no definite rule as to who constitutes an offeror or an offeree. This is because sometime the proposal form, which is submitted to the insurer, may constitute an offer making the insured the offeror. In other cases, the insurer may quote a premium based on the information supplied in the proposal form which the proposer may accept or decline thereby making the insurer the offeror. Sometimes before an insurance contract is sealed, a long series of offers, rejections and counter offers may be involved.

 (2 marks)
- (b) No, communication of acceptance of an offer necessary to establish an insurance contract. (2 marks) In general contract, the general rule is that there cannot be an acceptance of an offer without doing anything. In insurance, it seems that if the proposer acts in reliance on an offer made by the insurers, this will be equivalent to an act of acceptance and a valid contract will be formed. (2 marks)

- The following are the important issues that must be agreed upon by the insurer and the (c) insured for there to be an effective acceptance of offer:
 - the nature of the risk; (i)
- the perils to be covered; (ii)
- (iii) the subject matter of insurance i.e. what is to be insured;
- the duration of the contract; (iv)
- the amount of the premium or the method by which the premium is to be (v) calculated.

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

- 13. How can insurable interest be created? Briefly explain. (a) (4 marks)
 - Enumerate any three (3) examples of persons who may have insurable interest in (b) an insured property. (6 marks)

Solution

Insurable interest can be created as stated in the table below: (a)

S/No	How	Explanation
1	At common law	It is presumed that everyone has an unlimited interest in their own life, if in life assurance and if in property insurance, the ownership of a thing confers insurable interest e.g. ownership of a car carries with it the right to insure
2	By Contract	A person may by a contract, accept responsibility for something he ordinarily should not be liable for. For example, a tenant accepting in his lease to maintain his rented apartment instead of the landlord. If this happens, it will give the tenant a financial interest which is insurable

(2 marks for correctly stated way of creating insurable interest. 2 marks for any correct and completely stated explanation. Maximum of 1 way to be graded. Sub-Total: 4 marks)

- (b) Some examples of persons who may have insurable interest in an insured property are:
 - * outright owners;
- * bailees:
- * people living together:
- * part or joint owners: i.e. mortgagees/mortgagors; executors/trustees; landlord/tenants;
- * finders and people in possession; property;
- * people with limited interest in * people with overlapping interest in property.

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

(Grand Total: 10 marks)

- 14. Will it make any difference if the "disclosed principal" is named or not named in (a) an agency relationship? (2 marks)
 - Explain how "time run" in respect of (b)
 - latent bodily injury; (2 marks) (ii) latent property damage; (6 marks)

- No, it will not matter whether the "disclosed principal" is named or unnamed in an agency relationship. (2 marks)
- (b) Time run in respect of:
- **latent bodily injury:** injury is latent if the symptoms do not manifest immediately. Some injuries e.g., asbestos related ones, do not show until decades later. In situations like that, time begins to run only from the day of knowledge or manifestation. (2 marks)

- (ii). **latent property damage**: as with latent bodily injury, damages do occur in property that are not known immediately. In this case, time will begin to run thus:
 - * the claimant has three (3) years to sue from date when the damage first began; (2 marks)
 - * three (3) years from the date when it was discovered, if this produces a longer period;

(2 marks)

* there is a long-stop or cut off of fifteen (15) years from the date of the alleged negligence or wrongful act by the defendant. (2 marks)

(Grand Total: 10 marks)

Part II

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

- 15. (a) Briefly explain the concept of legal personality. (2 marks)
 - (b) In what two (2) categories does the law divide a person? Give an example of each category. (6 marks)
 - (c) Who is a minor in law? (2 marks)
 - (d) How does the law treat a minor in:
 - (i) right to vote and be voted for ? (ii) criminal law?
 - (iii) property law? (iv) law of torts? (v) litigation? (20 marks)

Solution

- (a) **Legal personality** is the lawful characteristics of an entity, a living person, company, charity, e.t.c. It includes legal rights and duties, the capacity to enter into contracts and to be otherwise subject to the requirements of the law. (2 marks)
- (b) The law divides a person in the following two categories:
 - i) juristic persons; (2 marks) and
 - (ii) non-juristic persons. (2 marks)

Examples of Juristic Persons: these are natural persons such as minors, persons lacking in mental capacity, bankrupts and married persons. (1 mark)

Examples of Non- Juristic Persons: these are corporations. Corporation is of two sorts, which can be either as corporation aggregate (i.e. chartered corporation by Royal Charter; statutory corporation; corporation by Acts of Parliament; and companies registered under the Companies Act e.g, CAMA and Corporation Sole i.e. an office into which people succeed into successively e.g. the Presidency of the Federal Republic of Nigeria. (1 mark) (Sub-Total: 6 marks)

- (c) A minor is any juristic person (1 mark) under the age of 18 years. (1 mark). (2 marks)
- (d) The law treats a minor in the following circumstances as follows:

S/No	Situation	How the Law Treats the Minor
i.	Right to vote and be	The law treats a minor differently for the purpose of criminal
	voted for	responsibility. Therefore, a minor who is under the age of ten is
		regarded as being incapable of committing a crime. He is doli in
		<i>capax</i> . This is a presumption which is rebuttable.

ii.	Criminal law	For a child who is over the age of 10 full criminal responsibility is
		applicable.
iii.	Property law	A minor can own personal property e.g. clothing, books, sport
		equipment but may not own legal estate in land. He can own such
		indirectly as a beneficiary and under a trust.
iv.	Law of torts	A minor is responsible for his wrong. However, the victim may not
		be with any remedy due to the lack of capacity of a minor to own
		assets.
v.	Litigation	A minor cannot sue directly. He does so through his next friend who
		must be an adult. He defends an action in civil matter through
		litigation friend but such is not liable for cost. A parent or guardian
		could act in any of these capacities.

(2 marks for each correctly stated point. Maximum of 2 points to be graded under each term. Sub-Total per term: 4 marks. Grand Sub-Total: 20 marks)
(Grand Total: 30 marks)

- 16. (a) There is no single definition of insurable interest. Attempt a definition that covers the essentials of the concept. (6 marks)
 - (b) What are the four (4) key elements of the concept of insurable interest? (8 marks)
 - (c) Briefly discuss any two (2) of these key elements. (16 marks)

Solution

- (a) Insurable Interest is the legal right to insure arising out of a financial relationship (2 marks) recognised at law (2 marks) between the insured and the subject matter of insurance (2 marks). (Sub-Total: 6 marks)
- (b) The four key elements of the concept of insurable interest are:
 - there must be a subject matter of insurance;
 - the policyholder must have an economic or financial interest in the subject matter of insurance:
 - the interest must be a current/valid interest;
 - the interest must be a legal interest.

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

(c) The Subject Matter of Insurance: this means that the property to be insured must exist and can be provided for inspection/sighting (if required) to the insurer; it must not simply be in the figment of imagination of the proposer; There must also be a financial interest of the proposer in the subject matter of insurance. This is so because the loss of the property will cause the proposer a financial loss/ Also, the ownership must be recognised and protected by law. The interest may be tangible and intangible such as debt and life. Also, the interest which is the subject matter may not be that of the owner. It could be that of a mortgagee, lender or lessee. In life insurance, the interest protected by the Policy is not that of the Policy holder as such, it could be that of his wife/husband or that of a creditor to whom the life insured owes.

Economic or Financial Interest: There must be a relationship between the insured and the subject matter of insurance whereby the insured will suffer a loss by the destruction of subject matter of insurance. This interest must be capable of financial valuation even when the insured does not specify the extent of his interest in the property. Financial valuation is easy in material objects but

may be difficult in the case of life assurance as there is no amount of money that can be put on the life of anyone. The law therefore presumes the interest in the life of another to be unlimited.

Current Interest, not Merely an Expectancy: The law reckons only with current and not expectation and/or mere hope of getting an interest in a property, which is required to be the subject matter of insurance. (See LUCENA v CRAUFURD (1806)). What is hoped for will not be enough however certain it might be. The insured needs not have interest throughout the duration of the contract but must have it ready. The precise time to have insurable interest in the subject matter varies from classes to classes of insurance.

Legal Interest: The interest that will support insurable interest must be legal or equitable in that it must be recognised in law. (See MACURA v NORTHERN ASSURANCE CO LTD). In the case, the Plaintiff had some timbers quantity which he sold to his company. Fire later gutted the timber and he put in a claim to recover money for the loss. It was held that he had no legally recognized interest in the timbers which belonged to the company. The mere fact that the value of his shares would go down was not sufficient loss to attach insurable interest to him.

(4 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-total per term: 8 marks. Grand Sub-Total: 16 marks)

(Grand Total: 30 marks)

- 17. (a) What is a Standard Terms Contract? How is such drawn up? Give an example. (6 marks)
 - (b) What major abuse is there in the continued use of Standard Term Contract? Briefly explain. (6 marks)
 - (c) What safeguards have been put in place to prevent possible abuse? (18 marks)

Solution

- (a) A "Standard Term Contract" is one made or drawn up by one of the parties the terms of which are binding on all (2 marks). Terms are usually in printed forms which are used in dealings with customers who want the same type of goods and service (2 marks). An Insurance contract is a good example(2 marks). (6 marks)
- (b) The major abuse in the use of "standard terms contract" is that the customer has little chance of negotiating any changes in the contract presented by the other party. The customer compromises or loses much of the customer's freedom to the contract and does not often to bother to read what is the "small prints" which may turn out to be a "booby trap' for the customer. If the drafter has put exclusion clauses that exclude his liability to the customer or limitation clause which reduces it, the latter may find little redress if things go wrong.

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

- (c). In view of the possible abuse, the following are the safeguards that have been put in place to prevent possible abuse are:
- (i) **judicial intervention** (3 marks): courts have developed rules of interpreting such exclusion or limitations clauses if found in a Standard Term Contract. The rules are:
 - the person to take advantage of the exclusion must show that it has been incorporated in the contract and the other party agreed to it. Incorporation could be by signing the document. A full-fledged adult with no disability is bound by the document that he signs or by Notice. An exclusion clause could be contained in a Notice posted or displayed at the

- premises where the contract is made or in a document like receipt or ticket which is given to the other contracting party;
- where the document refers to conditions which can only be found elsewhere, then the party who wants to rely on exclusion clause must: first establish that the documents is contractual which could reasonably be expected to contain terms, prove that he took reasonable steps to call the attention of the other party to them. 4Marks
- course of dealing: if it is established in the court that there has been a previous course of dealing between parties by which a particular exclusion clause has been used by the parties, the court may hold that the exclusion clause is deemed incorporated in the agreement of parties and the party who is alleging that he is prejudiced by it will be fixed with knowledge of the existence of the exclusion clause.

 3Marks
- (ii) **legislative intervention** (3 marks): by the following Acts of Parliament, exclusion clauses have been rendered ineffective:
 - The Unfair Contract Terms Act 1977: which restricted exclusion clauses by its provisions especially Sections 2, 3 and 6;
 - Consumer Rights Act 2015- subjects' contractual terms to a fairness test especially in its Sections 62 and 67.

(3 marks for each corrective sub-heading. 3 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each sub-heading. Grand Sub-Total: 18 marks) (Grand Total: 30 marks)

18. (a) Explain the doctrine of "privity of contract" and its application to insurance.

(10 marks)

- (b) Discuss the effects of the doctrine of privity of contracts on the following as it relates to insurance:
 - (i) Concept of Trusts;

- (ii) Agency;
- (iii) Concept of Assignment
- (iv) The Road Traffic Act 1988;
- (v) The Third Parties (Rights Against Insurers) Act, 2010. (20 marks)

Solution

(a) **Privity of Contracts** means that only parties to a contract can derive benefits and suffer detriments under the contract (4 marks). In effect, the doctrine confines duties and rights only to the parties to the contract. Applying this doctrine to Insurance would pose some difficulty. The term insured in insurance may cover different people some of whom did not make original contract with the insurer. Insurance cover may be designed to enable certain persons not named in it to enforce it or at least benefit from it. As a result of this, some well-established exceptions both common law and statutory, have been worked out against the full operation of the doctrine in insurance.

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

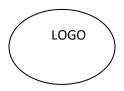
- (b) The effects of the doctrine of privity of contracts on the following as it relates to insurance are:
- (i) **Trusts**: The concept of trust has been used to whittle down the application of the doctrine in insurance and in law generally. A trust is established when a policy is taken out for the benefit of another/ third party who can enforce the Policy once the legal ownership is separated from beneficial ownership. A good example is Section 11 of the Married Women's Property Act, 1882 which provides that if a person insures his life for the benefits of his spouse and or children, the policy automatically creates a trust in favour of the objects named therein.

There is the concept of 'commercial trust' by which someone who has insurable interest in goods can insure the goods for full value. In the event of loss, he can recover the full value of the amount of loss, deduct the amount of his own loss and hold the balance on trust for others who might be interested in the goods.

- (ii) Agency: A third party can gain a right to claim on an insurance policy under the rules of Agency. A third party can authorise a policyholder to insure on his behalf. Also, under the doctrine of ratification, where the agent who has no authority to insure on behalf a principal does so, the principal can still ratify it subsequently. A marine insurance contract can still be ratified even after the loss has occurred. The principle of undisclosed principal also applies to insurance, a third party can enforce the contract subject to some rules. These rules of agency whittle down the operation of the doctrine of privity of contract.
- (iii) **Concept of Assignment**: By the concept of assignment, a contractual right and benefits of a contract can be assigned to a third party who is not a party to the original contract. Where there is a legal assignment, the assignee can enforce any assigned right or benefit in his own name.
- (v) The Third Parties (Rights against Insurers) Act 2010: The doctrine to privity of contract does not allow the victim of road accident to claim directly from the insurers of the negligent party who caused the accident. If the wrongdoer becomes bankrupt or his insurer becomes insolvent and goes into liquidation what the victim gets is dependent on the debt portfolios of the wrong doer / his insurer relative to their assets. There was The Third Parties (Rights Against Insurers) Act, 1930, which transferred the right of an insolvent insured to an indemnity from his insurers under liability policy to a third-party claimant like the victim, by a cumbersome and time—consuming procedure. The 2012 Act has now simplified the procedure so that it is now easier and quicker and less expensive for a third party to bring claim directly against liability insurer, by by-passing the insured and the insured's other creditors. This is an anathema under the doctrine of privity of contract.

(2 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each term. Sub-Total per term: 4 marks. Grand Sub-Total: 20 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT I02 COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION INSURANCES

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

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

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I02 – COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question tested candidates' knowledge on objectives of Chartered Insurance Institute of Nigeria (CIIN). Most of the candidates demonstrated their knowledge of the subject. Performance was above average.

Ouestion 2

This is a test book question, and it tested candidates' knowledge of sprinkler system. Performance was above average, about 60%.

Question 3

This question tested candidates' knowledge and understanding of "first loss insurance". Part A was well defined, about 75% got it right, while only 15% were about to give examples of Part B question.

Ouestion 4

The question was to test candidates' ability to define what "Fire Triangle" is. Good performance was above average, about 95% got it right.

Question 5

The question dealt with specific contingencies. About 90% attempted the question. Good performance was above 80%.

Ouestion 6

The question was to test candidates' knowledge of the available cover in a fidelity insurance policy. Their performance was above average, about 60%.

Question 7

The question was to test candidates' knowledge of what is covered by "all risks policy". Performance was poor as many candidates did not understand and could not state the covers. Performance was very poor about 15% pass mark.

Question 8

This was to test the candidates' ability on business interruption. Performance was not so encouraging, about 40% pass rate.

Ouestion 9

The question was to test candidates' knowledge of public utilities extensions. Good performance was poor, below 50%.

Question 10

The question was to test candidates' knowledge of pre-loss. The performance was above average about 55%.

Question 11

A practical question on underwriting and reading surveyor's report for acceptance of risk. Many candidates missed the required point. Performance was average, about 50% pass rate.

Question 12

The question was to test candidates' knowledge of the meaning and importance of "EML". Candidates' performance poorly and this is adduced to inadequate preparation for the examination.

Question 13

The question was designed to test candidates' knowledge of classification of risk. Performance was below average, about 40% pass rate as most candidates could not write the issues.

Question 14

This is a text book question regarding underwriting decision of accepting a risk. Performance was below average as most candidates failed to deliver the right answers.

Question 15

This question was based on business interruption. About 58% of the candidates attempted the question while only 25% performed above average.

Question 16

This question was to test the candidates' knowledge of risk acceptance. 45% made an attempt. Only 20% passed.

Question 17

The question was to test candidates' understanding of standard exclusions. 34% of the candidates attempted the question and recorded 23% pass, while 11% failed.

Question 18

The question was to test the candidates' knowledge of "Riot Act" and it had a 54% pass rate. The candidates need to study harder.

Comments on overall performance:

The general performance of the candidates is not encouraging.

Suggestions on improvement (if any):

Candidates are expected to study very hard and smart so as to excel.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. List any four (4) goals and objectives of the Chartered Insurance Institute of Nigeria.

Solution

The goals and objectives of the Chartered Insurance Institute of Nigeria are to promote insurance education through any of the following:

- conducting professional examinations for the purpose of registry of eligible persons as insurance practitioners;
- conducting certificate examination for the purpose of registry of eligible person as insurance practitioners;
- encourage and assisting insurance professionals to regularly update their knowledge in order to respond positively to changes;
- providing and maintaining libraries and study centers comprising books and publications for the advancement of insurance knowledge;
- upholding and encouraging members to adhere strictly to the observance of the industry codes of conduct;
- promoting social networking among members through various social activities; e.g annual picnic/sport dinners producing publication in respect of insurance related subject.

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

2. Enumerate four (4) of the most common types of Sprinkler Systems.

Solution

The most common types of sprinkler systems are:

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

- 3. (a) What is "First Loss Insurance"? (4 marks)
 - (b) Enumerate three (3) examples of any peril where this is popular. (6 marks)

Solution

(a) A "first loss insurance" is where the insured chooses to ask the insurer to provide cover up to an amount significantly less than the total value of the property insured actually at risk (2 marks) on the grounds that the total destruction by the perils to be insured is highly unlikely (2 marks).

(4 marks)

- (b) Some examples of perils where "first loss insurance" is popular are:

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

- 4. (a) What is 'robbery' as defined in Section 8 of the Theft Act 1968? (4 marks)
 - (b) What is a "fire triangle"? (6 marks)

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- (a) A person is guilty of robbery if he steals and immediately before or at the same time in doing so, and in order to do so uses force on any person, or puts or seeks to put any person in fear of being then and there subjected to force. (4 marks)
- (b) A Fire Triangle is the three elements that can start a fire and sustain it (3 marks). i.e. fuel (1 mark), heat (1 mark) and oxygen (1 mark). (6 marks) (Grand Total: 10 marks)
- 5. Enumerate any five (5) specified contingencies in commercial property and business interruption insurances.

Solution

The specified contingencies in commercial property and business interruption insurances are:

- * impact by own or thirds party vehicle; * sprinkler leakage; * earthquake;
- * not civil commotion; * spontaneous combustion; * escape of water / burst pipe. (2 for each correctly state contingency. Maximum of 5 to be graded. Total: 10 marks)
- 6. (a) What is a fidelity insurance policy? (4 marks)
 - (b) Who are the three (3) parties to a fidelity insurance policy? (6 marks)

Solution

- (a) A fidelity insurance policy is the cover that provides guarantee for the employer against the fraud and dishonesty of their employee and other crime covers available in the commercial insurance market. (4 marks)
- (b) The parties to a fidelity insurance policy are the:
 - * insurer; * insured (employer); and
 - * insured person (the employee whose fidelity is guaranteed).

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

7. Enumerate any five (5) types of property which would normally be covered by a business "all risks policy".

Solution

The types of property which would normally be covered by a business "all risks policy" are:

- * cups, trophies and regalia; * deeds, documents, plans, e.t.c.

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

- 8. (a) What is
 - (i) turnover? (ii) indemnity period? (6 marks)
 - (b) Enumerate any two (2) components of turnover in a business interruption insurance cover. (4 marks)

Solution

(a) **Turnover** can be defined as the money paid or payable to the insured for goods sold/delivered and for services rendered in the course of the business activities at the premises.

(3 marks)

- (b) **Indemnity Period** is the period beginning with the occurrence of the damage and ending not later than the maximum indemnity period thereafter during which the result of the business shall be affected in consequence of the damage.

 (3 marks)

 (Sub-Total: 6 marks)
- (b) The components of turnover in a business interruption insurance cover are:

* variable charges; *standing charges; and * real profit.

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

9. What is the difference between the cover provided by the public utilities' extension and accidental failure of utilities contingencies?

Solution

The cover provided by "accidental failure will indemnify the insured in respect of loss resulting from interruption or interference with the business as a result of accidental failure of supply at their terminal ends of the suppliers feed to the insured's premises (5 marks); while the cover provided by the public utilities extension is more restricted as it only cover interruption or interference following at the suppliers own premises (5 marks).

(Grand Total: 10 marks)

10. Enumerate any four (4) benefits of pre-loss survey to the proposer?

Solution

The benefits of pre-loss survey to the proposer are:

- * being able to obtain insurance;
- * assistance with identifying any regulation or legislation that may affect the risk/business.

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

11. As a prudent underwriter, list out five (5) information from the surveyor of a business interruption insurance report that will enable you underwrite the risk.

Solution

The information from the surveyor of a business interruption insurance report that will enable a prudent underwriter underwrite the risk are:

* type of trade;

* acceptance category;

* rates:

* goods risk of the class;

* discounts;

- * what proportion can be underwritten;
- * what wordings are needed.

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

12. (a) What does the abbreviation "EML" stand for?

(2 marks)

(b) Define EML.

(2 marks)

(c) List and briefly explain the two (2) importance of EML to an underwriter.

(6 marks)

Solution

(a) **EML** is the Estimated Maximum Loss.

(2 marks)

(b) EML is the assumed greatest amount of loss that could be sustained by an insured as a result of anyone occurrence considered to be within the realm of probability. (2 marks)

- (b) The Importance of EML to an underwriter are: In consideration of their
- (a) **in consideration of the underwriter's retention:** EML is used to determine the retention amount of any underwriter in the line of risk being reviewed. It enables the underwriter to be able to determine the threshold of what it can and should retain.
- (b) **in consideration of its reinsurance terms and conditions:** EML is also used to negotiate reinsurance terms and conditions as it helps to understand what the retention rates could be and how to maximally use it to negotiate good terms/rates/conditions.

(2 marks for each correctly stated importance. 1 mark for its complete and correct explanation. Sub-Total per importance: 3 marks. Grand Sub-Total: 6 marks)

(Grand Total: 10 marks)

13. As an astute underwriter to a risk, enumerate any five (5) classifications that can be applied in classifying risks.

Solution

As an astute underwriter to a risk, the classifications that can be applied in classifying risks are:

* superior;

* good;

* average;

* below average

* heavy;

* accommodation

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

14. You are approached to underwrite a risk, enumerate any four (4) underwriting decisions to be taken.

Solution

The following are the underwriting decisions to be taken when underwriting a risk:

warranties/conditions;

* excess:

* deductible

* franchise

* average.

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

Part II

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

15. The following figures were supplied by the financial controller of ABC PLC

	N ′000
Turnover	1,500,000.00
Opening Stock as @ January 2022	220,000.00
Closing stock as @ December 2022	145,000.00
Purchase	750,000.00
Closing Work-in-progress as @ Dec. 2022	67.500.00
Opening work-in-progress as @ Jan. 2022	95,000.00
Direct wages	127,000.00
Packaging material	144,000.00
Carriage	37,500.00
Power	25,500.00
Rent & Rates	75,000.00
Advertising	21,500.00

Assist the Company to calculate the insured profit.

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(A)

	₩'000	
Turnover	1,500,000.00	(2 marks)
Closing stock as @ December 2022	145,000.00	(2 marks)
Closing Work-in-progress as @ Dec. 2022	67.500.00	(2 marks)
Total:	1,712,500.00	(3 marks)

(B)

Opening stock as @ January 2022	220,000.00	(2 marks)
Opening work-in-progress as @ Jan. 2022	95,000.00	(2 marks)
Purchase	750,000.00	(2 marks)
Packaging material	144,000.00	(2 marks)
Carriage	37,500.00	(2 marks)
Total:	1,246,500.00	(3 marks)

Insured Profit = (A) - (B) (4 marks) = $\frac{\$1,712,500,000.00 - \$1,246,500,000.00}{\$466,500,000}$ (2 marks) = $\frac{\$466,500,000}{\$466,500,000}$. (2 marks)

(Grand Total: 30 marks)

- 16. As an underwriter of repute, when a risk is presented by either the Proposer/Intermediary, enumerate and briefly explain:
 - (a) four (4) criteria for accepting /declining the risk;

(12 marks)

- (b) four (4) applications and use of terms in the underwriting decision made in (a) above; (12 marks)
- (c) three (3) focal areas of the main underwriting considerations in the underwriting decision made in (a) above; (6 marks)

Solution

- (a) The criteria for accepting /declining the risk are:
- * size of insurance;

- * physical hazard;
- * moral hazard;
- * acceptance category.

(Candidates are required to explain the enumerated criteria above.

2 marks for each correctly enumerated criterion. 1 mark for correct and complete explanation. Sub-Total per criterion: 3 marks. Maximum of 4 to be graded. Sub-Total: 12 marks)

- (b) The applications and use of terms in the underwriting decision made in (a) above are:
 - * warranties or conditions precedent to liability;

* excess;

* deductibles; * franchise

se * average

(Candidates are required to explain the enumerated criteria above.

2 marks for each correctly enumerated criterion. 1 mark for correct and complete explanation. Sub-Total per criterion: 3 marks. Maximum of 4 to be graded. Sub-Total: 12 marks)

- (c) The focal areas of the main underwriting considerations in the underwriting decision made in (a) above are:
 - * the business/ exact trade the insured is involved in;
 - * the premises location

* the premises construction type

- * the heating procedures in the business/on the premises;
- * other occupants in the building/on the premises.

(Candidates are required to explain the enumerated criteria above.

1 mark for each correctly enumerated focal area. 1 mark for correct and complete explanation. Sub-Total per focal area: 2 marks. Maximum of 3 to be graded. Sub-Total: 6 marks)
(Grand Total: 30 marks)

- 17. (a) Enumerate any five (5) standard exclusions available under money insurance. (15 marks)
 - (b) Explain the difference between storm and flood perils in a material damage policy.

 (10 marks)
 - (c) How might a flooded factory be considered as damage by storm than by flood? (5 marks)

Solution

- (a) The standard exclusions available under money insurance are:
 - theft or dishonesty by a director, partner or employee (unless discovered within 7days);
 - money out of safe out of business hours;
 - loss from premises following use of key, unless key obtained by violence or threat, there-from;
 - shortage due to clerical / accounting error or omission;
 - losses from unattended vehicles;
 - accounting depreciation and / or currency fluctuation;
 - war, rebellion nuclear risks.
 (3 marks for each correct and completely stated exclusion. Maximum of 5 to be graded. Sub-Total: 15 marks)
- (b) The difference between storm and flood perils in a material damage policy are that **storm perils** can be said to cover atmospheric disturbance involving wind, rain, snow and hail or any combination of them **5 marks**); while for **flood perils**, they are the perils that can be said to arise from the basis definition of flood, which is defined as escape of water from the normal confines of any natural or artificial water course, lake, reservoir, canal, or inundation from the sea whether resulting from storm or otherwise **5 marks**). (Sub-Total: 10 marks)
- (c) A flooded factory be considered as damage by storm than by flood (2 marks) if the factory is flooded by rainwater where no natural course is involved (3 marks).

(Sub-Total: 5 marks) (Grand Total: 30 marks)

- 18. (a) In case of Field v. Metropolitan Police Receiver, what are the elements of "RIOT", which has now been adopted as the basic elements that must be in place for an event to be termed as a "riot"? (10 marks)
 - (b) In a standard fire insurance policy, what are the two (2) basis of settlement?
 - (c) Explain how the following clauses affect the operation of the average clauses and state an example of the type of insurance policy that it is applicable:
 - (i) Public Authority Clause;
- (ii) Professional Fees Clause
- (iii) Removal of Debris Clause

(15 marks)

Solution

- (a) In case of Field v Metropolitan Police Receiver, the elements of "RIOT", which has now been
- adopted as the basic elements that must be in place for an event to be termed as a "riot" are:
 - * there must be at least three people present;
 - * there must be common purpose, lawful or unlawful;
 - * there must be an execution or inception of the common purpose;
 - * they must intend to mutually assist one another, by force if necessary, in the execution of the common purpose;
 - * there must be force or violence displayed in such a manner as to alarm at least one person of reasonable firmness and courage.

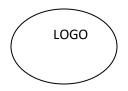
(2 marks for each correct and completely stated element. Sub-Total: 10 marks)

- (b) The two basis of settlement in a standard fire insurance policy are:
 - (i) indemnity; and (ii) reinstatement.

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

- (c) The following clauses affect the operation of the average clauses in applicable insurance policies as explained below:
 - (i) **Public Authority Cost:** the insured's advisers should be able to qualify costs to comply with requirements that it is "KNOWN TO BE APPLICABLE" but not YET made the subject of an order to comply. The relevant sum insured can then be suitably marked up to take care of this.
 - (ii) **Professional Fees Clause:** these include fees payable to Architects, Surveyors, Consulting, Engineers, Solicitors, whose services may be required to draw plans, specifications, designs and layouts of new premises required to replaced those destroyed by insured perils. The Standard Clauses make it clear that the sum insured such costs.
 - (iii) **Removal of Debris Clause:** this may be minimal and incorporated in the building cost. There may arise reason(s) to rebuild on the same site and if this is not forthcoming, the insured may have to move their whole operation to another sit. The cost to clear the old site and leave it safe is incurred under the debris removal cost.

(2 marks for each correct and completely stated explanation. Maximum of 2 explanations per clause. 1 mark for each stated applicable policy. Sub-Total per clause: 5 marks. Grand Sub-Total: 15 marks) (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT I03 INSURANCE BUSINESS AND FINANCE

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- Ensure that you write the full and correct candidate's number.
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CHARTERED INSURANCE INSTITUTE OF NIGERIA

103 - INSURANCE BUSINESS AND FINANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question tested the knowledge of candidates on corporate governance code. This was attempted by almost all the candidates. The overall pass rate was 23%. Apparently, candidates did not take quality time to study as the question was simple and direct.

Question 2

Most candidates scored high marks in the part A of the question that relates to IFRS interpretation committee, and in part B which relates to classification of types of insurance business. The overall pass rate is 62%.

Ouestion 3

Candidates did not have enough knowledge of the topic. Performance is abysmally low. No candidate was able to list the section or segment of IFRS financial statement. Candidates also confused Financial Reporting Council of Nigeria with Federal Revenue Board. The pass rate was 24%.

Question 4

The question was to examine candidates on the knowledge of the responsibility of the financial director of an organisation. The question was popular and candidates demonstrated good understanding of the question, which resulted in impressive performance of 95% pass rate.

Question 5

Majority of the candidates attempted the part A of question which is exposure-based method of claims reserving and performance was woeful. Part B which required enumerating two factors to be considered when deciding how to categorise claims was not well answered. Overall pass rate was 40%.

Ouestion 6

Candidates were asked to clearly distinguish between micro insurance and takaful insurance in part A of the question. Performance was below average. Part B which was on listing rules recorded below average performance. Overall performance was 42% pass rate.

Ouestion 7

The question tested candidates' knowledge on the five senior executive positions in a typical insurance company. All candidates attempted the question. The performance was impressive and pass rate was 80%.

Ouestion 8

The question was to test candidates' knowledge on strategic planning. All candidates answered this question and 50% of the candidates scored above 50%. The common error is the part where majority were not able to give convincing meaning of strategic planning. The overall pass rate 77%.

Question 9

This question tested candidates' knowledge on the concept of variance. Performance is relatively impressive. The overall performance is 62% pass rate.

Question 10

This question tested candidates' knowledge on a critical risk. Majority of the candidates attempted the question and outlined the points. Most candidates lost valuable marks for their inability to show and give the understanding of the concept. Pass rate was 37%.

Question 11

This question tested candidates' knowledge on the concept of merger and acquisition. All candidates attempted it, but majority of them did not get the answer correctly. The pass rate was 35%,

Question 12

This question tested candidates' knowledge on the principles, concept and origin of Takaful Insurance and over 90% of the candidates who attempted the question got above average mark. Pass rate was 52%.

Question 13

This question tested candidates' knowledge on the requirements of company under the Company Act 2004. Performance was abysmal, at 9%.

Question 14

This question tested candidates' knowledge on unexpired risk provision. Only few candidates got the answer correctly. Some candidates wrote on classification of risk. Some even when offline by writing on period of insurance and expiration of one year cover. Overall pass rate was 33%.

Question 15

The question has two parts. Part A tested candidates' knowledge on claims reserve, while part B was on classification of insurance business under the Insurance Act 2003. The first aspect was not well answered as the performance was poor. Part B was well answered. Overall pass rate was 48%.

Question 16

This question tested candidates' knowledge on the concept of Management by Objectives (MBO). Majority wrote extensively on general management. This makes it imperative to be an area requiring more focus in future. Pass rate was 26%.

Question 17

This question tested candidates' knowledge on how information within an organization is analysed at various levels. Most of the candidates avoided the question. Those that attempted it did not understand what is expected of them and performance was far below average. Pass rate was 30%.

Question 18

This question tested candidates' knowledge on IFRS. The question though optional was attempted by most candidates with a candidate number pass rate of 50% and above. The explanation of

working capital was shallow, calculation of asset employed off side, poor understand of reserve or technical reserves or technical reserve. The pass rate was 48%.

Comments on overall performance:

It was an above average performance, about 57%.

Suggestions on improvement (if any):

The poor performance of candidates in questions one (1), three (3), ten (10), thirteen (13), fourteen (14) and fifteen (15) suggest lack of adequate preparation for the examination. These questions are relevant to professionals as they test knowledge and understanding on how some of these questions affect the insurance business. Candidates are encouraged to be studious in the pursuit of professional certification.

Part I

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

- 1. (a) What accounting standards must a company listed on the Nigerian Stock Exchange use to prepare its consolidated accounts? (2 marks)
 - (b) Explicitly summarise any four (4) importance/use of your country's Corporate Governance Code. (8 marks)

Solution

(a) A company listed on the Nigeria Stock Exchange must use the Nigerian-adopted International Financial Reporting Standards (IFRS) when preparing its consolidated accounts.

(2 marks)

- (b) For/In Nigeria:
 - The Nigerian Code of Corporate Governance was issued in 2018 by the Financial Reporting Council of Nigeria
 - The issuance of the code stemmed from the suspension of the national code of corporate governance in 2016 by the Federal Government;
 - The Code is aimed at companies of varying sizes across different industries and organisations;
 - It seeks to institutionalise global corporate governance best practice in the country;
 - It promotes public awareness of essential corporate values;
 - It enhances integrity of the business environment.

(Candidates are free to state the one applicable to their country. The only difference will be the first point stated in the solution above. 2 marks for any correct and completely stated importance/use. Maximum of 4 to be graded. Sub-Total: 8 marks)

(Grand Total: 10 marks)

2. (a) What is the role of the IFRS Interpretation Committee? (2 marks)

- (b) Explicitly explain the following types of insurance companies, with focus on the type of businesses that they are legally permitted to transact:
 - (i) composite company;

(ii) life company;

(iii) general insurance company;

(iv) takaful insurance company.

(8 marks)

Solution

- (a) The role of the IFRS Interpretations Committee is to offer guidance to the International Accounting Standards Boards (IASB) where divergence in practice occurs. (2 marks)
- (b) The broad types of insurance companies in Nigeria are:
 - **composite company:** i.e. an insurance company that transacts both long-term business (life) and general business, such as motor, household, aviation, e.t.c.;
 - **life company**: is a specialist company that sells only life insurance products;
 - **general insurance company**: is a company that sells only general insurance products;
 - takaful insurance company: is a company that sells Islamic insurance products;
 - **microinsurance company**: is a company that sell insurance products to lower income.

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

(Grand Total: 10 marks)

- 3. (a) (i) What is the generally accepted interpretation of the "true and fair" requirement under the Companies Act 2004? (4 marks)
 - (ii) Is "True and fair" defined in the legislation of countries? (2 mark)
 - (b) Enumerate any two (2) example of non-current liabilities in an insurance organisation. (4 marks)

Solution

(a) (i) The generally accepted interpretation of the "true and fair" requirement under the Companies Act 2004 has been generally interpreted as giving a faithful representation (1 mark) of the financial performance of the company for the period (1 mark), its financial position (1 mark) and, where relevant, its cash flows at the end of the period (1 mark)

(Candidates need not state the above verbatim. However, they must convey the same message as above to be able to earn the 4 marks. Sub-Total: 4 marks).

- (ii) "True and fair" is not defined in the legislation of any country. (2 marks)
- (b) The examples of non-current liabilities in an insurance organisation are:

 * bank loans; * mortgages; * bond issues.

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

4. Concisely enumerate five (5) responsibilities of the Financial Director of an insurance organisation.

Solution

The responsibilities of the Financial Director of an insurance organisation are:

- the economic capital model to assist in the determination of the appropriate level of capital for the company to hold;
- stress and scenario testing to assist in the determination of the amount of extreme risk the company may be subject to;
- preparation of papers for the board to assist in the determination of the appropriate level of dividend to pay to shareholders;
- making recommendations to the board to assist in the determination of the appropriate level of dividend to pay to shareholders;
- proposals to the board on the form of capital to hold in addition to equity capital, such as subordinated debt;
- making recommendations to the board on the appropriate level of claims provisions to hold;
- preparation of the statutory accounts of the company for approval by the board and shareholders;
- making presentations to, and managing the relationships with, the investment analysts who prepare reports on the company's performance and holders of the company's debt;
- preparation of the financial information required by the PRA and be one of the main contacts the PRA has with the company;
- preparation of management information as leading indicators of financial performance;

- management of debt, cashflow, liquidity and treasury;
- management of the investment portfolio;
- management of financial aspects of the planning process, the budgetary process and the forecast process;
- preparation for the reviews by rating agencies;
- preparation and planning for the statutory external audit conducted by the independent auditors;
- management of the reinsurance accounting process.

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

- 5. (a) For which type of claims would an exposure-based method of claims reserving be appropriate? Give two examples of such. (6 marks)
 - (b) Enumerate any two (2) factors that will be considered when deciding how to categorise claims statistics for the purposes of determining the appropriate amount to set aside for eventual claims liabilities that could crystalise. (4 marks)

Solution

(a) The type of claims that an exposure-based method of claims reserving will be appropriate for are very long-tail liabilities within high degrees of uncertainty (2 marks) such as asbestos, pollution and health hazard exposures.

(2 marks for the explanation. 1 mark for each correctly stated example. Maximum of 2 examples to be graded. Sub-Total: 4 marks)

- (b) The factors that will be considered when deciding how to categorise claims statistics for the purposes of determining the appropriate amount to set aside for eventual claims liabilities that could crystalise are:
 - length of tail (being the time from the incident date through to advice and payment);
 - expectation of a surplus or deficit in the run-off of claims;
 - average claims value.

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

(Grand Total: 10 marks)

6. (a) Differentiate in two (2) distinct ways between micro insurance and takaful insurance.

(6 marks)

(b) What does the "listing rules" dictate?

(4 marks)

Solution

- (a) The differences between micro-insurance and takaful insurance are that:
 - Micro insurance is a special insurance company that sells insurance products to low income earners while Takaful insurance companies are companies that sell products that comply with Islamic faith;
 - Micro insurance companies can invest their premium anywhere allowed by insurance law while Takaful can only invest in areas that are allowed by Shariah;

There is no Governing Board in micro insurance as in Takaful insurance where there is Islamic governing Board.

(1½ marks for each explicitly stated difference. Maximum of 2 under each term to be graded. Sub-Total: 6 marks)

The "listing rules" dictate such matters as the contents of the prospectus for a company (b) seeking a listing for the first time, and on-going obligations such as the disclosure of price sensitive information, and communications on new share offer, right issues, and potential or actual takeover bids for the company.

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

7. Enumerate any five (5) senior executive positions in a typical insurance company.

Solution

The senior executive positions in a typical insurance company are:

* Chief Risk Officer;

* Head of Internal Audit;

* Head of Technical Operations;

* Head of Marketing Operations;

* Head of Underwriting;

* Head of Claims;

* Marketing Director;

* Head of HR:

* Head of IT;

* Head of Strategy Operations;

* Head of Investment.

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

- 8. Explain the phrase "strategic planning" for a business entity. (a) (4 marks)
 - (i) Define a "budget". (b) (2 marks)
 - (ii) Enumerate any two (2) advantages of a "budget". (4 marks)

Solution

- Strategic planning for a business entity is a process whereby the future direction of the business entity is decided upon and a statement (the plan) is developed detailing long-term goals together with a definition of the strategies and policies, which will ensure achievement of those goals. (4 marks)
- A budget is a business document expressed in monetary terms and shows the (b) income and expectation during a financial period if a given corporate objective is to be achieved. (2 marks)
- (ii) The advantages of a budget are:

* unification effect planning; * financial awareness; * basis of comparison.

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

- 9. Explain the term "variance" from the position of "variance analysis". (4 marks) (a)
 - Enumerate any three (3) causes of variances. (b)

(6 marks)

Solution

a) A variance from the position of variance analysis is the difference between actual and budgeted performance, and must be expected unless the budget equates exactly to what has been budgeted, which is in reality unlikely due to factors both internal and external to the business. (2 marks for each correctly stated explanation on each term. Sub-Total: 4 marks)

- b) The causes of variances are:

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

10. List any four (4) critical types of key risk indicators in a finance organisation. Briefly explain the reason why they are considered key risk indicators.

Solution

The critical types of key risk indicators in a finance organisation are:

(Candidates are required to list the risk indicators as listed above and then explain the reasons why they are considered as risk indicators. Maximum of 4 to be graded. $1\frac{1}{2}$ mark for each correctly stated indicator. 1 mark for each correct explanation. Sub-total per point: $2\frac{1}{2}$ marks per indicator. Maximum of 4 to be graded. Grand Total: 10 marks)

- 11. (a) Explain the two terms "merger" and "acquisition. (4 marks)
 - (b) Enumerate any three (3) possible advantages of either or both. (6 marks)

Solution

- (a) Merger is the term that is used to describe the action that occurs when two companies agree to join forces on a straight basis; and acquisition is the term that is used to describe the action that occurs where a company gains control of another company by purchasing a majority shareholding. (2 marks for correct definition of each term. Sub-Total: 4 marks)
- (b) The possible advantages of "merger" and/or "acquisition" are:
 - * duplication is removed, efficiency and improved performance can be gained;
 - * overcoming the cost of IT by being large enough;
 - * provides investment opportunities;
 - * two companies joining together to spread risk.

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

12. Outline five (5) clear distinctions between "financial accounting" and "management accounting".

Solution

The distinctions between "financial accounting" and "management accounting" are:

- financial accounting is mainly for external stakeholders while management accounting is for internal use;
- financial accounting is statutory required while management accounting is not;
- management accounting is for internal planning while financial accounting is not;
- financial accounting is historical narrative while management accounting is not;
- tax authorities use information in financial accounting and not management accounts;
- unlike financial accounting management account shows how managers are performing.

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

13. (a) What is the name of the national accounting standard-setters in your country

called? (2 marks)

(b) List the four (4) sections/segments/contents of IFRS financial statements.

(8 marks)

Solution

- (a) Financial Reporting Council of Nigeria (FRCN) (Nigeria) (2 marks)
- (b) The four (4) sections/segments/contents of IFRS financial statements are:
 - * a balance sheet; * an income statement; * a cash flow statement;
 - * notes, including a summary of the significant accounting policies.

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

- 14. (a) Explain the term: "unexpired risk provision". (4 marks)
 - (b) Concisely explain with at least two (2) complete and concise points, who a non-executive director is on the Board of an organisation. (6 marks)

Solution

- (a) Unexpired risk provision is an amount set up as a liability in the accounts if an assessment of the unearned premium reserve is deemed to be inadequate to cover the expected cost of claims. (4 marks)
- (b) A non-executive director works part time and is chosen for his particular area of expertise and do not perform an executive management role in the company. Such a director attend board meeting(s) and is a member of sub-committees in order to provide independent views on matters such as audit, management remuneration and risk management.

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

Part II

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

- 15. (a) Explicitly enumerate any five (5) factors which may have an influence on the uncertainty over the setting an appropriate level of claims reserves. (10 marks)
 - (b) (i) In Nigeria, Insurance Act 2003 divide insurance business into two. What are the two lines of businesses? (6 marks)
 - (ii) Enumerate also any of seven (7) sub-classes from both lines of businesses. (14 marks)

Solution

- (a) The factors which may have an influence on the uncertainty over the setting an appropriate level of claims reserves are:
 - legislative change in the future having a retrospective impact on existing claims;
 - future claims payment patterns differing from historical experience;
 - claims, such, such as stress and disease claims, emerging from risks written many years ago;
 - cases of latent exposures such as asbestos being reported;
 - the outcome of litigation on existing claims;

- failure to recover reinsurance;
- unanticipated changes in claims inflation;
- unexpected changes to interest rates applied by courts on personal injury claims.

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

- (b) (i) The two lines of business in the Insurance Act 2003 in Nigeria are:
 - * Life insurance business: and * General insurance business.

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

- (ii) The sub-classes from both lines of businesses are:
 - * Individual Life Insurance Business
- * General Accident Insurance
- * Group life and pension;

- * Fire insurance
- * Health insurance business:
- * Motor Vehicle Insurance
- * Marine and Aviation
- * Engineering Insurance;
- * Oil and Gas Insurance;
- * Credit Bond and Suretyship
- * Miscellaneous Insurance

(2 marks for each correctly stated sub-class. Maximum of 7 to be graded. Sub-Total:14 marks) (Grand Total: 30 marks)

- 16. (a) What is "management by objectives (MBO)"? (3 marks)
 - (b) MBO has a typical sequence of events for the introduction of a scheme in any organisation. Fully state these events' sequence. (27 marks)

Solution

- (a) "Management by Objectives (MBO) is a process of defining objectives within an organisation (1 mark) so that both management and employees agrees to the objectives and understand (1 mark) what they need to do in order to achieve them (1 mark). (Sub-Total: 3 marks)
- (b) The typical sequence of events on MBO for the introduction of a scheme in any organisation are:
 - the direction must come from the chief executive;
 - the directive of the sub-units of the organisation must be clarified;
 - an analysis must be prepared of the key results expected from each manager;
 - top management assesses the unit objectives and the key results for each manager;
 - top management expresses these priorities formally in a unit improvement plan;
 - each manger must be given sufficient authority and opportunity to achieve the job improvement plan;
 - there must be a systematic performance review of each manager's results, together with a performance review for the unit as a whole;
 - there must be a continuing management development programme;
 - there must be a continuing or cyclical revision of the unit and job improvement plans.

(3 marks for each correct and completely stated sequence. Sub-Total: 27 marks) (Grand Total: 30 marks)

17. Information within an organisation can be analysed into three (3) levels. List and discuss these three (3) levels.

Solution

The three levels which information within an organisation can be analysed into are:

Strategic Information: is used by senior managers to plan the objectives of their organizations and to assess whether the objectives are being met in practice. Such information includes: overall profitability, the profitability of different segments of the business, future market prospects, the availability and cost of raising new funds, total cash needs, total manning levels and capital needs. Much of this information must come from external sources, although internally generated information will always be used. Strategic information will be used for the management decision-making described as strategic planning.

(5 marks for the correctly stated level; 3 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 11 marks)

Tactical Information: is used by middle management to ensure that resources of the business are employed to achieve the strategic objectives of the organization. Such information includes productivity control or variance analysis reports and cash flow forecasts, manning levels and profit results within a particular department of the organization. Tactical information is usually prepared regularly and it is used for decision-making referred to as management control.

(5 marks for the correctly stated level; 3 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 11 marks)

Operational Information: is used to by front line managers such as supervisors to ensure that specific tasks are planned and carried out properly.

(5 marks for the correctly stated level; 3 marks for each correct and completely stated explanation. Maximum of 1 explanation to be graded. Sub-Total: 8 marks) (Grand Total: 30 marks)

18. (a) What accounting standards must a company listed on the Nigerian Stock Exchange use to prepare its consolidated accounts? (4 marks)

Explain the term "working capital". (6 marks)

How are "assets employed" calculated? (c) (4 marks)

List two (2) examples of non-current liabilities. (d) (6 marks) Briefly explain the term "reserves". (e) (4 marks)

How is gross profit calculated? (f) (6 marks)

Solution

(b)

(a) A company listed on the Nigeria Stock Exchange must use the Nigerian-adopted International Financial Reporting Standards (IFRS) when preparing its consolidated accounts.

(4 marks)

(b) Working capital is the difference (2 marks) between current assets (2 marks) and current liabilities (2 marks). (6 marks)

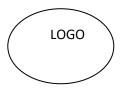
- (c) Assets employed are calculated by adding non-current assets(2 marks) to working capital (2 marks). (4 marks)
- (d) Some examples of non-current liabilities are:

* bank loans; * mortgages; * bond issues.

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

- (e) Reserves are the accumulated profits of the business (2 marks) that have been reinvested into the business (2 marks). (4 marks)
- (f) Gross profit is calculated by subtracting (2 marks) the cost of sales (2 marks) from turnover (2 marks). (6 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023
DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I04 - BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

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

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

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 was an industry question designed to test the candidates' knowledge of the Industry. It was attempted by almost all the candidates with pass rate of about 60%. The candidates need to be more familiar with the general knowledge of the Industry.

Question 2

The question was to test the candidates' knowledge of the functions of the Central Bank of their country. It was attempted by almost all the candidates with the good performance above 80%.

Question 3

The question tested the candidates' knowledge of the effects of environmental externalities. It is also a course book question. It was attempted by all the candidates but the pass rate was unfortunately less than 10%. This further underscores the need for candidates to read wide.

Ouestion 4

The question tested the candidates' knowledge of the direct and indirect players in an insurance market. The question was attempted by all candidates and the overall performance was about 65%. About 60% of the candidates performed well in the first part of the question, whereas the performance in the second part was about average even though the question was direct from the course book. Candidates are advised to study harder in their future examinations to enhance performance.

Question 5

The examiner tested candidates' knowledge of application of ICT in the insurance industry. The average performance was encouraging (about 68%). Candidates should note that they cannot avoid question(s) on information technology as applied to the industry. Candidates are advised to take this part of the syllabus much more serious in future examinations.

Question 6

The question tested the candidates' knowledge on company share capital. It was well attempted with a pass rate of about 50%.

Ouestion 7

The question tested the candidates' knowledge on accounting ratios. Over 80% of the candidates attempted this question with over 75% pass rate. It is also a course book question.

Question 8

The question tested candidates' knowledge on money and its characteristics. All the candidates attempted it but the pass rate was about 60% because some of them took the function of money for the characteristics of money.

Question 9

The question tested candidates' knowledge of the concept of price legislation, price flooring and price ceiling. All the candidates attempted the question but the performance is a little above average (52%). Many candidates could not display a good understanding of the concepts. This

showed that candidates did not cover their course books while preparing for the examination. Candidates are advised to ensure that they cover every aspect of their course books to enhance performance in examinations.

Question 10

The examiner tested candidates' knowledge of the uses of management accounting by an organisation. Almost all candidates attempted the question (about 96%) but the performance was not so encouraging (about 60% pass rate). Many answers supplied were at variance with the marking guide as many candidates used residual or general knowledge. Candidates should note that there are no other ways to come out successful on this examination other than through adequate preparation.

Question 11

The question tested the candidates' knowledge of risk management, especially the ERM. Most of the candidates attempted the question with a pass rate of about 70%.

Ouestion 12

The candidates' knowledge of the concept of dumping as it applies to international trade was tested. It was a compulsory question. Almost all the candidates attempted it while the pass rate was about 85%.

Ouestion 13

The question tested the candidates' knowledge of the challenges confronting the insurance industry. It is a compulsory question, attempted by almost all the candidates, but the pass rate was about 30%. It is a course book question. Candidates need to be more familiar with the course book.

Question 14

The question tested the candidates' knowledge of the budget. Almost all the candidates attempted the question being compulsory. The pass rate was also encouraging, over 90% of the candidates secured a pass mark.

Question 15

The question tested the candidates' knowledge of the free market economy. It is also a course book question. Over 90% of the candidates attempted the question while about 45% of those who attempted the question got a pass mark. The candidates need to be more familiar with the course book.

Question 16

The question based on the theory of firms was set to test the candidates' knowledge of using statistical tables as a tool of economic analysis. Over 90% of the candidates attempted the question while the pass rate was over 85% of those who attempted the question.

Question 17

The question was a course book question, set to test the candidates' knowledge of the internal controls in an insurance organisation. The question was avoided by the students. Less than 10% of them attempted it with a pass rate also less than 10% of those who attempted the question.

Question 18

The question, coming directly from the course book, tested the candidates' knowledge of fiscal and monetary policies of the government. Less than 10% of the candidates attempted the question with a pass rate of about 50% of those who attempted the question.

Comments on overall performance:

The performance of the candidates was slightly above average. Over 50% of the candidates were able to secure a pass mark.

Suggestion on improvement (if any)

Candidates are advised to study their course book thoroughly and take their preparations for the examination with more seriousness.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. (a) What is the full meaning of NIA.

- (2 marks)
- (b) Enumerate any four (4) roles of NIA in the insurance industry.

(8 marks)

Solution

(a) NIA – Nigerian Insurers Association

(2 marks)

- (b) The roles of NIA in the insurance industry are:
 - prescription and enforcement of self-regulation and code of ethics;
 - the protection and advancement of the common interest of insures transacting any class of insurance business in Nigeria;
 - the creation of a better understanding of insurance by all sections of society;
 - making positive impact into government policies on insurance and acting as the mouth piece of the industry;
 - training and development of all professionals and persons engaged in insurance business;
 - promoting researches and dissemination of statistics.

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

2. Enumerate any five (5) objectives of a Central Bank in any country.

Solution

The objectives of a Central Bank in any country are to:

- ensure monetary stability;
 * ensure price stability;
- ssue legal tender currency; * maintain and safeguard external reserves;
- promote a sound financial system;
 * act as a banker to other banks;
- act as bankers and financial advisors to the Federal/Central Government.

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

3. (a) What are "externalities"?

(4 marks)

(b) Enumerate three (3) examples of negative externalities.

(6 marks)

Solution

- (a) Firms in the private sector may be overly concerned with their internal costs. As a result, they may make decisions which are positive for them but negative for society as a whole. (2 marks) Economic activity creates economic and social costs, some of which are external to the producing organisations (2 marks). These external costs are called externalities. in order to keep costs down and profits up. This would create a negative externality. (Sub-Total: 4 marks)
- (b) Some examples of negative externalities are:
 - * environmental pollution from a firm's waste;
- * noise pollution from Industries;

* noise from neigbour's generator;

* industrial water pollution.

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

4. Enumerate five (5) direct players and five (5) indirect players in an insurance market.

Solution

Some direct players in an insurance market are:

- * life insurance companies; * general insurance companies; * insurance brokers;
- * proprietary companies, * mutual companies; * reinsurance companies;
- * captive insurance companies; * direct insurance; * retailers as insurance sellers;
- * internet sales of insurance; and * independent financial advisers.

(1 mark for each correctly stated player. Maximum of 5 under to be graded. Sub-Total: 5 marks) Some indirect players in an insurance market are:

- * facilities management; and * surveyors and risk management entities.

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

5. Enumerate any four (4) areas where insurance practices have made considerable use of information technology.

Solution

The areas where insurance practices have made considerable use of information technology are:

- * mass marketing and business communications; * management information. (2½ marks for each correctly stated area. Maximum of 4 to be graded. Total: 10 marks)
- 6. (a) What is a "right issue"?

(4 marks)

(b) Enumerate the three (3) options open to a shareholder concerning the right issues.

(6 marks)

Solution

- (a) A rights issue is where new shares are offered to existing shareholders at a discounted price, which is somewhat less than the present market price, which will raise new capital for a quoted firm if the rights issue is taken up.

 (4 marks)
- (b) The options open to a shareholder concerning the right issues are to:
 - (i) exercise the right to buy the share;
 - (ii) sell the rights to buy the shares. 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 sends them the proceeds.

(2 marks for each correctly stated option. No need for any explanation. Sub-Total: 6 marks) (Grand Total: 10 marks)

7. In interpreting of financial statements, list any four (4) group of ratios that are commonly used (please note that what you are asked for are the groups and not the individual types).

Solution

In interpreting of financial statements, the ratios that are commonly used are:

- * profitability ratios; * asset utilisation (turnover) ratios; * gearing ratios;
- * liquidity ratios; * investment ratios.

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

8. Enumerate any five (5) characteristics of money.

Solution

The characteristics of money are:

- * storable or storability;
- * stability in value;

* homogeneous;

* stability in value;

- * portable or portability;
- * divisible into smaller units or divisibility;
- * relative scarcity;
- * recognisable or cognizability;

* generally acceptable or acceptability

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

- 9. Explain the following briefly
 - (a) price legislation; (4 marks) (b) price flooring; (3 marks) (c) price ceiling (3 marks)

Solution

(a) **Price legislation** is a process by which the government or the state fixes the market price of certain goods and services by their intervention in the market forces of demand and supply.

(4 marks)

- (b) **Price flooring** is a type of price legislation by fixing the minimum price for a product or service such products or services are not allowed to be sold or bought below such crisis prices, mainly to protect producers. (3 marks)
- (c) **Price ceiling** is the fixing of the maximum price for a product or service. Buying and selling of goods and services above such prices are not allowed, mainly to protect the consumers.

(3 marks)

(Total: 10 marks)

10. Enumerate any four (4) uses of management accounting by an organisation.

Solution

The uses of management accounting by an organisation ate:

- (i) planning and budgeting;
- (ii) decision making, estimating and forecasting;
- (iii) pricing or costing, including the computation of:
 - * operational costs, such as the cost to acquire a customer, or issue a policy;
 - * establishing pricing and insurance product costs,
 - * proceses and activities in identifying, presenting and interpreting information;

- (iv) analysing of cost and sales variances, profitability or social use of funds; and
- (v) assessing the effectiveness and efficiency of the financial systems.

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

11. (a) What is ERM?

(4 marks)

(b) Differentiate between risk impact and risk probability.

(6 marks)

(2 marks)

Solution

- (a) Enterprise Risk Management (ERM) is the strategic or holistic view of an enterprise's risk in its entirety (2 marks) and managed as a whole instead of risk management in 'silos' or unit-by-unit (2 marks). It is otherwise described as Enterprise-Wide Risk Management (E.W.R.M). (Sub-Total: 4 marks)
- (b) Risk probability is the rate or possibility of a risk taking place (2 marks) which is expressed in fractions or percentages (1 mark); while risk impact is the intensity or the extent of damage that could happen (2 marks) which is measured in values (1 mark).

(Sub-Total: 6 marks)

(Grand Total: 10 marks)

- 12. (a) What is dumping in relation to international trade?
 - (b) What are domestic subsidies? (2 marks)
 - (c) In business strategic analysis, give the full meaning of P E S T L E.(6 marks)

Solution

- (a) Dumping is a policy in international trade where a country subsidises its exports by selling its products to other country at a price lower than the price in the home country. (2 marks)
- (b) Domestic subsidies are payments made by the Government to domestic companies to enable them to compete more effectively with imports. (2 marks)
- (c) (ii) **P P**olitical factors; **E I T T**echnological factors;

E - Economic factors; s; L- Legal factors

S - Socio-cultural factors;E - Environmental factors.

(1 mark for each correct meaning. Sub-Total: 6 marks)

(Grand Total: 10 marks)

13. Enumerate any five (5) challenges confronting the Insurance Industry in your country.

Solution

The challenges confronting the Insurance Industry in my country, as at date, are:

- * manpower issues;
- * relocation issues;
- * climate change;
- * technological issues in the information age;
- * fraud prevention;

- * emerging risks;
- * regulation,
- * innovative solutions; and

* non-traditional competition.

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

14. (a) What is a budget?

(1 mark)

(b) Concisely distinguish between a deficit budget, surplus budget and balanced budgets. (9 marks)

Solution

- (a) A budget is a statement, in financial terms, of future planned performance. (1 mark)
- (b) A balanced budget is where proposed expenditure is planned to be equal to expected income (3 marks), while a deficit budget is where expenditure is planned to exceed proposed

income (3 marks), while a surplus budget is where expenditure is less than expected income. (3 marks).

(Grand Total: 10 marks)

Part II

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

15. (a) Define the free market economics.

(5 marks)

(b) Enumerate and explain the five (5) main characteristics of a free market economy.

Solution

(a) The free market economy is also known by a variety of other names. "Capitalist' economy and the "free enterprise" economy are also terms used to describe this type of economic system. The five main characteristics of a free market economy are explained below. Based on these, there are no true free market economies in-existence in the world today. However, these characteristics are of great importance and you should ensure they are well understood. Free market economy is often proposed, even when it is recognised that it would be undesirable for the whole economy to be a free market.

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

(b) The five main characteristics of a free market economy are:

Private Ownership: In a free market system, the resources used to produce goods and services are owned by private individuals rather than by the state. Firms are owned and run by entrepreneurs, who obtain the labour they need to produce goods and services by paying workers' wages. The individual workers decide which firm they wish to work for. Workers then use their wages to buy goods and services from the firms. Individuals are given the freedom to choose in a free market economy. Taxes are usually relatively low and, as a result, the majority of spending in a free market economy is conducted by private 'individuals and firms rather than by the state. The government's role is not to produce goods and services, but to enforce the property rights of the individual and remove any obstacles to free enterprise.

Profit Motive: Firms produce goods and services for society because they are motivated by the desire to make profit for themselves. In a free market economy, entrepreneurs attempt to find ways of minimising costs while maximising revenue. Therefore, firms have an incentive to find new methods of production that are more efficient. If costs can be reduced, more profit can be made from the same revenue. They also have an incentive to supply the types of goods and services that consumers want te buy. The more popular a product, the higher the price it can be sold for relative to its costs of production.

Price Mechanism: Decision-making is decentralised. Individual decisions made by firms and consumers determine the market price levels. These decisions are not usually motivated by the desire to create an outcome that is good for society, but on the basis of what will be the best outcome for the individual consumer or firm. In his book The Wealth of Nations, the Scottish economist Adam Smith wrote 'it is not to the benevolence of the baker, the butcher and the brewer that we owe our meal, but to their regard for their self-interest'. By this, Smith meant that the baker does not produce bread out of an altruistic desire to bake good bread for people to enjoy. Instead,

what prompts the decision is the desire to sell bread for a price that will yield a profit. The market system, through changes in price, coordinates decentralised decisions such as this so that, despite the fact that they are motivated by self-interest, the final outcome should be in society's favour.

The Importance of Money: Money and credit flowing through financial markets lubricate the engine of the economy. Both rely on trust. (The word 'credit' comes from the Latin 'credere', 'to believe'.) Look at a bank note and you will see that even that is only a 'promise to pay'; and the financial institutions depend on a variety of 'pieces of paper' to enact their business. If their validity cannot be trusted, the whole capitalist system is in danger of collapse, as we discovered in the global credit crisis in the months following the summer of 2007.

Competition: Free market economies work best when there is competition. If insurance were sold by only one company, the consumer would almost certainly be exploited. Without an alternative source of supply the company could exploit its monopoly situation by charging high prices. Consumers would have no choice but to pay the prices charged if they wanted insurance. A lack of competition also discourages innovation and new product development.

(2 marks for each correctly stated characteristic. 1½ marks for each correct and completely stated explanation. Maximum of 2 to be graded under each characteristic. Sub-total per characteristic: 5 marks. Grand Total: 25 marks)

(Grand Total: 30 marks)

16. The following data relates to the cost structure of policy production of No Loss No Claim Assurance PLC (A Life Underwriter) in Naira (₹)

Number of	Fixed Cost	Variable Cost	Total Cost	Average Cost	Marginal Cost
Policies	(FC) (N)	(VC) (N)	(TC) (N)	(AC) (N)	(MC) (N)
1	3,000	2000	5,000	5,000	Nil
2	3,000	4,000	7,000	3,500	2,000
3	3,000	6,000	9,000		
4	3,000	8,000	11,000		
5	3,000	10,000	13,000		
8	3,000	16,000	19,000		
10	3,000	20,000	23,000		
15	3,000	30,000	33,000		

(a) Complete the table above.

(18 marks)

(b) State the formula for calculating:

(i) average cost; and (ii) marginal cost.

(6 marks)

(c) Differentiate briefly between the 'long-run' and 'short-run' condition of a firm.

(6 marks)

Solution

Number of	Fixed Cost	Variable Cost	Total Cost	Average Cost	Marginal Cost
Policies	(FC) (N)	(VC) (N)	(TC) (N)	(AC) (N)	(MC) (N)
1	3,000	2000	5,000	5,000	Nil
2	3,000	4,000	7,000	3,500	2,000
3	3,000	6,000	9,000	3,000	2,000

4	3,000	8,000	11,000	2,750	2,000
5	3,000	10,000	13,000	2,600	2,000
8	3,000	16,000	19,000	2,375	2,000
10	3,000	20,000	23,000	2,300	2,000
15	3.000	30,000	33,000	2,200	2,000

(1½ marks for each correctly imputed bolded figure in coloured ink. Sub-Total: 18 marks)

(b) Average Cost (AC) = $\frac{\text{Total Cost (TC)}}{\text{Total Cost (TC)}}$ (3 marks)

Total Product Net or Output

Marginal Cost (MC) = $\frac{\text{Change in Total Cost}}{\text{Change in Total Cost}}$ (3 marks)

Change in Output or Total Products or Total Number of Policies

(c) The "long-run" condition of a firm refers to a period of time in the cost structure of a firm that all the cost elements (fixed and variable costs) can be varied with the output. All cost elements becomes variable (3 marks); while the "short-run" condition of a firm refers to the time in the cost structure of a firm that the fixed cost elements cannot be varied with the output (3 marks).

(Sub-Total: 6 marks) (Grand Total: 30 marks)

17. Enumerate and explain any six (6) of the major internal control activities within an insurance organisation.

Solution

The major internal control activities within an insurance organisation are:

- i. **segregation of duties**: i.e. separating authorisation and custody to prevent fraud oy error by one person;
- ii. authorisation of transactions: review of particular transactions by an appropriate person;
- iii. **retention of record:** maintaining documentation to substantiate transactions, Supervision or monitoring of operations observation or review of ongoing operational activity including management information reporting;
- iv. **physical safeguards**: usage of cameras, locks, physical barriers to protect property, such as merchandise;
- v. **top-level reviews**: analysis of actual results versus organisational goals or plans, periodic and regular operational reviews, metrics, and other key performance indicators (KPIs);
- vi. **IT general controls**: controls related to: a) security, to ensure access to systems and data is restricted to authorised personnel, such as usage of passwords and review of access logs; and b) change management, to ensure that system changes are properly controlled, such as separation of production and test environments, system and user testing of changes prior to acceptance, and controls over migration of data into production;
- vii. IT application controls: such as controls over fraud and data validation.
 (3 marks for each correctly stated activity. 2 marks for each correct and completely stated explanation.
 1 explanation per activity to be graded. Maximum of 6 to be graded. Sub-Total per term: 5 marks.
 Grand Total: 30 marks).
- 18. (a) Each country is guided by both the fiscal and monetary policies in other to maintain a stable currency and economy. Enumerate and explain the four (4) objectives of a country's fiscal and monetary policies. (24 marks)
 - (b) Enumerate and explain any two (2) areas that insurance firms are taxed by the Government in your country. (6 marks)

Solution

The four (4) objectives of a country's fiscal and monetary policies are:

- (i) **Low Inflation:** maintaining a low rate of inflation is crucial in terms of achieving long-term economic success. The aim here is to achieve stability and predictability in the inflation target. Inflation can be damaging to a country's competitiveness. High, unstable and unpredictable inflation also creates uncertainty and discourages industrial investment. Without modern equipment and technology, firms will find it more difficult to survive. Most economists believe that low inflation is a prerequisite for stable growth, job creation and international competitiveness. It enables better planning, results in lower interest rates and reinforces itself, as businesses and individuals are then driven to seek fewer price and wage increases.
- (ii) **Full Employment:** during the recession phase of the business cycle, aggregate demand tends to be low. Lack of spending can cause firms to make redundancies, leading to a rise in unemployment. According to Keynesian economics, this lack of spending could be redressed by an increase in government spending or a cut in taxation (which should lead to an increase in consumer spending). Even when Keynesian ideas were largely replaced by monetarist ideas, governments and central banks could still react to the threat of a recession by increasing government spending or by cutting interest rates. Cutting interest rates can help to reduce the severity of a recession as lower interest rates aim to stimulate both retail spending and industrial investment, both of which boost job creation. Monetarists tend to downplay such economic stimulants for fear of creating inflationary pressure and interfering with free market forces.
- (iii) Balance of Payments Equilibrium and a Stable Exchange Rate: the balance of payments measures the difference between the country's income and expenditure with regard to foreign trade and investment. Prior to recent years, monetary and fiscal policies were frequently driven by a desire to avoid large balance of payments deficits, particularly during boom periods when the demand for imported goods was high. With a fixed exchange rate, a deficit on the country's balance of payments would imply that the country's foreign exchange reserves were falling. To prevent this, governments could announce cuts in government spending or increases in taxation in the attempt to reduce the demand for imports.

An increase in interest rates might also be used in the attempt to reduce spending on foreign-produced consumer and capital goods. Higher interest rates may also encourage overseas investors to shift their funds to the country, and this would also help to reduce the size of the deficit. With a flexible exchange rate, interest rate policy could also be used to influence the exchange rate. Typically, if the government wished to raise the value of currency in the foreign exchange market, it could instruct its central bank to increase interest rates. Conversely, if the Government wished to engineer a depreciation of the currency, it could instruct the central bank to cut interest rates. The balance of payments and exchange rates are discussed in more detail in the next chapter.

(iv) **Economic Growth:** we defined long-run economic growth in chapter 5 as a sustained increase in a country's productive capacity, determined largely by increases in the country's stock of labour and capital and by technological progress. Monetary policy could be used to raise the rate of growth, as an increase in the availability of credit and a fall in interest rates might encourage firms to engage in more capital investment. However, some economists would regard this policy as inflationary (and a higher inflation rate would tend to discourage capital investment).

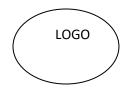
Alternatively, the government could adjust fiscal policy to direct resources into capital projects. For example, an increase in spending in the areas of technology, research and development, education, regional, e.t.c.

(2 marks for each correctly stated objective. 2 marks for each correct and completely stated explanation under each objective. Maximum of 2 explanations to be graded. Sub-Total per objective: 6 marks. Grand Sub-Total: 24 marks)

- (b) The areas that insurance firms are taxed by the Government in any country are:
- (i) **underwriting:** underwriting profits are taxed. The company's published accounts form the starting point for the tax computation. In its accounts, the insurance company adjusts premiums | written during the year to a 'premiums earned' basis and carries forward a reserve for premiums on business written in the year which will not be earned until a subsequent year. The creation of this reserve or the adjustment to this reserve is generally allowable for tax purposes.
- (ii) **capital profits on investments:** insurance companies are, in most cases, treated as dealers in investments: in other words, it is part of their business to deal in investments and make profits. As a result, both realised and unrealised profits less the losses on investments are treated as trading profits and are taxed. The effect of this is that capital profits on investments are assessable to corporation tax.
- (iii) **investment income:** the treatment of investment income received is covered under corporation tax. All other investment income often referred to as 'unfranked' is brought into the tax computation, gross. Thus, any tax deducted at source is ignored for the purpose of the calculation and when the amount of corporation tax due has been ascertained, the tax deducted at source is allowed as a set off.
- (iv) **value added tax (VAT):** VAT is a consumption tax paid when goods are purchased and services are rendered. VAT is borne by the final consumer.

(1 mark for each correctly stated area. 1 mark for each correct and completely stated explanation under each area. Maximum of 1 explanation to be graded. Sub-Total per area: 2 marks. Maximum of 2 areas to be graded. Grand Sub-Total: 6 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

105 - BUSINESS STATISTICS AND OPERATIONS RESEARCH

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question tested the candidates' knowledge on National Insurance Commission (NAICOM). It was attempted by majority of the candidates with pass rate of about 60%. The candidates need to be more familiar with the general knowledge of the National Insurance Commission (NAICOM).

Question 2

The question was to test the candidates' knowledge on the terms used in probability. It was attempted by almost all the candidates with the good performance above 75% pass rate.

Ouestion 3

The question tested the candidates' knowledge on the component of time series. It is a course book question. It was attempted by almost candidates but the pass rate was less than 35%.

Question 4

The question tested the candidates' knowledge on the stages of operations research. The question was attempted by almost all the candidates and the overall performance was about 65% pass rate.

Question 5

The examiner tested candidates' knowledge on the types of model used in insurance, and the difference between normative and descriptive model. The average performance was encouraging, about 72% pass rate.

Ouestion 6

The question tested the candidates' knowledge on the assumptions of linear programming. It was well attempted with a pass rate of about 62% pass rate.

Ouestion 7

The question tested the candidates' knowledge on the formulation of linear programming problem. Only about 38% of the candidates attempted this question with pass rate below 45%.

Question 8

The question tested candidates' knowledge on least cost rule of finding initial feasible solution. Almost all the candidates attempted it but the pass rate was about 60% because some of them used North West corner rule.

Question 9

The question tested candidates' knowledge on the concept of queuing theory. All the candidates attempted this question perform below average with the pass rate of 45%.

Question 10

This question was divided into three parts A, B, and C. About 89% of the candidates attempted this question and their performance was encouraging with about 80% pass rate.

Question 11

This question was divided into two parts (a) and (b). Part (a) tested the candidates' knowledge on the difference between finite and infinite population and the part (b) tested the candidates' knowledge on the advantages and disadvantages of census. Most of the candidates attempted this and the pass rate was about 70%.

Ouestion 12

The question tested the candidates' knowledge on the method of collecting information. Almost all the candidates attempted it and the pass rate was about 85%.

Question 13

This question tested the candidates' knowledge on the characteristics of good questionnaire. It was attempted by almost all the candidates, but the pass rate was about 40% even though it was a course book question.

Question 14

This question tested the candidates' knowledge on the advantages and disadvantages of mean. Almost all the candidates attempted this question and the pass rate was also encouraging, over 80% of the candidates score above average.

Question 15

This question tested the candidates' knowledge on the measure of central tendency. Over 85% of the candidates attempted this question while about 45% of those who attempted the question got 50% pass mark.

Question 16

The question based on the application of bayes probability theory. About 80% of the candidates attempted the question while the pass rate was below 35%.

Ouestion 17

This question was a course book question, set to test the candidates' knowledge on the importance of statistics, census, questionnaire and reasons for data collection. The question was attempted by majority of the candidate but less than 40% of the candidate attempted this question score above average with a pass rate less than 30%.

Question 18

This question tested the candidates' knowledge on the formulation of linear programming problem. Less than 40% of the candidates attempted this question with a pass rate of about 38% of those who attempted the question.

Comments on overall performance:

The performance of the candidates was below average. The overall pass rate was 41.7%.

Suggestion on improvement (if any)

Candidates are advised to study their course book thoroughly and take their preparations for the examination with more seriousness.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. NAICOM requires that on receipt of a claim by an insurer, the insurer shall open a claim file which must contain some crucial information. Enumerate any five (5) of the crucial information in the document of minimum standards required by NAICOM on claim processing.

Solution

The minimum standards required by NAICOM by every insurance institution on claim processing are that on receipt of claim the insurer shall open a claim file which must contain the following information:

- * progress report schedule; * check list of all relevant documents;
- * progress report schedule; * opening date of file.

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

- 2. Explain any five (5) from the following terms:
 - (i) experiment; (ii) sample space; (iii) event;
 - (iv) mutually exclusive event (v) independent event (vi) experiment.

Solution

- (i) **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.
- (ii) **Sample Space:** this is the totality of all possible outcomes of an experiment. For example, if a fair die is roll the sample space S is given as S = (1,2,3,4,5,6).
- (iii) **Event:** it is a statement about one or more outcomes of an experiment. It is a subset of a sample space.
- (iv) **Mutually Exclusive Event:** 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(AnB) = 0
- (v) **Independent Event:** 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 for each correct and completely stated term. Total: 10 marks)
- 3. List and explain the four (4) components of time series.

Solution

The components of time series are:

- * seasonal variations; * irregular or random fluctuations.
- 1. **Secular 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.

- 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 exihibit 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.
- 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.
- 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 any of these specific forces could even crudely be foreseen and as such the question of predictions scarcely arises. (2marks)

 $(1\frac{1}{2})$ marks for each correctly stated component. 1 mark for each correct and completely stated explanation. Maximum of 1 explanation to be graded under each term. Sub-Total per term: $2\frac{1}{2}$ marks. Grand Total: 10 marks)

4. Explain the five (5) stages in an operational research work/project.

Solution

The stages in an operational research are:

- a. **Definition of Problems and Objectives**: there has to be a clear objective which should be that, the result of the Study will form the basis or managerial decision had in to an improvement in the way in which the business is run.
- b. **Identification of Variables:** the decision variables are the key to a convenient formulation of the problem. The variables must be carefully chosen so as not to get a clumsy problem.
- c. **Construction of a Model:** having identified the variable, a model must be developed which hopefully can be solved through the appropriate techniques. The model developed must be of the, real world situation under study.
- d. **Manipulation of the Model to Produce Solution:** after the construction of the model the next thing is to provide Solution by a standard mathematical means using a recognized operations research method.
- e. **Testing the Model and the Solution:** the solution given to the model must satisfy the constraints and must get the support for the current organizational objective after theoperations research experts must have interpreted the results.
- f. **Implementation of Final Solution:** after careful interpretation of the results of the operations research study, the resulting solution would be implemented.

g. **Review and Maintenance:** after implementation the performance of the model should be carefully monitored to ensure that it actually does work and fulfill its objective.

(1 mark for each correctly stated stage. 1 mark for each correct and completely stated explanation. Maximum of 1 explanation to be graded under each stage. Sub-Total per stage: 2 marks. Maximum of 5 stages to be graded. Grand Total: 10 marks)

- 5. (a) Outline any three (3) types of model used in insurance. (6 marks)
 - (b) Differentiate between normative and descriptive models (4 marks)

Solution

- (a) The various types of models used in insurance are:
 - (i) resource allocation models; (ii) queueing models; (iii) inventory models;
 - (iv) replacement models; (v) competition models;
 - (vi) random number simulation models.

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

- (b) **Normative Models** are models that are concerned with finding the best optimum or ideal solution to a problem. Many mathematical models fall into this classification (2 marks); while descriptive models are models that describes the behavior of a system without attempting to find the best solution to any problem. (2 marks)

 (Sub-Total: 4 marks)

 (Grand Total: 10 marks)
- 6. Enumerate and briefly explain any four (4) assumptions in linear programming models. **Solution**

The five (5) assumptions in linear programming models are:

- 1. **Linearity:** it is assumed that decision variables are of the first power. There is no provision for higher powers like squares and cubes in any of the equations and inequalities;
- 2. **Divisibility:** values of the decision variables are allowed to be fractions and need not be integers alone;
- 3. **Deterministic Parameters:** it is assumed that the values of the parameters are known and are constant. This means that the model assumes a static state. It is pertinent to point out that in real life situation, there are probabilistic model parameters;
 - 4. **Non-Negativity:** all decision variables must take on non-negative values;
- 5. **Additively:** the linearity concept also implies that the total measures of the objective function and the total usage are additive in nature.

 $(1\frac{1}{2})$ marks for each correctly stated assumption. 1 mark for correct and completely stated explanation. Subtotal per assumption: $2\frac{1}{2}$ marks. Grand Total: 10 marks)

7. A factory uses three different resources for the manufacturing of two different products, 35 units of the resource A, 27 units of B and 31 units of C being available.1 unit of the first product requires 3, 3 and 5 units of the respective resources and 1 unit of the second product requires 5, 3 and 4 units of the respective resources. It is known that the first product gives a profit of 12 monetary units per unit and the second 13. Formulate the Linear Programming Problem.

Solution

Let X_1 represent total number of the 1st product.

 X_2 represents total number of the 2nd product.

The total information are summarised below in tabular form.

Resources	X ₁	X_2	Total Units Available
A	3	5	35
В	3	3	27
С	5	4	31
Profit	12	13	

(2 marks)

 \therefore The total profit $Z = 12X_1 + 13X_2$ (2 marks)

Constraints:

$$3X_1 + 5X_2 \leq 35 \qquad \qquad \text{($\frac{1}{2}$ mark)}$$

$$3X_1 + 3X_2 \leq 27 \qquad \qquad \text{($\frac{1}{2}$ mark)}$$

$$5X_1 + 4X_2 \leq 31 \qquad \qquad \text{($\frac{1}{2}$ mark)}$$

$$X_1, X_2 \geq 0 \qquad \qquad \text{($\frac{1}{2}$ mark)}$$

The LPP is:

(Grand Total: 10 marks)

8. Outline the step by step method of finding "Initial Feasible Solution" using the "Least Cost Rule".

Solution

The step-by-step method of finding Initial Feasible Solution using the Least Cost Rule are:

Step I: identifying the cell that has the lowest unit cost. If there is a tie, select one arbitrarily; allocate a quantity to this cell that is equal to the lower of the available supply for the row and demand for the column.

Step II: cross out the cells in the row or column that has been exhausted (if both have been exhausted), adjust the remaining row or column total accordingly;

Step III: the cell with the lowest costs from the remaining cells. Allocate a quantity to this cell that is equal to the lower of the available supply of the row and demand for the column;

Step IV: Repeat steps 2 and 3 until all supplies and demand have been allocated (2½ marks for each correct and completely stated step. Total: 10 marks)

9. Outline the four (4) classes of queuing system.

Solution

The four classes of queuing system are:

- (i) Single Queue Single Service Point;
- (ii) Multiple Queues Multiple Service Points
- (iii) Single Queues Multiple Service Points;
- (iv) Multiple Queues Single Service Points

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

10. (a) What is a "sample"?

(2 marks)

(b) Outline any two (2) functions of statistics.

(4 marks)

(c) Outline any two (2) major branches of statistical inference.

(4 marks)

Solution

- (a) **A sample** is a fractional part of the population (2 marks) or a sample can be defined as a subset of a population (2 marks). (2 marks)
- (b) The functions of statistics are:

(i) condensation;

- (ii) comparison;
- (iii) forecasting;

(iv) estimation.

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

- (c) The four major branches of statistical inference are:
 - (i) estimation theory;
- (ii) tests of hypothesis;
- (iii) non-parametric tests;
- (iv) sequential analysis.

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

- 11. (a) Differentiate between "finite population and infinite population" (4 marks)
 - (b) State any two (2) advantages and one (1) disadvantage of census method. (6 marks)

Solution

- (a) A population is said to be finite if it consists of finite number of units, or unit that are countable in nature (2 marks); while a population is said to be infinite if it has infinite number of units i.e unit not countable and can take value at certain range (2 marks). (4 marks)
- (b) The advantages of census method are:
 - 1. the data are collected from each and every item of the population;
 - 2. the results are more accurate and reliable, because every item of the universe is required;
 - 3. intensive study is possible;
 - 4. the data collected may be used for various surveys, analyses, e.t.c. (2 marks for each correctly stated advantage. Maximum of 2 to be graded. Sub-Total: 4 marks)

The disadvantages of census method are that it:

- 1. requires a large number of enumerators and it is a costly method;
- 2. requires more money, labour, time energy, e.t.c.
- 3. it is not possible in some circumstances where the universe is infinite.

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

12. Outline any four (4) objectives of collecting statistical information.

Solution

The objectives of collecting statistical information are to:

- (i) describe the methods of collecting primary statistical information;
- (ii) consider the status involved in carrying out a survey;
- (iii) analyse the process involved in observation and interpreting;
- (iv) define and describe sampling;
- (v) analyse the basis of sampling;
- (vi) describe a variety of sampling methods.

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

13. State any five (5) characteristics of a good questionnaire.

Solution

The characteristics of a good questionnaire are:

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

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

14. Outline any three (3) advantages and two (2) disadvantages of the arithmetic mean.

Solution

The advantages of the arithmetic mean are that the arithmetic mean:

- (i) is rigidly defined;
- (ii) is easy to understand and easy to calculate;
- (iii) if the number of items is sufficiently large, it is more accurate and more reliable;
- (iv) is a calculated value and is not based on its position in the series;
- (v) is possible to calculate even if some of the details of the data are lacking:
- (vi) of all averages, it is affected least by fluctuations of sampling;
- (vii) provides a good basis for comparison.

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

The disadvantages of the arithmetic mean are that the arithmetic mean:

- (i) it cannot be obtained by inspection nor located through a frequency graph;
- (ii) it cannot be in the study of qualitative phenomena not capable of numerical measurement i.e. intelligence, beauty, honesty, e.t.c.
- (iii) it can ignore any single item only at the risk of losing its accuracy;

- (iv) it is affected very much by extreme values;
- (v) it cannot be calculated for open-end classes.
- (vi) it may lead to fallacious conclusions, if the details of the data from which it is computed are not given.

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

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

15. 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. (8 marks)
- (b) Calculate the average weight, median weight and modal weight. (22 marks)

Solution

Premium	LB	Tally	f	Х	f _i x _i
25 – 31	24.5 - 31.5	Ш	3	28 (½ mark)	84 (1 mark)
32 – 38	31.5 - 38.5	 	11	35 (½ mark)	385 (1 mark)
39 – 45	38.5 - 45.5	 	24	42 (½ mark)	1008 (1 mark)
46 – 52	45.5 - 52.5	111111111111	15	49 (½ mark)	735 (1 mark)
53 – 59	52.5 - 59.5	 	17	56 (½ mark)	953 (1 mark)
60 - 66	59.5 - 66.5	 	11	63 (½ mark)	693 (1 mark)
67 – 73	66.5 - 73.5	 	9	70 (½ mark)	630 (1 mark)
74 – 80	73.5 - 80.5	 	5	77 (½ mark)	385 (1 mark)
81 – 87	80.5 - 87.5	III	3	84 (½ mark)	252 (1 mark)
88 – 94	87.5 - 94.5	II	2	91 (½ mark)	182 (1 mark)
	(3 marks)	(3 marks)	(2 marks)		
			$\Sigma f = 100$		5306
			(1½ marks)		(1½ marks)

(i).
$$\overline{x} = \frac{\Sigma f_i x_i}{\Sigma f_i} \quad \text{(2 marks)} = \frac{5306}{100} \quad \text{(1 mark)} = 53.06 \quad \text{(1 mark)}$$

:. Average premium is 53.06

$$(ii). \qquad \text{Median} = \text{Med} = L_1 + \left(\frac{\sum f}{2} - \sum f_i\right) c \qquad \text{(2 marks)}$$

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

$$= 45.5 + (0.8)7$$

$$= 45.5 + 5.6$$

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

$$(iii). \qquad \text{Mode} = M_o = L_1 + \left(\frac{f_1 - f_o}{2f_1 - f_o - f_2}\right) c \quad \text{(2 marks)}$$

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

(Grand Total: 30 marks)

=38.5+4.136

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

- 16. (a) Three companies D_1 , D_2 , and D_3 produce lamp bulbs some of which are defective. The proportions of defective in each company D_1 , D_2 , D_3 are respectively $\frac{1}{2}$, $\frac{1}{8}$, $\frac{3}{4}$. A company is selected at random and a bulb is drawn from it. If the selected bulb is found to be defective. What is the probability that is from the second company? (12 marks)
- (b) In a certain company, two training workshops are available in a month. An employee has 0.55 probability of been selected to attend the first, 0.45 probability of attending the two workshops. What is the probability that an employee selected will attend the second workshop. (8 marks)
- (c) In a certain college, 4% of the men and 1% of the women are taller than 1.8m, furthermore, 60% of the students are women. If a student is selected at random and is taller than 1.8m. What is the probability that the student is a woman? (10 marks)

Solution

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

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

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

$$P(D_2/B) = \qquad \qquad P(D_1) \cdot P(K/D_1)$$

$$P(D_1) \cdot P(K/D_1) + P(D_2) \cdot P(K/D_2) + P(D_3) \cdot P(K/D_3) \qquad (3 \text{ marks})$$

$$1 \quad 1$$

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

$$= \frac{1}{11}$$
= 0.09 (0.09 approximately) (2 marks)

(Grand Sub-Total: 12 marks)

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

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

$$P(A_1) = 0.55$$
, (1 mark) $P(A_1nA_2) = ?$

$$\frac{P(A_1nA_2)}{P(A_2/A_1)} = \frac{P(A_1)}{P(A_1)}$$
 (2 marks)
$$= 0.45$$
 (1 mark)
$$0.55$$

$$= 0.82$$
 (2 marks)

(Sub-Total: 8 marks)

(c) Let A = the student who is taller than 1.8m

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

P(W)	=	0.06	(1 mark)
P(M)	=	0.40	(1 mark)
P(A/W)	=	0.01	(1 mark)
P(A/M)	=	0.04	(1 mark)
P(W/A)	=	P(W) P (A/W)	
		$\overline{P(W) P(A/W) + P(M) P(A/M)}$	(3 marks)
	=	(0.60)(0.01)	
	-	(0.60)(0.01)+(0.40)(0.04)	(2 marks)
	=	0. 136364	(1 mark)

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

- 17. (a) Explain the following terms:
 - (i) Census; (ii) Frame (iii) Questionnaire (6 marks)
 - (b) Enumerate any three (3) importance of Statistics. (6 marks)
 - (c) Enumerate any three (3) reasons for data collection? (6 marks)
 - (d) Concisely explain four (4) characteristics of a good questionnaire. (12 marks)

Solution

- a. (i) **Census:** is a complete enumeration of each and individual people in a geographical area, at a particular point in time e.g. 10 years interval. (2 marks)
- (ii) **Frame:** is a list or map or any acceptable material containing the population from which sample is drawn. (2 marks)
 - (iii) Questionnaire: is a list of questions for purpose of investigation. (2 marks)

- b. The importance of statistics are:
 - presentation of facts in a definite form;
 - to signify message of figures;
 - to facilitate comparison;
 - formation of hypothesis;
 - to help in prediction;
 - to come up with suitable policy.

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

- (c) The reasons for data collection are to:
 - obtain information about a subject of interest;
 - analyse for decision making;
 - infer from analysis of data;
 - enable numerical description of subject of interest.

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

(e) The characteristics of a good questionnaire are:

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

(3 marks for each correct and completely stated characteristic. Maximum of 5 to be graded. Sub-Total: 10 marks)

(Grand Total: 30 marks)

18. The table below shows Adeoye Sand and Gravel Company Limited, willingness to provide top soil for the residential housing developments. Top soil can be supplied from different farms as shown below:

	Project 1	Projects 2	Projects 3	Supply
Farm A	X ₁₁ 4	X ₁₂ 2	X ₁₃ 8	160
Farm B	X ₂₁ 5	X ₂₂ 1	X ₂₃ 9	200
		6	3	

Farm C	X ₃₁ 7	X ₁₂	X ₃₃	200
Demands	100	200	260	

- (a) Formulate this information as a linear programming problem. (12 marks)
- (b) Obtain the initial feasible solution using North West Rule. Is the solution feasible?

 (8 marks)
- (c) Obtain the initial feasible solution using Least Cost Rule. Is the solution feasible? (8 marks)
- (d) Which of the methods in (b) and (c) above is preferable and why? (2 marks)

Solution

(a) Transportation table for Adeoye Sand and Company Limited.

Transportation there for transport State that Company Emiliant							
	Project 1	Projects 2	Projects 3	Supply			
Farm A	X ₁₁ 4	X_{12}	X ₁₃ 8	160			
Farm B	X ₂₁	X_{22}	X_{23}	200			
Farm C	X ₃₁ 5	X_{12}	X ₃₃	200			
Demands	100 7	200	260 9				

6 3

(Sub-Total: 5 marks)

$$\label{eq:minZ} \mbox{Min } Z = 4X_{11} + 2X_{12} + 8X_{13} + 5X_{21} + X_{22} + 9X_{23} + 7X_{31} + 6X_{32} + 3X_{33} \ \ \mbox{(3\fmathbb{1}/2 marks)}$$

s.t

$$X_{11} + X_{12} + X_{13} = 160$$
 (½ marks)

$$X_{21} + X_{22} + X_{23} = 200$$
 (½ marks)

$$X_{31} + X_{32} + X_{33} = 200$$
 (½ marks)

$$X_{11} + X_{21} + X_{31} = 100$$
 (½ marks)

$$X_{12} + X_{22} + X_{32} = 200$$
 (½ marks)

$$X_{13} + X_{23} + X_{33} = 260$$
 (½ marks)

 $Xij \ge 0$ for all pairs of (i,j) $(\frac{1}{2} \text{ marks})$

(b) The initial feasible solution using north westcorner rule:

То	\mathbf{M}_1	M_2	M_3	Supply
From				
\mathbf{W}_1	100 4	60 2		160
W_2		140	60 9	200
W_3	5	1	200 9	200
Demands	100_7	200	260	560

(4 marks)

The Solution is feasible because the number of feasible Solutions is 5:

$$(m+n-1) = (3+3-1) = 5$$
 (1 mark)

$$X_{11}$$
, =100, X_{12} = 60, X_{22} = 140, X_{23} = 60, X_{33} = 200 (1 mark)

Total Cost
$$Z = 4(100) + 2(60) + 1(140) + 9(60) + 3(200)$$

Total Cost =
$$400 + 120 + 140 + 540 + 600 = \text{N}1,800.00$$
. (1 mark)

The Solution is feasible because the number of feasible Solutions is 5. (1 mark) (Sub-Total: 8 marks)

(c) The initial feasible using least rule:

То	M_1	M_2	M_3	Supply
From				
\mathbf{W}_1	100 4	2	60	160
\mathbf{W}_2		200 2	9	200
W_3	5	1	200 9	200
Demands	100_7	200	260	480

(4 marks)

(2 marks)

The initial solution is feasible because the number of variables is, m + n - 1 = 5 (1 mark) Solution is:

$$X_{11} = 100, X_{13} = 60, X_{22} = 200, X_{23} = 0, X_{33} = 200$$
 (1 mark)

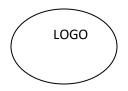
Total Cost
$$Z = 4(100) + 9(60) + 200(1) + 9(0) + 3(200)$$

Total Cost
$$Z = 400 + 540 + 200 + 0 + 600 = 1,740.00$$
. (2 marks)

(d) Comparing the solution from the least rule with that from the north west corner rule, this

has a total cost that is \$\frac{1}{2}\$60.00 less. Therefore, the least cost rule gives better approximation than

the north west corner rule. (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023
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

25% pass rate was achieved. Candidates rested on residual knowledge.

Question 2

38% pass rate was achieved. Question on control process require specific responses. Candidates' attempts were based on residual knowledge.

Ouestion 3

14% pass rate was achieved. "Efficiency" and "Effectiveness" were mixed up. Better study culture on the part of candidates is required.

Ouestion 4

43% pass rate was achieved. Facilitative management is a popular concept but candidates need to study harder to fully understand the concept.

Question 5

74% pass rate was achieved. This is well attempted question on RPI. It was well attempted.

Question 6

58% pass rate was achieved. Candidates displayed a good understanding of the question, but could have been better with insurance – related examples.

Ouestion 7

12% pass rate was achieved. Question on MBO is popular but technical. Attempt should be beyond residual knowledge.

Question 8

71% pass rate was achieved. Question on project management seem friendly and well understood

Question 9

13% pass rate was achieved. Question on coherence tolerance was popular but requires more than residual knowledge than actual required.

Question 10

59% pass rate was achieved. Question on staff morale was popular but the attempt showed more of residual knowledge.

Question 11

63% pass rate was achieved. Attempts were more of residual experience. Better study could have achieved better results.

Question 12

85% pass rate was achieved. Question on appraisal seem very friendly to candidates.

Question 13

20% pass rate was achieved. Motivation and hygiene factors are to be approached technically. Residual approach makes outcome to be poor.

Question 14

76% pass rate was achieved. The 4-stage team development of Tuckman was well captured by candidates. Good attempt.

Question 15

51% of total candidates attempted the question. The pass rate of 38% is poor. Candidates might have performed better if they had studied harder.

Question 16

57% of total candidates attempted the question. The pass rate was 71%. Fair attempt question on decision – making.

Question 17

51% of total candidates attempted the question. Pass rate was 47%. Question on planning should be more familiar to candidates.

Question 18

38% of candidates attempted the question. Pass rate was 36%. Poor attempt and poor pass rate. Candidates are advised to study harder.

Comments on overall performance:

Overall pass rate was 42%. Questions were attempted more on experience than technical know – how. Questions are fair enough.

Suggestions on improvement (if any):

Candidates need to study harder and smarter for better performance.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. NAICOM requires that every insurance institution must put in place some processes in relation to the claim process. Enumerate any five (5) of these processes.

Solution

NAICOM requires that that every insurance institution must put in place some processes in relation to the claim process. These processes are:

- insurance companies must make sure claims settlement procedure are duly put in place and communicated to the insured;
- setting a timeline in the policy and procedure manual within which to settle all admitted claims:
- have a fair and transparent claim handling and claim dispute resolution procedure in place;
- provide claimant information about the status of their claim on a timely manner;
- ensuring that adjuster or assessors are given independence to operate;
- inform claimant about the procedure, formalities and common timeframe for claims settlement:
- maintain written documentation on all its claim handling process;
- communicate to the insured their duty to notify the claims promptly and disclose all material fact on the claim and advise on any new development;
- give prompt advise to the client on any requirement in respect of the claim;
- timely and accurate information shall be provided to the policy holder or claimant at all times.

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

2. The basic control process or control cycle has five (5) stages: Enumerate these five (5) stages.

Solution

The five stages of the basic control process or control cycle are:

- making a plan;
- recording the plan formally or informally;
- carrying out the plan;
- comparing actual results against the plans;
- evaluating the comparison.

(2 marks for each correct and completely stage. Total: 10 marks)

3. The success of management control is indicated by "efficiency" and "effectiveness" of resource allocation. Concisely but briefly explain what is meant by "efficiency" and "effectiveness". Give a concise example of each.

Solution

"Efficiency" means that resources input to a process produce the optimum (maximum) amount of outputs. An example is a typist who types out a memo in ten minutes when others are typing out the same memo in 30 minutes, while, "effectiveness" means that the

resources used achieve the desired ends. Desired ends would often imply achieving budget targets. An example is a marketer who achieves his target(s) with available resources.

(3 marks for each correct and complete meaning of the terms. 2 marks for each correct and completely stated example. Sub-Total per term: 5 marks. Grand Total: 10 marks)

4. Old style management was about telling people what to do. But today, the Manager is becoming more as a "facilitator". Concisely explain the term "facilitative management".

Solution

Facilitative management is essentially a type of leadership behavior that encourages team members to contribute their ideas, experiences and beliefs so that the team arrives at decisions about its work objectives that they take responsibility for. It also encourages the team takes ownership of objectives set, and are motivated to achieve those objectives.

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

5. (a) What is KPI?

(2 marks)

(b) KPIs can be "results oriented" or "effort oriented". State two (2) examples of each.

(8 marks)

Solution

(a) KPI i.e. Key Performance Indicators are expressions that mirror the measurable objectives e.g. customer satisfaction, staff satisfaction, e.t.c. of the person being assessed.

(2 marks)

- (b) Examples of results-oriented performance measures are:
 - sales volumes and/or revenues:
 - rates of return in investment;
 - market share;
 - asset growth.

Examples of effort-oriented performance measures are:

- number of potential customers contacted;
- number of complaints handled;
- extent of relationships with customers;
- effort applied to improve staff relations;
- staff turnover and absence rates:
- active pursuing of debtors.

(2 marks for each correct and completely stated example. Maximum of 2 to be graded under each type. Sub-Total per term: 4 marks. Grand Total: 8 marks)

6. Briefly define quantitative and qualitative standards of performance. Give two (2) examples for each:

Solution

Quantitative standards of performance is the type of performance standard based on number rather than quality. For example, amount of premium earned, market shares, claims ratio to premium, increase in customer base, e.t.c.

Qualitative standards of performance is the type of performance standard based on some quality rather than numbers. For example, attitudes of employees, attitude of customers, integrity, commitment and dedication, e.t.c.

(3 marks for each correct and complete description. 1 mark for each correct example. Maximum of 2 examples to be graded. Sub-Total per term: 5 marks. Grand Total: 10 marks)

7. Enumerate any four (4) of the dangers that threaten the quality of the Management by Objectives (MBO) System.

Solution

The dangers that threaten the quality of the Management by Objectives (MBO) System are:

- a lack of top management support, commitment and involvement;
- no consistency between MBO and the organisation's technology and services;
- a lack of staff training to support achievement of objectives;
- an over-reliance on paperwork rather than discussion;
- inflexibility regarding the changing of objectives if necessary.

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

8. (a) Define a project.

(2 marks)

(b) Concisely enumerate any four (4) challenges usually encountered in project management. (8 marks)

Solution

- (a) A project can be described as an undertaking that has a set of activities which are linked together over a period of time to achieve an established goal or goals. (2 marks)
- (b) The challenges usually encountered in project management are:
 - late completion;
 - running over budget;
 - failure to achieve all goals due to failure to involve all parties affected;
 - results only achieved at the expense of severe disruption to routine working and operations;
 - team conflict:
 - communication barriers;
 - mismatched team skills.

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

9. "Caller Tolerance" simply means how long a caller is prepared to wait on hold. Enumerate any four (4) factors that normally influence caller tolerance.

Solution

The factors that normally influence caller tolerance are:

- the degree of desire to speak to the organisation;
- the range of alternatives:
- whether the call will be charged;
- the customer's expectations;
- the service level provided by competitors; and
- human behaviour.

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

10. "A good work environment contributes towards strong staff morale". List any five (5) features of a good physical work environment.

Solution

Some features of a good environment that contributes towards strong staff morale are:

- * space; * desks/workstations; * décor; * lighting; * acoustics;
- * facilities; * temperature; * health and safety; * power and wiring;

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

- 11. (a) Briefly explain the "halo/horn effect" and "personal liking bias" being two (2) of the common mistakes made in interview decision-making process. (4 marks)
 - (b) Enumerate any three (3) reasons why an organisation should rapidly move away from the traditional permanent 8-5 type and become more flexible. (6 marks)

Solution

- (a) The common mistakes made in interview decision-making process are:
 - Halo/Horn Effect: rate candidates either in a consistently positive or negative light;
 - Personal Liking Bias: selecting candidates because you like them.

(2 marks for each correct and completely stated explanation. Sub-Total: 4 marks)

- (b) The reasons why an organisation should rapidly move away from the traditional permanent 8-5 type and become more flexible are:
 - companies need specialised skills for particular periods;
 - consumers are now demanding service outside traditional working windows, which means organisations are having to provide service in the evenings and over weekends;
 - covid/post-covid era;
 - trends of the season, e.t.c.

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

12. In 360-degree appraisal, opinions are collected from four (4) categories of people. Enumerate these four (4) categories.

Solution

The categories of people whose opinions are collected in a 360-degree appraisal are:

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

13. Herzberg split the factors of motivation into two. Enumerate and briefly explain these two (2) factors stating an example of each.

Solution

The two factors of motivation by Herzberg are:

- **motivation factors:** are those which make people work better or harder e.g. achievement, recognition, the work itself; e.t.c.
- **hygiene factors:** are those which are a negative influence if they are not right, but do not really have any positive effect if they are more than adequate e.g. company policy & administration, salary, supervision, e.t.c.

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

14. The "Tuckman Model" of Team Development suggests that teams go through four (4) stages of development. Enumerate in the correct order, and briefly explain, these four (4) stages.

Solution

The correct order of the stages of "Tuckman Model" of Team Development are:

Forming - Storming - Norming - Performing.

(Candidates are required to briefly explain these four stages. 1 mark for each correctly stated stage. 1 mark for each correct and complete explanation. Sub-total per state: 4 marks. 2 marks for correctly placed ordering. Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

- 15. "Norming" and "performing" are the last two stages of the four stages of team development according to Tuckman Model.
 - (a) Enumerate five (5) key characteristics of each of the "norming" and "performing" stages. (20 marks)
 - (b) Explain "zones of certainty" and "zones of uncertainty" in planning. Give a concise example on each. (10 marks)

Solution

- (a) The key characteristics found in NORMING stage are:
 - increase in satisfaction;
 - resolving of animosity;
 - developing self-confidence;
 - being more open and giving feedback;
 - sharing responsibility.

The key characteristics found in PERFORMING stage are:

- working collaboratively and independently;
- feeling of team strength;
- showing confidence in accomplishing tasks;
- sharing leadership;
- performing at high levels.

(2 marks for each correct and completely stated characteristic. Maximum of 5 under each term. Sub-total per term: 10 marks. Grand Sub-Total: 20 marks)

(b) **Zones of Certainty:** where you have all the information and expertise you need and can plan forward realistically. For example, previous year's income, profit, claims paid, e.t.c.

Zones of Uncertainty: Where you are ignorant and where there is great uncertainty, start doing things. Go and find out from people who might know the area; start some limited experiments or trials. Then feed that information into the team quickly, so that it can be used to plan forward and make decisions about what to do next. For example, new regulations, market leaders, price, e.t.c. (3 marks for each correct and completely stated explanation. 2 marks for any correct example. Sub-Total per term: 5 marks. Grand Sub-Total: 10 marks)

(Grand Total: 30 marks)

- 16. (a) State and explain the five (5) C's of the decision-making process. (15 marks)
 - (b) In one sentence, state why the five C's is commended. (3 marks)
 - (c) Enumerate the six (6) decision-making styles of T.Y Aroba. (12 marks)

Solution

- (a) The five C's of decision taking are:
 - **Consider:** the preparation stage at which the problem is considered;
 - **Consult**: the stage at which initiatives are taken to involve those affected;
 - **Crunch**: the need to ensure that something is done;
 - Communicate: the stage at which what has been decided and why, is explained to staff:
 - Check the need to go back and monitor the results of the decision.

(2 marks for each correct and completely stated C-term. 1 mark for the correct explanation. Sub-Total per C-term: 3 marks. Grand Sub-Total: 15 marks)

- (b) The 5 Cs is commendable because it concentrates on the action a manager must take and the involvement of staff in the decision process. (3 marks)
- (c) The T. Y. Arroba's six decision making styles are:
 - **No Thought**: the decision is taken on a whim and without reason;
 - **Compliant**: the decision takes others' expectations into account;
 - Logical: the decision follows a careful, objective evaluation of the alternatives;
 - **Emotional:** the decision is made on the basis of individual wants and likes;
 - **Intuitive**: the decision is made according to 'gut' feelings or intuition;
 - **Hesitant:** the decision is made slowly, without any sense of commitment.

(1 mark for each correct and completely stated style. 1 mark for the correct explanation. Sub-Total per term: 2 marks. Grand Sub-Total: 12 marks)

(Grand Total: 30 marks)

- 17. At the corporate level, planning needs to cover key areas that will allow the organisation's objectives to be achieved.
 - (a) Enumerate any six (6) key area.

(18 marks)

(b) Balanced Scorecard is an approach that measures an organisation's performance by looking at its activities from four perspectives: What are these four (4) perspectives? Briefly explain them. (12 marks)

Solution

- (a) The key areas that planning need to cover that will allow an organisasion's objectives to be achieved are:

 - * identifying what needs to be done for those objectives to be achieved;
 - * allocating management duties and responsibilities to senior managers;
 - * agreeing and establishing a consistent management style;
 - * agreeing and setting budgets;

- * agreeing staff incentives;
- * setting sales targets;
- * setting timetables and deadlines;
- * planning the most efficient use of material resources;
- * identifying contingency plans.

(3 marks for each correct and completely stated area. Maximum of 6 to be graded. Sub-Total: 18 marks)

- (b) The four (4) perspectives of the balanced score-card are:
 - * financial perspective;
- * internal perspective;
- * customer perspective;
- * learning and growth.

(2 marks for each correctly stated perspective. 1 mark for each correct and completely stated explanation. Subtotal per perspective: 3 marks. Grand Sub-Total: 12 marks)
(Grand Total: 30 marks)

- 18. (a) Enumerate five (5) advantages and five (5) disadvantages of coaching. (20 marks)
 - (b) You have been asked to conduct an induction training for a new Agent who is to start work at your call/contact centre on the use of telephone. Enumerate any five (5) areas that your induction training should cover. (10 marks)

Solution

- (a) The advantages of coaching are:
 - everything is seen and heard;
 - problems can be dealt with quickly;
 - it is easy to demonstrate;
 - system interaction can be seen;
 - *agent is getting quality time.

The disadvantages of coaching are:

- can be time consuming;
- staff may be nervous;
- other people can overhear;
- *staff will be on best behavior;
- may not be seeing the real picture.

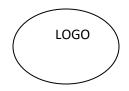
(2 marks for each correct and completely stated advantage/disadvantage. Maximum of 5 to be graded under each term. Sub-Total per term: 10 marks. Grand Sub-Total: 20 marks)

- (b) The areas that the induction training will cover are:
 - * company history and culture;
- * working in a call centre;

* call handling techniques;

- * positive language;
- * handling irate customers and complaints;
 - * product knowledge;
- * processes and procedures;
- * systems training;
- * managing work priorities;
- * using online databases and resources;
- * up-selling and cross-selling.

(2 marks for each correct and completely stated area. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Sub-Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT 107 MARINE AND AVIATION INSURANCE

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

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

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023
DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

107 - MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

All candidates attempted the question with 42% pass rate. The question was meant to test candidates understanding of the administration of the Aviation Industry. Most candidates stated that the Nigerian Civil Aviation Authority (NCCA) was in control of the Aviation Industry and enumerated the responsibilities of NCAA instead of those of the Minister required. The Minister, as the controller of the Aviation Industry and his responsibilities are in the candidates' course book. Candidates should study thoroughly their course book.

Question 2

Candidates attempted the question with a 40% pass rate. Knowledge of speed and distance would enhance the understanding of movement of ships. Candidates probably overlooked the units of distance in their studies. A good number got the question (c) and (d) on ocean current correctly.

Question 3

This question recorded 37.5% pass rate. Candidates did not understand the distinction between main agricultural exports and agricultural products. They merely listed any agricultural products instead of those mainly exported. Only few candidates got the four (4) mainly exported agricultural products right. Candidates must read with clear understanding.

Question 4

Pass rate was 60%. A good number of candidates showed good knowledge of the distinction between the two important marine documents namely bill of lading and charter party.

Ouestion 5

This question tested candidates' knowledge of the protection given to the carriers by the Carriers Act 1830 in respect of goods of high value. Pass rate was 33%. Candidates should know the circumstances of such goods when they come up in claims.

Question 6

The question recorded 79% pass rate. It was designed to test candidates' knowledge of the preparation of or broker's slip. Candidates showed good understanding of the information on a broker's slip.

Ouestion 7

Most candidates scored full marks, showing that they thoroughly understand the benefit of reinsurance to a marine underwriter. 100% pass rate was achieved.

Ouestion 8

- (a) Almost all candidates scored full marks
- (b) Only few candidates understood the (iii) "Subrogation in General Average". Candidates should be thorough in their studies. Pass rate was 93%.

Question 9

- (a) Most candidates did not know the peculiarity of the clauses being asked, to the marine risks. Candidates should note the difference between coverage provided by Marine Insurance and Aviation Insurance in respect of cargo.
- (b) Candidates knew the periods of cover requires. Overall performance was poor, about 20% pass rate.

Ouestion 10

The question was well understood as most candidates scored full marks. Pass rate was 95%.

Question 11

The question was to test candidates' knowledge on historical background of air transportation. On (a), only one candidate got the date correctly, while on b and (c), candidates that attempted them did not do well. Pass rate was 25%. Candidates must pay attention to the International Conventions on Internal Carriage by Air.

Question 12

- (a) Almost all candidates did not know that no deductible would be made in a total loss claim of an aircraft.
- (b) No candidate wrote that the cover on the aircraft settled should be cancelled in the policy. Pass rate was 25%. Candidates' need to study their course books in detail.

Ouestion 13

This question tested candidates' knowledge on aviation exclusion clauses. Candidates have not been tested in these clauses over the years but they are important and should be mastered. Pass rate was zero (0%).

Question 14

- (a) A topical and contemporary question well understood by candidates.
- (b) Almost all candidates passed the question. Overall pass rate was 78%.

Ouestion 15

- (a) Most candidates gave good definition of warranties. A lot of the candidates were repeating the same points in other words.
- (b) A number of candidates did not remember the examples of express and implied warranties. Overall performance was below average, about 40%.

Question 16

The question was to test candidates on the understanding of marine perils which are fundamental to marine insurance. A good number of candidates remembered some of the perils. Candidates should show mastery of the perils. Overall performance was average at 50%.

Question 17

The question tested candidates on ways and steps of placing large aviation risks. Pass rate was 20%.

Question 18

Candidates avoided the question, showing that most candidates focus more on the marine aspect of the coursebook. Candidates are advised to study the aviation aspect of their course book as the aviation industry contribute much premium to the insurance industry.

Comments on overall performance

The overall performance is much better as there were more candidates in this diet than before. Also, the number of candidates that passed the examination is encouraging with a 35.7% pass rate.

Suggestions on improvement (if any):

Candidates should study thoroughly and seek assistance of experienced Marine and Aviation Insurance in the Industry. The Institute should enjoin practitioners in Marine and Aviation Departments to encourage candidates to take up the course.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

- 1. (a). Who controls Air Navigation in Nigeria?
- (2 marks)
- (b) Enumerate any four (4) responsibilities of whoever occupies the position in (a) above. (8 marks)

Solution

- (a) The Minister of Aviation (or simply 'The Minister') controls air navigation in Nigeria.
 (2 marks)
- (b) The responsibilities of the minister of aviation include:
 - promotion of Civil Aviation in Nigeria;
 - encouragement of Civil Aviation in Nigeria;
 - provision of efficient services to air carriers and other aviation and allied services providers;
 - provision of safe services to air carriers and other aviation and allied services providers;
 - provision of greater access to air transport in a sustainable manner;
 - ensuring that Nigeria's obligations under international agreements are implemented.

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

(Grand Total: 10 marks)

- 2. (a) What unit of distance is used in marine navigation?
 - (b) What is the equivalent length of the unit of navigation in the arc of a great circle?
 - (c) What is the main cause of surface currents?
 - (d) What is the direction of circulation of ocean currents in the northern hemisphere?
 - (e) What are the two (2) types of ocean currents, considering their temperatures?

Solution

- (a) The unit of distance used in marine navigation is the nautical mile. (2 marks)
- (b) The equivalent length of the unit of navigation in the arc of a great circle is one minute (1'). (2 marks)
- (c) The main the cause of surface currents is the direction of the wind blowing on the sea surface. (2 marks)
- (d) The direction of the circulation of the ocean currents in the Northern Hemisphere is clockwise. (2 marks)
- (e) The two types of ocean currents, considering their temperatures, are warm (1 mark) and cold currents (1 mark).

(Grand Total: 10 marks)

- 3. (a) Enumerate the 4 (four) main Agricultural Exports from Nigeria. (8 marks)
 - (b) What is the full form of the acronym: 'WCF'? (2 marks)

Solution

- (a) The four main Agricultural exports from Nigeria are:
 - Sesame seeds
 Cocoa
 - Shea butter Hides and skin

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

(b) The full form of the acronym 'WCF' is World Cocoa Foundation. (2 marks)

(Grand Total: 10 marks)

4. Distinguish between bills of lading and charter parties in four (4) complete sentences.

Solution

A bill of Lading and charter parties are distinguished between as follows:

- A bill of lading is a negotiable instrument.
- A charter party is not negotiable.
- A bill of lading can be issued for a single consignment.
- Charter parties are applicable to large shipments which may involve the hire of a whole ship or a substantial part of it.
- A bill of lading is a contract between the shipper and the carrier.
- Under a charter party, the charterer is not necessarily the shipper since they may sublet a portion or the whole of the vessel.

(2½ marks for each complete comparative distinction. Maximum of 4 to be graded. Total: 10 marks)

5. Enumerate any ten (10) articles or goods that a common carrier is not, at all, liable for their loss or damage, under the carriers act 1830, unless at the time they were delivered to them for carriage, they were informed of their value.

Solution

The articles of goods that a common carrier is not, at all, liable for their loss or damage under the carriers act 1830, unless at the time they were delivered to them for carriage, they were informed of their values are:

•	Gold or silver coin	•	Any gold or silver	•	Precious stones
•	Jewellery	•	Watches	•	Clocks
•	Trinkets	•	Bills	•	Banks notes
•	Securities	•	Silks	•	Stamps
•	Maps	•	Writings	•	title deeds
•	paintings	•	engravings	•	pictures
•	gold or silver plate	•	glass	•	china
_	Evens on loss (not includi	na maahin	mada laga) Cantainas	1:	amaal am maalraaa

• Furs or lace (not including machine-made lace) Contained in a parcel or package

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

6. List any five (5) items of information on a marine risk, that are often indicated on a broker slip for presentation to underwriters.

Solution

Items of information on a marine risk that are often indicated on a broker slip are:

•	Type	•	Form	•	Assured	•	Period
•	Interest	•	Sum insured or value			•	Situation
•	Conditions	•	Premium	•	Brokerage	•	Information

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

7. Enumerate any four (4) main benefits of reinsurance to the marine underwriters.

Solution

The main benefits of reinsurance to marine underwriters are:

- protection or cover against exceptionally large individual losses;
- avoiding undue fluctuations in underwriting results;
- obtaining an international spread of risk;

- increasing the capacity of the direct underwriter;
- obtaining technical advice for underwriters.

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

- 8. (a) Who is the ultimate beneficiary of each of the following principles, in Marine Insurance:
 - (i) subrogation? And (ii) indemnity? (4 marks)
 - (b) Give a simple example where subrogation may arise in each of the following three (3) instances:
 - (i) Collision; (ii) contract; and (iii) general average. (6 marks)

Solution

- (a) The ultimate beneficiary in marine Insurance under:
 - (i) subrogation: is the underwriter or insurer.

(2 marks)

(ii) indemnity: is the assured.

(2 marks)

(Sub-Total: 4 marks)

- (b) Some examples where subrogation may arise in each of these instances are:
 - (i) collision:
 - liability for damage received from the other vessel which is at fault;
 - liability for damage to peers or harbor;
 - liability for damage to other third-party property;
 - liability for death or bodily injury caused to third parties.

(ii) contract:

- where a shipowner is liable for damage to cargo for which he is responsible;
- where freight forwarder is liable for professional negligence to the shipper;
- where an insurance broker is liable in negligence to the insured.

(iii) general average:

- contributions to property sacrificed;
- bailee's liability for loss or damage to salvaged goods in its care;
- stevedoring company's liability for loss or damage to goods during loading and offloading.

(2 marks for each correct and completely stated example under each term. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 9. (a) Both the Institute Cargo Clauses (A) 1/1/82 and the Institute Cargo Clauses (Air) (Excluding Sendings by Post) 1/1/82 provide all risks cover for cargo. Enumerate three (3) clauses in ICC(A) 1/1/82 that are not contained in the ICC(Air) (Excluding Sendings by Post) 1/1/82. (6 marks)
 - (b) What are the maximum periods of cover, respectively, after unloading of the goods at the final place of discharge from the aircraft and the vessel? (4 marks)

Solution

- (a) Three clauses that are in ICC(A) and are not contained in ICC(Air) (Excluding Sendings by Post) 1/1/82 are:
 - Both to blame collision clause;
 - General Average and salvage Charges clause;
 - Unseaworthiness and unfitness exclusion Clause.

(2 marks for each correct and completely stated clause. Sub-Total: 6 marks)

(b) The maximum period of cover, respectively, after unloading of the goods at the final place of discharge from the aircraft and the vessel are 30 days (2 marks) and 60 days (2 marks). (Sub-Total: 4 marks)

(Grand Total: 10 marks)

- 10. In accordance with the rules of Public International law, who has sovereignty over the following?
 - (a) High Seas;

- (b) International Waters;
- (c) Land;

- (d) Territorial Waters;
- (e) Outer Space.

Solution

In accordance with the rules of Public International Law, those who have sovereignty are as indicated:

- (a) **High Seas**: Free;
- (b) **International Water**: Free
- (c) **Land**: The State;
- (d) **Territorial Waters**: The State
- (e) **Outer Space**: Free.

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

11. (a) What year did the first regular service of the international air transport start?

(2 marks)

- (b) What were the two important matters dealt with at the 1925 Paris Conference?
- (4 marks)
 (c) What two aspects of Aviation did the 1944 Chicago Covention aim at? (4 marks)

Solution

- (a) The first regular service of International air Transport started in 1919. (2 marks)
- (b) The two important matters dealt with at 1925 Paris Conference were legal liabilities of airlines (2 marks) and the standardisation of documents of carriage (2 marks). (4 marks)
- C. 1944 Chicago Convention aimed at Promoting co-operation between nations (2 marks) and developing civil aviation in an orderly manner (2 marks). (4 marks) (Total: 10 marks)
- 12. (a) In what two ways may an underwriter settle the total loss claim of an aircraft and what type of deductible will he apply? (6 marks)
 - (b) After settling the total loss claim of an aircraft, what two actions may the underwriter take with the aircraft? (4 marks)

Solution

- (a) The underwriter may settle the total loss claim of an aircraft by:
 - paying the agreed value of the aircraft; or

(2 marks)

• replacing it with an aircraft of the same make and type and in similar condition unless the insured agreed otherwise. (2 marks)

The underwriter will not apply any deductible.

(2 marks)

(Sub-Total: 6 marks)

- (b) After settling the total loss claim of an aircraft, the underwriter:
 - may take the aircraft an its relevant documentation as salvage;
 - will cancel cover of the particular aircraft.

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

(Grand Total: 10 marks)

- 13. (a) What are the three exclusion clauses available in the London Market for 'War, hijacking and other perils Exclusion (Aviation)? (6 marks)
 - (b) Enumerate the policy that is used to provide full war cover and the endorsement being used to provide the extended cover for war. (4 marks)

Solution

- (a) The three exclusion clauses available in the London for 'War, Hijacking and other Perils Exclusion (Aviation) are:
- AVN 48 B, AVN 48 C, and AVN 48 D (2 marks for each correctly stated clause. Sub-Total: 6 marks)
- (b) The policy that is used to provide full war cover is LSW 555 D (2 marks) whilst the endorsement being used to provide extended cover for war is AVN 51 A (2 marks).(4 marks) (Grand Total: 10 marks)
- 14. (a) What was the Coastal and Inland Shipping (Cabotage) Act 2003 designed for? (4 marks)
 - (b) Enumerate the three (3) conditions to be satisfied by a vessel to be able to participate in the Cabotage trade in Nigeria. (6 marks)

Solution

- (a) The coastal and Inland Shipping (Carbotage) Act 2003 was designed to:
 - reserve for Nigerian Vessels, all the maritime transportation of goods, materials and personnel within Nigerian Coastal Waters; (2 marks)
- reserve in particular, the lucrative oil and gas trade in Nigeria. (2 marks) (Sub-Total: 4 marks)
- (b) The conditions to be satisfied by a vessel to be able to participate in the cabotage trade in Nigeria are that the vessel must be:
 - * owned by Nigeria;
 - * registered in Nigeria and fly the Nigerian flag;
 - * built in Nigeria.

(2 marks for each correct and completely stated condition. 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) In five (5) sentences, what are warranties and its uses in marine insurance practices?
 - (b) Enumerate three (3) examples of express warranties and two (2) examples of implied warranties in marine insurance practices.

Solution

(a)

- Warranties, in marine Insurance, are promises made by the assured to the underwriter, for the maintenance or improvement of the risk.
- Underwriters attach great importance to warranties as they must exactly be complied with, whether or not material to the risk.
- Failure to comply with the warranties, subject to some statutory exceptions, will discharge the underwriters from liability from the date of the breach.

- A warranty enables the underwriters to ensure that risk is exactly the one they intended to accept.
- There are statutory excuses for non-compliance with a warranty, for example:
 - o a ship insured against war risks 'warranted armed' would not need to carry arms after cessation of hostilities.
 - o where goods are insured "warranted under-deck" and an act is subsequently passed to prohibit the carriage of such goods under-deck.

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

- (b) Some examples of "express warranties" are:
 - * warranted professionally packed; * warranted Nxyz uninsured;
 - * warranted surveyed by a London Salvage Association approved surveyor before shipment and all recommendations complied with; * warranted sailing within seven days.

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

Some examples of "implied warranties" are:

- * seaworthiness of the vessel at the commencement of the voyage;
- * legality of the venture. * Vessel may not deviate from intended course except to save lives

(3 marks for each correctly stated example. Maximum of 2 to be graded. Sub-Total: 4 marks. Grand Sub-Total: 15 marks)

(Grand Total: 30 marks)

16. Enumerate 10 (ten) perils covered by the Perils Clause of the Institute Time Clauses (Hulls) 1/11/95

Solution

The Perils covered by the Perils Clause of the Institute Time Clauses (Hulls) 1/11/95 are as follows: Loss or damage to the subject-matter insured caused by:

- Perils of the Seas, river lakes or other navigable waters;
- Fire, explosion Violent theft by persons from outside the vessel;
- Jettison;
 Piracy;
- Contract with land conveyance, dock or harbor equipment or installation;
- Earthquake volcanic eruption or lightening;
- Accidents in loading discharging or shipping cargo and fuel;
- Bursting of boilers breaking of shafts or any latent defect in the machinery or hull;
- Negligence of repairers provided such repairers or chatterers are not an assured hereunder;
- Barratry of Masters Officers or Crew;
- Contact with aircraft, helicopters or similar objects falling there from provided that such loss or damage has not resulted from want of due diligence by the assured, owners or managers, or superintendents or any of their on shore management;
- Master officers crew or pilots not to be considered owners within the meaning of this clause should they hold share in the vessel.

(3 marks for each correct and completely stated peril. Maximum of 10 to be graded. Total: 30 marks)

17. With a minimum of ten (10) ways, enumerate how brokers place large "aviation risks".

Solution

Brokers place large aviation risks as follows:

- (i) Large Aviation Risks are those of Total loss or catastrophic loss, involving sums higher than any one insurer would wish to lose in one accident;
- (ii) Such large risks are often shared with other insurers;
- (iii) The contract is offered to a lead underwriter who will be a specialist in that class of business;
- (iv) They will name their rate and the amount of the risk they are prepared to take;
- (v) Whether or not the portion they take is small, because of their reputation of being knowledgeable in the particular kind of business, the risk will be completed fairly easily;
- (vi) It is then taken to a second underwriter, and so on, until it is completed;
- (vii) The second and subsequent underwriters merely have the option of accepting and naming the amount they wish to take, or declining the business;
- (viii) They are however, bound by the terms quoted by the lead underwriter and must satisfy themselves that the contract meets with the contract certainty guidelines;
- (ix) It is the broker's function to use their skill to obtain for their client, the lowest rate at which they can complete the risk;
- (x) For very large risks, the broker may need to go outside the aviation market and approach marine and nonmarine underwriters who also transact some amount of aviation business;
- (xi) This is when the lead by a name which is reliable and respected becomes advantageous.

(3 marks for each correct and completely stated peril. Maximum of 10 to be graded. Total: 30 marks)

- 18. (a) Enumerate five (5) bodies that the Nigerian Civil Aviation Act 2006 prescribe minimum insurance for. (15 marks)
 - (b) What three (3) important documents are the bodies in (a) required to submit in respect of their insurance? (6 marks)
 - (c) What is the full form of MTOW and what is its use in the Nigerian Aviation Industry? (9 marks)

Solution

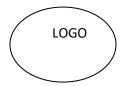
- (a) The bodies which the Nigerian Civil Aviation Act 2006 prescribe minimum Insurance for are:
 - Aircraft owners;
 Airlines;
 Aerodrome;
 - Air navigation;
 Meteorology services;
 - Ground handling services; Aviation fuel supplier;
 - Airstrip: Heliport.

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

- (b) The three (3) important documents the bodies in (I) are required to submit in respect of their insurance are:
 - valid insurance certificates;
 - evidence of payment of premium; and
 - policy documents.

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

(c) The full form of 'MTOW' is Maximum Take Off Weight. (3 marks)
It is used to determine the minimum third-party liability limit (2 marks) for an aircraft engaged in aircraft operations (2 marks) in Nigeria (2 marks). (Sub-Total: 9 marks) (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023
DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

108 - 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

The question was intended to test candidates' knowledge on who controls air navigation in Nigeria and responsibilities. Attempt was excellent (100%) but performance was poor. Reasons being poor knowledge of the question as they were writing irrelevant things.

Question 2

The question dealt with Nigeria Civil Aviation Regulation. Attempt was good (65%) but performance was average (50%). Candidates needs to attend lectures/tutorials for better performance.

Question 3

The question was intended to test candidate knowledge on categories of pilot licenses and role of TATA. Attempt was 100% but performance was poor (35%). This shows lack of preparation by candidates. They should attend lectures/tutorial and most importantly study their course books.

Ouestion 4

The question dealt with Montreal Convention. Attempt was poor (35%) and zero (0%) good performance was recorded. This showed that candidates did not understand the question and wrote irrelevant things. Candidates needs to read their course books and attend tutorials.

Ouestion 5

The question was intended to test crew resources management and simulation crew training. The attempt was good (65%) but performance was poor (20%). Candidates were writing irrelevant things. This shows that they did not understand the question and poor preparation for the examination, they should attend tutorials.

Question 6

The question was intended to test their knowledge on reinsurance. The attempt was good 65% but performance was poor (35%) this shows lack of understanding of reinsurance and they did not read their course books.

Ouestion 7

The question was to test the knowledge of ICAO objectives. There were 100% attempt, however the performance was poor (30%). This shows that the candidates did not prepare and did not read the course books. This question was straightforward.

Question 8

The question dealt with enhanced ground proximity warning system. Over 65% candidates attempted this question but they did not show deep understanding of this question, the performance was slightly above average (55%). They should read their course books and attend lectures.

Question 9

The question was intended to test the main application of satellite. 100% candidates attempted this question; however, performance was below (47%) average. Candidates needs to prepare more by reading their course works and go for lectures/tutorials.

Ouestion 10

The question was intended to test candidates' knowledge of hull surveyor, reasons they were appointed and claim process. The attempt was over 65% which was good and performance was equally good (60%). Most candidates show good understanding of the question; however, tutorials attendance is highly recommended for better performances.

Ouestion 11

The question was intended to test knowledge of space, satellite launch. Over 65% of the candidates attempted this question which was good but the performance was poor (25%) did not show deep knowledge of the question, hence writing irrelevant things. Adequate preparations are required from the candidates for better performances.

Question 12

The question dealt with EU regulation 1996, less than 34% attempted the question which was poor, equally the performance was poor less them 5% passed. Candidates lacked knowledge of the question. They need to attend tutorial/lectures and read their course books.

Question 13

The question was intended to test candidates' knowledge on understanding information required when rating a commercial airfield for airport liability insurance. The attempt was good (65%) but candidates performed woefully, less than 5% passed. Candidates were writing irrelevant things which shows lack of knowledge of the question.

Question 14

- (a) Tested the coverage provided by insurers in respect of section II legal liability to third party. Attempt was (65%) and performance was over 60%.
- (b) Candidates showed good performance of over 60%, while attempt was at 65%. Candidates showed good understanding of the question.

Ouestion 15

- (i) Attempted rate was poor 33.33%, however performance was woeful at zero percentage (0%); this shows that candidates did not have clear understanding of the question and they need to attend lectures.
- (ii) Candidates lacked deep understanding of wordings and clauses regarding aviation liability. The attempt was poor less than 35%, likewise the performance was poor at zero percentage (0%).

Question 16

- (a) 67% of the candidates attempted this question which was good. However, good performance was less than 40% which was poor. Candidates has to attend lectures/tutorials
- (b) The attempt rate was good (67%) the performance was poor (20%). Candidates did not show clear understanding of the question. They need to attend lectures
- (c) 33% candidates attempted this question which was poor, the performance was poor 0% they need to read their books.

Question 17

- (i) 33% of the candidates attempted this question. However, the performance was good 70%. This shows that candidates had good understanding of the question.
- (ii) The attempt was poor (34%) also performance was poor (35%). Candidates needs to prepare for the examination.
- (iii) 33% candidates attempted this question which was poor the performance was woeful (0%). Candidates needs to read and prepare well for examinations.

Question 18

- (a) No attempt made by candidates.
- (b) No attempt made by candidates.
- (c) Only 33% candidates made attempt both attempts and performance were poor (20%).
- (d) 34% candidates attempted this question (poor), the performance was poor (20%). Candidates did not display adequate knowledge of the questions; hence they are writing irrelevant things.

Comments on overall performance:

The overall performance was poor with 20.33% pass rate.

Suggestions on improvement (if any)

Candidates needs to prepare adequately for examination by attending tutorials/lectures and they should have good understanding of the course and read their course books very well.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

- 1. (a). Who controls Air Navigation in Nigeria?
- (2 marks)
- (b) Enumerate any four (4) responsibilities of whoever occupies the position in (a) above. (8 marks)

Solution

(a) The Minister of Aviation (or simply 'The Minister') controls air navigation in Nigeria.

(2 marks)

- (b) The responsibilities of the minister of aviation include:
 - promotion of Civil Aviation in Nigeria;
 - encouragement of Civil Aviation in Nigeria;
 - provision of efficient services to air carriers and other aviation and allied services providers;
 - provision of safe services to air carriers and other aviation and allied services providers;
 - provision of greater access to air transport in a sustainable manner;
 - ensuring that Nigeria's obligations under international agreements are implemented.

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

(Grand Total: 10 marks)

2. The Nigerian Civil Aviation Regulations (Nig. CARs 2015) comprises of twenty parts. State any ten (10) of the twenty parts.

Solution

The twenty parts of the Nigerian Civil Aviation Regulations (Nig. CARs 2015) are:

- i. General Policies, Procedures and definition
- ii. Personnel Licensing
- iii. Approved training Organizations
- iv. Aircraft Registration and Marketing
- v. Airworthiness
- vi. Approved Maintenance Organization
- vii. Instrument and Equipment
- viii. Operations
- ix. Air Operator Certification and Administration
- x. Commercial Air Transport by Foreign Air Operators Within Nigeria
- xi. Aerial Works
- xii. Aerodrome regulations
- xiii. Air Navigation Services Regulations
- xiv. The Safe Transport of Dangerous Goods by Air Regulations
- xv. Environment Protection Regulations
- xvi. Aviation Security Regulations
- xvii. Economic Regulations
- xvi. Consumer Protection Regulations
- xix. Safety Management

(1 mark for each correct and completely stated parts. Maximum of 10 to be graded. Total: 20 marks)

- 3. (a) State the four (4) categories of pilot license. (4 marks)
 - (b) State any six (6) of the roles of the (IATA) International Air Transport
 Association. (6 marks)

Solution

- (a) The four categories of plot license are:

 - * commercial pilot; and * air transport pilot.

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

- (b) The roles of the IATA International Air Transport Association are:

 - * commercial fuel policy; * environmental policy; * infrastructure issues;

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

- 4. (a) State any two (2) defenses available to the carrier under the Montreal Convention in terms of personal injury claims. (4 marks)
 - (b) What type of air travel does the Montreal Convention 1999 apply? (2 marks)
 - (c) Define a High Contracting Party. (2 marks)
 - (d) Explain Airline Code Sharing Agreement and its significance. (2 marks)

Solution

- (a) Under the Montreal Convention, the carrier has the following defenses:
 - contributory negligence;
 - that damage was not due to the negligence or other wrongful act or commission of the carrier, the servants or agents; **or**
 - that the damage was due solely to the negligence or other wrongful act or omission. (2 marks for each correctly stated defence. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) Montreal Convention 1999 applies to International carriage of Persons baggage or goods performed by aircraft for hire/revenue transport enterprise. (2 marks)
- (c) A High contracting party is any state which has agreed the War saw convention and deposited notice with the Government of Poland. In addition, their need to be an enabling legislation, judicial decree or a similar process in that State. (2 marks)
- (d) Code sharing between two or more carriers is now very common. The majority of the world's major airlines are in code share agreements. The significance of a code sharing agreement is that a passenger can be travelling on two or more airlines while holding a single ticket specifying one airline designation code and flight number. This enables airlines to offer their passengers a seamless service and assists airlines in branding and revenue flow. (2 marks)

(Grand Total: 10 marks)

- 5. Describe briefly the importance of the following:
 - (a) Crew Resources Management; and (b) The use of simulators crew training.

Solution

- (a) Crew Resource Management (CRM) is now a mandatory part of crew training in most countries. It helps to recognize that human error is unavoidable and that crews must train to overcome this. The main focus of such training is that crews must work as a team and communicate amongst themselves but must recognize the respective divisions of responsibility CRM applies to the whole crew and can include the ground or engineering staff.
- (b) **Stimulators Form Part of the Training** of crew both ab-initio and continuation training. They enable crew to learn about all scenarios, however unlikely some if the drills performed would not be possible in a real aircraft. Stimulators also enable pilots and engineers to carry out more training than they would otherwise get without trying up valuable resources, which also means that it is cheaper and money cost effective to use stimulators.

 $(2\frac{1}{2}$ marks for each correct and completely stated importance. Maximum of 2 under each term. Sub-Total per term: 5 marks. Grand Total: 10 marks)

6. Outline any four (4) reasons why direct aviation insurer might buy reinsurance.

Solution

The reasons why direct aviation insurer might buy reinsurance are:

- to provide protection against exceptional losses;
- to avoid undue fluctuations in underwriting results, resulting from a series of losses in the same class;
- to protect from accumulation of losses from one particular source e.g. a natural catastrophe;
- to increase the capacity of direct insurers without increasing their retention. This would enable the insurers to present an image as a much larger and move influential insurer than would otherwise be the case;
- to obtain technical advice from specialist reinsurers. To be able to provide coverage in those countries where risks have to be insured through a local insurer.

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

7. Outline any five (5) of the objectives of the International Civil Aviation Organisation (ICAO).

Solution

The objectives of the International Civil Aviation Organisation (ICAO) to:

- ensure the safe and orderly growth of international aviation worldwide;
- encourage the art of aircraft design and operation for peaceful purposes;
- encourage the development of airways, airports and air navigation facilities for international civil aviation;

- meet the needs of the people of the world for safe, regular, efficient and economical air transport;
- prevent economic waste caused by unreasonable competition;
- ensure that the rights of contracting states are fully respected and their every contracting state has an opportunity to operate international airlines;
- avoid discrimination between contracting states;
- promote safety of flight in international air navigation;
- promote generally the development of all aspects of international civil aeronauts.

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

8. With at least four (4) descriptions, describe the capabilities of the Enhanced Ground Proximity Warning System (EGPWS).

Solution

The capabilities of the Enhanced Ground Proximity Warning System (EGPWS) are:

- the Enhance Ground Proximity Warning System (EGPWS) can look ahead and provide a terrain display;
- EGPWS contains an airport and terrain database which is used in conjunction with input about the aircraft's position, barometric altitude and flight path;
- look-ahead terrain alerting allows EGPWS to look ahead and provide caution level (at 40-60 seconds) and warning-level (at 20-30 seconds) alerts;
- EGPWS provides warnings of barometric altitude error in any areas around airports;
- the EGPWS terrain display is designed to increase flight crew awareness of the surrounding terrain;
- the EGPWS terrain display is displayed automatically if a look-ahead caution or warning alert activities;
- on aircraft without map displays, a dedicated weather radar display may be used. The display depicts the terrain as red, amber or green depending on the height of the terrain relative to the aircraft's altitude.

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

9. State the five (5) main applications of satellites.

Solution

The five main applications of satellites are:

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

- 10. (a) Who is a hull surveyor? (2 marks)
 - (b) Explain, with a total of four (4) complete explanations, reasons why surveyors are appointed and how they contribute to the full claims process. (8 marks)

Solution

- (a) A hull surveyor is an experienced aviation professional recruited from the aviation industry to provide aviation surveying and loss adjusting services to aviation insurers worldwide. (2 marks)
- (b) Hull surveyors are appointed to investigate an aviation loss and to produce factual reports to insurers who will have appointed then, with recommendation for insures to consider in respect of handling and settlement. In order for a surveyor to be able to achieve this, the position will usually receive a person to have worked in the aviation industry as an engineer or pilot. They need to negotiate with manufacturers and repairers to establish a good price for a repair and they will need to liaise with engineers on that repair job and on the investigation into the accident surveyors need to be completely independent and skilled enough to put themselves in the position of the order to help to work out what actually occurred. A good hull surveyor must be a good negotiator and be objective but fair.

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

11. Describe the coverage available for satellite launch and in-orbit exposures, with at least four (4) complete points.

Solution

The majority of satellites are covered for launch and in orbit risks. The policies incept at the moment of launch which is often defined as the point of international ignition until one calendar year after the satellite is placed in its final orbit. This will include testing of the satellite and its subsequent commercial operation. In the event of a terminated ignition, some policies will be suspended but will cover a further attempt within a set frame. Assuming a successful launch, the satellite will be placed into its correct orbit and there will follow a period of in orbit testing to ensure that all systems are operating correctly. The satellite payload will also be tested to ensure that it is working to specification. This test period will typically last between 30 and 45 days Throughout the launch, orbit raising, testing and for the remainder of the first year, insurers will cover the satellite against loss, damage or failure including mechanical or electrical failure. It is important to note that insurers do not cover the launch vehicle itself. Launch and in orbit insurance coverage is broad and few exclusions apply other than war and related perils.

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

- 12. In respect of EU Regulation 1996/2010
 - (a) State the main objective of the regulation.

(2 marks)

(b) Describe briefly the situation in which this regulation does and does not apply.

(6 marks)

(c) Enumerate any two (2) of the four requirements for each EU member states National Civil Aviation Safety Investigation Authority. (2 marks)

Solution

(a) The main objective is to establish common rules for the investigation and reporting of accidents under EU law. (2 marks)

(b) The regulation applies to safety investigations into accidents and serious incidents which have occurred in the territories of EU member states but involve aircraft registered in that member state or are operated by an undertaking registered in that member state; in which an EU member state is entitled to appoint an accredited representative to participate in the investigations in which an EU member state is permitted by the state conducting the investigation to appoint an expert. (3 marks). The regulation does not apply to safety investigation into accidents involving military, customs and police aircraft (3 marks).

(Sub-Total: 6 marks)

- (c) The safety investigation authority (SIA) is required to
 - encourage high standards in investigation methods and investigator training;
 - provide advice to regulatory bodies;
 - promote best safety investigation practices;
 - promote cooperation between the numerous SIAs.

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

13. State any ten (10) items of key underwriting information an insurer would require when rating a commercial airfield for airport liability insurance.

Solution

The items of key underwriting information an insurer would require when rating a commercial airfield for airport liability insurance are:

- * the insured; * name of the airport; * the location;
- * how many aircraft movements are there per annum;
- * is the insured responsible for ground handling of aircraft?
- * does the insured handle aircraft maintenance? If so, advise how many aircraft in their care at any one time;
- * maximum value of aircraft at any one time;
- * average value at any one time;
- * is the airport responsible for the fuelling? If so, annual throughout split by fuel type;
- * is fuel delivered by bowser or hydrant?
- * is insured responsible for security? If not who is?
- * does the insured provide ancillary services such as car parking and restaurants, e.t.c. or are they contracted out to concessionaires?
- * is insured responsible for passenger assistance?
- * is the insured responsible for ground transportation?
- * are all outstanding contracts subject to the standard international Air Transport Association Contracts?

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

- 14. In respect of Section II: Legal Liability to Third Parties (other than passengers) of the London Aircraft Insurance Policy- AVN IC.
 - (a) Describe the coverage provided by Insurers.

(4 marks)

(b) Identify any three (3) exclusions applicable specifically to Section II of AVN IC (excluding general exclusions). (6 marks)

Solution

(a) Section II: Legal Liability to Third Parties (other than passengers) of the London Aircraft Insurance Policy- AVN IC indemnifies an insured in respect of claims which they are held legally liable to pay to third parties for accidental bodily injury and property damage caused by the aircraft or any person or object falling from it coverage include costs of defending the insured. (2 marks for each correctly stated description. Maximum of 2 to be graded. Sub-Total: 4 marks)

(b) The exclusions applicable specifically to Section II of AVN IC (excluding general exclusions) are:

(2 marks for each correctly stated exclusion. 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. As an insurance broker to the Nigerian Aviation Handling Company Plc. (NAHCO) you have been asked to review the liability insurances of the Baggage Handling Company Plc working airside at the airport.
 - (a) Discuss the aviation exposures that NAHCO the baggage handler needs to insure against.
 - (b) Discuss the wordings and clauses you would recommend are used for these exposures.

Solution

(a) The aviation exposure and risks of Nigeria Aviation Handling Company (NAHCO) a baggage handler whilst working airside at an airport are, in many respects, similar to those in respect of the airport operator itself. The exposures are basically legal liabilities for bodily injury and property damage arising from their operations whilst working at the airport. The liabilities of a baggage handler may arise from the operation of motor vehicles airside equipment or even aircraft. The value of aircraft means that the exposure at even a regional airport can be measured in the tens of millions. The employees working at the airport could also expose the insured to legal liabilities, for example, when driving around the airport. There is also a possible exposure of the insured's duties.

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

b. The coverage for ground handling companies (including baggage handlers) is very similar to airport liability coverage so that ARIEL Airport Owners' and Operators Liability policy (48FLY00001) may be used. For ground handling companies, the premises section will usually be sufficient to provide the necessary protection. The standard clauses that would be added include the: war, hijacking and other Perils Exclusion Clause- AVN 48B, Extended Coverage

Endorsement (Aviation Liabilities) - AVN 52G Nuclear Risks Exclusion Clause- AVN71 (but AVN38B may be used). Noise pollution and other perils exclusions clause-AVN 46B.

(5 marks for each correct and completely stated discussion. Maximum of 5 to be graded. Sub-Total: 15 marks) (Grand Total: 30 marks)

- 16. On aircraft accident,
 - (a) List and explain at least five (5) documents required by lawyers as soon as possible after an aircraft accident.
 - (b) Enumerate and explain any five (5) items that a surveyor's report should contain.
 - (c) What is the disadvantage of "cash in lieu of repairs" form of settlement in aviation insurance.

Solution

- 16. The documents required by lawyers as soon as possible after an aircraft accident are:
 - copy of passenger list or manifest and nationalities of passengers;
 - passenger fight coupons on conditions of carriage, seating plan;
 - name and addresses of passengers and next of kin;
 - details of injuries and copies of relevant correspondence;
 - cargo manifest;
 - crew manifest;
 - flight plan: aircraft details;
 - report of operator including navigation log;
 - details of crew and any special charter.

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

- (b) The items that a surveyor's report should contain are:
 - identification;
 time;
 place and date;
 - when and where the survey took place; crew members
 - details of pilots and experiences;
 airframe and engines;
 - weather details of damage and photographs; recommendations;
 - course and possibilities of subrogation;
 any breaches of regulations;
 - copies of relevant agreements.

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

- (c) Cash in lieu settlements are provided usually on the basis of an agreed estimate the problem is that the aircraft may be left in its undamaged state and further damage by, e.g. vandalism may occur. (10 marks)
- 17. You are an insurance broker. One of your indigenous clients Messrs. XYZ Aviation Company Limited has brought a light aircraft to operate within the Federation of Nigeria. Your client has asked you to obtain quote to insure the aircraft. Identify:
 - (a) seven (7) information that your client needs to provide in order for you to obtain a quote; (14 marks)
 - (b) three (3) coverage insurance areas that your client needs; (6 marks)

(c) any two (2) provision required in the insurance if your client has obtained finance to buy the aircraft. (10 marks)

Solution

- (a) The client needs to provide the following information to obtain a quotation:
 - name of the insured;
- address of insured;
- make and model of aircraft;

- age of aircraft;
- registration;
- agreed value level of deductible;

- usage- e.g. crop spraying;
- utilization;
- passenger seating;

- liability limit;
- names and flying experience of pilots;
- loss history of pilots;
- geographical limits required;
- maintenance provider.

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

- (b) The coverage areas that the client will need to buy insurance to cover are:
 - Section I: Loss of or damage to aircraft
 - Section II: Legal liability to third parties (other than passengers)
 - Section III: Legal liability to passengers
 - Section IV: Under exclusions accidental loss caused of or damage to the aircraft caused by wear and tear, breakdown, defect or failure or damage by cumulative effect.

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

- (c) When using finance to buy an aircraft, the finance company will want the insurance covering the asset to contain certain provisions protecting them and their property, some of which are:
 - to be added as additional insured under the liability coverage;
 - be a loss payee up to the amount of the loan outstanding;
 - protecting in case the insured breaches a policy condition or a warranty which might result in the policy not responding in the event of a claim;
 - at least 30 days' notice in the event of cancellation or material change to the policy (normally seven days in the event of war risks);
 - the usual way in which the hull provisions would be included in the policy would be by the inclusions of an Aircraft Financial Interest endorsement- AVN 28B.

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

18. (a) Discuss this statement: "the coverage that is provided under a loss of use policy".

(10 marks)

((b) Justify the decision made why an aircraft operator might buy loss of use coverage.

(5 marks)

- (c) Explain why pilots buy loss of license insurance. (5 marks)
- (d) Identify any four (4) circumstances in which loss of license policy coverage will usually terminate. (10 marks)

Solution

(a) A loss of views provides coverage in the event that an aircraft may become unavailable for use due to an accident that is covered under a hull insurance or would have been but for the

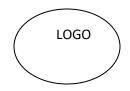
deductible. This may be as a standalone policy or, in the case of some majority airline policies, may be included as part of the main policy package. The policy or coverage excludes when an aircraft has been a total loss and also excludes claims covered under a breach of warranty provision. A condition should be included that an aircraft should be returned to operation as quietly as possible. The policy will pay out a set sum per day subject to a maximum number of days and generally continues as an excess period; the policy limit may also contain an overall aggregated. (2½ marks for each correct and completely stated statement. Maximum of 4 to be graded. Sub-Total: 10 marks)

- (b) An aircraft operator might buy loss of use coverage as an aircraft is not earning money when it is not in use but fixed costs such as lease payment or insurance still have to be paid. The paid amount may also cover the cost of hiring a replacement aircraft while the damaged one is in. (2½ marks for each correct and completely stated statement. Maximum of 2 to be graded. Sub-Total: 5 marks)
- (c) Pilots must hold a valid license in order to carry out their duties. These licenses require the aircrew to fulfill medical requirements which are reviewed regularly. In the event that the license is withdrawn by the authorities, the pilot will be unable to work, so the loss of license insurance will provide a cash benefit to assist.

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

- (d) The circumstances in which loss of license policy coverage will usually terminate are where:
 - the insureds persons employment ends;
 - the insured person dies;
 - payment is made by the insurers for bodily injury or illness;
 - the insured person undertakes flying which is more hazardous than usual unless previously agreed by insures;
 - the insured person undertakes active duties with any armed forces other than part time training on a non-combat assignment;
 - the insured person reaches retirement age.

 $(2\frac{1}{2}$ marks for each correctly stated circumstance. Maximum of 4 to be graded. Sub-Total: 10 marks) (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT 109 INSURANCE PRACTICE AND REGULATION

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

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

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

109 - 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

It was to test candidates' knowledge on insurance operators in the industry. It was well attempted and 85% of the candidates acquired a pass rate of 74%.

Question 2

The question tested candidates' knowledge on personal accident policy. Attempt was good and performance was average at 57% pass rate. Candidates are encouraged study their course book well.

Question 3

The question tested candidates' knowledge on standard fire policy and perils covered under the policy but was not well understood by the candidates as performance was average at 55% pass rate.

Ouestion 4

This tested candidates' knowledge on money laundering. 50% of the candidates did not get it right as performance was average at 56% pass rate. Candidates needs to have a full grasps of solvency margin.

Question 5

It was to test the knowledge of the candidates on group life and was well attempted, but most candidates did not get the explanation correctly. Pass rate was 69%.

Question 6

To test candidates' knowledge of the use of brokers' slip in the Industry, and more than 90% actually performed above average at 65% pass rate, while few could not give details on the contract.

Ouestion 7

The question was to test the knowledge of candidates on fidelity guarantee. Most of the candidates do not understand the question and got it wrong. Pass rate was 11%.

Ouestion 8

It was to test the knowledge of candidates about builders' liability, about 50% of those that attempted it got it wrong and even the subject was not well understood. Pass rate was 9%.

Question 9

The question dealt with five (5) characteristics of insurable interest, attempt was good and also performance was good at 57% pass rate.

Question 10

It was to test the candidates' knowledge in oil & gas insurance. Attempt was good but the performance was poor as most of the candidates do not have a good knowledge of it, which eventually lead to poor output. Pass rate was 0.9%.

Question 11

It was intended to test the candidates' knowledge on complaints and its relevance in insurance. The attempt was good but performance was very poor at 17% pass rate. This showed lack of adequate preparation.

Question 12

It was to test the state regulation and it benefit, attempt was 90%, performance was at 50% pass rate.

Ouestion 13

The question tested the knowledge of candidates on the industry actors, more than 90% of the candidates achieved 70% pass rate.

Question 14

It was to test candidates' knowledge on material facts, bond, goods-in-transit and names of compulsory insurance in Nigeria. Candidates did well in material facts and compulsory insurance but struggled with the terms bond and goods in transit. Overall performance was good at 78% pass rate.

Question 15

The question was well attempted and also well passed, as it shows that most candidates had adequate knowledge of the topic on comprehensive, but the short notes on freight, hull marine and open cover was not well understood, as most of the candidates did not get the explanation correctly. The performance was poor at 24% pass rate.

Question 16

Few students attempted the question but could not give an example of a package policy and could not further mention what the cover excludes. Also, the candidates could not give a concise description of the engineering policy. Pass rate was 0%.

Question 17

The question was attempted by at least 90% of the candidates and most of them obtained very good marks. The question was to test the understanding of re-insurance arrangement we have. Pass rate was 17%.

Question 18

Only a few number of candidates attempted the question as it was only to test the knowledge of surveyor report and those who attempted the question are not very familiar with the information on the policy schedule. Pass rate was 56%.

Comments on overall performance:

The overall performance was not really encouraging and the candidates need to study more and get familiar with the course.

Suggestions on improvement (if any): I suggest that the candidates should be encouraged to study their course books back to back, while revision exercise/tutorials can be organised for them.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. As at today, the insurance industry landscape in any country is made up of operators, trade associations and regulator. Enumerate explicitly any five (5) of these players.

Solution

The operators in the insurance industry landscape in any country are:

- * ministry of finance.

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

- 2. Briefly explain the following terms:
 - (a) Life Assurance Policy; (b) Personal Accident Policy;
 - (c) Primary Healthcare; (d) Secondary Healthcare.

Solution

- (a) Life Assurance Policy: According to the Insurance Act 2003, life Assurance comprises individual Life insurance business, group life insurance and health insurance business.
- (b) **Personal Accident Insurance** is to provide compensation in the event of an accident-causing death or injury.
- (c) **Primary HealthCare:** this refers to the entry point and point of first contact of individuals within the health care facilities. They serve as the gatekeepers to the scheme. They provide preventive, curative and rehabilitative services.
- (d) **Secondary HealthCare:** This offers specialised services to patients referred from the primary healthcare facilities through the HMOs occasionally particularly in case of emergency, direct referral without recourse to the HMOs can be made. However, the HMOs must be notified immediately after.

(2½ marks for each correct and completely stated explanation of term. Total: 10 marks)

- 3. (a) What does the standard fire policy cover? (4 mar)
 - (b) Enumerate any three (3) other perils that is covered under the standard fire policy which are not stated in the response in (a) above. (6 marks)

Solution

• earthquake;

- (a) The standard fire policy covers damage to property caused by fire, lightning or explosion, where the explosion is brought about by gas or boilers, not used for industrial purpose. (4 marks)
- (b) The other perils that is covered under the standard fire policy which are not stated in the response in (a) above are:
 - storm, flood, tempest; subsidence and landslide; burst pipe;
 - aircraft or articles dropped from them;
 - malicious damage or impact by vehicles.
- (2 marks for each correctly stated other peril. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 4. (a) What is money laundering in a broad term? (2 marks)
 - (b) What are the purposes of minimum capital requirement for insurers? (2 marks)
 - (c) What is Islamic Insurance? Explain with three (3) clear statements. (6 marks)

Solution

- (a) Money laundering is the process whereby criminals attempt to hide and disguise the true origin of ownership of the proceeds of the criminal fund. In compliance with anti-money laundering and combating financing of terrorism. (2 marks)
- (b) The purpose of maintaining minimum capital of solvency is to guide against risk of instability and policy holder loss as a result of insurance company failures reduced to the barest minimum.

 (2 marks)
- (c) Takaful Insurance is designed to satisfy the needs of Muslims who may regard traditional insurance as contravening Islamic (Shariah) law. The most common form of Takaful Insurance is similar in some ways to the mutual model where profits are shared by the policyholders or used to reserve for future claims. In addition, any investments made by the company are non-interest bearing, and may not be made in unacceptable industries such as the manufacture of alcoholic drink.

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

5. (a) What is Group Life Assurance?

(2 marks)

(b) Enumerate any four (4) essential basic information required to underwrite a group life policy. (8 marks)

Solution

- (a) Group Life Assurance is a form of term assurance arranged for a group of people against the risk of death. The policy could be arranged by an employer for a group of employees or a club for its members. (2 marks)
- (b) The essential information required to underwrite a group life policy are:
 - name of employees /members for the proposed scheme;
 - amount of death benefit is either as a fixed rate or multiply of salary;
 - date of birth /age of all members proposed for the scheme;
 - sex:
 - retirement age for male/female;
 - commencement date of the scheme.

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

6. (a) Explain what a broker's slip is.

(2 marks)

(b) Enumerate any four (4) information that should be found on a broker's slip.

8 marks)

Solution

- (a) A broker's slip is a document used is to elicit information from the proposer for the risk to be transacted with an underwriter by an insurance broker.
- (b) Some information that should be found on a broker's slip are:
 - * details of the insured;

- * period of cover required;
- * inception date property of the cover;
- * sum insured or limit of liability;

- * perils or type of the cover required to be insured; * expected premium;
- * sum insured or limit or limit of liability; * special condition to be incorporated.

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

7. (a) What is a fidelity guarantee policy?

(1 mark)

(b) How many are the divisions? List them.

(9 marks)

Solution

- 7. (a) **Fidelity guarantee** is a class of insurance which provides insurance cover against loss caused by dishonesty of person, holding a position of trust. (1 mark)
 - (b) There are three (3) main divisions. (3 mark) These are:

8. (a) With two (2) explicit statements, explain builder liability insurance cover?

(6 marks)

(b) What is the subject matter of insurance under (a)?

(4 marks)

Solution

(a) **Builders Liability:** This is a form of liability insurance that covers the liability of builders in the course of a construction of a building. This form of policy is usually arranged to cover injury, death or damage to third parties' property arising in the course of construction. This form of insurance is compulsory in Nigeria in line with section64 of the insurance Act 2003.

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

(b) The subject matter of insurance under (a) are all buildings under construction. (2 marks). However, the insurance is compulsory in Nigeria for buildings with two or more floors (2 marks).

(4 marks)

(Grand Total: 10 marks)

9. Explicitly enumerate any five (5) characteristics of insurable risks.

Solution

The characteristics of insurable risks are that:

- it must be pure risk i.e. it must result in a loss to the insured i.e fire, flood, e.t.c.
- it must be fortuitous in nature i.e. it must be random rather than inevitable;
- there must be insurable interest, this must be shown by the ownership of the property damaged;
- it must be quantifiable i.e. the damage property must be able to be determine in financial terms:
- it must be homogeneous i.e. there should be a large number of the property exposed to the risk i.e a common pool;
- it must not be against public policy i.e. a crime cannot be covered;
- it must be independent: i.e. the risk or loss should be independent of each other.

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

10. Nigeria Insurance industry participate in covering the oil and gas industry. Enumerate any four (4) types of covers that exists for the oil and gas industry.

Solution

The types of covers that exists for the oil and gas industry are:

- covers for both the physical loss or damage to various categories of oil and gas assets like oil rigs, platform, pipelines, gas terminals, farm tanks, e.t.c.;
- legal liability arising out of the use of insured operation;
- construction of insured assets;
- operational assets;
- drilling policies.

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

- 11. (a) What is a complaint as it relates to the insurance industry? (4 marks)
 - (b) Enumerate any three (3) relevance of complaint to the insurance industry.

(6 marks)

Solution

- (a) A Complaint is any expression of dissatisfaction whether written or oral whether justified or not, it is a form of feedback to the insurance company. (4 marks)
- (b) The relevancies of complaint to the insurance industry are:
 - it helps to know the position of the insurance company with its customer;
 - it prevents bad publicity for the company;
 - it helps to avoid wrath of the regulator;
 - handling the complaint effectively and efficiently makes good commercial sense.

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

- 12. (a) Why do we have State Regulation in insurance? (2 marks)
 - (b) Enumerate any four (4) benefits of State Regulation in insurance. (8 marks)

Solution

- (a) The reason we have State Regulation is to protect the public and as a form of protection and social measure in the country. (2 marks)
- (b) The benefits of State regulation are:
 - to maintain solvency;
- for equity;
- competency;

- for insurable interest;
- for provision of certain form of insurances;
- for national insurance.

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

- 13. (a) How many group of players do we have in the insurance industry? (1 mark)
 - (b) List and briefly explain these group of players.

(9 marks)

Solution

- (a) We have three (3) group of players in the insurance industry.
- (1 mark)

- (b) These are the buyers, sellers and intermediaries.
- (i) **The Buyers:** these are anyone who has a valid insurable interest, i.e., property, it could be by ownership or part ownership, e.g., individual or family, government, parastatal, conglomerate, manual;
 - (ii) the sellers: these are the providers of the insurances being sold/bought.
- (iii) the intermediaries: these are brokers who are licensed to transact insurance business in the insurance industry and sell general insurance product in the insurance market and insurance

agents, who are not necessarily experts, insurance professionals in their various fields, e.g. Bankers, garage owners, lawyers, but they can act for both the insured and insurer.

(2 marks for each correctly stated group. 1 mark for correct explanation. Sub-Total per group: 3 marks. Grand Sub-Total: 9 marks)

(Grand Total: 10 marks)

- 14. (a) Write short notes on the following terms:
 - (i) material facts; (ii) goods-in-transit; (iii) bond. (6 marks)
 - (b) List any two (2) compulsory insurance in the Nigerian insurance market. (4 marks)

Solution

- (a) (i) **Material Facts:** these are facts that will influence the insurer either to accept or decline the risk proposed; (2 marks)
- (ii) Goods-in-Transit: is a form of insurance policy that covers goods while been transported on roads or rail which resulted into a loss or damage to the goods before reaches the final destination. (2 marks)
- (iii) **Bond:** is an obligation by one party that if another party fails to perform his obligation he the guarantor will make it good. (2 marks) (Sub-Total: 6marks)
- (b) The compulsory insurances in the Nigerian Insurance market are:
 - (i) Third Party Motor Insurance
 - (ii) Builders Liability Insurance
 - (iii) Occupiers Liability Insurance
 - (iv) Statutory Group Life Assurance (Employers)
 - (v) Health Care Professional Indemnity
 - (vi) Employers' Liability Insurance.
 - (vii) Aviation Third Party Insurance
 - (viii) Marine Insurance (Cargo)

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

Part II

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

- 15. (a) Differentiate the types of cover under third party and Comprehensive Motor insurance.
 - (b) What are the five (5) common exclusions under a comprehensive motor policy?
 - (c) Write short notes on the following;
 - (i) freight; (ii) hull marine cargo; (iii) time policy (iv)open cover.

Solution

(a) The differences in cover under third party and Comprehensive Motor insurance are:

S/N	Description of cover	Third Party Cover	Comprehensive Cover
1	Accidental Damage to	No	Yes
	Insured vehicle		
2	Medical expenses to	No	Yes
	policyholder		

3	Loss of vehicle to theft	No	Yes
3	Loss of damage to rug	No	Yes
4	Clothing	No	Yes
5	Personal effect	No	Yes

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

- (b) The common exclusions under a comprehensive motor policy are:
 - loss of use:
- depreciation;
- wear and tear;
- contractual liability;

- mechanical or electrical failure:
- loss of insured vehicle by deception.

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

- (c) (i) **Freight:** is the sum paid for transporting goods, or for the line of a ship;
 - (ii) **Hull:** this is a ship itself, and all its corresponding machinery;
 - (iii) **Time Policy:** this policy is usually for a fixed period, usually not exceeding 12 months;
 - (iv) **Marine Cargo:** these are the goods transported on the ship and it is usually covered on warehouse to warehouse basis;
 - (v) **Open Cover:** is based on arranged terms and conditions, and comes into operation, if the voyage falls within the agreed duration.

(2 marks for each correct and complete explanation. Total: 10 marks)

- 16. (a) What is a package policy? Give two (2) scenarios of a package policy that can be packaged by a licenced insurer. (10 marks)
 - (b) Enumerate any four (4) advantages of a package policy to an insurer? (8 marks)
 - (c) What is engineering insurance intended to provide compensation on? List any three (3) of the covers under this type of policy. (12 marks)

Solution

(a) A package policy is a policy that can be described as a combined policy that has all the risks covered in a single policy, e.g., householder policy.

(Candidates are required to state two scenarios of a package policy. 2 marks for the correct definition/explanation of package policy. 4 marks for each correct and completely stated scenario of a package policy. Maximum of 2 scenarios to be graded. Sub-Total: 10 marks)

- (b) The advantages of a package policy to an insurer are:
 - it is less costly;
- it has only one premium and same renewal date;
- it reduces the likelihood of excluding any cover;
- it is easier to market as one product:
- it is easier to administer.

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

(c) Engineering insurance is intended to provide compensation to the insured in the event of the insured plant being damage by some extraneous cause or its own breakdown even with this there is provision to carry out inspection services. (3 marks)

The covers under this type of policy are:

- damage to or breakdown of specific items of plant and machinery;
- an inspection service of all items;

- cost of repair of own surrounding property due to damage to or break down of specific items of plant and machinery;
- legal liability for injury caused by legal liability for damages to property of others caused by damage to or breakdown of specify items of plant & machinery.

(3 marks for each correct and completely stated type of cover. Maximum of 3 to be graded. Sub-Total: 9 marks) (Grand Total: 30 marks)

17. (a) What is re-insurance?

(2 marks)

(b) Enumerate any four (4) purposes of reinsurance.

(8 marks)

- (c) Explain the following terms:
- (i) quota share re-insurance;
- (ii) surplus re-insurance. (10 marks)
- (d) List any four (4) reasons why conditions are inputted into an insurance policy.

(10 marks)

Solution

- (a) Reinsurance is a contract between an insurer, known as cedant and the reinsurer whereby the insurer cedes part or all of the risk that it has accepted so that in the event of a claim, the insurer will be compensated by the reinsurer. (2 marks)
- (b) The purposes of reinsurance are:
 - security; stability; capacity; catastrophe; macro benefits. (2 marks for each correctly stated purpose. Maximum of 4 to be graded. Sub-Total: 8 marks) (Grand Total: 10 marks)
- (c) **Quota Share**: a fixed proportion of every risk defined in the treaty is reinsured with the Reinsurer. under a quota share treaty a fixed proportion of every risk defined in the treaty is reinsured with the Reinsurer.e.g A primary insurer may agree to reinsure 80% of all risk of a certain type. if the sum insured for such a risk is \$100,000.00, the primary insurer retains \$20,000.00 and reinsures \$80,000.00.
- (ii) **Surplus Treaty**: this is arranged in lines by the insurance company to cede the risk which are above the company retention and the balance is ceded to the insurer. Usually, The alternative to ceding a fixed proportion of everything Insurer to decide how much of each risk it wants to retain for its own account. This termed retention and is calculated on the expected financial loss. In most cases the primary Insurer will have calculated it's maximum probable loss.

 $(2\frac{1}{2}$ marks for each correct and completely stated explanation. Maximum of 2 to be graded per term. Sub-Total per term: 5 marks. Grand Sub-Total: 10 marks)

- (d) Some reasons why conditions are inputted into an insurance policy are:
 - * to enable the insured comply with all terms of the policy;
 - * to enable the insured notify the insurer of any change in the risk covered;
 - * to input conditions of reasonable care in the event of minimised loss or damage;
 - * to clear the conditions stating the position of the insurer in the event of two or more policies;
 - * to clearly state the condition(s) stating the basis of cancellation if need be.

(Grand Total: 30 marks)

18. Who is a risk surveyor? (a)

(3 marks)

Write out any three (3) features of a surveyor report. (b)

(6 marks)

- Enumerate any three (3) operational expenses in the running an insurance business? (c)
- List and explain any five (5) components of an insurance policy schedule. (d)

(15 marks)

Solution

- A risk surveyor is somebody who is employed to survey a large risk which is complex in nature, it could be before a loss or after a loss it also act as an eye/ear of the insurer. The surveyor prepares the report for the insurer for a complete overview of the risk. (3 marks)
- (b) The features of a surveyor report are the:
 - full description of the risk;
 - an assessment of the level of the risk:
 - a measure of the maximum probable loss (MPL);
 - recommendation on loss prevention;
 - adequacy of the sum insured.

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

- The operational expenses in the running an insurance business are: (c)
- * office cost; * salary to staff; * advertising and commission; * profit margin. (2 marks for each correctly stated expense. Maximum of 3 to be graded. Sub-Total: 6 marks)
- (d) The components of an insurance policy schedule are:
 - the address of the insured

This tells the address of the insured

• the nature of the business

It indicates the type of business the insured does

the period of insurance

This indicates the start and expiry of the policy

premium

This is the amount or price payable for the insurance cover

- the limit of liability
 - this shows the extent to which the insured can claim from the insurance policy
- the policyholder
 - The name of the insured is indicated here and tells a lot about possible moral hazard
- reference to any special exclusions, conditions or aspects of cover

(2 marks for each correctly stated component. 1 mark for each correct and complete explanation. Subtotal per component: 3 marks. Grand Sub-Total: 15 marks) (Grand Total: 30 marks)