



*Chartered Insurance
Institute of Nigeria*

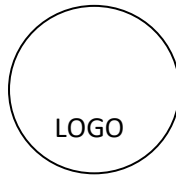
Chief Examiners' Report

April 2020 Examination

Advanced Diploma in Insurance (A510 – A995)

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)
Start each question on a fresh page	Write after invigilators have declared "time-up"
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum	Avoid the Annual Students' Forum
CANDIDATES SHOULD VISIT & UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS ETC ON THE FOLLOWING SITES naicom.com (NAICOM), nigeriansurers.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 CHEATING/HAVE CHEATED, WILL BE BARRED FROM PARTICIPATING IN ANY OF THE INSTITUTE'S EXAMINATION ACTIVITY FOR TWO (2) YEARS AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).	
STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!	



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET EXAMINATION PAPER

SUBJECT A510

RISK, REGULATION AND CAPITAL ADEQUACY

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A510 - RISK, REGULATION AND CAPITAL ADEQUACY
INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

A formula sheet and/or graph sheet will be issued for use with this paper (if required).

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 Summarized Statistics

Pass Rate:	59%
Highest Score:	83%
Lowest Score:	4%
Average Score:	52%

Breakdown Updates**Question 1**

Majority of the candidates appeared not to have understood the requirements of this question.

Question 2

The question is very standard with more than 98% of the candidates attempted it. Majority obtained marks above the average mark.

Question 3

The question tested the understanding of the candidate on the components of life assurance premium. Above 70% of the candidates who attempted the question scored above average.

Question 4

The question tested the knowledge of the candidates on the various uses of reinsurance to the reinsured. Majority of the candidates who attempted the question scored good marks.

Question 5

The question is also very standard and tested the ability of the candidates on expected value in probability and benefits of risk. It was well attempted by the majority of the candidates.

Question 6

The question was on unimodal and bimodal distribution. Majority of the candidates did very well on it.

Question 7

The question was on "permutation and combination". Majority of the candidates did not get the answer correctly.

Question 8

The question is standard and well attempted by the candidates.

Question 9

The question is a compulsory one. Majority of the candidates did not answer the part 'a' of the question on the requirements of NAICOM for submission of reinsurance treaties according to Section 4.2 of the NAICOM Presidential Guidelines. On average, the performance of the majority of the candidates was encouraging.

Question 10

The question is standard and was in three parts under underwriting terms, conditions and procedures. The question was not generally answered.

Question 11

Candidates generally performed well in the question. However, a quite few of the candidates did not get the actual roles of the Financial Services Authority.

Question 12

The question was on measures of central tendency. The question is of a very high standard and majority of the candidates performed well in this question.

Question 13

The question was on probability. The question was well attempted with good performance from the majority of candidates who attempted it.

Question 14

The question is standard. Most of the candidates who attempted this question performed very well.

Chief Examiner's Comments on Overall Performance:

The overall performance was better than previous diets but there is still room for improvements as evidenced by the comments on individual questions above where performances could have been better if the questions were understood and properly answered.

Chief Examiner's Suggestions on Improvement:

Candidates are advised to always prepare adequately ahead to enhance their performance.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. State any four (4) factors which usually have contributed significantly to the adoption of risk management by insurance and reinsurance organizations in any country (such as Nigeria in the recent years).

Solution

i) The factors which usually have contributed significantly to the adoption of risk management by insurance and reinsurance organizations in any country (such as Nigeria in the recent years) are:

- Corporate Governance Issues
- Financial Services Reforms
- Discoveries of New Risks
- Nonchalant Attitude of the Society as a Whole to Accept Risk
- An Increase in both the Frequency & Severity in Man Made and Natural Disasters such as Terrorism and Hurricane
- More Awareness for Financial Compensation by the Aggrieved Parties
- Government Intervention on Business Regulations and Legislations.

(1½ marks for each correctly stated factor. Maximum of 4 factors to be graded. Total: 6 marks)

2(a) What is a data base?

(b) Enumerate the two (2) sources available for database creation.

Solution

a) A database means a collection and store of related data for future use. It may also be defined as a way of describing raw material (i.e. raw data) of statistics.

(2 marks for any correct definition).

b) The two sources available for database creation are:

- creation of a new database (2 marks)
- making use of an existing database. (2 marks)

(Grand Total: 6 marks)

3. Outline and briefly explain any three (3) of the four components of life assurance premium.

Solution

The components of life assurance premium are:

- **Mortality:** this is the chance or probability of death from one age to the other. It increases with age

- **Expenses:** these are the expenses incurred by the life office in running the business.
- **Interest Rate/Investment:** is the rate of returns that would be received from investing certain portion of the premium
- **Contingencies:** these are reserves created to meet unexpected contingencies.
(1 mark for any correctly listed component. 1 mark for correct explanation. Sub-Total for each component: 2 marks. Grand Total: 6 marks)

4. List six (6) uses of reinsurance to the reinsured.

Solution

The uses of reinsurance to the reinsured are:

- for further spread of risks for the insurance companies
- for bigger capacity for the insurance companies
- for catastrophe protection
- for stabilization of claims ratio
- for profit sharing arrangement
- it brings about confidence to the insurance companies
- for product development
- for underwriting support and other financial advisory services.
- to boost training and development programmes.

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

5(a) Mention two (2) benefits of risks.

(b) If a car is worth ₦10,000,000.00 and there is also a known probability of total loss of 15%. What is the expected loss value?

Solution

a) Some benefits of risks are:

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

(1 mark for each correctly stated benefit. Maximum of 2 to be graded. Total: 2 marks)

b) Car Worth	=	₦10,000,000	
Probability of loss	=	0.15	
Expected Loss Value	=	₦10,000,000.00 × 0.15	(2 marks)
	=	₦1,500,000	(2 marks)
		(Sub-total: 4 marks)	
		(Grand Total: 6 marks)	

6(a) What is a unimodal distribution?

(b) What is a bimodal distribution?

Solution

a) A unimodal distribution is a distribution in which a single mode exists. (3 marks)

b) A bimodal distribution is a distribution in which two modes exist. (3 marks)

7. What is the value of ${}^7C_3 \times {}^6C_4$

Solution

$${}^7C_3 = \frac{7 \times 6 \times 5 \times 4 \times 3!}{3! (7-3)!} = \frac{7 \times 6 \times 5 \times 4 \times 3!}{3! \times 4!} = \frac{7 \times 6 \times 5 \times 4}{4 \times 3 \times 2 \times 1} = 35 \quad (2 \text{ marks})$$

$${}^6C_4 = \frac{6 \times 5 \times 4!}{4! (6-4)!} = \frac{6 \times 5 \times 4!}{4! \times 2!} = \frac{6 \times 5 \times 4!}{4! \times 2 \times 1} = 15 \quad (2 \text{ marks})$$

$$\text{Therefore, } {}^7C_3 \times {}^6C_4 = 35 \times 15 = 525 \quad (2 \text{ marks})$$

(Grand Total: 6 marks)

8. State the empirical relationship, in the form of an equation, between the mean, median and mode.

Solution

The empirical relationship, in the form of an equation, between the mean, median and mode is:

$$\text{Mean} - \text{Mode} = 3(\text{Mean} - \text{Median})$$

(3 marks for each side of the equation correctly stated. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) List the requirements for submission of reinsurance treaties/arrangements according to Section 4.2 of the NAICOM prudential guidelines". (10 Marks)
- (b) CIIN Insurance Company Limited has arranged an excess of loss reinsurance programme with Abuja Reinsurance Corporation to protect its Fire Insurance portfolio in three layers as below:
- 1st Layer: ~~₦~~200,000 XS ~~₦~~100,000.00
 - 2nd Layer: ~~₦~~200,000 XS ~~₦~~300,000.00
 - 3rd layer: ~~₦~~250,000 XS ~~₦~~500,000.00.

As the Reinsurance Manager of CIIN Insurance Company, you are required to apportion the following different losses between your company and Abuja Reinsurance Company Limited, taking into consideration the appropriate layers responsible for each of the losses:

- (i) ₦180,000.00 (3 marks)
 - (ii) ₦95,000.00 (1½ marks)
 - (iii) ₦480,000.00 (4½ marks)
 - (iv) ₦750,000.00 (4 marks)
 - (v) ₦1,000,000.00 (6 marks)
- (c) A Nigerian company that sells critical illness insurance policies has monitored the length of time it takes its policyholders to recover from a critical illness. The table below was obtained from the company:

Age of Policyholder in years (X)	Recovery time in weeks (Y)
40	8.5
25	5.5
32	7.5
20	4.0
25	6.5
35	9.0
55	12.0
60	15.5

Find the regression line of y on x.

(21 marks)

Solution

a) Section 4.2 of the prudential guideline on reinsurance treaties / arrangements (except Oil and Gas) states that;

- an Insurer shall ensure that the “treaty slips” are fully signed by all the participating reinsurers
- all reinsurance treaties and life treaty cover-notes/addendum, for the following year, shall be filed with the Commission on or before 31st December of the preceding Year or 15 days before the effective renewal date for those whose treaty renewal dates do not fall on 1st of January. In both cases, the submissions shall also be accompanied by the following :
 - Signed slips of all reinsurance arrangements and not only cover-notes issued/signed by the reinsurance brokers;
 - Evidence of premium remittance for the previous four (4) quarters (i.e. 4th, 1st, 2nd and 3rd Quarters);
 - evidence of payment of Minimum and Deposit (M&D) Premium for the following year on the General Business treaties; and
 - the financial strength rating of the foreign reinsurers.

(Sub-Total: 10 marks)

b) (i) ~~₦~~180,000.00 – The insurance company bears ~~₦~~100,000.00 and the first layer bears ~~₦~~80,000.00

(1½ marks for each correct allocation i.e. ~~₦~~100,000.00 and ~~₦~~ 80,000.00. Sub-Total: 3 marks)

(ii) ~~₦~~95,000.00 – The insurance company bears the whole loss amount.

(1½ marks)

(iii) ~~₦~~480,000 – The insurance company bears ₦100,000, the first layer bears ₦200,000, the second layer bears ~~₦~~180,000.

(1½ marks for each correct allocation i.e. ~~₦~~100,000.00, ~~₦~~200,000.00 and ~~₦~~180,000.00. Sub-Total: 4½ marks)

(iv) ~~₦~~750,000 - The insurance company bears ~~₦~~100,000, the first layer bears ₦200,000, the second layer bears ~~₦~~200,000 and the third layer bears ~~₦~~250,000.

(1 mark for each correct allocation i.e. ~~₦~~100,000.00, ~~₦~~200,000.00, ~~₦~~200,000.00 and ~~₦~~250,000.00. Sub-Total: 4 marks)

(v) ~~₦~~1,000,000 – The insurance company bears ~~₦~~350,000, the first layer bears ₦200,000, the second layer bears ~~₦~~200,000 and the third layer bears ~~₦~~250,000

(1½ marks for each correct allocation i.e. ~~₦~~350,000.00, ~~₦~~200,000.00, ~~₦~~200,000.00 and ~~₦~~250,000.00. Sub-Total: 6 marks)

(Grand Total: 19 marks)

c)

	X	Y	X ²	Y ²	XY
	40	8.5	1,600	72.25	340
	25	5.5	625	30.25	137.5
	32	7.5	1,024	56.25	240
	20	4.0	400	16.00	80
	25	6.5	625	42.25	162.5
	35	9.0	1,225	81.00	315
	55	12.0	3,025	144.00	660
	60	15.5	3,600	240.25	930
Total:	292	68.5	12,124	682.25	2,865

(½ mark for each correctly completed section (X², Y² and XY) above. Total: 12 Marks)

Let the regression line of y on x be represented by:

$$y = a + bx \quad (1 \text{ mark})$$

where $a = \frac{\sum Y - b\sum X}{n}$ (1 mark)

and $b = \frac{n\sum XY - \sum X\sum Y}{n\sum X^2 - (\sum X)^2}$ (2 marks)

Therefore, $b = \frac{(8 \times 2,865) - (292 \times 68.5)}{(8 \times 12,124) - (292)^2} = 0.24881$ (2 marks)

$a = \frac{68.5 - (0.24881 \times 292)}{8} = -0.51907$ (2 marks)

$Y = (-0.51907) + (0.24881)x$ or $0.24881x - 0.51907$ (1 mark)

(Sub-Total: 9 marks)
(Grand Sub-Total: 21 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Differentiate, by way of definition, between a moral and physical hazard. (10 marks)

(b) Underwriting is a process of determining whether or not the risk proposed for insurance should be accepted, and if it is to be accepted at what premium rates, terms & conditions. State any three (3) other definitions of underwriting. (12 marks)

(c) Differentiate between “binding authority” and “underwriting authority”. (12 marks)

Solution

a) **Physical hazards** are the physical features of the risk (i.e. subject matter of insurance) while **moral hazards** are the attitudes of the insured (or the insured person as the case may be).

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

b) Underwriting is a process of determining whether or not the risk proposed for insurance should be accepted, and if it is to be accepted at what premium rates, terms & conditions.

Underwriting may equally be defined in any of the following ways:

- it is a risk appraisal technique.
- it is a risk selection process
- it is an equitable system of assessing all those who transfer their risks to a common pool
- it may equally be described as a risk management technique or process

(4 marks for each correct definition. Maximum of 3 to be graded. Sub-Total: 12 marks)

c) **Binding Authority** – A binding authority gives the direct brokers and reinsurance brokers the authority to accept risks on behalf of the insurer/reinsurer and place the risks accepted with them. Please note that the risks accepted within this authority limits gives a valid cover, and therefore binds the insurer/reinsurer towards meeting their claims obligations to the client; **while**

Underwriting Authority – This is the level of authority granted by an insurance company within certain predefined limits to the insurance intermediaries (such as the insurance brokers). Underwriting authority may equally be granted by the reinsurer to the insurance company and reinsurance broking firms.

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

Sub-Total for each term: 6 marks. Grand Total: 12 marks)

(Grand Total: 34 marks)

11(a) Write short notes on the Financial Services Authority. (9 marks)

(b) Outline any four (4) roles of the Financial Services Authority (10 marks)

(c) What is Risk-Based Capital Modelling? (7 marks)

(d) Write out the full meaning of the following in relation to Risk-Based Approach to Capital Requirements:

(i) ECR (ii) CRR (iii) ICA (iv) ICG (8 marks)

Solution

a) Financial Services Authority is an independent and non-governmental body which is given powers by the FSMA. It officially assumed its full role of single regulator for the UK financial services industry in 2001. The FSA is also

responsible for the resolution of complaints against insurers and the provision of compensation for customers of failed insurers. The FSA is funded by a levy on regulated firms. It operates in the UK.

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

b) The roles of the Financial Services Authority (FSA) are:

- sets the rules, via its handbook, sourcebooks and other guidance;
- authorizes firms and individuals (approved persons) to operate within the regulated markets;
- monitors the external environment for threats to its strategic objectives;
- monitors the markets and the regulated firms operating within those markets;
- responds to changes (e.g. new EU law), threats or other developments by amending its rules;
- acts to prevent or resolve failures, problems or breaches of its rules (enforcement role)

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

c) Risk-Based Capital Modelling is the name given to a number of mathematical modelling techniques used for calculating the capital that an insurer should allocate to each of its component businesses or product lines. **(4 marks)**. These individual allocations help the insurer to understand the return each business or product should be making if it is to contribute fairly to the overall result **(1½ marks)**, and thereby taking into consideration the cost of volatility **(1½ marks)**.

(Sub-Total: 7 marks)

- d) (i) ECR: Enhanced Capital Requirement **(2 marks)**
(ii) CRR: Capital Resources Requirement **(2 marks)**
(iii) ICA: Individual Capital Adequacy **(2 marks)**
(iv) ICG: Individual Capital Guidance. **(2 marks)**

(Sub-Total: 8 marks)

(Grand Total: 34 marks)

12. The information below has been obtained from the record of a Life Specialist company in Nigeria regarding distribution of its Educational Endowment Product Premium Incomes in 2018 (per million in ₦):

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

You are required to find the:

- (a) mean (b) median and (c) the mode.

Solution

Solution

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

(1 mark for each correctly computed figure in the table. Sub-Total: 21 marks)

$$\text{a) Mean} = \frac{\sum fX}{\sum f} = \frac{16950}{100} = 169.5$$

(2 marks) (1 mark) (1 mark)
(Sub-Total: 4 marks)

$$\text{b) Median} = L_1 + \frac{(N/2 - \sum f_{b4})C}{f_m} = \frac{149.5 + (50-42)50}{20} = 149.50 + 20 = 169.5$$

(2 marks) (1 mark) (1 mark)
(Sub-Total: 4 marks)

$$\text{c) Mode} = L_1 + \frac{(D_1)C}{(D_1 + D_2)} = \frac{99.5 + ((14)(50))}{(14 + 4)} = 99.5 + \frac{(700)}{18} = 138.39$$

(2 marks) (1 mark) (1 mark) (1 mark)
(Sub-Total: 5 marks) (Grand Total: 34 marks)

- 13(a) A fair coin is tossed thrice.
- (i) Write out the total possible outcomes. (8 marks)
 - (ii) What is the probability of getting head all through? (3 marks)
 - (iii) What is the probability of getting at least one tail? (3 marks)
 - (iv) What is the probability of getting at least one head? (3 marks)
- (b) A fair coin is tossed four times.
- (i) Write out the total possible outcomes. (8 marks)
 - (ii) What is the probability of getting head all through? (3 marks)
 - (iii) What is the probability of getting at least one tail? (3 marks)
 - (iv) What is the probability of getting at least one head? (3 marks)

Solution

- (a) i) HHH, HHT, HTH, HTT, THH, THT, TTH, TTT (8 marks)
- ii) $1/8 = 0.125$ (3 marks)
- iii) $7/8 = 0.875$ (3 marks)
- iv) $7/8 = 0.875$. (3 marks)

- b) i) HHHH, HHHT, HHTH, HHTT, HTHH, HTHT, HTTH, HTTT, THHH, THHT, THTH, THTT, TTHH, TTHT, TTTH, TTTT (8 marks)
- ii) $1/16 = 0.0625$ (3 marks)
- iii) $15/16 = 0.9375$ (3 marks)
- iv) $15/16 = 0.9375$ (3 marks)

(Grand Total: 34 marks)

- 14(a)i What is relative frequency? (5 marks)
- ii Complete the relative frequency in the table below:

Premium Income (N'm)	Frequency	Relative Frequency
20 - 30	10	
31 - 40	20	
41 - 50	30	
51 - 60	40	
61 - 70	50	
Total	150	

(10 marks)

- (b) Write short notes on the following methods of deriving probability:
- (i) A priori method (5 marks)
 - (ii) Subjective probability method. (5 marks)

- (c) Write short notes on the following probability events:
- (i) Mutually exclusive events (3 marks)
 - (ii) Dependent events (3 marks)
 - (iii) Independent events (3 marks)

Solution

- a) i) Relative frequency is the ratio of the frequency of a class to the total frequency. In other words, it is obtained by dividing the frequency of a class limit by the sum of the frequencies and it is usually expressed in percentage. (5 marks)
- ii)

Premium Income (N'm)	Frequency	Relative Frequency
20 - 30	10	$10/150 \times 100\% = 6.67\%$ (2 marks)
31 - 40	20	$20/150 \times 100\% = 13.33\%$ (2 marks)
41 - 50	30	$30/150 \times 100\% = 20.00\%$ (2 marks)
51 - 60	40	$40/150 \times 100\% = 26.67\%$ (2 marks)
61 - 70	50	$50/150 \times 100\% = 33.33\%$ (2 marks)
Total	150	

(Sub-Total: 10 marks)

- b) i) **A Priori Method:** A priori method is used where all the possible outcomes of an event are known prior to the event occurring, with all the possible outcomes in most cases having equal chance of occurrence. (5 marks)
- ii) **Subjective Probability Method:** In the subjective probability method, the personal judgement of the person involved is used. Therefore, subjective probability method has to do with the belief the person involved attaches to the event under consideration. (5 marks)

(Grand Sub-Total: 10 marks)

- c) i) **Mutually Exclusive Events:** Two or more events are said to be mutually exclusive if the occurrence of one excludes the occurrence of the other. (3 marks)
- ii) **Dependent Events:** Two or more events are said to be dependent events if the occurrence of one depends on the occurrence of the other. (3 marks)
- iii) **Independent Events:** Two or more events are said to be independent events if the occurrence or non-occurrence of one does not affect the occurrence of the other. (3 marks)

(Grand Sub-Total: 9 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A520

COMPANY AND CONTRACT LAW

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A520 - COMPANY AND CONTRACT LAW

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Part III	3 Optional Questions	102 marks.

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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 Summarized Statistics

Pass Rate:	15%
Highest Score:	79%
Lowest Score:	14%
Average Score:	47%

Breakdown Updates

Question 1

It tested the foundation of land and so should be easy to understand but most candidates still demonstrated lack of capacity.

Question 2

Performance here relatively better than Q1 but most candidates did not pay attention to small topics & headings. This is our opinion as the probable reason for the dismal performance here.

Question 3

This is often repeated by everyone even in everyday conversation, and also explicitly stated in the coursebook, therefore without even reading the coursebook, it is expected that the part 'a' of the question should be a walkover; while the part 'b', being a textbook question, will similarly be a walk over but this was not the case.

Question 4

Also well mentioned in the textbook and very clear. Maybe this question was not expected as most candidates either did not attempt it or for those who did, they scored low marks.

Question 5

This question should not have posed any problem with any candidate as it is clear and the other part of the question had been repeated in the past; however, majority of them did not do well in the question.

Question 6

Over 70% of the candidates scored maximally as it is a practical question and what most candidates/working class person will understand. Good performance in the question.

Question 7

Good performance was also recorded here because it is also in D05 and should be easy to recollect having read it from another course.

Question 8

It is a typical issue in the Insurance Industry. Most candidates performed satisfactorily, (b) is also in the policy document handled by all underwriters, and tested the geographical limitation of our laws.

Question 9

This question carries 50 marks and to a large extent, it is perceived to determine success in the examination. From the solutions, it is glaring that most of the candidates neither monitor nor follow current affairs. This assertion is being made because all Plc company must advertise their aims in the newspapers, therefore the notice of meetings will be there, including business issues to be discussed. Additionally, AGM reports are public documents, which every staff of an insurance organisation should have access to, but alas, most do not understand neither do they pick copies to read. It is regrettable.

Question 10

Option (a) was not popular with the candidates and so performance here was poor; however, question (b) and (c) were popular; with good performances.

Question 11

From the answers supplied, (a) and (c) were answered fairly well but (b) was not. Overall performance here was just average.

Question 12

A popular question as most insurance companies are Plc, therefore, almost all the candidates demonstrated an above average knowledge of the question.

Question 13

A practical question as lots of insurance companies were taken over during the last recapitalization exercise. All candidates who attempted it scored good marks.

Question 14

The (a) part was not too popular with the candidates and they scored very poorly there although it was a textbook question; while performance in the part (b) was much better.

Chief Examiner's Comments on Overall Performance:

Overall performance recorded was generally poor in all segments of the examination, including the compulsory question in section (B), which carries 50 marks. It is my opinion that most candidates are yet to understand that a part of this question is reserved for industry related issues especially contemporary issues.

Chief Examiner's Suggestions on Improvement:

Candidates should be advised at open forum to pay attention to current affairs, insurance industry related news on TV/Newspaper, studying of public documents this company's AGM Reports e.t.c.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What do you understand by formal sources of Law? Give any two (2) examples.

Solution

Formal sources are those sources which give the law its validity. Examples are foreign law, state law or the will of the people.

(3 marks for the definition/explanation. 1½ marks for each correctly stated example. Maximum of 2 examples to be graded. Sub-Total: 4 marks. Grand Total: 6 marks)

2. State the objective of "Council of Law Reporting" and briefly explain what the Council does.

Solution

The objective of "Council of Law Reporting" is to ensure a consistent & reliable system of reporting cases. (3 marks)

The council publishes semi-official law reports; separate volumes are published each year in respect of cases heard on the Queen's bench, family & chancery divisions of the high court and appeals from the court to the court of appeal.

(3 marks)

(Grand Total: 6 marks)

- 3(a) At what stage is an accused guilty under the criminal law?

- (b) What is *novus actus interveniens*?

Solution

a) The law is that an accused is innocent until the prosecution can successfully prove all the charges against him and he is found guilty and convicted. The charges must be proved successfully otherwise the accused person is set free.

(3 marks)

- b) *novus actus interveniens* means "a new act intervening" (3 marks)

(Candidates should earn the 3 marks if they explain the term by means of a complete and correctly stated example, with or without case law. e.g. if for instance during a fire outbreak, onlookers now cause damage to surrounding property the cause of such damage is the misdemeanor of the crowd and not the fire (Madsen Vally & Connly Assurance Co. (1865))

4. Enumerate the four (4) Inns of Court in England.

Solution

The four Inns of court in England they are:

* Gray's Inn * Lincon's Inn * Inner Temple * Middle Temple

(1½ marks for each correctly stated inn. Total: 6 marks)

5. "Consideration must not be something which the promissory is already bound to do" – briefly discuss.

Solution

The significance of consideration is routed on a bundle of benefits to the promisee or detriment to the promisor. A promise to do something which the promisor is already bound to do under any guise does not give the promisee more than he can already expect. It imposes no detriment on him.

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

6. What is the consideration furnished by the following parties under the insurance contract?

- (a) Insured (b) Insurer.

Solution

The consideration furnished by the

a) Insured – is the premium he pays under the insurance contract. (3 marks)

b) Insurer – is the cover provided which if it crystallize into a claim, a settlement is made under the policy. (3 marks)

(Grand Total: 6 marks)

7. What is *contra rule proferentem* and who gets the benefit of the doubt in an insurance contract?

Solution

"*contra rule proferentem*" is a rule of interpretation which provides that in the event of any ambiguity in the wordings of the policy document or clause, it shall be construed against the drafter or party seeking to rely on it. (3 marks)

The other party gets the benefit of the doubt. (3 marks)

(Grand Total: 6 marks)

- 8(a) State the basic principle governing the return of premium.
(b) Explain the jurisdiction clause found in insurance policies issued by underwriters in Nigeria.

Solution

(a) The basic principle governing the return of premium is that once the risk has started to run, the insured is not entitled to any return of premium if the contract is subsequently ended prematurely. (1½ marks)

If however the insurer have not been on risk the insured is entitled to a return of premium in the latter case there has been a total failure of consideration as the insured has never had anything of value in return for his own payment. (1½ marks)

(Sub-Total: 3 marks)

(b) The jurisdiction clause found in insurance policies issued by underwriters in Nigeria provides that the indemnity promised under any policy issued by a Nigerian underwriter shall not apply to loss or damage obtained for compensation in any court of competent jurisdiction outside Nigeria. (3 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks

- 9(a) Enumerate any four (4) items that can be combined to make up the share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020? (10 marks)
- (b) Draft a Notice of an AGM of ABC Insurance company with its head office at 12, Broad Street, Lagos, the venue of the meeting is Havens Hotel, Lagos on Wednesday June 12, 2020 at 12.00noon. (10 marks)
- (c) State the ordinary business issues that will normally be transacted at such meetings. (10 marks)
- (d) What is a proxy? (5 marks)
- (e) (i) What is frustration? (5 marks)
(ii) State the old common position. (5 marks)
(iii) State the new position. (5 marks)

Solution

a) The combination of share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020 could be from the following:

- existing paid up share capital
- cash payment for new shares issued
- retained earnings
- payment for new shares issued such as
 - properties
 - treasury bills
 - shares
 - bonds
- share premium

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

(b) NOTICE IS HEREBY GIVEN (3 marks) that the 10th Annual General meeting (2 marks) of ABC Insurance company (2 marks) will be held at Havens Hotel, Lagos (1 mark) on Wednesday June 12, 2020 (1 mark) at 12 noon (1 mark).

(Sub-Total: 10 marks)

(c) The ordinary business to be transacted at an Annual General Meeting are as follows:

- to lay before the meeting audited financial statements of the company for the year ended together with the report of Directors, Auditors & Audit Committee.
- to declare a dividend
- to re-elect Directors
- to authorize the directors to fix the remuneration of the external auditors
- to elect members of the audit committee

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

(d) A proxy is a person selected by another who has a right of attendance at a meeting to represent him. **(5 marks)**

(e) (i) Frustration is the doctrine which excuses the promisor (party who undertake to do a thing) in certain situations when the objectives of the contract have been utterly defeated by circumstances arising after the formation of the agreement/contract and performance is executed under this rule. **(5 marks)**

(ii) The old common law position is that frustration normally bring the contract to an end. The two parties are excused from the performance of the contract. The old common law rule was that any loss from the frustrating event “lay where it fell” so that the money paid could not be recovered even though no performance would be rendered for it.

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

(iii) The new position provides that:

- all sums paid before transaction can be recovered
- money payable before frustration cease to be payable
- a party may claim or retain from what he has already been paid, a reasonable sum for any expenses he has incurred before frustration
- where one party has conferred a benefit (other than a money payment) in the other prior to frustration he may recover a reasonable sum in compensation.

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

Part III

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

Each question carries 34 marks.

- 10(a) What do you understand by the phrase “assignment by mortgage”? (10 marks)
- (b) List and explain three (3) types of “authority of the agent” (12 marks)
- (c)i What is *delegatus non potest delegare*? (4 marks)
- ii How does *delegatus non potest delegare* relate to an appointed agent. (8 marks)

Solution

- a. Assignment by mortgage is where the policy is assigned (2 marks) as security for a loan or other debt (3 marks) where the mortgage can be redeemed (3 marks) and the policy recovered (1 mark) once the debt is paid (1 mark). (10 marks)
- b. Three types of “authority of the agent” are:
- express authority** where the principal gives express instructions to his agent.
 - implied or usual authority** where the authority is implied from the conduct of the parties and the circumstances of the case.
 - apparent or ostensible authority** where the authority the agent appears to others to have as a result of some representation or conduct by the principal intended to be acted upon by the 3rd party.
(2 marks for correctly stated type. 2 marks for correct explanation. Sub-Total per mark: 4 marks. Grand Sub-Total: 12 marks)
- c. i) *Delegatus non potest delegare* means powers once delegated cannot be delegated again. (4 marks)
- ii) It relates to an appointed agent such that the agent must perform his duties personally (4 marks) and that (s)he is not entitled to delegate his/her duties to someone else (4 marks). (Grand Sub-Total: 8 marks)
- (Grand Total: 34 marks)

- 11(a) State the four (4) features that must be present to establish an “agency of necessity”. (16 marks)
- (b) Who is a “partner by estoppel”? (8 marks)
- (c) Explain the term “*del credere agency*”. (10 marks)

Solution

- a) The following are the four features that must exist in agency of necessity:
- there must be a pre-existing agency relationship
 - it must have been impossible for the agent to communicate with the principal
 - the agent must show that he acted in what was believed to be principal’s best interest

- iv. the situation called for immediate action to protect the principal's goods or property, it must really be an emergency situation often called "stress or circumstances".

(4 marks for each correct and completely stated feature. Sub-Total: 16 marks)

- b) A *partner by estoppel* is a person who expressly or by implication represents himself (2 marks) or knowingly allows himself to be represented as a partner in a particular firm (2 marks), such a person will be liable as a partner to anyone who acting on such representation had given credit to the firm (2 marks) hence he could be sued by a third party as if he were a partner in respect of the particular transaction (2 marks). (8 marks)

- c) *Del Credere Agency* is the agency that is created (2 marks) when an agent (the del credere agent) guarantees to his principal (2 marks) that he will pay any sum of money which fall due on contracts so made where the third party proves to be unable to meet his obligations to pay (4 marks). A del credere agent is only liable to pay money in the event of the insolvency of the 3rd party (2 marks). (10 marks)

- 12(a) Define a public company. (8 marks)

- (b) Enumerate any five (5) circumstances under which the object clause of a company may be altered. (20 marks)

- (c) State two (2) ways by a person may become a member of a company. (6 marks)

Solution

- a) A public company is any company

- that is limited by shares (or limited by guarantee and has a share capital)
- whose memorandum states that the company is to be public
- whose name ends with the word 'Plc'
- which has complied with the registration process of companies Act 1985 or CAMA in Nigeria.

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

- b) The object clause of a company may be altered through a special resolution to enable the company to perform the following:

- carry on business most economically or efficiently
- attain its main purpose by new or improved means
- enlarge or change the local area of his operations
- carry on some other business which may be conveniently combined with its own.

- restrict or abandon any of its objects
- sell or dispose of the whole or parts of its undertaking
- amalgamate with another company. (20 marks)

(4 marks for each correctly stated circumstance. Maximum of 5 to be graded. Sub-Total: 20 marks)

c) A person may become a member of a company through the following means:

- by subscribing to a memo of association
- by agreeing as a director to take and pay for any shares which in the article of Association any director is entitled to hold
- by agreeing to become a member and by having his name entered in the register of members.

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

(Grand Total: 34 marks)

13(a) What is a takeover? (5 marks)

(b) Explain the term misfeasance. Give an example. (8 marks)

(c) State and briefly explain the three (3) situations where the principal cannot revoke the agency before performance. (21 marks)

Solution

a) A takeover is an acquisition by one company of the whole or a significant proportion of the share capital of one or more of other company. It is possible for a takeover to be made by an individual though rare in practice, the individual would more likely effect a takeover through a company which he controls.

(5 marks)

b) Misfeasance is wrongful acts not involving misapplication of funds or may be used to cover all wrongful acts in the nature of breach of trust or breach of duty.

(5 marks). An example is committing a breach of the articles (2 marks) which

consequently involves the company in a (financial) loss (1 mark). (8 marks)

c) Although if a power of attorney is involved and it has been expressed as irrevocable under the Powers of Attorney Act 1977. However, mention must be made of section 5 of the Act which provides that even when a power of attorney has been lawfully revoked no liability can attach to the donee of the power in the following circumstances:

- if he is unaware of the revocation
- where revocation would involve personal loss to the agent
- if the revocation would damage the interests of innocent 3rd parties.

(Candidates are required to state the above and also briefly explain them. 4 marks for each correctly stated circumstance. 3 marks for every correct and completely stated explanation under each term. Sub-Total per term: 7 marks. Grand Sub-Total: 21 marks)

(Grand Total: 34 marks)

- 14(a) What is an interpleader summons? (10 marks)
- (b) State the four (4) options available to a principal who discovers his Agent has accepted bribe. (20 marks)
- (c) Explain the duty of confidentiality between the solicitor and the client. (4 marks)

Solution

a) The general principle of law is that an agent holding property on behalf of the principal cannot claim to be entitled to the property in his own right nor can he refuse to hand such property back to his principal on the basis that a 3rd party is also claiming possession (2 marks). However, if the agent holds goods as the principal's bailee he may refuse to part with possession to the principal as long as he does so with the authority of the party claiming possessory right (2 marks).

The process of avoiding other people's dispute in this complex situations is known as Interpleader summons (4 marks). This will require the principal and the 3rd party to fight out the question of which of them is entitled to the possession of the goods (2 marks).

(Sub-Total: 10 marks)

b) A principal who discovers his agent has accepted a bribe (although offering and accepting bribe can lead to the prosecution under the prevention of corruption Act 1906 in England. It is also an economic crime in Nigeria per EFCC Act). can

- recover the bribe form the agent
- dismiss the agent without notice and without commission
- sue the agent and 3rd party for conspiracy to defraud where appropriate
- exercise the right to set aside the contract made with the 3rd party.

(5 marks for each correctly stated action. Sub-Total: 20 marks)

c) A solicitor is under a duty to keep confidential to his firm and himself the affairs of his client and to ensure that the staff do same (2 marks). However, the duty can be overridden in certain circumstances (1 mark) such as when a court orders certain matters to be disclosed or where a warranty prevents a police officer to seize confidential documents. No solicitor can take instructions against a former client if he has relevant knowledge of such a client's affairs. (1 mark)

(Sub-Total: 4 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A530
BUSINESS AND ECONOMICS

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A530 - BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	68%
Highest Score:	81%
Lowest Score:	19%
Average Score:	58%

Breakdown Updates**Question 1**

The question is very direct and candidates passed with about 80% of the candidates scoring well above average. Their performance is impressive.

Question 2

This question was well attempted and most of the candidates who answered the question understood it and performed very well.

Question 3

Candidates have a fair knowledge of the question. Some did not know the reasons for delegation while some mixed it up with advantages and disadvantages.

Question 4

Majority of the candidates who attempted this question scored above average.

Question 5

This question looks also popular as majority of those who attempted it almost scored the full mark allotted. Thus, the overall performance is highly commutable.

Question 6

This question is a straightforward question but the candidates did not show a good understanding. Many performed poorly.

Question 7

This is a professional question requesting theory and practical experience. About 40% of the candidates failed to explain the barriers; they only got the points correctly and scored marks for mentioning only. More effort at preparing would have helped them better.

Question 8

While the question was well handled by quite a few of the candidates satisfactorily, majority performed below average. Candidates need to improve on their accounting knowledge.

Question 9

Most candidates understood the question and it was a generally well attempted question. The total performance is well above average and a big boost to their overall performance,

Question 10

About 93% of the candidates attempted this question and they displayed a good understanding of the topic. 85% of them scored above average.

Question 11

Majority of the candidates who attempted this question got the answer correctly and scored good marks. Very few of them got it wrong. Some were not specific in their answers but displayed general knowledge.

Question 12

The question tested the candidates' knowledge of basic accounting with special recourse to IFRS. Very few candidates attempted the question with fair knowledge of it. The few that attempted had fair scores.

Question 13

This is a well attempted question with a corresponding excellent performance as majority of the candidates scored very high marks.

Question 14

This question tested the candidates; knowledge of marketing and a very high proportion of the candidates displayed good knowledge as the general performance is well above average.

Chief Examiner's Comments on Overall Performance:

This paper is well attempted and the performance is very commendable and encouraging with the pass rate at 68%. The compulsory question was a great push as majority answered it satisfactorily.

Chief Examiner's Suggestions on Improvement:

Though the pass rate is great, there is still room for improvement and candidates should be encouraged to prepare adequately for the course anytime they register for it.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. List any three (3) reasons for an analysis of company accounts.

Solution

The reasons for an analysis of company accounts are to:

- find out whether a company's performance meets certain targets
- compare the present performance of a company with its performance in previous years
- compare the performance of a company with that of other companies
- compare the performance of different activities of a company
- decide whether or not to buy shares on a given company.

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

2(a) List three (3) sources of short-term finance.

(b) State three (3) ways for creating cash outflows.

Solution

(a) The sources of short-term finance are:

- overdrafts
- trade credit
- selling off surplus stock
- selling fixed assets
- encouraging debtors to pay

(1 mark for each correctly stated source. Maximum of 3 to be graded. Sub-Total: 3 marks)

(b) The ways for creating cash outflows are:

- paying suppliers in cash for stock bought
- paying taxes
- dividend payments
- paying old invoices for stock bought personally on credit
- purchasing new fixed assets

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

(Grand Total: 6 marks)

3(a) In what two (2) circumstances does delegation of authority become necessary? (2 marks)

(b) State two (2) advantages and two (2) disadvantages of delegation of authority. (4 marks)

Solution

(a) Delegation of authority become necessary in the following two circumstances:

- when an organisation becomes too large for one person to oversee every aspect of its work
- when a task requires expertise of more than one person.

(1 mark for each correctly stated circumstance. Total: 2 marks)

(b)

Advantages	Disadvantages
Empowerment	Training losses
Managerial decisions are coordinated	Mistakes
Employee motivation	Status
	Consistency/Monotony

(1 mark for each correctly stated point. Maximum of 2 under each heading. Sub-Total: 4 marks)

(Grand Total: 6 marks)

4. Enumerate three (3) disadvantages each of

- (a) sole proprietor businesses;
- (b) limited liability companies

Solution

The disadvantages are on:

(a) **sole proprietor businesses:**

- usually lack continuity of the business in the event of death of the owner
- in the event of failure, the owner will bear the brunt of the loss alone
- it does not enjoy rapid expansion because of financial constraints
- due to financial inadequacy, it may be difficult to acquire modern machinery for expanding the business

(b) **limited liability companies:**

- decision taking is a difficult task
- payment of exorbitant company tax may ruin its operation because such taxes may dominate its financial base
- as a result of large number of workers, it (may) possess, it may constantly be involved in trade disputes that may disrupt the works of the company.

(1 mark for each correctly stated point. Maximum of 3 under each heading. Total: 6 marks)

5. State any six (6) of the main sections of annual reports of insurance companies.

Solution

The main sections of annual reports of insurance companies are:

- * notice of meeting
- * chairman's statement
- * directors' report
- * auditors' report
- * profit and loss account for the latest year and the year before that
- * balance sheet for the latest financial year and the year before that
- * cash flow statement
- * if the company has subsidiaries, the group accounts.

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

6. Differentiate between:

- (a) public goods and merit goods
- (b) demand-pull inflation and cost-push inflation.

Solution

(a) **public goods and merit goods:** **public goods** are provided by the State since it is impossible for the market to provide them free e.g. defence policy, e.t.c. **WHILE merit goods** are those goods which the profit is difficult to measure or establish, so entrepreneurs would provide it they are left to the free market e.g. educational services.

(b) **demand-pull inflation and cost-push inflation:** **demand-pull inflation** is caused by excessive amounts of aggregate demand within the economy **WHILE cost-push inflation** is caused by manufacturers accepting rising production costs (wages, raw materials, e.t.c.) and then passing them on to consumers who then pay the increase.

(1½ marks for each correct distinction. Total: 6 marks)

7. List the three (3) barriers of entry that a new insurer may experience.

Solution

A new insurer may experience the following barriers:

- the market costs needed for solvency requirements
- the marketing costs of launching the company
- the legal barrier to obtain licences to transact business

(2 marks for each correctly stated barrier. Total: 6 marks)

8. Enumerate and state the formula of any two (2) of the three (3) ratios that are frequently used to assess the liquidity position of a business.

Solution

The three ratios, and their formula, that are frequently used to assess the liquidity position of a business are:

- current ratio = $\frac{\text{current assets}}{\text{current liabilities}}$
- liquidity ratio = $\frac{\text{current assets excluding stock}}{\text{current liabilities}}$ OR $\frac{\text{liquid assets of debtors}}{\text{current liabilities}}$
- acid test ratio = $\frac{\text{liquid assets}}{\text{current liabilities}}$

(1 mark for each correctly stated ratio name. 1 mark for each correctly stated formula. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Enumerate any four (4) items that can be combined to make up the share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020? (10 marks)
- (b) The function of an economic system is to provide solutions to basic economic problems of how to distribute limited resources to the unlimited human needs, Identify the three (3) economic systems, and explain the characteristics of each of the systems. (24 marks)
- (c) Fully enumerate any four (4) ways by which the Insurance Industry in a country contribute to the national economy of that country. (16 marks)

Solution

(a) The combination of share capital policy of insurance and reinsurance companies required for new capital requirement by NAICOM in year 2020 could be from the following:

- existing paid up share capital
- cash payment for new shares issued
- retained earnings
- payment for new shares issued such as
 - properties
 - treasury bills

- shares
 - bonds
 - share premium
- (2½ marks for each correctly stated requirement. Maximum of 4 to be graded. Total: 10 marks)

b) The three (3) economic systems and their characteristics are as stated below:

- **free market economic system:**

- the resources used to produce goods and services are owned by private individuals
- entrepreneurs produce goods and services for the society because they are motivated by the desire to make profit for themselves
- decision making is decentralised. Individual decisions made by firms and consumers determine the market price levels
- companies spend their income on goods and services.

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

- **planned market economic system:**

- decisions are made by government in a centralised manner
- decisions about what goods and services to produce are made by a team of central planners
- prices are not determined by market forces. Instead, the government sets the prices from the centre.

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

- **mixed economic system:**

- the existence of natural monopolies
- private sector is driven by profit
- a public sector exists for the less well-off.

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

(Grand Total: 24 marks)

c) The Insurance Industry in a country can contribute to the national economy of that country in the following ways:

- the release of internal funds used for self-insurance
- investing premium funds in industry via equity or bond, thus financing industrial production
- investing premium funds in government gilts, thus financing infrastructural developments within the economy
- promoting savings, which again are invested in the stock market and company bonds

- encouraging entrepreneurs to take on business risk and leave the insurable risks to insurance companies i.e. risk transfer mechanism
- generating employment to its citizens

(4 marks for each correct and completely stated contribution. Maximum of 4 to be graded. Total: 16 marks)

(Grand Total: 50 marks)

Part III

Answer **THREE** of the following **FIVE** questions.

Each question carries **34** marks.

10 (a) State any five (5) causes of unemployment in any economy. (5 marks)

(b) Outline two (2) possible solutions for each of the causes listed in (a) above. (25 marks)

(c) List four (4) effects of unemployment on the insurance industry. (4 marks)

Solution

(a) The causes of unemployment in any economy are:

- lack of demand
- structured unemployment
- regional unemployment
- demographic factors
- seasonal unemployment
- frictional unemployment
- lack of factors of production

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

(b) The possible solutions for each of the causes listed in (a) above are:

- **lack of demand:** the possible solution is to increase demand. This could be done by reducing taxes. If possible, to demand less tax to be paid so as to have more disposable income to expend. Another way under this is to make borrowing less expensive and easier. The Government can also try to increase the demand for the country's goods by not allowing competing foreign goods into the country or by making them more expensive.
- **structured unemployment:** occurs when the structure of the economy changes. The mismatch between the skills the workforce has and kskills needed would be achieved through:
 - retraining of workforce
 - inform school-leavers about the job prospects in the various sectors of the economy
- **regional unemployment:** is due to regional differences in the level of unemployment. The possible solutions are to persuade people to move from

high unemployment areas to areas where jobs are easy to find; and/or provide incentives for companies to invest in high unemployment areas.

- **demographic factors:** changes in birth rates can increase or decrease unemployment in the future. Also the age structure of the population and the percentage of the people who want to work changes with time. The possible solution is for government to have a database of its population with very credible statistics.
- **seasonal unemployment:** fewer industries operate mainly in one particular season of the year and these industries affect unemployment statistics, Possible solution to this is to for workers in these types of industries to make savings during their active period of get another job during the off-season period.
- **frictional unemployment:** this is due to lack of information about vacancies. The possible solution is to provide job centres where information on vacancies will be made available. This can also be done through websites.
- **lack of factors of production:** the possible solution here are provision of capital through bank loans at low interest rates, for government to make land available at cheaper rates and training on entrepreneurship skills by both Government and individuals.

(3 marks for each complete and correctly stated possible solution and/or point. Maximum of 2 points to be graded under each factor. Maximum of 4 factors to be graded. Sub-Total per factor: 6 marks. Grand Sub-Total: 24 marks)

(c) The effects of unemployment on the insurance industry are:

- rise in income protection policy claims
- demand for insurance f luxury holidays will fall
- rise in theft claims
- rise in fraudulent claims.

(1¼ marks for each correctly stated effect. Sub-Total: 5 marks)

(Grand Total: 30 marks)

11(a) Define the term “interactive information system”. Give an example.

(4 marks)

(b) Write short notes on any four (4) of the following terms:

- (i) computer systems
- (ii) internet
- (iii) local area networks (LANs)
- (iv) world wide web
- (v) market network

(16 marks)

(c) (i) Give the full meaning of EDI.

(2 marks)

(ii) Why is EDI having such an impact on the insurance industry?

(5 marks)

(iii) State any two (2) benefits of EDI.

(7marks)

Solution

(a) “Interactive information system” are systems that allows the flow of information in two ways i.e. two ways communication system e.g. home banking, touch screen POS, home shopping, training, education, e.t.c.

(2 marks for the definition. 2 marks for any example. Sub-Total: 4 marks)

(b) (i) **computer systems:** are the physical components which enable computerised information systems to run. They are often referred to as hardware and the programs which run on them are called the software. The information on them is known as data.

(ii) **internet:** is a global computer network made up of hundreds of smaller networks hooked by the international telephone system. The networks are run by governments, academic institutions, operations and service providers (these provide access to smaller companies and individuals).

(iii) **local area networks (LANs):** is a series of network of sharing available information, computing and communication resources between directly connected computers often in the same building or close vicinity. The computers are usually linked with cables; gateways being used to connect local networks to each other.

(iv) **world wide web:** is a system of millions of hypertext-pages (i.e. pages linked with associative networks), data-bases can be assessed and files can be downloaded to a connected computer anywhere in the world.

(v) **market network:** exist within specific markets to enable organisations within those markets to communicate and send data to each other electronically.

Examples of market networks are the London Insurance Market Network (LIMNET) and the Reinsurance and Insurance Network (RINET).

(2 marks for each complete and correctly stated explanation. Maximum of 2 points to be graded under each term. Maximum of 4 terms to be graded on. Sub-Total per factor: 4 marks. Grand Sub-Total: 16 marks)

(c) (i) EDI – Electronic Data Interchange (2 marks)

(ii) EDI is having such an impact on the insurance industry because it speeds up processing between companies and enable risks to be underwritten and claims to be processed more quickly, accurately and more effectively.

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

(iii) The benefits of EDI are:

- increased speed of processing
- increased accuracy
- reduced administrative costs
- improved customer service.

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

(Grand Total: 34 marks)

12(a) What do you understand by a cash flow statement? (2 marks)

(b) Outline how cash flow statements are presented in accordance with IFRS.

Solution

(a) A cash flow statement records the movement of cash in and of cash out that took place during the last financial year. It also shows the company's net cash-flow for the year. This is calculated by subtracting the total outflows of cash from the total in-flows. (2 marks)

(b) The presentation of cash flow statements in accordance with IFRS is as follows:

- Net cash flow from operating activities (2 marks)
 - Returns on investments and servicing of finance (2 marks)
 - interest received (1 mark)
 - interest paid (1 mark)
 - dividends received (1 mark)
 - dividends paid (1 mark)
 - net cash flow from returns on investments (1 mark)
 - servicing of finance (1 mark)
 - Taxation (2 marks)
 - corporate tax paid (1 mark)
 - tax paid (1 mark)
 - Investing activities (2 marks)
 - payments to acquire fixed assets (1 mark)
 - receipts from sales of fixed assets (1 mark)
 - other relevant items (1 mark)
 - Net cash flow from investing activities (2 marks)
 - Net cash inflow/outflow before financing (2 marks)
 - Financing (2 marks)
 - issue of ordinary share capital (1 mark)
 - repurchase of loan (short term) (1 mark)
 - expenses paid in connection with share issue (1 mark)
 - Net cash flow from financing (2 marks)
 - Increase/decreasing in cash and cash equivalents (2 marks)

(Grand Sub-Total: 32 marks)

(Grand Total: 34 marks)

13. Fully account for, with at least ten (10) points, the noticeable improvements in the Nigerian insurance industry during the last decade.

Solution

Noticeable improvements in the insurance industry in the last decade include:

- **Prompt claims settlements:** in the recent times, insurance firms are more responsive to claims settlement to their clients. Hence, they are moving away from their conservative nature.
- **NAICOM:** National Insurance Commission is adequately empowered to enhance proper regulation of the industry.
- **Enforcement of high ethical standards among insurance practitioners:** this was further enforced by the recently released code of ethics document for all members of the Chartered Insurance Institute of Nigeria.
- **Improvement in insurance education:** this was experienced in the review of syllabus by CIIN, establishment of College of Insurance and Financial Management and the occurrence of additional higher institutions of learning now offering insurance as a course of study.
- **Workshop organisations** on insurance by NAICOM
- **Insurance awareness programmes** embarked upon by NAICOM and NIA
- **Investment and implementation** of social responsibility
- **Diversification of business base** e.g. incursion of firms into stock buying, telecommunication, hotel businesses, e.t.c.
- More insurance firms are **going public and are now being listed on the Nigerian Stock Exchange**
- There has also been steady **increase in premium income**
- **Profitability of insurance firms** has also been on a steady increase
- **Increase of professionalism** by all facets of insurance practitioners from the insurance intermediaries (Brokers, agents, e.t.c.) to the insurance companies and even the reinsurance companies.

(3 marks for each correct and completely stated improvements. Maximum of 10 to be graded.

Total: 30 marks)

- 14(a) Explain the term “marketing mix” with emphasis on its importance. (6 marks)
- (b) Discuss the 4Ps of marketing mix in relation to insurance and give an example each of its components. (24 marks)
- (c) Mention two (2) reasons why motivated employees are an asset for an insurance company. (4 marks)

Solution

(a) The importance of “marketing mix” is to conduct a market research. This enables the firm to understand the nature of the consumers in order to know what appeals to them. When firms use the marketing mix, their aim is to generate a marketing strategy that creates a coherent brand image for their product which will be attractive to their target market based on the result of the market research.

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

(b) The 4Ps of marketing mix in relation to insurance and an example each of its components are:

- **Product:** is probably the most important element of the marketing mix. Without a good quality product, a firm may struggle in the long run no matter how good the rest of their marketing strategy is. It may be possible to persuade consumers to buy poor quality products in the short run through advertising, but this is rarely successful in the long run. An example in insurance is that good quality might be represented by the quality of and extent of cover provided by the policy. The quality of the service provided by the company to the policyholder is also very vital e.g. payment of claims promptly.
- **Price:** being the least expensive company in the market is no guarantee for success. Consumers do not base their decisions on price alone. Instead, they will generally seek out the product that offers the best possible value. This might involve buying something that is expensive but durable. The pricing decision are based on a variety of ways i.e. cost based and market based methods. An example in insurance is the cost of motor insurance in different variants by insurance companies.
- **Promotion:** firms use promotion as a form of non-price competition instead of cutting costs. There are two types of promotion, which are:
 - **above-the-line promotion:** which involves using advertising, that is then communicated to the target market through the media. Insurance companies use all types of media advertising from television to magazines, newspaper and radio. This boost sales volumes and helps to build a distinctive brand image for a product.
 - **below-the-line promotion:** describes other methods of promotion that do not involve advertisement such as use of free gifts, buy-one-get-one free. Others include sponsorship deals and competitions.
- **Place:** distribution is the process which ensures that the product is at the right place at the right time. Good distribution strategy is essential as ever, as the best product will fail if it is not available for the consumer to purchase. An example in insurance is where insurance companies secure good levels

of products/services through Brokers and direct telephone sales nationwide.

(2 marks for each correctly stated marketing mix. 1½ marks for each complete and correct explanation. Maximum of 2 explanations to be graded under each mix. Sub-total: 3 marks. 1 mark for each correctly stated example under each mix. Grand Sub-Total: 6 marks per mix. i.e. 24 marks)

(c) The two reasons why motivated employees are an asset for an insurance company are:

- they tend to be more productive and thereby reduce unit cost of production
- they will be proud of producing quality products so it enables employers to achieve the objectives of quality performance.

(2 marks for each complete and correctly stated objective. Sub-Total: 4 marks)
(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A655

RISK MANAGEMENT

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A655 – RISK MANAGEMENT INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	17%
Highest Score:	63%
Lowest Score:	16%
Average Score:	40%

Breakdown Updates

Question 1

Close to 90% of the candidates scored above average pass mark; this shows good understanding of the question.

Question 2

This question was poorly attempted as majority of the candidates scored below average. Majority lacked good understanding of the question judging from their proffered solutions.

Question 3

This question was well attempted, but close to 50% of those that attempted scored below pass mark.

Question 4

A popular question that was well attempted. Less than 40% of the candidates score more than the pass mark.

Question 5

Almost 99% of the candidates attempted this question but there was lack of good knowledge of the question.

Question 6

Majority of the candidates that attempted this question scored pass mark. Good understanding of the question was not demonstrated adequately.

Question 7

Good understanding of this question was also demonstrated by the candidates that attempted it, though they were few in number.

Question 8

The performance of over 80% of the candidates that attempted this question was encouraging as they scored above average pass marks.

Question 9

Over 50% of the candidates that attempted this compulsory question scored little above average/pass mark. In addition, many candidates displayed a shallow knowledge of industry regulatory needs.

Question 10

Few candidates attempted this question and yet they could not get a good understanding of the question.

Question 11

This question was attempted by majority of the candidates and over 50% of the candidates scored above average.

Question 12

This question was not well attempted by the majority of the candidates. Those that attempted it also scored below average. Hence, over 85% of the candidates scored below average in this question.

Question 13

The question was a direct one however few of the candidates got above average.

Question 14

The question is a textbook question yet those candidates who attempted it could not put down correctly all the points required to score a pass in this question.

Chief Examiner's Comments on Overall Performance:

The performance is very poor and gives great room for concern.

Chief Examiner's Suggestions on Improvement:

Candidates need more counselling on the need to study very well and gain understanding of the course for future use and applications.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Briefly explain any three (3) of the following terms:
 - (i) Flowchat;
 - (ii) Brainstorming;
 - (iii) Political Risk; and
 - (iv) Physical inspection

Solution

- (i) **Flowchat:** is a chart or diagram that pictures the route taken by all the critical ingredients of the final product showing movement from beginning through to completion and final delivery.
- (ii) **Brainstorming:** is a model deliberately put in place to allow for accessing good understanding of issues. The meetings that comes up where different segments or operational personnel discuss about issues particularly risks and consequences; professional facilitator may be used. There is need for time duration of meeting to be fixed, agenda drawn and facilitator directing the flow of conversation so as to keep participants on track.
- (iii) **Political Risk:** is defined as a change in the politics of the place of business that may cause the ground rules by which the organisation is working to change significantly.
- (iv) **Physical Inspection:** this is the physical visit by risk manager to place of event and/or risk location for face-to-face conversation with people. It could be described as risk survey; therefore, physical inspection is under risk surveying.

(2 marks for each correct explanation. Maximum of 3 terms to be graded. Total: 6 marks)

2. Enumerate any two (2) major circumstance whereby risks to an organization changes as time unfolds in this current age.

Solution

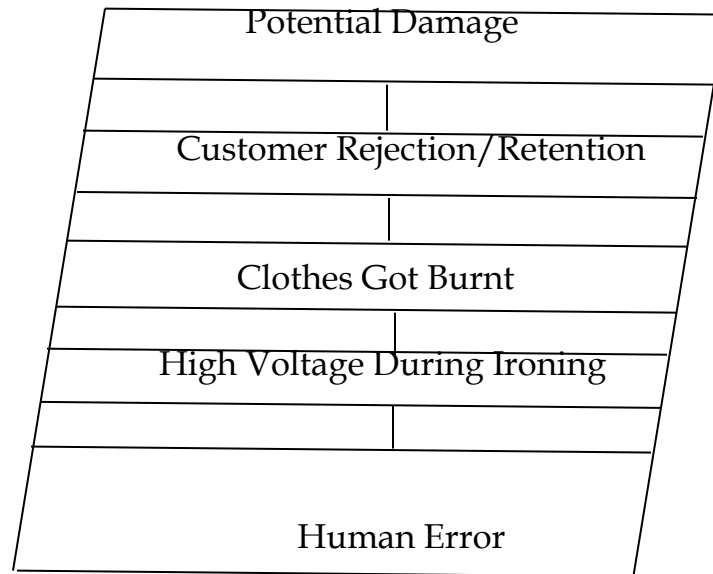
The major circumstances whereby risks to an organization change as time unfolds in this current age are:

- things considered acceptable before can change thereby becoming unacceptable due to external exposure
- entirely new exposures may emerge
- the organisation itself may change ownership, continuity plans, existing risks and risk funding mechanisms can change.

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

3. Present graphically a FAULT TREE in a single chain of events for one layer only in a laundry/dry cleaning factory.

Solution



N.B: Combination of events (could be unrelated events) giving rise to major impacts.

(Candidates are allowed to use any combination of events giving rise to their stated impacts. 6 marks to each correct and complete fault tree as would be presented. Total: 6 marks)

4. You are aware of building collapses and fire incidences in various parts of Nigeria. Considering this, mention any four (4) major responsibilities of a risk manager.

Solution

The major responsibilities of a risk manager are:

- risk identification
- risk analysis a
- decides on what risk is acceptable and which one is not acceptable
- monitors risk
- control and/or transfer risks
- review risks regularly
- make formal reports on risks available.

(1½ marks for each correctly stated responsibility. Maximum of 4 to be graded. Total: 6 marks)

5. Mention three (3) possible unexpected incidents that can cause damages to an organisation.

Solution

The possible unexpected incidents that can cause damages to an organisation are:

- injury to or death of people
 - loss of balance sheet assets
 - loss of revenue and cash flow
 - legal obligations to reimburse others
 - stopping of the ability to continue operations contrary to plans
- (2 marks for each correctly stated incidence. Maximum of 3 to be graded. Total: 6 marks)

6. State six (6) other head of departments in a corporate organisation that manage risk as part of their wider responsibilities apart from the risk manager.

Solution

Other head of departments in a corporate organisation that manage risk as part of their wider responsibilities apart from the risk manager are:

- * compliance manager
 - * audit manager
 - * treasury manager
 - * legal/company secretary
 - * finance director
 - * corporate/public affairs manager
 - * facility/maintenance manager
 - * human resources manager.
- (1 mark for each correctly stated incidence. Maximum of 6 to be graded. Total: 6 marks)

7. Explain the terms: “risk incidents” and “near misses”.

Solution

“**Risk incidents**” are occurrences that caused or may have been close to causing damage or injury. Risk Managers identify such during round trips and they may or may not be insured losses; while “**near misses**” are those incidents that almost but did not cause loss but attract attention of the risk manager. Most of these cases give financial values otherwise it may have gone unreported. Examples are failed kidnap attempt, fire that did not destroy life or property.

(3 marks for each correct and complete explanation of term. Total: 6 marks)

8. In a sentence, explain - giving the full meaning, any three (3) of the following:

- (i) Risk Analysis
- (ii) Fire-Walls
- (iii) Know Your Customer (KYC)
- (iv) Alternative Risk Transfer
- (v) Business Continuity Management Agency
- (vi) National Drugs Law Enforcement

Solution

- (i) **Risk Analysis:** an act of deciphering risks after such had been identified.
- (ii) **Fire-Walls:** secure electronic gateways designed to reduce risk of illegal entry by third parties into the organisation's system
- (iii) **Know Your Customer (KYC):** having details of record of one's client which is a requirement under international financial reporting and global best practice
- (iv) **Alternative Risk Transfer:** are methods available in the market as instruments that enable an organisation to transfer financial risk to a professional risk carrier other than traditional risk transfer methods.
- (v) **Business Continuity Management:** is the process of risk management whereby an organisation prepares so that it is in a position, after a damaging incidence, to remain in control, continue essential operations and meet up to its responsibilities.
- (vi) **National Drugs Law Enforcement Agency:** is a government arm carrying/bearing agency in charge of, control of prohibited use, trading on narcotics and laundering of money from same.

(2 marks for each correct explanation. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) According to NAICOM Market Conduct and Business Practice guidelines for insurance institutions, state the five (5) requirements for insurance sales through internet and mobile telecom operators. (10 marks)
- (b) You have secured appointment at the African Insurance Organization (AIO) and part of your duties cover risk management. The Council through the Director General (DG) requests for a write-up from you on "effect of terrorism on risk management in the north east of Nigeria". Revert, with a minimum of six (6) areas of concentration, with the write-up through a memo to the DG. (20 marks)
- (c) Can risk be avoided all together? Then, explain any four (4) hypothetical situations that could cause the Chartered Insurance Institute of Nigeria (CIIN) to significantly fail to perform. (12 marks)
- (d) Enumerate any four (4) traditional risks arising through the use of e-commerce that must be of concern to risk managers. (8 marks)

Solution

a) According to NAICOM Market Conduct and Business Practice guidelines for insurance institutions, the five (5) requirements for insurance sales through internet and mobile telecom operators are:

- i. the address of the insurer's head office and the contact details of the supervisor/manager of the head office

- ii. the contact details of the insurer, branch or intermediary; and of the supervisor/manager responsible for the supervision of the business, if different from (i) above
- iii. the jurisdiction in which the insurer or intermediary is legally permitted to provide insurance
- iv. procedures for the submission of claims and a description of the insurer's claims handling procedures
- v. contact information of the authority or organisation dealing with dispute resolution and or customer complaint

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

(b) Candidates are required to answer in a memo format, provide terrorism definition and also cover any of the following areas on terrorism:

- an increasing international phenomenon
- a challenge for multinational organisations
- levels in various countries and examples of incidences from other countries (African and outside)
- challenges of being caught in crossfire of guns/bombs
- terrorists do target individuals or their businesses
- terrorists growing in technology acquisition
- terrorists growing in logistics and can lay entire city in waste
- terrorists acquiring deadly weapons and explosives
- trying to command and retain media attention
- many organisations/businesses in North East Nigeria closed down or relocated elsewhere
- risk managers at times could not separate crime from terrorism
- criminal and corrupt environment promote, encourage and often times, sponsor, terrorism in some countries
- usual to see police and military tackling terrorism which in most cases had proved ineffective
- risk managers must ensure asset protection and staff from injury and terrorist attacks
- risk manager's life may be at danger when on visit without warning so there is need to act as safely as possible.

(3 marks for correct memo format. 2 marks for definition of terrorism. 1½ marks for any complete and correctly stated point. Maximum of 10 points to be graded. Sub-Total: 20 marks)

(c) No, risk cannot be avoided all together, (2 marks)

The following are hypothetical situations that could cause the Chartered Insurance Institute of Nigeria (CIIN) to significantly fail to perform:

- failure of all local computers and communication systems
- destruction of question bank, buildings and other needed infrastructure for processing examination, results and certificates
- crucial information leakage or destroyed information within computer databases
- exposure to serious damage through loss of one key employee or a team of key employees to resignation, accident, death, e.t.c.
- disappointment by group of examiners
- dishonesty of employees

(2½ marks for each correctly stated scenario. Maximum of 4 to be graded. Sub-Total: 10 marks)
(Grand Sub-Total: 12 marks)

(d) The traditional risks arising through the use of e-commerce that must be of concern to risk managers are:

- * security
- * control
- * hacking and viruses
- * legality
- * scale of impact
- * speed of evolution
- * other emerging new risks.

(2 marks to each correctly stated risk. Maximum of 4 to be graded. Sub-Total: 8 marks)
(Grand Total: 50 marks)

Part III

Answer **THREE** of the following **FIVE** questions.

Each question carries **34** marks.

10. The 1998 survey conducted by Association of Insurance and Risk Managers (AIRMIC) had respondents recommending seven different reporting lines that risk managers can report in an organisation organogram. Give your informed opinion on five (5) of these recommended reporting lines.

Solution

The recommended reporting lines for risk managers as per AIRMIC Survey are:

- **Managing Director/Chief Executive Office:**
 - projects will be executed with dispatch with little bottlenecks in getting approval and easy access to board/committee is ensured
 - jobs may be delayed because of busy schedule of the MD/CEO
 - risk manager can end up reporting to other officers in MD's office who may not remember to brief or represent the MD/CEO
- **Company Secretary:**
 - will ensure easy access to board
 - encourage and help in getting the board risk management committee to meet regularly
 - can help on legal/secretariat issues on risk management

- can easily assist in getting board approval on issues on risk management
- **Finance Director:**
 - can facilitate quick release of fund for risk management projects
 - can easily get MD/CEO's attention
 - can draw attention of risk manager to speculative risks that can negatively affect operations of the company
 - however, if not interested or having unclear motive, can kill the zeal of the risk manager.
- **Finance Manager/Treasurer:**
 - can facilitate quick release of fund for risk management projects
 - can easily get MD/CEO's/Finance Director's attention
 - can draw attention of risk manager to speculative risks that can negatively affect operations of the company
 - however, if not interested or having unclear motive, can kill the zeal of the risk manager.
- **Sundry Director:**
 - can be making use of risk manager for other schedule not related to risk management
 - can frustrate the duties/functions of risk management department if not interested
 - can equally drum support of other directors if interested in risk management and accept the personality of the risk manager.
- **Miscellaneous Management:**
 - this will make the risk management job aloof in nature
 - the risk manager may not be focussed
 - many issues that require top management attention will die on arrival
 - most, if not all, risk management schedules and functions are likely to be in panic mode and will only come to fore when it becomes critical.
- **The Main Board of Directors:**
 - this may be too large for risk managers to report to
 - attention will only be given on date/day of board meeting after which most things will stop till the next meeting day
 - can make risk management duties clear and readily in the agenda of the board
 - makes risk manager close to the board members and get attention/approval promptly
 - could draw envy of other top managements including the MD/CEO.

(3 marks for correctly stated reporting line. 2 marks for each correct and complete point under each reporting line. Maximum of 2 points to be graded per reporting line. Sub-Total: 7 marks for the 1st four reporting lines. And 6 marks for the 5th correctly stated reporting line (i.e. the points on the 5th one should be 1½ marks each. Grand Total: 34 marks)

11. Recently, there was a bank robbery but it was discovered that some of the bank officials were loading their pockets with the bank money as the robbery was on-going. As the risk manager,
- (a) what technology was put in place or could have been put in place that showed the bank staff action while it was going on simultaneously with the robbery? (5 marks)
- (b) Mention two (2) other functions that the device can be put into use for. (10 marks)
- (c) Explain the meaning of electronic back-up and state any two (2) of its advantages. (19 marks)

Solution

- (a) The technology that was put in place or could have been put in place that showed the bank staff action while it was going on simultaneously with the robbery is a Closed Circuit Television (CCTV) (5 marks)
- (b) Two other functions that the device can be put into use for are:
- to monitor movement within the premises and other activities going on in the various parts covered by the device
 - to deter illegal entry
- (5 marks for each correctly stated function. Sub-Total: 10 marks)
- (c) Electronic back-up is a means of storage through the use of computer information and record for future use, should the mainstream systems be damaged or corrupted. Risk managers are and ought to be involved in discussions concerning the frequency of backups and where and how they are stored onsite and offsite.

(4½ marks for each correct and completely stated point. Maximum of 2 to be graded. Sub-Total: 9 marks)

The advantages of electronic backup are:

- without backup, record/information can be permanently lost
- loss of record can result in loss of assets and earnings
- in case of disaster, operation can commence with little delay with backups.

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

(Grand Sub-Total: 19 marks)

(Grand Total: 34 marks)

12. Your colleague who is the risk manager at Dawwhite Group of Companies told you that the 2020 Q1 risk had been evaluated and is beyond the comfort level of the organization. In preparation and implementation of risk control plans, he needs your advice on how to move forward. Explain, in five (5) sections, how you will assist him with the task in his hands.

Solution

The following could be the likely sections presented for the preparation and implementation of risk control plans:

- **choose the best solution:**
 - he will be advised to measure many options of solutions available, pick the one that fits comfortably within the organisation and receive the support of the management teams
- **implement the chosen solution:**
 - the process of getting the solution in place may need to be monitored by the risk manager or the immediate colleague to ensure that the original needs will not be lost as the assignment progresses. There will also be need to communicate risk acceptance decision(s).
- **major change methods and/or procedures must be notified:**
 - these notifications should be to all concerned with the change(s) and explanation should be provided on the new steps to be followed.
- **carry the people along:**
 - training, awareness and encouragement should be provided for all people/staff that will be involved in the plan.
- **exercise the contingency plans:**
 - ensure that the contingency plans add value and that same is carried out promptly and that all the people concerned are aware. For example, offsite location for backup must be known by the IT Head of Department.
- **revealed organisation wide crisis management structure:**
 - this improves the self-awareness and trainings
 - it enables a critical assessment of roles of staff members
 - it will show any improvements needed to the plan
 - it demonstrates how up-to-date they are
- **monitor and respond to changes:**
 - things change fast, including risks. Risk is a volatile thing and every change need to be monitored and factored into the risk acceptance and risk management decisions.

(Candidates are required to explain in only five sections (not more, so the sectionalisation must be distinctly shown). For showing these sections, the candidates earn 4 marks. The remaining 30 marks are then allotted as 6 marks under each section as 3 marks per correctly stated point/explanation under

each section; maximum of 2 points to be graded under a maximum of 5 sections. Grand Total: 34 marks)

13. You have been invited as a risk manager to give a talk on risk-managing traveller for group of students travelling abroad (on a one-in-a-lifetime) government sponsored program. Write out your presentation giving full explanation on:
- (a) first exposure and second exposure (16 marks)
 - (b) between first exposure and second exposure in analysing the risk, which one is subject to control of risk-managing traveller and why? (8 marks)
 - (c) what is a common denominator in assessing the consequences? (5 marks)
 - (d) enumerate any two (2) contingency plans that may be considered by the travellers. (5 marks)

Solution

Travelling for urgent appointment, meeting up with schedule and achieving desire objectives are many risk travellers face. These are some of the exposure that are within the control of traveller and there are those beyond the control.

- (a) Risk manager need to understand, quite precisely what could happen and how frequently it could happen. This is what risk managers do every day. Business trip to several hundred miles away will entail travel by to airport.

First exposure is failure to get to the primary destination. In the above explanation, the primary destination is the airport. There could be on first exposure such as the clock alarm to wake up early not set; the vehicle could break down, the road could be blocked for long hours, no car park space, e.t.c. The traveller cannot remove all of these exposures but can reduce the risk to a low and acceptable level. These are first exposures.

The second exposure start from when flight is delayed, cancelled, airport is closed, aircraft is not allowed to land when it gets to destination or runway is blocked by an earlier incidence or die to VIP movement, or if there is a crash. These are second exposure risks and the traveller cannot do much on them.

(4 marks for each correctly stated explanation. Maximum of 4 to be graded i.e. 2 explanations under each term. Sub-Total per term:8 marks. Grand Total: 16 marks)

- (b) The first exposure is subject to control of risk managing traveller (4 marks) because the person can do tasks that will improve the risks considerably or eradicate the risks entirely while the second exposure is not within the control of the risk-managing individual. (4 marks)
(Sub-Total: 8 marks)

(c) A common denominator in assessing the consequences is what would be the impact of either the first or second exposures actually happening or what exactly could be the consequences. (5 marks)

(d) The contingency plans that may be considered by the travellers are:

- travelling one or two days before
- choosing an airline that has large fleet thereby likely to have spare planes if there is a failure from the airline side
- choosing an airport with large car parking space
- getting a colleague close to the location to represent
- encourage or request for video conferencing.

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

(Grand Total: 34 marks)

14 You are before an interview panel for the position of Risk Manager/Chief Risk Officer of an insurance company. Under the sources of internal information, you were asked to name materials produced within risk management department. Enumerate any four (4) of these and state their usefulness.

Solution

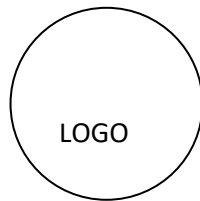
Materials produced within risk management department and their usefulness are as stated below:

- **reporting of risk incidences:**
 - ensures compliance with NAICOM requirement
 - ensures regular reporting of risk incidences immediately such incident occurs or is brought to the attention of the risk manager/the risk management team
 - record near misses
 - not a fault finding or blame register
 - assist in ensuring uniformity in information recorded
 - can be used later for risk analysis, monitoring and control.
- **information for insurer:**
 - inspection/survey record
 - copies of insurance policies covering assets, persons and liabilities of the company
 - all losses insured and those not insured, including policy terms and conditions like excesses, deductible, franchises, e.t.c.
 - changes in risk i.e. location, values, wage bill, product, markets, e.t.c.

- **research document**
 - risk dash board/ graphs
 - captive insurance performances
 - retention and premium saved
 - any other to the board or regulatory authorities

- **periodicals/journals/newsletter**
 - on performances
 - on other achievement by risk committee
 - on relationship with other departments
 - on recognition/awards
 - on executed projects

(2 marks for appropriate starting lines. 4 marks for each correctly stated material. 2 marks for each correctly stated use under each material. Maximum of 2 uses to be graded under each material. Sub-Total per material: 8 marks. Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A735

LIFE ASSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A735 – LIFE ASSURANCE
INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	56%
Highest Score:	78%
Lowest Score:	12%
Average Score:	54%

Breakdown Updates

Question 1

The question appears not to be understood by the candidates. They could not distinguish between the different bonus types. Performance was not satisfactory. Only few candidates did well.

Question 2

It was attempted by all the candidates and they showed clear understanding of the question.

Question 3

Majority of the candidates attempted this question and showed good understanding thereby earning good marks.

Question 4

The question was misinterpreted by majority of the candidates that attempted it. Instead of talking about re-assignment, they wrote on assignment and thus missed the whole mark.

Question 5

Most of the candidates attempted the question and $\frac{3}{4}$ quarters of them exhibited good understanding by answering it correctly.

Question 6

This question on regulatory requirements indicates that about 50% of the candidates do not have a good understanding. Performance was just average.

Question 7

Although a direct question, most candidates that attempted it did not answer correctly. Pass rate is just about 50%. The concept of trusteeship is important to practitioners in life operations.

Question 8

This question seeks to test the understanding of candidates about whole life and pure endowment policies. The candidates showed a very good understanding performing very impressively.

Question 9

It is the compulsory question that seeks various aspect of life operations across the board. Performance was generally good.

Question 10

The question is a practical one. Candidates did well in the first part of the question as most recommended the correct type of policy (group credit life) and scored well. However, performance in the second part was poor.

Question 11

This question was largely avoided. Less than 10% of candidates attempted the question. Those that attempted it performed poorly. A further study on "morbidity" is encouraged.

Question 12

The question was well attempted by majority of the candidates and they showed good understanding. This is good for life assurance practitioners because of the need to deepen Annuity purchase.

Question 13

The question was to test candidate's knowledge of "reassurance". Candidate's performance was above average.

Question 14

Almost all the candidates attempted the question, however few candidates scored well or showed good understanding.

Chief Examiner's Comments on Overall Performance:

This paper is well attempted and the performance is very commendable and encouraging with the pass rate at 68%. The compulsory question was a great push as majority answered it satisfactorily.

Chief Examiner's Suggestions on Improvement:

Candidates should keep up the good work of preparing adequately for examination as done in this diet which reflected in the improved performance when compared with past diets in recent times. Although, there remains room for great improvements.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Differentiate between, with at least two (2) points on each term, the term reversionary bonus and terminal bonus.

Solution

Reversionary bonus is a bonus that is payable at the same time as the sum assured or on maturity of the policy. For a whole life policy, it is payable on death of the life assured; while its cash value is lower than the face value if it is surrendered before death or maturity; while **terminal bonus** is a bonus that is payable only when the policy becomes a claim and not payable on surrender. It is usually calculated as a percentage of the total normal bonuses and varies according to marketing conditions.

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

2. Describe material facts in insurance and state any three (3) facts that need not be disclosed in a life assurance proposal.

Solution

Material facts are facts that would influence the judgement of a prudent underwriter in fixing the premium or deciding whether or not to accept the risk and at what terms and conditions. (2 marks)

The facts that need not to be disclosed in a life assurance proposal are:

- facts which the insurer knows about
- facts which lessen the risk
- facts which the insurer waives information
- facts which the insured knows nothing about.

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

(Grand Sub-Total: 6 marks)

- 3(a) What is an endorsement on a life policy? (2 marks)
- (b) Briefly enumerate, with at least two (2) points, how an endorsement can be used on a life policy. (4 marks)

Solution

(a) An endorsement on a life policy is an addition to a standard policy document. It might be added at the onset of the policy in order to set out more clearly an additional benefit. (2 marks)

- (b) An endorsement can be used on a life policy to convey information on:
 - change in policy ownership

- additional benefits covered by the policy
- amendments to the policy terms and conditions
(2 marks for each correctly stated use. Maximum of 2 to be graded. Sub-Total: 4 marks)
(Grand Sub-Total: 6 marks)

4. Explain reassignment of a policy and state the process, as well as the purpose, of its use.

Solution

The reassignment of a policy, the process and purpose are as follows:

- on repayment of a mortgage the borrower is entitled, at their own expense, to have the mortgaged property re-assigned to them. This can be done by a separate deed of reassignment typed or printed on the original mortgage.
- in practice, the standard form deeds of mortgage of life policies used by Banks and Building Societies have pre-printed reassignment on the reverse of the deed which just need dating and signing on behalf of the mortgagee to be effective
- when repayment has been made, the mortgagee will deliver up the mortgage, the statutory receipt or reassignment and any other documents of title held. For example, the policy document in a mortgage of a life policy.
(3 marks for each correctly stated reassignment, process, purpose and its use. Maximum of 2 to be graded. Sub-Total: 6 marks)

5(a) Enumerate any two (2) advantages of underwriting to the life office.
(b) List any four (4) avocation or hobbies with higher risks of death by accident.

Solution

(a) The advantages of underwriting to the life office are to ensure that:

- equitable evaluation of a proposer
- appropriate premium for cover provided is charged
- the insurer is financially strong to fulfil its obligation to all stakeholders.
(1½ marks for each correctly stated advantage. Maximum of 2 to be graded. Sub-Total: 3 marks)

(b) The avocation or hobbies with higher risks of death by accident are:

- * motor racing * mountaineering * boxing * diving
 - * parachuting * hang-gliding * motorcycle racing
- (1 mark for each correctly stated avocation. Maximum of 3 to be graded. Sub-Total: 3 marks)
(Grand Total: 6 marks)

7. Describe briefly the term “trustees” and state the two (2) ways by which they are usually appointed

Solution

The trustee is the owner at law of the trust property although he is bound to use it for the benefit of the beneficiaries. (2 marks)

The two (2) ways by which they are usually appointed are:

- the initial trustees will be appointed by the deed itself
- a trust created by will usually name the trustees who are always the executors as well.

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

(Grand Total: 6 marks)

8. On which events will each of the following policies pay benefits?

(a) whole life assurance; and (b) pure endowment assurance

Solution

(a) **whole life assurance:** upon the death of the life assured (3 marks)

(b) **pure endowment assurance:** upon survival of the life assured at policy maturity. (3 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) i. Mention the as-at-1st January 2020 minimum rate approved by NAICOM for the placing and underwriting of the compulsory group life policy.

(4 marks)

- ii Give three (3) examples of ethical practices required from a member of the Chartered Insurance Institute of Nigeria. (6 marks)

(b) Describe the term “benefits” under a “life assurance contract”. (5 marks)

(c) Explain each of the following, stating their purposes and how they can be applied to a basic life policy:

- | | |
|-----------------------------|------------------------------|
| (i) increasing cover option | (ii) double accident benefit |
| (i) critical illness cover | (iv) waiver of premium |
| (v) disability benefit. | (25 marks) |

(d) List any five (5) main sets of circumstances in any person’s life that may require life assurance policies. (10 marks)

Solution

(a) i) 6 per mille. (4 marks)

ii) Examples of ethical practices required from a member of the Chartered Insurance Institute of Nigeria are that:

- acting responsibly and with integrity in their professional activities at all times to their clients and the society as a whole
- compliance with the code of ethics, all relevant laws and other regulatory requirements and appropriate code of practice and codes of conduct
- demonstrating professional competence by meeting the technical and professional standards commensurate to their level of qualification and position of responsibility and completing their duties with due skill, care and diligence
- upholding professional standards in all dealings and relationships
- respecting the confidentiality of information acquired in professional and business relationships
- applying objectivity in making professional judgments and in giving opinion and statements.

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

(b) “Benefits” under a “life assurance contract” refer to the sum of a specified payment made by the life office to the life assured at a particular time, having made regular contributions (premium) subject to the other conditions of the contract. (5 marks)

(c) (i) **increasing cover option:** it enables the policyholder to increase cover by certain amounts at certain times, say every 3 or 5 years by a total amount not greater than the original sum assured. There is usually no medical evidence required on the increment. The premium will increase as the option is exercised.

USE: The option can be taken for the purpose of marriage, moving house or receiving inheritance.

(1½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 3 marks. 2 marks for the correctly stated use. Sub-Total: 5 marks)

(ii) **double accident benefit:** provides that if the life assured dies from an accident (as defined in the policy) an additional benefit equal to the death sum assured will be paid. That is, the policy will pay twice the ordinary sum assured.

USE: The policy is for family protection.

(1½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 3 marks. 2 marks for the correctly stated use. Sub-Total: 5 marks)

(iii) **critical illness cover:** provides that if life assured dies due to a diagnosed critical illness or before his death, the sum assured will be payable. Claim can be paid before policyholder's death and cover can be added to endowment, whole life or sold alone. Critical illness may include kidney failure, blindness, paralysis, major organ transplant; and where a pay-out has been made, there will be no further payment at subsequent death.

USE: The policy is for protection against stated critical illness.

(1½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 3 marks. 2 marks for the correctly stated use. Sub-Total: 5 marks)

(iv) **waiver of premium:** this applies where a life assured, due to illness or injury can no longer work and hence has no other sources of income to pay premium. The outstanding premiums on the policy will be waived while the policy will continue to be maintained in force.

USE: The policy is an income protection policy.

(1½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 3 marks. 2 marks for the correctly stated use. Sub-Total: 5 marks)

(v) **disability benefit:** provides the sum assured which is payable on permanent disability as well as death. The policyholder will be required to submit proof(s) that he is permanently unable to follow his normal occupation by the way of illness or injury.

USE: The policy is an income protection policy.

(1½ marks for each correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 3 marks. 2 marks for the correctly stated use. Sub-Total: 5 marks)

(Grand Sub-Total: 25 marks)

(d) The main sets of circumstances in any person's life that may require life assurance policies are:

- | | | | |
|-------------------------|--------------------|---------------------------------|---------------|
| * premature death | * disability | * education | * partnership |
| * house purchase | * inheritance tax | * saving for investment | |
| * saving for retirement | * terminal illness | * income in old age (annuities) | |
| * terminal illness | * critical illness | * provision for pension | |

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Mr, Kenneth Osondu, the owner of a chain of "shopwise" stores, a multi-million consumer goods store has approached you as the manager of a life

office for advice as how to minimize his financial losses through the death of some of his debtor customers on hire purchase arrangements.

- (i) what product(s) will you recommend to Mr. Osondu? (5 marks)
- (ii) describe the features of the recommended products in (i) above. (15 marks)
- (iii) what documents will you require at the time of a loss to process the claim on the products recommended in (i) above? (6 marks)
- (b) Describe a typical procedure for the production of a life assurance policy document. (8 marks)

Solution

(a) (i) The product I will recommend to Mr. Osondu's circumstance is the Group Credit Insurance. (5 marks)

(ii) The features of the recommended product are:

- provides cover for an outstanding debt on the hirers or debtors death
- premiums are charged on the basis of a decreasing term assurance
- the debtor or hirer must not exceed age of 60 years
- policy does not cover arrears of unpaid debt
- loan agreements duration must not exceed 3 years
- there is a limit of liability on anyone's life
- the lender (Mr. Osondu) will be the policyholder and then pays the premium
- the borrowers/customers on hire purchase agreement are not parties to the contract
- the policy is suitable for hire purchase and credit sales of consumer goods.

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

(15 marks)

(iii) The documents I will require at the time of a loss to process the claim on the products recommended in (i) above are the death certificate (or medical certificate of cause of death) of the debtor, along with the credit agreement with Mr. Osondu.

(6 marks)

(b) A typical procedure for the production of a life assurance policy document is as follows:

- allocate a policy number
- the policy document will contain the pre-printed terms and conditions which are applied to all contracts of a particular type
- there are personalised policy schedules which are often computer generated and will contain the following:

* heading	* preamble	* operative clause
* schedule	* conditions	* definition

- the policy document will then be signed by a duly authorised signatory.
(2 marks for each correct and complete procedural step. These must be synchronizedly arranged.)

Sub-Total: 8 marks)

(Grand Total: 34 marks)

- 11(a) What is morbidity? And how does morbidity relate to morbidity reinsurance in life assurance? (22 marks)
- (b) State and describe the most common example of risks(s) that are commonly reinsured under morbidity reinsurance? (7 marks)
- (c) Outline the basis of reinsurance under the original term reinsurance? (5 marks)

Solution

- (a) Morbidity refers to the statistics (2 mark) used to estimate the probability (2 mark) of the occurrence of certain medical conditions (sickness or injuries) (1 mark) and the frequency with which these conditions may affect the insured (1 mark) during the life time. (1 mark) (7 marks)

While morbidity risk of dying usually covered under life insurance occurs only once in the contract. Morbidity risk that the insured will need medical treatment with an unspecified cost may occur several times during the lifetime.

By the nature of the risk, morbidity reinsurance is usually sought after by the direct insurers to enable them spread the risk with the re-insurers and this eliminates the risk of being crippled by a catastrophic or an unusually large loss.

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

(Grand Sub-Total: 22 marks)

- (b) The most common example of risks(s) that are commonly reinsured under morbidity reinsurance is the Critical Illness Cover (3 marks), which is described below:
- provides benefit on the diagnosis of a pre-defined critical illness and/or death (1 mark)
 - claim can be made before the insured's death (1 mark)
 - if there is a pay-out before the insured's death, there cannot be a further payment at subsequent death (1 mark)
 - examples of critical illness policies include:
 - * cancer * heart attack * blindness * stroke
- (4 marks)

(Grand Sub-Total: 7 marks)

- (c) The basis of reinsurance under the original term reinsurance is:
- a method whereby a proportion of the original sum assured is reassured at the same rate of premium and subject to the same policy conditions
 - the reinsurer is therefore liable for a proportion of the original policy throughout its duration, and pays out its due share of any claims and the surrender value. It will also follow the rate of bonus(es) declared by the ceding office.

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

(Grand Total: 34 marks)

12(a) Describe annuities and differentiate between proportional and non-proportional annuities. (19 marks)

(b) Explain each of the following different types of annuities:

(i) immediate annuity (5 marks)

(ii) annuity certain (5 marks)

(ii) temporary annuity. (5 marks)

Solution

(a) Annuities are contracts to pay a set amount (the annuity) every year while the annuitant is still alive and although it is usually expressed as an annual payment, in practice, annuities can be payable monthly, quarterly or half-yearly. (5 marks)

The difference between proportional and non-proportional annuities is that a proportional annuity will make payment in respect of the period between the last instalments paid and the death of the annuitant (4 marks), while a non-proportional annuity will not make payment in respect of the period between the last instalments paid and the death of the annuitant (4 marks).

For example, if payments are made on 1st January each year and the annuitant dies on 1st July, a proportionate payment will be made for January to July if placed on a proportional annuity basis (3 marks), whereas if placed on a non-proportional annuity basis, no payment will be made for the time that has elapsed since the last instalment was paid (3 marks).

(Sun-Total: 19 marks)

(b) (i) **immediate annuity:** is an annuity that provides in return for a single premium, an annual payment for the rest of the annuitant's life. These contracts are usually purchased by retired people who want an income that is guaranteed to last for life no matter how long or short that may be.

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

(ii) **annuity certain:** is a contract to pay annuity for a specific period regardless of whether the annuitant survives or not. It does not depend on the age of the annuitant as payment is guaranteed for the set period whatever happens.

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

(iii) **temporary annuity:** is an annuity that is payable for a fixed period or for the Annuitant's life time whichever is shorter i.e. an annuity which is payable for a fixed period of time if the annuitant survives that period. The annuity ceases if the annuitant dies during the period and lives beyond the period.

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

(Grand Sub-Total: 15 marks)

(Grand Total: 34 marks)

13(a) Give five (5) reasons why life offices need to reassure. (10 marks)

(b) Give another name for "automatic reassurance of a book of business" and briefly describe it. (24 marks)

Solution

(a) The reasons why life offices need to reassure are:

- maintenance of financial stability
- fulfilment of statutory requirements
- acquisition of technical assistance by way of training
- underwriting advice from the firm
- products development assistance
- .

(10 marks)

(b) Another name for "automatic reassurance of a book of business" is "treaty reassurance". (4 marks)

Under treaty assurance:

- all amounts over the retention limit of the principal, up to a specified maximum amount must be offered to and accepted by the reinsurer.
- any excess over the treaty's maximum limit is reassured facultatively
- treaties are often arranged to cover all of a life office business or can be restricted to a certain class of business e.g. pension business only
- premiums and claims can be arranged to be paid on quarterly basis. The reinsurer is entitled to copies of any medical evidence for information only except when medical underwriting is required and the sum is huge which warrants that the medical underwriting be conducted by the reinsurer
- cover is automatic and it stays in force until negotiated.

(5 marks for each and every correct and complete description. Maximum of 4 descriptions to be graded. Sub-Total: 20 marks. Grand Sub-Total: 24 marks)
(Grand Total: 34 marks)

- 14(a) Cause of death, as well as the proof of age, of the policyholder are very relevant to the settlement of a death claim. Fully discuss. (24 marks)
- (b) Enumerate and explain the need for any four (4) documents that are usually acceptable as proof of age by a life office. (10 marks)

Solution

(a) Cause of death, as well as the proof of age, of the policyholder are very relevant to the settlement of a death claim. This is because:

For Cause of Death

- the cause of death as shown on the medical certificate of cause of death of a deceased policyholder must be noted by the life office in order to check if the life assured died as a result of an excluded risk not covered by the policy
- if death had occurred within a very short time from the date of inception of the policy, the office would also check for the possibility of non-disclosure of material facts e.g. heart related diseases, epilepsy, e.t.c.
- if it can be established that the life assured suffered a chronic heart disease and that (s)he might have been receiving medical treatment for but had not disclosed this on the proposal form, it will be a clear case of non-disclosure of material facts. The life office would therefore have the right to repudiate the claim
- the life office will usually only decline a claim for non-disclosure if the non-disclosure is related to the cause of death
- if non-disclosure is fraudulent, the claimants have no legal right to recover the premiums paid
- if non-disclosure is not fraudulent, then premiums paid can be recovered but without any accrued interest(s)
- the place of death should also be checked as some policies contain restrictions as to travel or residence abroad.

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

For Proof of Age

- premium payable is based on the age of the life assured and if the true age of the life assured differs from that stated on the proposal form, then an incorrect premium may have been charged to the detriment of the office premium rating
- proof of age is not so important in maturity or surrender payouts

- age is normally proven by an official birth certificate (or any other acceptable document for this), the original of which must be sighted while photocopies are NOT acceptable
- if it is found that the life assured is older than stated, the sum assured payable would be reduced to that which the actual premium paid would have bought using the rate for the real age
- if the age was younger than stated, the treatment is to recalculate the premium which should have been charged and refund an excess over the amount actually paid

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

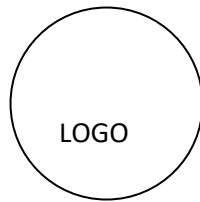
(Grand Sub-Total: 24 marks)

(b) Life offices may accept the originally sighted copies of any of the following documents as proof of age:

- * valid birth certificate
- * adoption or naturalization certificate
- * international travel certificate
- * statutory declaration of age
- * baptismal certificate
- * school record (with evidence of age)

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

(Grand Sub-Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A745

PRINCIPLES OF PROPERTY &
PECUNIARY INSURANCES

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

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- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer booklet with care.
- ✚ Do not write on the question paper.
- ✚ The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- ✚ Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- ✚ Ensure that you write the full and correct candidate's number.
- ✚ No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- ✚ The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does not apply to the separate parts.
- ✚ Write in the ruled margin the number and question attempted.
- ✚ Leave no blank pages among your answers.
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**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A745 – PRINCIPLES OF PROPERTY & PECUNIARY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I	8 Compulsory Questions	48 marks
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It is important to show each step in any calculation, even if you have used a calculator.

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

Chief Examiner's Summarized Statistics

Pass Rate:	53%
Highest Score:	74%
Lowest Score:	21%
Average Score:	48%

Breakdown Updates

Question 1

The question was badly answered. Candidates emphasised on the type of insurance company available rather than specifically state the providers. The pass rate was 33%.

Question 2

Most of the candidates did not understand the basic covers of fire insurance perils; instead they wrote on special perils, which resulted in loss of marks. The pass rate was about 50%.

Question 3

Most of the candidates confused debris removal with temporary removal clause thereby losing some marks. The pass rate was poor.

Question 4

The candidates showed a good level of understanding at answering the question. Hence, good marks were scored.

Question 5

This question was fairly attempted. The candidates did not show much understating of the question.

Question 6

Very few candidates showed understanding relating to the subject matter and they performed well while majority performed poorly.

Question 7

This question was generally attempted and majority of the candidates got it right and passed very well.

Question 8

The question was generally attempted but most of the candidates were writing from their residual knowledge disregarding the specification of the law. About 40% pass rate was achieved.

Question 9

This compulsory question was brilliantly attempted especially the calculation aspect while the theory was fairly attempted. General performance was good.

Question 10

Average performance as majority x-rayed the insurance need of the business organisation instead of business interruption insurances needed for the business outfit.

Question 11

This was poorly attempted by almost all the candidates that attempted it as reinstatement issue is not popular among many.

Question 12

Not many candidates showed understanding of this question but the few who attempted it performed very well.

Question 13

Despite the fact that this question was direct, most of the candidates failed to define credit insurance. About 22% pass rate.

Question 14

This is a toast of the candidates as most candidates scored high marks here.

Chief Examiner's Comments on Overall Performance:

Generally, the performance was not too bad as 53% of the candidates passed the examination.

Chief Examiner's Suggestions on Improvement:

Candidates are encouraged to register for tutorial for better understanding of the course.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Who are the three (3) main insurance providers in the property and pecuniary insurance market?

Solution

The three (3) main insurance providers in the property and pecuniary insurance market are:

- Insurance companies
- Captive Insurance companies
- Self-Insurance

(2 marks for each correctly stated provider. Total: 6 marks)

2. Enumerate the fire insurance perils.

Solution

The “fire perils” are **fire, lighting** and “**limited**”/“**domestic**” **explosion**.

-(2 marks for each bolded word. Total: 6 marks)

3. Enumerate any three (3) features of temporary removal clause.

Solution

The features of temporary removal clause are:

- the extension is limited to property other than stock
- the removal must be of a temporary nature only
- the purpose of the removal must be fire cleaning, renovation, repair or similar purposes
- the cover includes transit of the property to and from location, but does not stipulate the method of transit
- a limit of 10% of the sum insured of the relevant policy is incorporated.

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

- 4(a) What is fidelity insurance policy?

- (b) Name three (3) types of fidelity insurance policy.

Solution

a) Fidelity Insurance Policy is one of indemnity and covers loss of property or money as a result of fraudulent act of the employee (s) insured. (3 marks)

b) Types of fidelity

* individual * collective * blanket * position

(1 mark for each correctly stated type. Sub-Total: 3 marks. Grand Total: 6 marks)

5. Enumerate any three (3) benefits of combined policy to the insurer.

Solution

The benefits of combined policy to the insurer are:

- easier handling as regards staff resources
- multidiscipline expertise need assists in good staff relationship
- single policy only required, reduces administration costs
- one renewal document only needed
- ease of review for insurer and intermediary

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

6. What are the three (3) major principles of insurance as it relates to property insurance claims?

Solution

The principles of insurance as it relates to property insurance claims are:

- was damage caused by an insured peril (proximate cause)?
- was damage occurred during the insured period (insurance period)?
- has the insured an insurable interest in the damage or pecuniary loss (insurable interest)?

(2 marks for each correctly stated principle. Total: 6 marks)

7. What is the scope and nature of professional indemnity insurance?

Solution

Professional Indemnity Insurance is a liability policy (2 marks) and the scope and nature is intended to pick up the consequences of the **insured's failure** (2 marks) to **exercise a reasonable degree of skill and care in carrying out their professional duties** (2 marks).

(Total: 6 marks)

8. State three (3) of the four of the duties imposed on employers by the "Control of Substances Hazardous to Health Regulation 1994".

The duties imposed on employers by the "Control of Substances Hazardous to Health Regulation 1994" are:

- assessment of health risks created by work involving substances hazardous to health reputation
- control of exposure to substances hazardous to health
- proper uses of control measures
- maintenance, examination and testing of control measures.

(2 marks for each correctly stated duty. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9(a) State the five (5) classes of insurances that Section 72 (2) of the Insurance Act 2003 classified as “domestic insurance”. (10 Marks)

(b) The following figures were supplied by the Finance Controller of Gemson Plc

	N
Turnover	1,500,000.00
Opening Stock as @ January 2019	220,000.00
Closing Stock as @ December 2019	145,000.00
Purchases	750,000.00
Closing Work-in-Progress as @ December 2019	67,500.00
Opening Work-in-Progress as @ January 2019	95,000.00
Direct Wages	127,000.00
Packaging Materials	144,000.00
Carriage	37,500.00
Power	25,500.00
Rents and Rates	75,000.00
Depreciation	145,000.00
Lightning and Heating	20,000.00
Advertising	21,500.00

Kindly assist the company to calculate the sum insured for gross profit. (20 marks)

(c) A Health Management Organization (HMO) has a building where they operated for the treatment of out-patients. The building has a lot of equipment, where samples and vaccines are kept which are used for research and treatment of patients. They consider these items as stock and in the event of damage arising as a result of an insured peril, they would need to replace the stock.

This can be done, but would involve purchasing the items from other facilities and/or manufacturers. There is a seasonal issue due to the demand of the vaccines during the raining season months, stock values therefore would begin to reduce during the period.

Describe the property damage and engineering covers you would recommend in respect of the stock, with at least, one (1) extension and one (1) exclusion each. (20 marks)

Solution

a) In subsection (1) of section 72, "domestic insurance or reinsurance" business includes:

- fire insurance and reinsurance business ;
- motor insurance and reinsurance business ;
- liability insurance and reinsurance ;
- life insurance and reinsurance business ;
- accident insurance and reinsurance business; and
- such other insurance and reinsurance business as the Commission may from time to time prescribe.

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

b)		₦	
	Turnover	1,500,000.00	(1 mark)
	Closing Stock as @ 31/12/2019	145,000.00	(1 mark)
	Closing Work-in-Progress as @ 31/12/2019	67,500.00	(1 mark)
		1,712,500.00	(4 marks)
	Less		
	Opening Stock as @ 01/01/2019	220,000.00	(1 mark)
	Opening Work-in-Progress as @ 01/01/2019	95,000.00	(1 mark)
	Purchases	750,000.00	(1 mark)
	Packaging Materials	144,000.00	(1 mark)
	Carriage	37,500.00	(1 mark)
		1,246,500.00	(4 marks)
	Gross Profit	466,000.00	(4 marks)

(Grand Total: 20 marks)

c) The covers to be recommended will be for:

i) Property Damage

Stock is defined as raw materials, partly manufactured goods or work-in-progress, brought components from other manufacturers, specialist packaging and finished products. Stocks cannot be insured on a reinstatement basis. It is always on indemnity basis. (4 marks)

ii) Stock Declaration Basis

This policy will cover:

- an estimated maximum value is set out at the beginning of the year

- a 90% deposit premium is paid
 - monthly declarations are made
 - it is useful for seasonal business
 - it is an adjusted policy at year end
 - sum insured should be adequate for maximum fluctuation
 - if no acceleration is made, maximum sum insured is assumed
- (2 marks for any correctly stated point. Maximum of 3 to be graded. Sub-Total: 6 marks)

iii) Deterioration of Stock Policy

This policy will cover:

- loss or damage of stock by deterioration, putrefaction following a rise or fall in temperature
 - cost incurred by the insured in taking measurable but exceptional measures to avoid or mitigate against any impending loss or damage
 - breakdown of refrigeration machinery
 - failure of public electricity supply
 - non-operation of the mostallic controlling device
 - escape of refrigerant fumes/gases
- (2 marks for any correctly stated point. Maximum of 3 to be graded. Sub-Total: 6 marks)

Extensions

- automatic reinstatement of sum insured subject to a limit
 - disposal of damage stock costs and expenses in removal/disposal of damage stock but subject to a limit
- (2 marks for any correctly stated point under exclusion. Maximum of 1 point to be graded. Sub-Total: 2 marks)

Exclusions

The policy does not cover the following:

- fire and special perils
- deliberate act of the electricity supply authority
- consequential loss
- electronic risks.

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

(Grand Sub-Total: 20 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) As a reputable broker, what business interruption insurances would you recommend, and in respect of what perils, for an established business producing electric washing machines which are stored in a lofty building on substantial racking to a height of twelve metres, the motors being brought in from specialist manufacturer? (20 marks)

(b) What qualities/knowledge does a Loss Adjuster dealing with construction claims require? (14 marks)

Solution

a) The business interruption insurances to be recommended for, and in respect of what perils, for an established business producing electric washing machines which are stored in a lofty building on substantial racking to a height of twelve metres, the motors being bought in from specialist manufacturer are:

- loss of gross profit following reduction in turnover due to interruption with the business consequence of destruction of or damage to:
 - fire, lightning, explosion and other special perils which may disrupt production
 - accidental damage at any other type
 - breakdown of or accidental damage to the machines which handle the stock such as forklift trucks
 - explosion of any steam pressure plant used in production
- property at the premises of the electric motors supplier by fire or other special perils, breakdown, e.t.c. insured at own premises
- property at the premises of any customer or distributor on which the proposer depends by fire and other special perils, breakdown, e.t.c. and affects the business for a maximum indemnity period to be agreed.

(5 marks for any correctly stated point. Maximum of 4 points to be graded. Sun-Total: 20 marks)

b) The qualities/knowledge that a loss adjuster in dealing with construction claims require are:

- a working knowledge of construction law in building contracts
- a working knowledge of construction policy wordings in building contracts
- a working knowledge of indemnity in building contracts
- a working knowledge of insurance clauses in building contracts

- attention to details e.g. when collecting witness statement, photographs of the relevant scene/damage in the case of building collapse
- a sound knowledge of construction tendering in order to control and monitor construction costs in the remedial work
- a knowledge of construction accounts.

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

(Grand Total: 34 marks)

11. The Students' Association of a tertiary institution have invited you to present a paper on the subject "DAY ONE REINSTATEMENT".
- (a) Explain what is meant by day one basis of reinstatement and what its benefits to an insured. (12 marks)
- (b) What is the meaning of "declared value" and what should the insured include when fixing that amount? (12 marks)
- (c) Explain how a non-adjustable basis would work and give an example of the calculation of premium using a basic rate of 0.2% on a sum insured of ₦1,000,000.00, an inflation figure of 50% and a loading factor of 15%. (10 marks)

Solution

a) "Day One Basis of Reinstatement" is a way of giving reinstatement cover on a simpler basis than the previous schemes that tried to allow for inflation of sums insured. This applies to building and contents and stocks. (4 marks). The sum insured consists of two parts:

- A declared value which is the cost of reinstatement at any day one i.e. at inception or renewal of policy
- An inflation factor being an amount to cover the effect of inflation on the cost of rebuilding during the policy period and any subsequent rebuilding period. (2 marks each. Sub-Total: 4 marks)

The benefits to the insured are that:

- the insured do not need to forecast the cost of rebuilding at a future date
- there is no need of professional valuation
- average only applied to the day one figure. (2 marks for each correctly stated benefit. Sub-Total: 4 marks) (Grand Total: 12 marks)

b) "Declared Value" means that the cost of reinstatement of the property insured arrived at per the basis of settlement-reinstatement clause at the level of cost applying at the level of cost applying at the start of the period of insurance. (4 marks)

When fixing the amount, the insured should include:

- additional cost of reinstatement to comply with public authority requirements
- professional fees
- debris removal costs.

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

c) A non-adjustable basis would work by the insurer simply calculating the premium by applying the risk rate to the declared value set at the start of the insurance period. This will produce the basic premium. A loading according to what figure is chosen by the insured for the inflation amount is added to the basic premium. The total basic premium and the loading is the premium charged. (4 marks)

An example of the calculation of a non-adjustable basis is:

Declared Value:	₦1,000,000.00	
Basic Rate:	0.2%	
Basic Premium:	$1,000,000 \times 0.2\% = \text{₦}2,000.00$	(1 mark)
Inflation Figure of 50% and loading of 15%:	$15\% \text{ of } \text{₦}2,000.00 = \text{₦}300.00$	(1 mark)
Total Premium:	$\text{₦}2,000.00 + \text{₦}300.00 = \text{₦}2,300.00$	(1 mark)
Sum Insured:	$\text{₦}1,000,000.00 \times 15\% = \text{₦}150,000.00$	(1 mark)
Sum Insured + Loading =	$\text{₦}1,150,000.00$	(1 mark)
Therefore, sum insured is	$\text{₦}1,500,000.00$	(1 mark)
	(Grand Sub-Total: 10 marks)	
	(Grand Total: 34 marks)	

12. (a) Explain the insurance requirements of the JCT (Joint Contracts Tribunal) 1998 standard form of building contracts as expressed by "Clause 22".

(15 marks)

(b) State the responsibilities of the various parties to the contract. (19 marks)

Solution

a) Clause 22 has three main parts which are:

- Clause 22A: applies to erection of new buildings where the contractor is required to take out insurance (5 marks)
- Clause 22B: applies to erection of new building where the employer is required to take out insurance (5 marks)
- Clause 22C: applies to work of alteration or extension works to existing structure where the employer is required to take out insurance (5 marks)

(Grand Sub-Total: 15 marks)

b) The responsibilities of the various parties to the contract are:

Under Clause 22A:

- the contractor has to insure
 - the insurance must be in the joint names of the contractor and the employer (principal)
 - the cover must be at least as defined in clause 22:2 and it must include reinstated value, professional fees and debris removal
 - cover must remain in force until the date of issue of final official completion certificate
 - the insurer must be approved by the employer
 - if the contractor fails to insure, the employer can do so and charge the premium to the contractor
 - loss or damage must be notified to the insurer by the contractor
 - the insurer must discharge their obligations to all parties covered by the policy
 - the problem of deficient policy cover falls wholly on the contractor
- (3 marks for each correctly stated responsibility. Maximum of 3 responsibilities to be graded. Grand Sub-Total: 9 marks)

Under Clause 22B:

- This is used mainly where the employer is a large corporation or local authority and where insurance is probably cheaper to obtain by them through the contractor. The contractor may arrange insurance if the employer fails to do so. (5 marks)

Under Clause 22C:

This clause is in two parts:

22C:1 relates to existing structure being the site risk of the employer

22C:2 relates to the works in or extensions to existing structures. The cover should be in the joint names.

(5 marks for each correctly stated responsibility. Maximum of 1 responsibility to be graded. Grand

Sub-Total: 5 marks)

(Grand Sub-Total: 19 marks)

(Grand Total: 34 marks)

13. You have been asked by the Area Committee Insurance Institute to make a presentation to their members on credit insurances with special reference to:
- (a) the objective(s) of credit insurance (10 marks)
 - (b) the four (4) forms of cover available (24 marks)
- Summarize your presentation.

Solution

a) The objective of credit insurance is to indemnify a seller against loss arising as a consequence of a buyer's inability or unwillingness to pay for goods sold and delivered to them on credit terms. (5 marks). However, it does not aim to provide an indemnity for loss or profit and for this reason the percentage of loss which is uninsured varies according to the assumed extent of the profit margin or the percentage mark up when it is believed will be contained in the invoice. (5 marks)

(Grand Total: 10 marks)

b) The various forms of cover available are:

i) **Whole Turnover Policy:** this is a usual method effecting credit cover. This method with some minor exceptions insures the entire credit risk of the trading organisation and does so at a rate of premium which averages the good with not so good risks. There is thus no individual premium trading for the especially poor risks.

The terms of cover and the rate of premium will have regard to the peculiarities of a particular business and these are many including:

- the stratum of trade into which business falls, involving as it may - short or long term credit
- the spread of risk as between a smaller number of large accounts and a large number of small accounts
- the applicant's own loss record; and
- the insuring company's own opinion of the standing of their customer accounts.

In a whole turnover policy, the insured is automatically covered for the credit they gave to any customer up to what can be termed a discretionary limit, provided they act as a prudent person would act as if they were not insured e.g. N5,000.00 for any customer, but before granting such credit, the insured would be expelled in the light of the information he had or could obtain by the usual credit enquiries e.g. bank reference or trade prints. If he wished to grant a particular customer credit in excess of discretionary limit, the insured would apply for special approval.

(2 marks for each complete and correct explanation. Maximum of 3 explanations to be graded. Sub-Total: 6 marks)

ii) **Specific Account Policy:** this is a method of effecting credit cover. It is possible for the merchant or manufacturer to effect a credit insurance cover, to cover only certain specified customer who in his view present an unduly high

risk. e.g. he may request the insurer to cover him up to credit limit of ₦10,000.00 for a customer and ₦7,500.00 for another customer.

Under this policy, the seller is offering for insurance only the target risk of business. The cover is not widely offered, it could be deemed to be selection against the insurer and for this reason, such specific account policies are generally not looked upon favourably by the insurers who understandably demand a higher than average rate of premium for the risk.

(2 marks for each complete and correct explanation. Maximum of 3 explanations to be graded. Sub-Total: 6 marks)

iii) **Principal Customer Policy:** under this policy, credit cover is provided for the principal customer of the insured. The premium is calculated on turnover but that is related only to the assigned customer to the principal customers of the client. Indemnity is highly to be between 80% and 90%.

(2 marks for each complete and correct explanation. Maximum of 3 explanations to be graded. Sub-Total: 6 marks)

iv) **Single Contract Policy:** this will be assessed and underwritten in the same way as a specific account policy and will be on the contract value. Similarly, indemnity limit can be imposed.

(2 marks for each complete and correct explanation. Maximum of 3 explanations to be graded. Sub-Total: 6 marks)

(Grand Sub-Total: 24 marks)

(Grand Total: 34 marks)

- 14(a) As an underwriter of repute, list out any five (5) factors that will interest you in establishing when assessing the general acceptability of a risk. (10 marks)
- (b) As an insurer, who are those that may present a risk to you? List any five (5) of them. (10 marks)
- (c) Enumerate, and briefly explain, any four (4) factors that an underwriter can identify from the risks presented in relation to a goods-in-transit insurance proposal? (14 marks)

Solution

a) The factors that will interest you in establishing when assessing the general acceptability of a risk are:

- identify the perils
- check the general acceptability of the proposer/risk (i.e. moral/physical hazard)
- identify the underwriting factors and the estimated maximum loss (EML)
- establish the type of risk and acceptable class

- identify the premium/rating factors for the risk proposed
- assess the proposed terms and conditions
- make an offer to the proposer.

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

b) As an insurer, those who may present risks to insurers are:

- * broker
- * proposer
- * bank
- * agent
- * solicitors
- * estate agents
- * another insurance company
- * insurance department of a large organisation

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

c) The factors that an underwriter identifies from the risk presentation in relation to goods-in-transit insurance are:

- * types of goods to be transported
- * own good/hirer/haulier
- * transit contract
- * security of vehicles/unattended exposures
- * packaging of the goods

(3½ marks for each correctly stated factor. Maximum of 4 factors to be graded. Total: 14 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A755

LIABILITY INSURANCE

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

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A755 - LIABILITY INSURANCE

INSTRUCTIONS TO CANDIDATES

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	57%
Highest Score:	76%
Lowest Score:	26%
Average Score:	55%

Breakdown Updates

Question 1

Many candidates understood the concept very clearly and were able to distinguish between the tort and tortfeasor. Very few candidates failed the question.

Question 2

Definition of risk management was succinctly given. Majority of the candidates got it right and scored the allotted marks. In the part (b), most of the candidates got the frequency and failed the severity, confusing frequency with magnitude.

Question 3

This question was badly handled. Most candidates did not recognize the categories of general damages and special damages as there were mix-ups in their answers.

Question 4

More than 60% of the candidates got the three parameters right, but few candidates were not able to distinguish between the three options – excluded; insured and uninsured perils.

Question 5

This question is well attended and the candidates scored good marks. However, some candidates missed the categories of persons regarded as employee in employers liability insurance.

Question 6

Most candidates did well in part (a) of the question. The (b) part recorded low performance which shows lack of understanding.

Question 7

Most candidates did well in part (a), but majority of them performed badly in part (b) of the question.

Question 8

Candidates' performance was very good in this question. However, it is unbelievable that few of them failed the question.

Question 9

Generally, performance was above average; however, most of the candidates failed to cite the relevant case law to support their answers. Also, majority of the candidates did not correctly answer the (a) part, which is quite alarming.

Question 10

Few candidates attempted this question and the performance was not encouraging. Most of them who attempted it also performed woefully in the parts (b) and (c).

Question 11

This is one of the most popular questions attended by the candidates. The overall performance here was encouraging.

Question 12

Only few candidates attempted this question and the performance was generally poor.

Question 13

Another popular question attempted by the candidates. Few of them failed the © and (d) parts woefully which indicated a lack of understanding of the question.

Question 14

Candidates' performance was very impressive in parts (a) and (d). Few students failed woefully in parts (b) and (c). Generally, the performance was above average.

Chief Examiner's Comments on Overall Performance:

The overall performance was above average with a pass rate of 57%.

Chief Examiner's Suggestions on Improvement:

More dedication and commitment by the candidates will improve their performance. Candidates are encouraged to be better informed about their Institute (CIIN).

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Briefly explain the terms
(i) tort and (ii) tortfeasors.

Solution

(i) **Tort:** A tort is a civil wrong. Torts are breaches of rights owed to people as a whole. It is the breach of a duty which a person owes to his fellow man in general. A tort must be capable of giving rise to an action for unliquidated damages.

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

(ii) **Tortfeasors:** a tortfeasor is somebody who commits a tort. Tortfeasors are persons who commit independent torts which coincidentally cause the same damage. Joint tortfeasors are persons who inflict damage on a third party as a result of carrying out a common design.

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

(Grand Total: 6 marks)

- 2(a) Define Risk Management. (2 marks)
(b) Distinguish between frequency and severity. (4 marks)

Solution

(a) Risk Management. Is defined as the identification, analysis and economic control of those risks which can threaten the assets or earning capacity of an enterprise. (2 marks)

(b) Frequency is concerned with the risk of how often a given event will occur (2 marks) while severity is the impact which the occurrence or happening of an event will have when it occurs (2 marks). (Sub-Total: 4 marks)

(Grand Total: 6 marks)

3. Enumerate and briefly explain two (2) categories of damages in liability insurance.

Solution

The two categories of damages in liability insurance are:

- **general damages:** these are damages which the law presumes will flow and which the plaintiff need not specifically prove. They are commonly unliquidated damages i.e. those which cannot be accurately assessed mathematically.
- **special damages:** these are damages which the plaintiff have to prove specifically. Examples are past loss of earning, damage to property. They can be assessed mathematically.

(1 mark for each correctly stated damage. 1 mark for each complete and correctly stated point.
Maximum of 2 points to be graded under each damage. Sub-Total per damage: 3 marks.)
(Grand Total: 6 marks)

4. Explain the following terms in connection with liability policies:
(i) insured peril (ii) uninsured peril and (iii) exempted peril.

Solution

(i) **insured peril:** is the peril or event that is covered or insured by the policy and these are also specifically stated in the operative clause of the policy. (2 marks)

(ii) **uninsured peril:** is the peril or event that is not mentioned at all in the operative clause of the policy as covered. (2 marks)

(iii) **exempted peril:** is the peril that are specifically mentioned in the policy as not covered. Indemnity provided by the policy will not attach if any of the exempted perils happens. (2 marks)

(Grand Total: 6 marks)

5. List any three (3) categories of persons regarded as employees in Employer's Liability Insurance.

Solution

The categories of persons regarded as employees in Employer's Liability Insurance are:

- labour master and person supplied by them
- person employed by labour-only-sub-contractors
- self-employed person
- persons hired or borrowed by the insured.

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

- 6(a) Who is a visitor?
(b) Explain what you understand by "common duty of care" as contained in the Occupiers' Liability Act 1957.

Solution

(a) A visitor is any person who is invited into the premises or otherwise has authority to be there e.g. a police officer with warrant, a postman, e.t.c. (3 marks)

(b) "Common duty of care" as contained in the Occupiers' Liability Act 1957 is the duty (1 mark) to take such care as in the circumstances of the cause which is reasonable to see that the visitor will be reasonably safe (1 mark) in using the premises for the purpose for which he was invited or permitted by the occupier to be there (1 mark). (3 marks)

(Grand Total: 6 marks)

- 7(a) What is the object of Directors' and Officers' (D&O) Liability Insurance?
(b) List any three (3) important information that will be required to underwrite D & O Liability Insurance.

Solution

(a) The object of Directors' and Officers' (D&O) Liability Insurance is protect (1 mark) the directors and officers of a company against their liabilities for financial loss suffered by third parties (1 mark) occurring in the cause of the directors' and officers' business (1 mark). (Sub-Total: 3 marks)

(b) The important information that will be required to underwrite D & O Liability Insurance are:

- any changes to the capital structure of the company
- any consideration for acquisition or merger by the company
- if there is any shareholder having more than 15% of the company's shares
- if there is any change to the company subsidiaries during the last 12 months
- details of the total gross assets of the company.

(1 mark to each correctly stated information. Maximum of 3 to be graded. Sub-Total: 3 marks)

(Grand Total: 6 marks)

8. Explain the meaning of the following as used in most liability policies:
(i) Bodily Injury and (ii) Damage.

Solution

(i) **Bodily Injury:** the operative clause of most liability policies provided cover for the insured's liability that arises out of bodily injury i.e. physical hurt. This should be distinguished from personal injury i.e. non-injurious torts to person such as wrongful arrest, discrimination, defamation, e.t.c.

(ii) **Damage:** the indemnity provided by most liability policies covered legal liability arising from damage to property. The cover is limited to loss or damage to tangible property i.e. physical property and does not cover intangible property such as patent right, goodwill, e.t.c.

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) Enumerate any five (5) standards of behavior which all members of the Chartered Insurance Institute of Nigeria must follow in the course of their professional duties as set down in the code of conduct. (10 marks)

(b) Mr. Yacht used part of his yard for the storage of combustible materials including petrol, grease and oil. A fire broke out in his yard, spread and

damaged his neighbour's (Mrs. Hills) property. Mrs. Hill sue Mr. Yacht and claimed ₦5,000,000.00 for damage to her properties.

- (i) Mention the area of law where the above case is applicable. (5 marks)
 - (ii) Mention a decided case law relevant to the above situation. (5 marks)
 - (iii) With reference to the case law you mention in (ii) above, discuss the liability of Mr. Yacht to Mrs. Hills. (10 marks)
- (c) Discuss the importance of "arbitration" in the settlement of liability claims. (10 marks)
- (d) With reference to liability insurance policies, explain what you understand by any two (2) of the following:
- (i) negligent act of predecessor in business
 - (ii) inevitable accident
 - (iii) negligent misstatement
 - (iv) public nuisance. (10 marks)

Solution

- (a) A member of the Chartered Insurance Institute of Nigeria is required to uphold the following standards of behavior:
- act responsibly and with integrity in their professional activities at all times to their clients and the society as a whole
 - comply with the code of ethics, all relevant laws and other regulatory requirements and appropriate code of practice and codes of conduct
 - demonstrate professional competence by meeting the technical and professional standards commensurate to their level of qualification and position of responsibility and completing their duties with due skill, care and diligence
 - uphold professional standards in all dealings and relationships
 - respect the confidentiality of information acquired in professional and business relationships
 - apply objectivity in making professional judgments and in giving opinion and statements.
- (2 marks for each correctly stated practice. Maximum of 5 to be graded. Sub-Total: 10 marks)
- (b) (i) The area of law where the above case is applicable is strict liability (2½ marks) which leading case is based on Rylands v. Fletcher (2½ marks). (5 marks)
- (ii) A decided case law relevant to the above situation is "Mason v. Levy Auto Parts of England Limited 1967". (5 marks)
- (Candidates should earn full marks if they do not mention but they correctly "narrate" any relevant decided case to this)

(iii) The defendant (Mr. Yacht) brought into land things likely to catch fire and kept them there in such conditions that they did ignite and caught fire; and the fire spread damaging her neighbour (Mrs. Hills) properties. Mr. Yacht will be liable to pay the sum of N5million being the value of Mrs. Hills properties damaged by fire. This is a strict liability case and Mr. Yacht is liable even if he had taken reasonable care i.e. with or without negligence.

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

(c) There is “arbitration” condition in most liability policy and it is intended to settle disputes that may arise between the insurer and the insured as regards claim settlement, disputes may arise between the insurer and the insured as regards the issue of liability or the amount (quantum) of settlement. When there is a dispute about the amount (Quantum) of settlement, such is referred to Arbitrators instead of legal proceedings. Arbitrators are to deal with any dispute that may arise as to the quantum of a claim with the view to arrive a amicable settlement between the two parties.

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

(d) (i) **negligent act of predecessor in business:** a predecessor in business is the former partner in a firm. Professionals such as engineers, accountants, architects, e.t.c. usually operate as partnership and the professional negligence of each partner is binding on the firm. A partner who has left the company notwithstanding, the firm is still liable for his/her negligent act of error, omission, mistake, e.t.c. committed during his/her active days in the firm. This is relevant in professional indemnity insurance.

(ii) **inevitable accident:** this is one of the defences to actios in tort, most of which relates to negligence. In case of negligence, which resulted to bodily injury or death, the defendant’s act may be seen as inevitable, i.e. he/she could not be faulted and hence liability does not attach. This is the decision in the case of “*Stanley v. Powel 1891*”.

(iii) **negligent misstatement:** these are statements or advice given, whether verbal or in writing, and which when acted upon, result in financial loss(es). An example is a statement or advice given when someone acted as a referee i.e. when you vouch for a person in order to secure a job or obtain a loan. Legal liability now attaches for negligent misstatement which result in financial loss(es). This is the decision in the case of *Hedley Byrne v. Heller and Partner 1963*.

(iv) **public nuisance:** is a crime, in addition to being a tort. It is a nuisance against the community as a whole or at least, against a sufficiently large member of the community to constitute a class. Examples are running a brothel, selling food unfit for public consumption, obstructing highway, e.t.c. A plaintiff will succeed in an action for public nuisance if he/she can show that he/she suffered damage over and above that of the general public.

(2½ marks for each correctly stated point. Maximum of 2 points to be graded under each term.
Maximum of 2 terms to be graded. Sub-Total per term: 5 marks. Grand Sub-Total: 10 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

- 10(a) Distinguish between “product liability insurance” and “product guarantee insurance”. (10 marks)
- (b) Unlike Employers’ Liability Insurance, there is no legal requirement (not compulsory) for either an individual or organisation to hold or effect public liability cover, Mention and explain the three (3) exceptions to this statement. (12 marks)
- (c) In Employers’ Liability Insurance, the Insured Trade or Business can be extended. List four (4) of the common extensions. (12 marks)

Solution

- (a) **“Product liability insurance”** will indemnify the insured against his legal liability to third parties i.e. the consumers of his product, for death, bodily injury or disease arising from the defect in the product manufactured, distributed or supplied occurring during the period of insurance within the territorial limit; while **“product guarantee insurance”** will indemnify the insured against some risks that are not covered under a standard product liability policy; and in particular, those risks that relate to the failure of the product to fulfil its intended purpose. Specifically, the policy covers product repair and replacement, financial loss suffered by the insured arising from the defective product, cost incurred by the insured for withdrawing the defective product from the market, e.t.c.

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

- (b) The three exceptions to the statement are:
- **riding establishment:** it is compulsory for riding schools to have or effect a public liability insurance policy.

- **Nuclear power installations:** operators of nuclear power installations are required to hold public liability insurance cover.
- **Dangerous animals:** operators of dangerous animals are required to hold or effect a public liability insurance cover.

(2 marks for each correctly stated exception heading. 2 marks for each complete and correct explanation. Sub-Total per exception: 4 marks. Grand Sub-Total: 12 marks)

(c) The common extensions in Employers' Liability Insurance are on the Insured Trade or Business are:

- the ownership, maintenance and repair of premises used in connection with business
- the provision and management of canteens, clubs, sports, athletic, social and welfare organisations for the benefit of the employees
- first aid, fire and ambulance service
- private work carried out by employees of the insured for any director or partner of the insured.

(3 marks for each correctly stated extension. Sub-Total: 10 marks)

(Grand Total: 34 marks)

11(a) Explain briefly any six (6) of the following terms in relation to liability insurance:

- | | | |
|-----------------------------|------------------------|------------|
| (i) Trespass | (ii) Discovery Period | |
| (iii) Prescription | (iv) Product Recall | |
| (v) Act of God | (vi) Right of Recovery | |
| (vii) Contractual Liability | (viii) Nominal Damages | (24 marks) |

(b) Explain how the principle of insurable interest apply to liability insurance. (5 marks)

(c) Explain the common cause of professional negligence claim against a practicing pharmacist. (5 marks)

Solution

(i) **Trespass:** trespass involves direct interference of some kind, whether to land or person. Trespass to land involves straying onto the land of another either deliberately or accidentally. Trespass to goods involves possession of another person's goods without lawful authority. Trespass is actionable per se i.e. without proof of damage.

(ii) **Discovery Period:** this is related to professional indemnity insurance where extension is granted by the insurer after the policy have lapsed. The period is meant to discover claims which arise due to the negligent act during the period of insurance but which do not come to light until after the policy had lapsed.

(iii) **Prescription:** is one of the effective defences available for the tort of nuisance. If the nuisance i.e. the activity that lead to the nuisance has existed for the last 20 years, then a prescriptive right to continue may be acquired.

(iv) **Product Recall:** after a product has been put on the market, it may be discovered that it is defective or has a dangerous fault thus necessitating the withdrawal or complete recall and consequent replacement or repair of the identified fault. Product recall insurance covers the expenses incurred by a supplier in recalling the product or in arranging its destruction.

(v) **Act of God:** also known as *vis-major* is one of the defences to action in negligence. It is an event that occurs due to natural causes directly and exclusively without any human intervention.

(vi) **Right of Recovery:** in employers' liability insurance, a breach of a policy condition by the employer is a good ground for the insurer to repudiate liability. However, because it is a compulsory insurance, repudiating liability by insurer will prejudice the employee to receive compensation for the injury suffered. Therefore, all claims are met i.e. the insured (employer) is indemnified and the Act gives the insurer the "right of recovery" i.e. the right to recover from the insured if the insurer would not have been liable to pay a claim but for the provision of the legislation.

(vii) **Contractual Liability:** it has been established that liability for negligence act may arise in contract. The insured is free to enter into contract on whatever basis they choose as long as the contract will be enforceable at law. However, the insurer could decide to exclude contractual liability i.e. liability that attaches under a contract unless the insured would have been liable.

(viii) **Nominal Damages:** these are damages that are not intended to compensate and are usually small. They are recognition that a tort has been committed against the plaintiff. Nominal damages are awarded as a token of the plaintiff's legal right.

(2 marks for each complete and correctly stated explanation. Maximum of 2 points to be graded per term. Sub-Total per term: 4 marks. Maximum of 6 terms to be graded. Grand Sub-Total: 24 marks)

(b) Insurable interest constitutes the legal right to insure arising out of a financial relationship recognised at law. In liability insurance, a person has insurable interest on potential legal liability he may incur by way of damages and other costs. It may not be possible to pre-determine the extent of their interest but it could be said that the insured has insurable interest up to the limit of his/her potential liability, whatever the potential liability might be.

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

- (c) Pharmacists owe a duty of care to their patients and they will be liable for professional negligence arising from error in treatment. They will also be liable for error in making prescriptions. Furthermore, they will be liable for liability arising from products sold or distributed by them.

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

(Grand Total: 34 marks)

12. (a) Future loss of earnings and loss of earning capacity are examples of general damages in personal injury claims. Explain what you understand by these, showing their differences in your explanations. (12 marks)
- (b) What is a loss control audit? List any two (2) purposes of a loss control audit. (7 marks)
- (c) What are the benefits of loss control audit? (5 marks)
- (d) In product liability insurance, explain what you understand by "efficacy risk". (5 marks)
- (e) Briefly explain the significance of "Law Reform (Husband and Wife) Act 1962". (5 marks)

Solution

- (a) The term future commences from the date of trial and losses accrued from that date which also can be calculated with accuracy. A claim for future loss of earnings presupposes some form of permanent disability or at least a disability which will last some time into the future. Future loss may be total or partial. A plaintiff may not be able to work at all because of disability or may not be able to work for long hours, or work overtime. The plaintiff may have to take a less strenuous job for less money. **While** under loss of earning capacity, damages are awarded to a plaintiff who is disabled as a result of an accident but can still work. If the plaintiff is thrown into the open labour market, the capacity to find employment or find it at the current level of earning may be prejudiced. In other words, in view of the plaintiff's disability, his/her ability to find work at the level of his/her earning before the accident may be prejudiced.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded under each term. Sub-Total: 6 marks. Grand Sub-Total: 12 marks)

- (b) A loss control audit is a critical examination of an industrial operation in its entirety to identify potential hazards and level of risks. (3 marks)

The purposes of a loss control audit are:

- to assist the underwriter in understanding the risk (2 marks)
- to assist the insured in managing the risk. (2 marks)

- to facilitate risk improvement (3 marks)

Maximum of 2 purposes to be graded. Sub-Total: 4 marks.

Grand Sub-Total: 7 marks.

(c) The benefits of loss control audit are:

- it improves the safety record of the company
- it helps the company to experience fewer losses through direct and indirect cost of accidents
- the recommendations of the auditor if well implemented will save the company from losses - both internally and externally
- it helps the company to avoid financial embarrassment and adverse publicity
- it helps the management in the general performance of their functions.

(2½ marks for each complete and correctly stated benefit. Maximum of 2 to be graded. Sub-

Total: 5 marks)

(d) “Efficacy risk” in product liability insurance is the failure of a product to fulfil its intended purpose. This may be due to defect or a serious fault in the particular product and it may be necessary to withdraw the product and replace it. This risk is not covered under the standard product liability policy but is available under the product guarantee policy.

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

(e) At common law, spouses could not sue each other in tort because they were considered to be one person. This position was changed by the “Law Reform (Husband and Wife) Act 1962”, which provides that each of the parties to a marriage shall have the right of action in tort against the other as if they were not married. The court may STOP the action if no substantial benefit will accrue to either party.

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

(Grand Total: 34 marks)

13. Write short notes on each of the following, as it relates to liability insurance:

- (a) Rehabilitation of Offenders Act 1974 (6 marks)
- (b) Persons of Unsound Mind (6 marks)
- (c) Causation (6 marks)
- (d) Wages, Salaries and Other Earnings (10 marks)
- (e) Forum Shopping. (6 marks)

Solution

(a) **Rehabilitation of Offenders Act 1974:** the purpose of this Act is to see the rehabilitation into society of persons convicted of crime. Some convictions are

deemed to be “spent” after a certain period. A spent conviction means that the person convicted has not committed the offence and no reference should be made or published about it.

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

(b) **Persons of Unsound Mind:** persons of unsound mind are under some degree of insanity. Their liability for negligence depends on the degree of their insanity. If it is very serious, this should be a complete defence but if they are aware of the nature and quality of their act, they will be liable. The test is whether or not the defendant has a state of mind to commit the tort in question.

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

(c) **Causation:** in order to succeed in an action in tort, the plaintiff must show that their injury or damage has been proximately caused by the activities of the defendant, the onus is on the claimant to establish this causal link. The court will decide whether the defendant’s actions have caused the damage or injury of the plaintiff.

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

(d) **Wages, Salaries and Other Earnings:** Wages, salaries and other earnings means the employees’ total remuneration i.e. basic salary and other allowances including overtime, bonuses and other benefits in kind or money received by the employees in connection with their employment. This is relevant in employers’ liability insurance and the summation of wages, salaries and other earnings of all employees is used as a base to determine the premium payable.

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

(e) **Forum Shopping:** a plaintiff in pursuing his/her legal action may shop around the world for a forum (a court) and choose a court in a jurisdiction that requires the lowest standard of proof for the case or which offers the highest level of damage.

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

(Grand Total: 34 marks)

14(a) A manufacturing company is exposed to various liability risks in the course of their operations and may incur legal liability if any of such risks occurs. List and explain any three (3) of such risks. (12 marks)

(b) Explain what you understand by the following:

(i) Total Temporary Disablement

(ii) Negligent Misstatement

(iii) Incorrect Labelling

(12 marks)

- (c) What is the difference between the expressions “*ratio decidendi*” and “*obiter dicta*”? (5 marks)
- (d) Discuss the three (3) main prerequisites for an action in negligence. (5 marks)

Solution

- (a) Through the operation of a manufacturing company, they are exposed to various liability risks such as:
- risk of bodily injury, death, sickness and damage to property of any member of the public (third party legal liability). This risk is always inherent in their operation, either within their business premises or away from their premises.
 - risk of bodily injury, death, sickness to the employees of the company in the course of their employment. Employees of companies are exposed to risk of accident while at work and their employers are legally liable accordingly.
 - the product manufactured by the company may be defective and the company will be liable to the ultimate consumer of their products if the consumer suffers bodily injury, illness or disease as a result of consuming the product.
 - the company is also exposed to the risk of third party bodily injury, death and property damage for the use of their motor vehicle.
 - the company may also incur legal liability for professional negligence in respect of advice given to third parties which result in financial loss to the third party.

(2 marks for each correctly stated point. Maximum of 2 points under each stated exposure.
Sub-Total per exposure: 4 marks. Maximum of 3 exposures to be graded. Sub-Total: 12 marks)

(b) (i) **Total Temporary Disablement:** this is one of the benefits of employers’ liability insurance. An employee in the course of his/her duty may be involved in an accident resulting in bodily injury. The injury sustained may result in temporary disablement, which would lead to the employee not being able to attend to his/her usual occupation during the period of disability. For example, if the injury prevents the employee from his duty post for six weeks, then he/she has suffered temporary disablement that is total. If he/she can attend partially to duties during the same period, then it is called partial temporary disablement.

(ii) **Negligent Misstatement:** legal liability now attaches for negligent misstatement which results in financial loss(es). A person who gives advice whether verbal or in writing, will be liable if another person relies or acts on the advice, which then results in financial loss(es).

(iii) Incorrect Labelling: in product liability insurance, legal liability for bodily injury or death may arise on several ways. This liability may arise from incorrect or wrong labelling of product. For example, incorrect labelling can cause the incorrect dosage on medicines to be stated. Inks or food wrapping can migrate contaminating the contents, e.t.c.

(2 marks for each correctly stated point. Maximum of 2 points under each term. Sub-Total per term: 4 marks. Sub-Total: 12 marks)

(c) "*Ratio decidendi*" is the legal basis of a decision and one which creates a precedent, while "*obiter dicta*" are sayings by the way in a judgment which may give rise to persuasive authority and are not binding on lower courts.

(2½ marks for each correct explanation of the terms. Sub-Total: 5 marks)

(d) The three (3) main prerequisites for an action in negligence are:

- that the defendant owes a duty of care to the plaintiff
- that the defendant is in breach of that duty of care
- that the breach has caused damage or loss to the plaintiff.

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

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A765

MOTOR INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A765 – MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	26%
Highest Score:	66%
Lowest Score:	25%
Average Score:	48%

Breakdown Updates**Question 1**

Only one candidate scored 50% of the total marks in this question, two candidates scored less than 50% while all others scored zero. The performance was very woeful.

Question 2

Only 11% of the candidates performed above average.

Question 3

Only one candidate scored above 50%. All others performed woefully here.

Question 4

42% of the candidates performed above average.

Question 5

Majority of the candidates scored above average.

Question 6

Many of the candidates performed very well here.

Question 7

The performance in this question was poor.

Question 8

Average performance by the candidates.

Question 9

Those that knew the answers did well, and they were few; while others performed well below average mark that would have assisted in passing the course.

Question 10

Poor performance by those who attempted the question.

Question 11

Poor performance by those who also attempted the question.

Question 12

Average performance by those who attempted the question.

Question 13

Good performance by those who attempted the question.

Question 14

Very good performance by those who attempted the question.

Chief Examiner's Comments on Overall Performance:

The performance was generally poor as many of the candidates did not understand the concepts behind proper motor insurance. There is great need to re-awaken proper underwriting skills and practices in motor insurance.

Chief Examiner's Suggestions on Improvement:

Any candidate that desires or chooses to write this course should be prepared to diligently study the coursebook and answer questions based on what was studied and not on head-knowledge or experience.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What is meant by Motor (Fire) Agreement?

Solution

The Motor (Fire) agreement provides that **if fire spreads from one vehicle to another**, the **insurer of the second vehicle will not exercise the right of recovery from the owner or the insurer of the first vehicle provided the latter insurer have issued a policy covering liability for such fire damage.**

(2 marks for each of the bolded phrases. Total: 6 marks)

2. Outline the two (2) main additional benefits normally included in a private motor policy.

Solution

The two (2) main additional benefits normally included in a private motor policy are:

- Personal Accident Benefits cover for the policy holder and spouse
- Medical expenses to a stated limit.

(3 marks for each correctly stated benefit. Total: 6 marks)

3. Distinguish between “spent” convictions and “current” convictions.

Solution

Convictions fall into two distinct areas i.e. those that cannot now be taken into account and those that can be taken into account. Under the Rehabilitation of Offenders Act 1974, persons convicted of certain criminal offences are said to be rehabilitated after a certain period of time and these rehabilitated offences are considered to be “spent” and need not be disclosed again. While “current” convictions are those convictions that have not yet met or extinguished the stated length of time and thus requires to be disclosed whenever necessary.

(3 marks for each correctly explained term. Total: 6 marks)

4. Accessories are supposed to be part of a vehicle. Illustrate to what extent the accessories are covered under a comprehensive private motor insurance policy.

Solution

For accessories to be covered under a comprehensive private motor insurance policy, such accessories **must be for the car insured and must be either in or on the car itself or in the insured’s garage.**

(2 marks for each bolded phrase. Maximum of 3 to be graded. Total: 6 marks)

- 5(a) When does the duty of disclosure exist under a motor policy?
(b) What must an insurer prove to succeed in a contention of non-disclosure?

Solution

i) The duty of disclosure exists at all stages leading up to the contract coming into existence. It is revived again at each renewal. However, insurers tend to modify the common law position by a policy term requiring notification of changes “as soon as possible”.

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

ii) To succeed in contention of non-disclosure, an insurer must prove that:

- the fact is material
- the insured knew of the fact
- the insured had not yet conveyed the information to the insurer in any form.

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

(Grand Total: 6 marks)

6. List any six (6) sections in a standard motor policy.

Solution

The sections in a standard motor policy are:

- * preamble
- * definitions
- * operative clauses
- * terms of exceptions
- * terms and conditions
- * service information
- * schedule.

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

7. Theft-by-deception is an exception under the private car motor policy. Outline a typical theft-by-deception exception wording.

Solution

A typical theft by exception wording would be as follows: “**you are not insured for loss of your car by deception** by someone **who claims to be a buyer or a buying or selling agent**”.

(2 marks for each of the bolded phrases. Total: 6 marks)

8. Mention any six (6) items you would expect to find in the schedule of a private motor policy.

Solution

The items that are usually in the schedule of a private motor policy are:

- policy number
- period of insurance
- name/address and occupation of the policyholder
- date of signature of proposal and declaration
- premium

- cover provided
 - make of vehicle(s)
 - registration number
 - warranties relating to use of the vehicle
 - policyholder's estimated value of the vehicle(s) including accessories
 - insurer's coding of any endorsement applicable
 - whether vehicles are owned by or hired to the policyholder.
- (1 mark for each correctly listed item. Maximum of 6 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) List five (4) organisations/trade associations that are involved in promoting and/or enforcing ethics, standards of knowledge and professionalism in Nigeria Insurance Market. (10 marks)
- (b) Chukwuemeka (Emeka) insured his Suzuki Jeep with Excellence Insurance Company Limited on Third Party only basis. Emeka is an electronics trader in Aba. Whilst driving his vehicle along Benin-Asaba Road, by his friend, Obiora, the insured vehicle was involved in an accident, which was reported to the police authorities, resulting in:
- damage to the insured car
 - death of a pedestrian
 - injury to driver (i.e. Obiora)
 - damage to Obinna's car (a third party)
 - loss of samples of detergents (sachets) that was being carried in the insured vehicle
 - loss of wearing apparels from the insured's car.
- i. As the claims manager of Excellence Insurance Company Limited, how would you handle each of these emanating claims? (18 marks)
- ii. How would you have handled these claims if Emeka had insured his car on comprehensive basis for a value of ₦3,000,000.00 restricting driving for himself and his spouse. (18 marks)
- iii. What is "Constructive Total Loss" in Motor Insurance Claim? Give a hypothetical example. (4 marks)

Solution

a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:

- Nigerian Insurers Association (NIA)
- Nigerian Council of Registered Insurance Brokers (NCRIB)
- Institute of Loss Adjusters of Nigeria (ILAN)
- National Insurance Commission (NAICOM)
- Chartered Insurance Institute of Nigeria (CIIN)

(2¼ marks for each correctly stated organisation/association. Maximum of 4 to be graded. Sub-Total: 10 marks)

b) The insured (Chukwwuemeka)'s policy cover or permits his friend, Obiora, to drive, by virtue of the Driving by Other Drivers Extension granted by the policy provided Obiora possesses a valid driver's licence.

Since the insured car was insured on third party basis only, the claims would be settled as follows:

damage to the insured car	Not covered as third party does not cover own damage
death of a pedestrian	Covered in line with the RTA
injury to driver (i.e. Obiora)	Not covered in a third party policy
damage to Obinna's car (a third party)	Covered
loss of samples of detergents (sachets) that was being carried in the insured vehicle	Not covered by any motor insurance policy as goods or samples carried in connection with any trade are required to be subject of a separate insurance
loss of wearing apparels from the insured's car	Not covered in a third party policy
Since the accident was reported to the police authorities, police report may be obtained and requested for.	

(3 marks for each correct response. Sub-Total: 18 marks)

ii) If Emeka had insured his vehicle on comprehensive basis, the claim would have been adjusted as follows:

damage to the insured car	Covered to the limit of the sum insured less depreciation and any excess
death of a pedestrian	Covered in line with the RTA

injury to driver (i.e. Obiora)	Not covered as personal injury benefits is only applicable to the insured or the spouse
damage to Obinna's car (a third party)	Covered
loss of samples of detergents (sachets) that was being carried in the insured vehicle	Not covered by any motor insurance policy as goods or samples carried in connection with any trade are required to be subject of a separate insurance
loss of wearing apparels from the insured's car	Not covered notwithstanding the fact that personal effects are covered. This is because clothes or dresses worn is not part of personal effect as personal effect is only applicable to those personal effects carried in the car.
Since the accident was reported to the police authorities, police report may be obtained and requested for.	

(3 marks for each correct response. Sub-Total: 18 marks)

b) Constructive Total Loss arises when a vehicle is involved in an accident and the cost of repairs presented by the insured approaches a very high percentage (Say 60% and above) compared to the insured value. (2 marks)

In such instance, such a vehicle is "not economical" to repair. It is therefore declared or regarded as a constructive total loss rather than a partial loss when viewed in relation to the main sum insured. (1 mark)

For example, a vehicle insured for N500,000.00 involved in an accident that the estimate of repairs is N400,000.00. Thus, it is more economical to settle the claim as if the vehicle is a total loss than to engage in repairs. (1 mark)

(Grand Sub-Total: 4 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) (i) What is fraud? (3 marks)
(ii) Relate the issue of "fraud" to the insurance principle of "utmost good faith". (7 marks)
(iii) What is the effect of fraudulent exaggeration upon the policy and the claims settlement? (10 marks)

- (b) Chief Oba insured his Toyota Saloon car with Super Insurance Limited for the past three (3) years on comprehensive basis. On this sunny afternoon while driving along Ikorodu-Epe Road, the insured vehicle was involved in an accident which was caused by a negligent third party, Mr. Rufus, who insured his vehicle on third party only basis with Loyalty Insurance Company. Both Chief Oba and Mr. Rufus reported the accident to their respective insurers.

The cost of repairs of the damaged insured vehicle, in the sum of ₦200,000.00 had been settled by Supra Insurance Company Limited. The insured was also making efforts to recover his losses from the insurer of the negligent third party, since it was apparent that Mr. Rufus was responsible for the accident. This he did through a letter to the third party's insurer written by his Brokers.

Outline how these claims should be handled by both insurers taking into account the involvement of a professional insurance broker. (14 marks)

Solution

- a) i) Fraud is any act of deception carried out for the purpose of unfair, underserved and/or unlawful gain. (3 marks)
- ii) The issue of fraud bears a close relationship to the duty of utmost good faith but it should be remembered that not every breach of good faith, gives rise to a fraudulent allegation.

For fraud to be demonstrated, the intention to deceive must be shown. The representation must be made knowingly or recklessly as to whether it is true or not or without belief in its truth. If the statement is made inadvertently or negligently, this does not constitute fraud.

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

- iii) In the event of fraudulent exaggeration, no part of the claim is payable (Orakpo v. Barclays Insurance Services (1995)). The police itself is not affected if other claims arise (or have arisen). However, an insurer who suspects fraudulent exaggeration is likely to invoke the cancellation condition at the earliest opportunity.

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

(Grand Sub-Total: 20 marks)

b) The insured is entitled to claim from his insurance having insured his vehicle on comprehensive basis. He also has a right to claim from the insurer of the negligent third party, but cannot do this as he cannot claim more than indemnity as this would amount to making a profit from the claim if he claims from both ways.

His insurers having settled the claim would now exercise its subrogation right by recouping from the third party's insurer in diminution of their outlay.

The action of the broker in assisting the insured to claim twice tantamount to FRAUD. He (the broker) should be reported to the regulatory authority (NAICOM in Nigeria) for necessary penalty.

Since the negligent third party insured his vehicle on "third party only" basis, which does not cover "own damage" loss, he cannot recover his loss from his insurer. This means in essence that, the third party has to repair his vehicle himself.

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

(Grand Total: 34 marks)

- 11(a) Section 143 of the RTA sets out the offences for "driving without insurance and permitting driving without insurance". Under what three (3) circumstances could a person using a motor vehicle in contravention of this section of the Act escape conviction if he is charged to court and what are the defences he would put forward? (15 marks)
- (b) What underwriting considerations do insurers put into play in using drivers as a rating factor in commercial motor insurance (goods carrying vehicles)? (14 marks)
- (c) What is the difference between "agreed value policies" and other types of motor policies? (5 marks)

Solution

a) A person charged with using a motor vehicle in contravention of RTA provision shall not be convicted if he proves:

- that the vehicle did not belong to him and was not in his possession under a contract of hiring or loan
- that he was using the vehicle in the course of employment
- that he neither knows or has reasons to believe that there was in force in relation to the vehicle such a policy of insurance or security

(3 marks for each correctly stated defence. Sub-Total: 15 marks)

b) The following are the underwriting considerations that insurers put into play in using drivers as a rating factor in commercial motor insurance (goods carrying vehicles):

- details of driver's age
- details of driver's driving experience
- details of driver's conviction history
- details of driver's accident history
- with the large fleet type of risks, it is not possible to rate on drivers because they will be constantly changing
- those that do not rate on such a factor would wish to satisfy themselves that the driver record is acceptable. It may be that if drivers do not have a satisfactory record, that will result in the insurer imposing a large accidental damage excess while they are driving
- insurers may also be tempted to discount the premium where the policyholder agrees to an endorsement excluding drivers under a certain age (often 21 or 25 years)

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

c) Agreed value policies differ fundamentally from other types of motor policies in that the basis of settlement is fixed (3 marks), the sum insured is agreed in advance between the parties if the vehicle is to be indemnified on a total loss basis (2 marks).

(Sub-Total: 5 marks)

(Grand Total: 34 marks)

12(a)i. Justify the ex-gratia payment occasionally embarked upon by motor insurers. (11 marks)

ii. Enumerate the category of vehicles that fall under goods carrying vehicles. (9 marks)

(b) Prince Samson had sojourned in the United States of America (USA) for about fifteen (15) years and recently returned to Nigeria. He has just insured his Brand New Toyota Saloon Car with Immaculate Insurance Company Limited on comprehensive basis.

While going through his private car policy document, he observed that depreciation, wear and tear, mechanical or electrical electronic or computer failures or breakdowns are excluded from the loss and damage section of the policy. He therefore wrote a very strongly worded letter of objection to the insurers querying why these risks should be excluded from the policy.

As the underwriting manager of the insurer, advise the insured the reasons responsible for the exclusion of these risks. (14 marks)

Solution

a) i) Ex-gratia payment is a claim settlement or payment made to the insured out of favour and or other business considerations and NOT by right. (5 marks). The claimant/insured might have breached a warranty or a condition of the policy such that ordinarily, his claim should not have been paid and perhaps because of the long standing relationship or other vital considerations, the claim is paid instead of outright repudiation of liability. When such payment is made, the insurer cannot recover from the reinsurer EXCEPT the reinsurer also decides to make an ex-gratia payment to the insurer since liability is not engaged abinitio. (5 marks for the definition; 3 marks for any correct and completely stated point. Maximum of 3 points to be graded. Total: 9 marks. Sub-Total: 14 marks)

ii)) The category of vehicles that fall under goods carrying vehicles are all the different types of vehicles that are intended or designed to carry goods (5 marks). They range from the largest articulated lorries (being 38lt gross laden weight or larger) (3 marks) down to small goods carrying delivery vans (5 lwt size) (3 marks). (Sub-Total: 11 marks)

b) As the underwriting manager of the insurer, my response to the insured will contain the following that:

- these are exclusions that have been termed “exclusion of gradually operating causes”
- the policy is NOT a maintenance contract as cars wear out, parts need replacing and/or maintaining, and generally speaking, the value depreciates over time
- all these things are inevitable and are therefore uninsurable
- any mechanical or electrical part that fail is excluded but the results of these mechanical failure are covered (subject to policy terms and conditions). For example, a con rod breaks, breaches the engine block and severs a brake line; any consequent collision damage to the insured vehicle is covered (assuming the insurance cover is comprehensive) but the con rod breakage is not covered. Another example is a small wire within wiring loom short-circuits and a fire ensues. The resultant fire damage is covered but the short-circuited wire is NOT (assuming the insurance cover is comprehensive).

(3 marks for each correctly stated justification. Maximum of 3 points to be graded. Total: 9 marks) (Grand Total: 34 marks)

13. (a) (i) "The claims department is the shop window of an insurance company".
Confirm the authenticity or otherwise of this statement. (14 marks)
- (ii) Enumerate any four (4) functions of the claims department. (10 marks)
- (b) What are the four (4) advantages of using the "approved" repairers by insurers? (10 marks)

Solution

a) i) Acquisition of a motor insurance policy provides the motorists with the legal cover in order to use the vehicles on a road and in addition, in the event of an accident, gives immediate peace of mind that adequate financial backing will be available, It is not until an accident or a loss actually occurs that the policy really comes into force. Rather, it is when the policyholder needs to make a claim that the value of the cover and the claims service is to pass the test.

Motor insurance, particularly private motor, is sold largely by price but nonetheless, a bad experience of claims handling can and does affect policyholders' decision as to whether or not to renew with the current insurer. This is the reason why the claims department has been described as the shop window of an insurance company.

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

ii) The functions of the claims department are to:

- provide a fast and efficient claims service
- indemnify the policyholders in accordance with the cover purchased
- ensure that only valid claims are paid
- deal with third party claims while protecting the policyholders interest; and
- protect the premium fund against overpayment, fraud and expenses incurred due to inefficient claims handling process.

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

b) The four (4) advantages of using the "approved" repairers by insurers are:

- to ensure quality service
- to have guaranteed prices (or pricing formula) for labour and parts
- to maintain the trust; and
- ensure no delay to "allotted" repairs with a guaranteed steady volume of work.

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

(Grand Total: 34 marks)

- 14(a) Motor insurance is compulsory compared to other classes of insurance. Describe the circumstances that led to the introduction of compulsory motor insurance. (19 marks)
- (b) What three (3) actions are required from the driver of any motor vehicle involved in an accident that caused third party injury or damage? (15 marks)

Solution

a) The first Road Traffic Act (RTA) 1930 introduced compulsory insurance in receipt of third party bodily injury liability arising from the use of vehicles on the road. Hitherto, motor vehicles owners usually had financial constraints as motor vehicles themselves were costly investment, this in the early days, the challenges of innocent road accident victims being denied compensation was not so serious. However, during the first world war and the immediate post war period, many more people learned how to drive motor vehicles. Also, advent of cheaper hire purchase facilities made motor vehicles more readily obtainable to many more people.

Consequently, the number of road accidents increased as did the number of cases where innocent victims were left uncompensated due to the inability of motorists to pay.

It must be noted that successive Road Traffic Acts have further impacted and developed legislation under RTA 1930.

(3 marks for each complete and correctly stated point. Maximum of 6 points to be graded. Sub-Total: 18 marks)

b) In accordance with S.120 of the RTA, such driver must:

- stop (6 marks)
- upon being required to do so by anyone having reasonable grounds, give name and address, name and address of the vehicle owner and identification marks of the vehicle (5 marks)
- where personal injury is involved, give details of insurance to the police or to someone having reasonable grounds to request them. Where a driver has not provided the above information at the time of the accident, they must report the matter to the police as soon as reasonably practical, and in any case, within 24 hours. (5 marks)

(Grand Sub-Total: 16 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A770

PRINCIPLES OF MARINE INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A770 -PRINCIPLES OF MARINE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	50%
Highest Score:	68%
Lowest Score:	52%
Average Score:	60%

Breakdown Updates**Question 1**

The two candidates had a good understanding of the question and performed well.

Question 2

The two candidates had a good understanding of the question and performed well.

Question 3

The candidate that passed the course understood the question and did excellently well, while the other candidate had a fair understanding of the question.

Question 4

The candidate that passed the course understood the question and did excellently well, while the other candidate did not have a good knowledge of the question.

Question 5

The candidate that passed the course understood the question and did excellently well, while the other candidate had a fair understanding of the question.

Question 6

The candidate that passed the course understood the question and did excellently well, while the other candidate did not have a good knowledge of the question.

Question 7

The two candidates had a good understanding of the question and performed well.

Question 8

The candidate that passed the course understood the question and did excellently well, while the other candidate did not have a good knowledge of the question.

Question 9

The two candidates performed just averagely in this question.

Question 10

xxx

Question 11

The two candidates attempted this question and their performances were below average.

Question 12

Only one candidate answered this question and displayed a good understanding of the question.

Question 13

Only one candidate answered this question and displayed an average understanding of the question

Question 14

Only one candidate answered this question and displayed an average understanding of the question.

Chief Examiner's Comments on Overall Performance:

The performance was just average.

Chief Examiner's Suggestions on Improvement:

Candidates should study deep and well so as to pass at one sitting.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. State four (4) of the six main features of ship construction.

Solution

The six main features of ship construction are:

- * pre-keel storage and fabrication
- * laying of keel and building
- * launching
- * fitting out
- * trials
- * handing over to buyers.

(1½ marks for any correctly stated feature. Maximum of 4 to be graded. Total: 6 marks)

2. List any four (4) of the principal factors that are usually considered by underwriters in determining the rate of hull time risk.

Solution

The principal factors that are usually considered by underwriters in determining the rate of hull time risk are:

- the valuation of the vessel
- management and ownership with their corresponding claims experience
- consideration of the type, trade, age, tonnage, all aspects of the machinery, whether main, auxiliary or refrigerating
- if entered with classification society for hull and machinery, that dates of survey related to each aspect have been carried out to maintain class
- conditions of insurance being offered
- repair costs; and
- underwriting experience of similar risks.

(1½ marks for any correctly stated factor. Maximum of 4 to be graded. Total: 6 marks)

3(a) What type of goods are suitable for Institute Cargo Clauses (B) cover?

(b) Give three (3) examples of the different types of goods referred to in (a) above?

Solution

(a) The type of goods that are suitable for Institute Cargo Clauses (B) cover are robust items (1½ marks) and other goods which are normally resistant to more general types of damage (1½ marks). (Sub-Total: 3 marks)

(b) Some examples of the different types of goods referred to in (a) above are:

- heavy machinery, contractors' equipment, second hand vehicles, certain steel products, base metals, e.t.c.
- raw cotton and piece goods and the likes in pressed and/or packed bales
- certain nuts, beans, seeds, rice and other produce in bags and raw sugar
- hides and skins, rubber in bales.

(1 mark for any correctly stated example. Maximum of 3 to be graded. Sub-Total: 3 marks)

(Grand Total: 6 marks)

4. List any six (6) types of liabilities covered by the Protection and Indemnity Clubs (P&I Clubs).

Solution

The types of liabilities covered by the Protection and Indemnity Clubs (P&I Clubs) are:

- * cargo liabilities
- * crew liabilities
- * passenger liabilities
- * other personal injury and death liabilities
- * collision liabilities
- * damage to fixed and floating objects
- * pollution liabilities
- * miscellaneous liabilities

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

5. What is a reinsurance treaty and its basic contents?

Solution

A reinsurance treaty is an agreement covering a book or class of business which is automatically accepted on a bulk basis by a reinsurer. (3 marks)

Its basic contents are common contract terms along with a specific risk definition, data on limit and retention, and provisions for premium and duration. (3 marks)

(Grand Total: 6 marks)

6. List any four (4) classes of Marine business that the “working excess of loss” are often used for their account balancing purposes.

Solution

The classes of Marine business that the “working excess of loss” are often used for their account balancing purposes are:

- * hull
- * cargo
- * liabilities
- * war risks
- * drilling rigs
- * assumed reinsurance.

(1½ marks for any correctly stated class. Maximum of 4 to be graded. Total: 6 marks)

7. State any three (3) duties of a reinsurance broker that the assured would consider advantageous.

Solution

The duties of a reinsurance broker that the assured would consider advantageous are:

- advising the reassured and constructing the reinsurance program
- considering the potential reinsurance market with particular reference to security
- the actual marketing of the business
- the construction of the contract wording
- arbitrating in the event of challenges and disputes
- general administration including claims management/claims collection

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

8. Enumerate any four (4) out of the six (6) countries that the International Groups of Protection and Indemnity Clubs are located?

Solution

The six (6) countries that the International Groups of Protection and Indemnity Clubs are located are:

- | | | |
|-----------|-----------|----------------------------|
| * England | * Bermuda | * United States of America |
| * Norway | * Sweden | * Japan |

(1½ marks for each correctly stated country. Maximum of 4 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a)i) What agency of government is responsible for aircraft registration in Nigeria? (4 marks)
- ii) To what agency must aircraft accidents be reported in Nigeria? (4 marks)
- iii) Who appoints the commissioner for insurance in Nigeria? (2 marks)
- (b) Explain five (5) reasons why “voyage” is considered an important factor in cargo insurance underwriting? (15 marks)
- (c) What constitute port risks, how does accumulation risk arise and how is it handled by underwriters? (16 marks)
- (d) Mention any three (3) types of offshore units. (9 marks)

Solution

- (a) i) Nigerian Civil Aviation Authority (NCAA) (4 marks)
- ii) Aircraft accidents in Nigeria must be reported to Accident Investigation Bureau (AIB). (4 marks)
- iii) The President/Commander-in-Chief of the Armed Forces (2 marks)
- (b) The reasons why “voyage” is considered an important factor in cargo insurance underwriting are:
- the longer the voyage, the longer the cargo on board will be exposed to loss or damage so information about the duration is critical to a successful underwriting
 - the underwriter also considers the port of call because the fewer the ports of call enroute, the faster the delivery
 - climatic conditions in relation to the size of the vessel is also a critical underwriting factor as large vessels, say, a 15,000 tonner will ride through an Atlantic Storm or an Eastern typhoon with greater stability than a 3,000 tonner

- facilities and reputation at the ports of loading and discharge will determine the safety and speed of the cargo handling, which will affect the underwriting of the risk
 - direct quayside transfers versus lighterage, covered versus open storage, average delay in customs and the effectiveness of compound security will also be considered by the underwriter
 - where transshipment is intended, allowance must be made for additional handling, storage and the mode of on-carriage itself makes voyage very critical in underwriting
 - the risk implicit in “warehouse-to-warehouse” delivery, is also considered in terms of distances from the ports and methods of conveyance employed.
- (3 marks for each correct and completely stated reason. Sub-Total: 15 marks)

(c) Port Risks is constituted of the following:

- laid up from new vessels built during boom in shipping business which later burst by the time the new vessels are ready
- laid up from supply vessels as a result of development of slackened new oil fields
- various international oil crises leading to lay-up of supertankers for long periods
- fishing vessels laid up because of countries’ quotas
- larger container vessels leading to overtonnage and nationalisation of smaller vessels
- seasonal variations resulting in low production of some fruits (e.g. banana and citrus fruits) leading to low demand in refrigerated vessels

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

Accumulation arise from two or more vessels, which have been insured by the same underwriter, being laid up alongside or adjacent to each other. (3 marks)

Accumulation is handled by underwriters stipulating additional safety precautions as the restricted anchorage can result in fire or storm damage to several vessels. The underwriters also arrange additional reinsurance protection.

(Sub-Total: 3 marks)

(Grand Total: 16 marks)

(d) Types of offshore units are:

- * jack-up units
- * semi-submersible or column-stabilised unit
- * ship-shape unit
- * fixed structure unit
- * Hutton-Field Tension Leg Platform.

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

- 10(a) Of what importance in the documentations of hull claims are the following:
- (i) disbursements warranty
 - (ii) notice of abandonment
 - (iii) bill of sale
 - (iv) payment authority? (20 marks)
- (b) A stranded vessel was re-floated with tugs assistance. She obtained a drydock estimate for the repair of stranding damage for ₦500,000.00, machinery re-floating damage for ₦300,000.00; cost of hired tugs for ₦250,000.00. The assured decided not to repair the vessel but to claim for constructive total loss from the underwriters. The vessel was sold as scrap for ₦100,000.00. Assume the values of ship and cargo were 50% (fifty percent) each, and the vessel was insured for ₦1,000,000.00, can the assured succeed in her claim for constructive total loss? Give reasons for your answer. (14 marks)

Solution

- (a) The importance in the documentations of hull claims in the following are:
- (i) **disbursements warranty:** where a policy contains a “disbursement warranty”, a certified list of all insurances must be furnished by the shipowners to enable the insurer to satisfy themselves that the warranty has been complied with.
 - (ii) **notice of abandonment:** except in certain circumstances, notice of abandonment must be given by the assured to the underwriters as this is a condition precedent to claiming for a constructive total loss.
 - (iii) **bill of sale:** where the underwriters accept abandonment and pays, or agree a constructive total loss (CTL), the transfer of the ownership of the vessel to the underwriters or their nominees (e.g. the salvage association) will need to be certified. In practice, the owner merely seeks offer for the vessel through those nominees. Where the transfer ownership is required, it is the only legal method. A wreck however, does not require such transfer of ownership.
 - (iv) **payment authority:** owing to the underwriters’ direct liability to the assured for claims, they require a payment authority from the assured to be able to pay claim to the broker. An example is “we hereby authorise you to pay your respective proportion of this claim to ABC Broker) and we agree that such payment, whether on account or otherwise, shall be a complete discharge to you”
- (2½ marks for each correctly stated explanation. Maximum of 2 points to be graded under each term.)
Sub-Total per term: 5 marks. Grand Total: 20 marks)

- b) Stranded Damage (PA) ranks in full: ₦500,000.00(2 marks)
Refloating Damage (GA) ranks in full: ₦300,000.00(2 marks)
Cosst of hired tugs (GA Expenses - Ships Proportion only): ₦125,000.00(2 marks)

Value of Wreck (N100,000.00) – disregarded: - (2 marks)
Total: N925,000.00(2 marks)

Conclusion: The claim for CTL will not succeed fails because the total amount ranking for consideration is not more than the insured value. (4 marks)

(Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)

11. As a broker, your client’s cargo, insured by ICC(A) warehouse to warehouse, was delivered at their warehouse with some packages damaged. You put up a claim with the insurers, which the latter declined, stating that their liability ceased immediately after discharge from the overseas vessel. Use the provision of the “transit clause” to defend the claim and explain to the insurer the extent of their liability under the said clause.

(34 marks)

Solution

The “transit clause” states interalia that this insurance attaches from the time the goods leave the warehouse or place of storage at the place named herein for the commencement of the transit, continues during the ordinary course of transit (5 marks) and terminates either:

- on delivery to the consignees’ or other final warehouse or place of storage at the destination named herein
- on delivery to any other warehouse or place of storage, whether prior to or at the destination named herein, which the Assured elect to use either for storage other than in the ordinary course of transit; or for allocation or distribution. (5 marks)

With the foregoing clause being part of the insurance policy, it protects the assured from the warehouse at the place of commencement of the transit to the assured’s warehouse where the goods were delivered with some packages damaged.

(10 marks)

Consequently, the insurers will be made to understand that they are liable to indemnify the assured for the damages suffered (10 marks) and that they may however exercise their subrogation rights against the carrier after paying the assured’s claim (4 marks).

(Grand Total: 34 marks)

12(a) Explain fully what is meant by the term “Private Road Carrier”? (16 marks)

(b) What are the time limits for notifying claims to carriers and how may the customer set aside carriers’ benefits of exclusion of liability so provided.

(18 marks)

Solution

(a) A "Private Road Carrier":

- is a party who contracts with the other that own goods for transportation of such goods.
- such carrier is free to accept or reject goods offered to him for carriage
- on taking possession of the goods, he becomes a bailee, whether gratuitously or for reward, and has a common law duty to take reasonable care of the goods
- the burden of proof of loss is on the carrier and the required standard of care in each case will depend on the nature and value of the goods
- barring stricter contractual terms, the carrier is only liable for loss, damage or delay resulting from their negligence or those of whom they are responsible e.g. servants and agents
- most private carriers are only willing to accept goods for carriage subject to their own conditions of carriage which limits or exclude their liability for loss, damage and/or delay.

(4 marks for any correct and completely stated point. Maximum of 4 to be graded, Sub-Total: 16 marks)

(b) The time limits for notifying claims to carriers and how the customer set aside carriers' benefits of exclusion of liability so provided are:

- loss from a parcel, package or container or from an unpacked consignment must be advised to the carrier in writing otherwise than upon a consignment note or a delivery document within three days; and the claim made in writing within seven days, after the termination of the transit. (5 marks)
- loss, mis-delivery or non-delivery of the whole of a consignment or of any separate parcel, package or container forming part of a consignment must be advised to the carrier in writing, otherwise than upon a consignment note or delivery document within twenty-eight days and the claim made in writing within forty-two days after the commencement of the transit.

(5 marks)

To set aside the carriers benefit of the exclusion, the customer has to prove that:

- it was not reasonably possible for him to advise the carrier or make a claim in writing within the time limit applicable; and (4 marks)
- such advice or claim was given or made within a reasonable time.

(4 marks)

(Grand Sub-Total: 18 marks)

(Grand Total: 34 marks)

13. Fully explain how underwriters, in practice, effect the repairs of damaged vehicles in different circumstances? (34 marks)

Solution

To effect repairs,

- the underwriters appoint a surveyor to be in attendance, from time to time, to inspect the progress of the repairs
- in due course, the surveyor (he) will examine the final repair account to ensure that it confirms to the repair of the damage surveyed
- he will either endorse the account as being fair and reasonable or comment as to why it is not
- surveyed repairs are occasionally deferred to a later date when it would be more convenient to the ship owners to effect the repairs
- where the cost of such delayed repairs become greater than the cost they would have been effected on the former occasion due to inflation or the latter part being more expensive, such increase in the cost of repairs would not be the concern of the underwriters
- where there is however a saving to underwriters by reason of the deferment, which can occur when repairs to damage caused by a number of separate casualties are effected concurrently with costs-sharing, the surveyor may be asked to comment on the comparison of costs between the two ports
- any saving to underwriters is used to offset the overtime cost up to the amount of saving realised
- temporary repairs are an additional expense to the cost of repairs and the cost is allowable where there is no alternative or where the deferment of the permanent repairs result in a saving to the underwriters

(5 points to any correct and completely stated point. Maximum of 5 to be graded. Sub-Total: 30 marks)

However, vessels trading on liner schedules are allowed to effect temporary repairs and incur overtime in order to keep the vessels to schedule, without reference to any savings. (4 marks)

(Grand Total: 34 marks)

14(a) How does the “exploration and production” aspect of the oil and gas industry contribute to the reinsurance needs of the marine market?(20 marks)

(b) What are “Protection and Indemnity Clubs” and how are they administered? (14 marks)

Solution

(a) The “exploration and production” aspect of the oil and gas industry contribute to the reinsurance needs of the marine market in the following ways:

- the various aspects of oil and gas exploration and production involve high values of money

- the peak values of production platforms is said to represent the greatest single unit value at risk in the marine underwriting market
 - the risk of pollution control is also a great exposure
 - the production platforms are often relatively near each other with the possibility of a natural disaster affecting more than one unit in an occurrence
 - much of the business is placed by way of package which may include the hulls, cargo, liabilities and property on share
 - the liabilities exposure is also very large because such claims take long processing time to be settled, therefore there is an additional need to ensure that the security of the reinsurers is of the highest order
 - the marine market employs the non-proportional reinsurance contract and other forms to balance their account down to an acceptable net line.
- (5 marks for each and every complete and correctly stated point. Maximum of 4 to be graded.)

Sub-Total: 20 marks)

(b) “Protection and Indemnity Clubs” are non-profit (1 mark) mutual associations (1 mark) of shipowners (1 mark) and charterers (1 mark). (Sub-Total: 4 marks)

They are administered as follows:

- owned and controlled by the insured shipowner or charterers who are members
- run by a board of directors which consists of members and it is the board which decides from time to time on amendments to cover
- day-to-day affairs of the club are managed by professional club managers
- members pay “calls” rather than premiums
- at the beginning of the year, each member pays an advanced call calculated to be sufficient to meet all the claims, reinsurance and administrative expenses of the club for that year
- if there is a shortfall due to high claims, members may pay a pro-rate additional call
- if there is a surplus, a return may be made to members or the surplus transferred to reserve to meet losses in other years
- the insuring condition are called “rules” rather than policies
- under some of the aspects of cover, the board is given discretion to reject or admit claims depending on the circumstances in which they arise.

(2 marks for each complete and correctly stated process. Maximum of 7 to be graded. Sub-

Total: 14 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A780

AVIATION INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A780 -AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate: 67%
Highest Score: 56%
Lowest Score: 33%
Average Score: 49%

Breakdown Updates**Question 1**

Below average performance. Only one candidate passed the question.

Question 2

Great performance. Two of the candidates scored 100% each.

Question 3

Grossly below average performance. No one passed the question.

Question 4

Great performance. Two of the candidates scored 100% each.

Question 5

xxx

Question 6

Great performance. Two of the candidates scored 100% each.

Question 7

Great performance. Two of the candidates scored 100% each.

Question 8

Average performance. One candidate got 100%.

Question 9

Performance here was far below average.

Question 10

Average performance.

Question 11

No one attempted the question.

Question 12

Average performance.

Question 13

Average performance.

Question 14

Average performance.

Chief Examiner's Comments on Overall Performance:

There were only three candidates and the two that passed simply passed averagely.

Chief Examiner's Suggestions on Improvement:

There is a great need for candidates wishing to sit for this course to study harder than is currently the experience as seen from the simply average performances of the candidates that sat for the course in this diet.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What are the passenger liability limits in French Francs of carriers for passenger liability under:

- (a) Warsaw Convention and (b) Hague

Solution

The passenger liability limits in French Francs of carriers for passenger liability under:

- a) Warsaw Convention = 125,000.00 francs per passenger
b) Hague = 250,000.00 francs per passenger

(3 marks for each correctly stated limit. Total: 6 marks)

2(a) In Aviation Insurance, what are special damages under calculation of damages? **(2 marks)**

(b) Mention at any two (2) main headings for calculation of these special damages. **(4 marks)**

Solution

a) In Aviation Insurance, the special damages under calculation of damages are quantifiable monetary loss(es) incurred by the plaintiff. **(2 marks)**

b) The main headings for calculations of these special damages are:

- loss of earnings together with loss of benefits
- expenses for nursing care
- paid help including gardening and assistance to perform basic tasks around the home
- replacement clothing if damaged and/or lost
- damage to possession

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

(Grand Total: 6 marks)

3. Briefly state the main difference between underwriting a satellite risk and an aircraft risk.

Solution

The main difference between underwriting a satellite risk and an aircraft risk is that the aircraft can be physically maintained **(3 marks)** and repaired while with the satellite risk, once in orbit the satellite cannot be repaired **(3 marks)**.

(Grand Total: 6 marks)

4. List any three (3) classes of participants in the aviation insurance market.

Solution

The classes of participants in the aviation insurance market are:

- * clients/buyers
- * underwriters
- * Brokers
- * Reinsurers

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

- 5(a) Name two (2) of the four (4) categories of aircraft set out in the Annex 1 to the Chigaco Convention.
- (b) Define a pilot-in-command.
- (c) At what age shall pilots not act as pilot-in-command?

Solution

a) The four (4) categories of aircraft set out in the Annex 1 to the Chigaco Convention are:

- * aeroplane
- * helicopter
- * glider
- * free balloon.

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

- b) A pilot-in-command is the pilot responsible for the operation and safety of the aircraft during flight time. (2 marks)
- c) Pilots who are aged 60 years or older shall not act as pilot-in-command. (2 marks)

(Grand Total: 6 marks)

6. Highlight the basic cover that sections 1, 2 and 3 of the standard aircraft policy form used in the London Market has.

Solution

The basic cover that sections 1, 2 and 3 of the standard aircraft policy form used in the London Market has are:

- Section 1: Loss of or damage to aircraft (hull)
- Section 2: Liability to third parties
- Section 3: Liability to passengers.

(2 marks for each correctly stated cover. Total: 6 marks)

7. Outline the use an application of the "70/30 formula"

Solution

"70/30" Clause is used to allow insurers to load a premium to provide an older aircraft which reflects the greater chance that any loss will be settled as a total loss (3 marks). To arrive at a more equitable premium, the "70/30" clause involves an additional payment at a rate of 30% of the difference between manufacturers' cost price and insured value. Aviation insurers estimates that 70% of claims expenditure is on total loss. (3 marks)

(Grand Total: 6 marks)

8. Write short notes on any two (2) types of discount that may be given on renewal of an aircraft policy.

Solution

The following are the types of discounts that may be given on renewal of an aircraft policy:

- **No Claim Discount:** whereby a return is made to the insured if no claim is made during the policy period. It is frequently made payable only if the policy is renewed with the same underwriters.
- **Fleet Rebate for Major Fleet Policies:** this rebate is expressed as a profit commission on the balance of premium less claims.
- **The “Group Experience” Return:** the “good experience return” has a fixed return of X or Y will be made if the total claims under a policy are less than a designated figure, this percentage is usually 50% or lower.

(2 marks for correctly stating the name/type of the discount. 2 marks for correct explanation of the stated discount. Sub-Total per discount: 3 marks. Maximum of 2 discount types to be graded. Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a)i What agency of government is responsible for aircraft registration in Nigeria? (4 marks)
- ii To what agency must aircraft accidents be reported in Nigeria? (4 marks)
- iii Who appoints the commissioner for insurance in Nigeria? (2 marks)

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- (b) Heritage Airways is a new Charter airline setting up in the UK and operating a small fleet of aircrafts. Some are leased from other operators and some are new purchases. Heritage Airways will operate a mixture of long haul and regional flights.

As an aviation insurance Broker, how would you advise:

- (i) Heritage Airways on the types/scope of coverage that the airline should seek from insurers? List any five (5) of such covers that your advice will contain. (25 marks)
- (ii) a consortium of banks, which are financing this new venture on the extent to which aviation insurers can protect them. (15 marks)

Solution

- a) Nigerian Civil Aviation Authority (NCAA) (4 marks)
- b) Aircraft accidents in Nigeria must be reported to Accident Investigation Bureau (AIB). (4 marks)
- c) The President/Commander-in-Chief of the Armed Forces. (2 marks)

b) i) As a Broker, I would advise Heritage Airways to seek the following scope of coverage from insurers:

- hull insurance
- aircraft third party liability
- passenger liability including baggage and personal effects
- cargo liability
- spares cover
- premises liability
- hanger keepers
- products liability
- crew personal accident
- group life for all members of staff

(5 marks for each correctly stated cover. Maximum of 5 to be graded. Total: 25 marks)

ii) The advice I would give to a consortium of banks, which are financing this new venture on the extent to which aviation insurers can protect them are that:

- the consortium should ensure that the airline maintain all requisite insurances and that the insurances will respond to the benefit of the bankers especially as it relates to hull and spares
- in the event of a total loss, the consortium should ensure that the claim proceeds will be paid to them in accordance to their exposure, with the insurer having the benefit of the salvage, but in the event of a partial loss, the insurer will probably settle the repairer directly

(5 marks for any complete and correctly stated point above. Sub-Total: 5 marks)

- **as it relates to all coverages,**
 - have the consortium regarded as contracting parties and then added to the contract as additional insureds
 - provides breach of warranty coverage
 - separates the lessors' interests as financial lessors
 - insurers to have subrogation rights with the provision that they cannot exercise this right without the consent of all the contracting parties
 - to ensure that all contracting parties will be given notice of cancellation or any reduction in coverage

(5 marks for any complete and correctly stated point above. Sub-Total: 5 marks)

- **as it relates to liabilities,**
 - a severability of interest provisions
 - no contribution from any other insurance available to the contract parties
 - no cover to any contract party arising out of their involvement in manufacturing or servicing the aircraft

(5 marks for any complete and correctly stated point above. Sub-Total: 5 marks)

(Grand Sub-Total: 15 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. Describe the development of international conventions and protocols relating to transportation by air.

Solution

The Warsaw Convent (1929) dealt with legal liability of airlines and standardization of documents of carriage, applying to international carriage of persons, luggage or goods performed by aircraft for reward and to free transport performed by an air transport organisation. (10 marks)

Main provisions are as follows:

- i) Article 3 sets minimum requirement for passenger ticket
- ii) Article 4 deals with luggage (other than any one item)
- iii) Article 5, 8 and 9 deals with cargo carried by an airway bill
- iv) Article 17 imposes strict liability on carrier in respect of death/injury of a passenger whilst on/embarking/disembarking from the aircraft
- v) Article 18 imposes liability on carriers for loss/damage to baggage/goods
- vi) Article 19 applies to carrier for delay of passenger/baggage/cargo
- vii) Article 20 provides the carrier with a complete defence if it can prove that it or its agent took "all necessary measures" to avoid the damage or it was impossible for it or its agent to take any such measure
- viii) Article 21 provides the defence of contributory negligence
- ix) Article 22 sets limits of liability to 125,000 Francs/Passenger and 250 Francs/Kilogram on checked baggage and cargo unless a declaration of cargo has been made.

(2 marks for any correct and completely stated point; with or without citing the Article Number. Maximum of 5 of such points to be graded. Sub-Total: 10 marks)

The Hague Protocol (1955) amended Article 3, requiring passenger tickets to contain a notice that Warsaw Convention provisions may apply and carrier liability may be limited. (4 marks)

Other developments are as follows:

- The Hague Protocol closes a loophole by adding a defence for servants and agents
- Guadalajara Convention 1961 protects the position of the contracting and actual carrier
- Montreal Agreement 1966 - what does this cover
- Malta Group 1976 - what does this cover
- Montreal Additional Protocol - what does this cover
- IATA Inter Carrier Agreement provides a complete waiver of limits in respect of passengers
- EU Regulation 2027/97 - what does this cover

(2 marks for any correct and completely stated point; Maximum of 5 of such points to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

11. Explain the coverage provided by the London Market Aviation Products Liability Policy Wording AVN 66.

Solution

The London Market Aviation Products Liability Policy Wording AVN66 provides two types of coverage referred to as Coverage A and Coverage B. (4 marks)

Coverage "A": bodily injury and property damage i.e. all sums that the insured becomes legally obligated to pay for bodily injury and property damage caused by an occurrence and arising from the products hazard. (8 marks)

Coverage "B": grounding i.e. loss of use of completed aircraft occurring after acceptance by operator or purchaser for flight operations caused by a grounding which arises from an occurrence in the policy period arising from the products hazard. (8 marks)

Insurers must pay all defence expenses and costs recoverable against the insured. Insurers will reimburse insured's reasonable expenses incurred at the insurer's request, except loss of earnings and loss of use. when the applicable limits of

both coverages have been exhausted in aggregate, insurers' obligation to make further payments come to an end. (5 marks)

General exclusions include bodily injury of employees, noise and pollution, contractual obligations, and damage to property owned by the insured. Claims are excluded in respect of losses which the insured does not take reasonable steps to eliminate, costs which are imposed by statute or assumed by way of warranty or guarantee and costs arising from the use of any launch vehicle. (5 marks)

Exclusions to "coverage A" include costs and expenses incurred by the insured if a product has to be withdrawn from the market or restricted in use owing a defect in the product. (2 marks)

Exclusions To "coverage B" include withdrawal of air worthiness certificate because the safe operational life of the product has come to an end. (2 marks)
(Grand Total: 34 marks)

12. An executive jet has been hit by small arms fire whilst parked. Having been granted a temporary certificate of airworthiness, the aircraft is ferried out to be repaired. However, it crashes on takeoff, killing the pilot and a passing motorist.

The aircraft was covered under the London Aircraft Insurance Policy - AVN1C and the Aviation Hull War and Allied Perils LSW555D.

Discuss the coverage issues that might apply and under which policies any potential claims may be covered.

Solution

It has been established that the aircraft had been damaged by small arms fire which will be covered by the hull war policy since it had been passed fit to fly and there was an assumption that the damage was not severe. (10 marks)

There is the question as to which market will insure the aircraft - the "all-risks insurer" or the "hull war insurer: under the hull risks extension. The liability insurer will also need to agree any move as the aircraft will be on a temporary certificate of airworthiness. (5 marks)

The proximate cause of the crash in this case would be the gunfire damage and the hull war policy would cover the hull loss with any liability award - paid

under the Extension Coverage Endorsement (Aircraft Liabilities) – AVN 52E which would likely be on the liability placing. (10 marks)

In the event of a mechanical defect, much will depend on the findings of the surveyor. In the case of liability losses, the claimants would probably look to involve not only the aircraft owners in any action but also the pilot and any party identified in the reports who may have been at fault. (5 marks)

In the event of an unrelated incident which is outside the control of the insured, this is a cause which can be classed as a pure accident and will be paid subject to policy terms, conditions, e.t.c. under the hull and liability policy. (4 marks)

(Grand Total: 34 marks)

- 13(a) Explain the use of verticalisation for aviation risks and the implications to an insured. (12 marks)
- (b) Describe briefly in respect of an airline risk management program, the importance to an organisation of the following considerations:
- (i) transfer of legal and financial responsibility
 - (ii) incident and accident reporting
 - (iii) quality/safety management review/event investigation (12 marks)
- (c) Explain briefly, under section 1 of the London Aircraft Insurance Policy AVN1C:
- (i) the coverage issues arising from losses involving “wear and tear”. (4 marks)
 - (ii) insurers’ condition in respect of dismantling, repairs and transportation in the event of an insured loss. (6 marks)

Solution

a) In a subscription market, a rate for a risk would be set by the leader and all other insurers would support that rate for their respective shares. It was felt by various parties that this resulted in no competition between insurers on price. This is what is meant by the use of verticalisation as it relates to aviation risks.

The implication to an insured is that it benefits the insured by producing a significantly lower and more competitive premium that would have been available under the traditional rate – subscription marketing approach. This will continue to benefit insureds while there is overcapacity. If there is a shortage of capacity, this approach may work against an insured in that insurers could force the rate up for their share.

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

b) i) **Transfer of Legal and Financial Responsibility:** the risk and liability may be transferred and will leave the airline with the primary responsibility for flying passengers/cargo on aircraft/ the benefit can be in cost saving and transferred liability.

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

ii) **Incident and Accident Reporting:** this is a vital tool to an airline's risk management programme. Management needs to receive immediate feedback of safety problems, for example, poor operational practices and act on it. This will ensure that there is a reduced likelihood of accidents and subsequent insurance losses and bad publicity.

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

iii) **Quality/Safety Management Review/Event Investigation:** should be carried out on a regular basis to ensure that the airline is employing best practice and learning from any past mistakes or bad practices. A designated team of personnel should be carrying out regular checks into working practices and reacting to alerts from concerned members of staff - (perhaps through staff incentive schemes). The main lesson is to learn from past mistakes without apportioning blame.

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

(Grand Total: 12 marks)

c) i) **"Wear and tear"** is an exclusion common to most branches of insurance. All machinery will suffer from wear and tear whilst operating, and is therefore a hazard of using it, insurers cannot be expected to pay for an occurrence which is definitely going to happen or is a result of poor maintenance practices.

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

ii) In the event of a partial loss, no dismantling or repairs can be started without insurer's consent except in the interest of safety or to comply with orders issued by the appropriate authority. Insurers will only pay for repairs and transportation by the most economical means.

In the event of a total loss, insurers have the option to take the aircraft as salvage. Coverage under Section 1 of the London Aircraft Insurance Policy AVN 1C will be terminated.

In respect of the subject aircraft and, if the aircraft is to be replaced, the replacement will be of the same make and type and in reasonably like condition.

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

(Grand Sub-Total: 10 marks)
(Grand Total: 34 marks)

- 14(a) State, the following, in respect of personal injury extension-AVN 60A:
- (i) four (4) offences for which coverage is provided (8 marks)
 - (ii) the limit that is usually applied. (4 marks)
- (b) Outline five (5) of the objectives of the International Civil Aviation Organisation (ICAO) (10 marks)
- (c)i Explain the reasons why a direct aviation underwriter would choose to buy excess of loss reinsurance and how it may be structured. (8 marks)
- ii Explain briefly the term “ultimate net loss” with respect to an excess of loss reinsurance. (4 marks)

Solution

- i) The offences for which coverage is provided are:
- false arrest, restraint, detention or imprisonment
 - malicious prosecution
 - wrongful entry, eviction or other invasion of the right of private occupancy
 - inadvertent discrimination with respect to withholding or refusal of transportation except in respect of overbooking
 - libel or slander other than if related to advertising, broadcasting or telecasting activities by or on behalf of the insured
 - incidental medical malpractices arising from the provisions of emergency, medical relief by or on behalf of the insured.
- (2 marks for each complete and correctly stated offence. Maximum of 4 to be graded. Sub-Total: 8 marks)
- ii) The usual maximum limit that is US\$25,000,000 on any one offence and in the annual aggregate, (4 marks)
- b) The objectives of the International Civil Aviation Organisation (ICAO) are 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
 - prevent economic waste caused by unreasonable competition
 - ensure that the rights of the contracting states are fully respected and that every contracting states has an opportunity to operate international airlines

- meet the needs of the people of the world for safe, regular, efficient and economic air transport
- avoid discrimination between contracting States
- promotes safety of flight in international air navigation
- promote generally the development of all aspects of international civil aeronautics.

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

c) i) The **reasons why a direct aviation underwriter would choose to buy excess of loss reinsurance** are:

- to protect the book against a possible major loss, which could result in potential accumulation. (2 marks)
- to enter new classes or to expand within an existing class (2 marks)

It may be structured by buying in layers up to an agreed maximum sum insured usually subject to an ultimate net loss and would contain provision to reinstate the sum insured for a limited number of times. (4 marks)

ii) **“Ultimate net loss” with respect to an excess of loss reinsurance** is the actual losses/claims that the original insurer is liable for arising out of any one loss, after considering recoveries from any other more specific reinsurances such as facultative, quota share or surplus reinsurances. The ultimate net loss is then applied to the excess of loss programme to calculate the recoveries from the reinsurance program and the reinstatement premiums, if applicable.

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

(Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A785

PRINCIPLES OF REINSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A785 -PRINCIPLES OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	10%
Highest Score:	55%
Lowest Score:	0%
Average Score:	33%

Breakdown Updates**Question 1**

Generally, below average performance.

Question 2

Generally, below average performance.

Question 3

Generally, below average performance.

Question 4

Generally, below average performance.

Question 5

Generally, below average performance.

Question 6

Generally, below average performance.

Question 7

Generally, below average performance.

Question 8

Generally, below average performance.

Question 9

There was a slight understanding of the question by some of the candidates but the general performance was still below average.

Question 10

There was a slight understanding of the question by some of the candidates but the general performance was still below average.

Question 11

Very few candidates attempted this question and none of them got up to 50% of the allotted total allocated marks.

Question 12

Very few candidates attempted this question and none of them got up to 30% of the allotted total allocated marks.

Question 13

Very dismal performance. Below average scores attained by all.

Question 14

Only one person scored above 50% in this question. The performance was very poor.

Chief Examiner's Comments on Overall Performance:

The general performance was very much below average and those who passed simply passed by the "whiskers". A candidate scored zero. There was no answer supplied that could earn the candidate even one single mark.

Chief Examiner's Suggestions on Improvement:

When candidates choose electives, they should endeavour to study hard so as to excel in the chosen electives. This is the worst performance in this course in recent years and it might be that the candidates did not adequately prepare for the examination notwithstanding the long time they had during the covid-19 break. Head knowledge will not work in professional examinations.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Enumerate the three (3) parts that the traditional primary function of a reinsurance broker can be divided into.

Solution

The three parts that the traditional primary function of a reinsurance broker can be divided into are: (i) acquisition; (ii) placing and (iii) servicing of business.

(2 marks for each correctly stated part. Total: 6 marks)

2. Enumerate any three (3) crucial information required to be made known to a reinsurer when the cedant offering the business is previously unknown to the reinsurer.

Solution

The crucial information required to be made known to a reinsurer when the cedant offering the business is previously unknown to the reinsurer are:

- date that the company was established
- capital structure of the company
- ownership of the company
- company's trading results
- knowledge/experience of the individual underwriters in the cedant office
- ability and competence of the cedant's office management team.

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

3. What do the following clauses focus on?

(a) Ultimate Net Loss Clause; and (b) Net Retained Lines

Solution

i) **Ultimate Net Loss Clause** determines the amount the reinsured is entitled to collect for any one loss under the contract, it defines the limit of liability of the reinsurers. (3 marks)

ii) **Net Retained Lines Clause** stresses that the reinsurance applies only to that proportion of any insurance which the reinsured has retained net for its own account. Otherwise, the reinsured could recover the same loss from more than one reinsurance policy (although this is not allowed by law) (3 marks)

(Grand Total: 6 marks)

4. Why does an insurer purchase a catastrophe cover?

Solution

An insurer purchases a catastrophe cover to protect itself for the potential losses arising from one insured event, such as earthquake, windstorm, e.t.c. the cover is

to protect the insurer since the losses will exceed the cover provided by their existing reinsurance either due to their size of the number if net retentions that the insurer might be forced to accumulate.

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

5. Enumerate any three (3) products or their components that are commonly excluded under treaty reinsurance.

Solution

The products or their components that are commonly excluded under treaty reinsurance are:

- * aircraft
- * pharmaceuticals
- * blood and plasma products
- * toxic or explosive chemicals
- * industrial boilers
- * portable oil heaters; and
- * tobacco.

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

6. Enumerate any three (3) exclusions generally found under motor treaties.

Solution

The exclusions generally found under motor treaties are:

- those that take our dangerous activities
- those that take our hazardous cargo
- areas not properly covered by motor insurance
- exposure to high-value third party property damage
- exclusions relating to areas of higher risk

(2 marks for each correctly stated exclusion. Maximum of 3 exclusions should be graded. Total: 6 marks)

7(a) What is meant by a “table of limits”? (2 marks)

(b) Enumerate the two (2) significant purposes of a “table of limits” for a reinsurer? (4 marks)

Solution

a) A “table of limits” is a table denoting the insurers retention for different classes or classifications of property risk. (2 marks)

b) The two significant purposes of a “table of limits” for a reinsurer are that it indicates to the reinsurer what the reinsurer’s maximum liability will be, expressed in terms of “lines” and also tells the reinsurer how this maximum liability relates to the reinsured’s own retention.

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

(Grand Total: 6 marks)

8. Good Fortunes Insurance company, for its cover period of 01/01/2010 to 31/12/2010, a GPI of ₦1,200,000.00, has a cover of ₦100,000.00 XS of ₦100,000.00 any one loss with a minimum deposit premium of N10,000.00

adjustable at a rate of 1% of gross net premium income, subject to one reinstatement at 100% additional premium as to time and pro rata as to amount. There was a loss of ₦150,000.00 gross net from the ground. Calculate the initial and final deposit premium.

(NOTE: loss to cover amount is ~~₦50,000.00~~ or 50% of limit of indemnity - WIG).

Solution

Initial Reinstatement Premium = $\frac{\text{Cost of Claim to Cover}}{\text{Limit of Reinsurance Cover Available}} * \text{Premium}$ (1 mark)

$$= \frac{\text{₦50,000.00}}{\text{₦100,000.00}} * \text{₦10,000.00} = \text{₦5,000.00} \text{ (1 mark)}$$

However, when the deposit premium has been adjusted, the actual premium for the year is: $\text{₦1,200,000.00} * 1\% = \text{₦12,000.00}$ (1 mark)

Consequently, Reinstatement Premium should be:

$$\frac{\text{₦50,000.00}}{\text{₦100,000.00}} * \text{₦12,000.00} \text{ (1 mark)}$$

$$\text{₦100,000.00}$$

$$= \text{₦6,000.00} \text{ (1 mark)}$$

ie. An additional payment of reinstatement premium of ₦1,000.00 is required when the premium adjusted is calculated. (1 mark)

(Grand Total: 6 Marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) List the requirements for submission of reinsurance treaties/arrangements according to Section 4.2 of the NAICOM prudential guidelines” (10 marks)
- (b) In reinsurance, there is usually avenue for portfolio premium and loss transfer. In what four (4) circumstances can portfolio premium and loss transfers be effected? (20 marks)
- (c) An insurer has a 40% quota share treaty protecting a maximum sum insured for any one risk at ₦200,000.00 and a five-line first surplus and a four-line second surplus treaty. It is asked to insure a risk for ₦2,400,000.00 and seeks proportional facultative cover to enable it do so. How is the exposure apportioned between the parties? (show the answers in both quantum and percentages). (20 marks)

Solution

a) Section 4.2 of the prudential guideline on reinsurance treaties /arrangements (except Oil and Gas) states that;

- an Insurer shall ensure that the “treaty slips” are fully signed by all the participating reinsurers
- all reinsurance treaties and life treaty cover-notes/addendum, for the following year, shall be filed with the Commission on or before 31st December of the preceding Year or 15 days before the effective renewal date for those whose treaty renewal dates do not fall on 1st of January. In both cases, the submissions shall also be accompanied by the following :
 - Signed slips of all reinsurance arrangements and not only cover-notes issued/signed by the reinsurance brokers;
 - Evidence of premium remittance for the previous four (4) quarters (i.e. 4th, 1st, 2nd and 3rd Quarters);
 - evidence of payment of Minimum and Deposit (M&D) Premium for the following year on the General Business treaties; and
 - the financial strength rating of the foreign reinsurers.

(Sub-Total: 10 marks)

b) Portfolio Premium and Loss Transfer in reinsurance can arise in the following circumstances:

- where the reinsured wants a new treaty to assume the portfolio of business in force at the inception of the treaty, or a new reinsurer to assume the portfolio from a retiring reinsurer. The clause will provide for a portfolio premium, expressed as a percentage of the preceding twelve months’ premium, to be transferred to the assuming reinsurer. If the loss portfolio is similarly being assumed, the amount, expressed as a percentage of estimated outstanding losses at the assumption date, is likewise transferred.
- where there is an option, usually open to the reinsured only, to withdraw premiums and outstanding losses upon termination. This can either be of the entire treaty or of a retiring reinsurer’s participation (the latter linking, of course, with the assumption described in the first point). A clause providing for the withdrawal of portfolio by the reinsured from a retiring reinsurer operates on exactly the same basis as for the assumption of portfolio, amounts being debited to the reinsurer instead of credited.
- where the entire treaty is on a ‘clean cut’ basis (with the portfolio being withdrawn at the close of each year and ceded to the next year) the clause

provides for a portfolio transfer account to be prepared at the end of each annual period of the treaty. This account debits the reinsurers of the old year and simultaneously credits the reinsurers of the new year, with premium and loss portfolios expressed as agreed percentages of premium and outstanding losses. At the same time, any premium and loss reserve deposits (together with any interest accruing to the reinsurer) should be released to the credit of the outgoing reinsurers and withheld from the incoming reinsurers.

- where a treaty on an underwriting year basis may provide for the closing of each year after a specified period (for example three or five years) and the transfer of any subsisting liability into the next open year. In these cases, provision is made for the transfer of a portfolio amount into the next open underwriting year representing both unexpired liability and outstanding losses.

(2½ marks for each correctly mentioned point. Maximum of 2 complete and correct point made to be graded per point. Sub-Total per Point – 5 marks. Grand Sub-Total: 20 marks)

c)

Cedant/Quota Share i.e. 60%/40% (1 mark)	Cedant (N120,000.00/Quota Share N80,000.00) N200,000.00 (3 marks)	-8.34% (1 mark)
Five-Line First Surplus (1 mark)	1,000,000.00 (3 mark)	-41.66% (1 mark)
Four Line Second Surplus (1 mark)	800,000.00 (3 mark)	-33.33% (1 mark)
Facultative Proportional (1 mark)	400,000.00 (3 mark)	-16.67% (1 mark)
TOTAL:	2,400,000.00	100.00%

(Grand Sub-Total: 20 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

- 10(a) Why are reinsurers unwilling to allow the reinsured any reduction in the reinsurance premium by way of commission in non-proportional treaties? (4 marks)
- (b) The cost of reinsurance to an insurer is determined by the amount of premium it must pay to its reinsurers notwithstanding the costs incurred by the insurer. Therefore, it is reasonable for the reinsured to seek the recovery of some of the costs incurred in the production of the business. This recovery is achieved by the application of ceding commissions to the reinsurance premium. Enumerate and explain any three (3) common forms of commission in use in proportional treaties (excess of loss). (30 marks)

Solution

- a) Reinsurers are unwilling to allow the reinsured any reduction in the reinsurance premium by way of commission in non-proportional treaties (excess of loss) because the reinsured **has not sustained any acquisition or administrative costs directly attributable** to the reinsurance risk being offered. (2 marks for each bolded phrase; Total: 4 marks)
- b) The common forms of commission in use in proportional treaties (excess of loss) are:
- i) **Flat-Rate Commission:** if a portfolio of business is expected to have very stable results, with the results in any one year not subject to significant fluctuations, and if it is not to any great extent exposed to variations in profitability that can be influenced by the way business is ceded to the treaty (as in the case of surplus or facultative obligatory treaties) then the application of a flat-rate commission is commonly applied. This is shown in the reinsurance terms and conditions as a percentage of the gross premiums that will be ceded to the reinsurance. The percentage will differ on each reinsurance arrangement depending upon the type of reinsurance, the class of business, previous results, geographical scope, market conditions and so on, but it should be sufficient to cover the ceding company's own acquisition costs and make a contribution to its administrative expenses.
- ii) **Profit Commissions (Flat-Rate Basis):** if a treaty is profitable then both reinsured and reinsurers benefit from the agreement. If it is unusually profitable, the reinsured may seek an extra commission from reinsurers for giving them a share in such a good account. This payment would be called a profit commission and would most commonly be allowed on stable quota share and surplus

treaties. The existence of a profit commission in the treaty would be seen as an incentive to the reinsured to underwrite a sound, profitable account, as the 'better' the business the more of its gross premium income it is likely to retain. There are many variations but on each individual treaty the terms and conditions of any profit commission should be clearly established and set out in the treaty wording.

iii) **Sliding Scale Commission:** profit commissions on a flat-rate basis reward the reinsured for a good result on a particular treaty but are an inflexible mechanism. The incentive to do better has a limited appeal and certainly does nothing for either party should the results be less profitable than expected. An alternative is to have commissions calculated on a sliding scale basis which not only automatically rewards the cedant for producing a good result but also takes into account the possibility of imposing a 'penalty' in the event of a poorer than expected performance. The cedant debits the reinsurer with a provisional commission on premiums paid during the year. This commission would be adjusted at the end of the year. The adjustment is determined in accordance with an agreed variable table of commissions linked.

iv) **Loss Participation:** whilst it can be seen that the sliding scale basis goes some way towards rewarding the cedant for good results and protecting the reinsurers against a worse than expected performance, it does little in the event of the results of a treaty being exceptionally poor. A flat-rate profit commission achieves even less to address this possibility, being purely an extra reward for good performance. Proportional reinsurance has its foundations in 'sharing' arrangements - the cedant and the reinsurer sharing in the fortunes of the original business. Therefore, if there is an expectation that heavy losses may be incurred, some form of loss participation clause may be adopted to ensure a more equitable distribution of the net loss between the cedant and its reinsurers. This can be explained as a reverse profit commission situation whereby the loss above an agreed loss ratio would be redistributed so that the cedant bears some portion of a very heavy loss rather than the reinsurers bearing the whole burden.

(5 marks for each correctly stated form; 2½ marks for any correct explanation. Maximum of 2 explanations should be graded on each form; Sub-Total per form - 10 marks. Maximum of 3 forms to be graded. Sub-Total: 30 marks)
(Grand Total: 34 marks)

11 Write short notes on the following clauses:

- | | |
|-------------------------------|---------------------------------|
| (i) Interlocking Clause | (ii) Index (Stability) Clause |
| (iii) Claims Series Clause | (iv) Aggregate Extension Clause |
| (v) Local Jurisdiction Clause | (vi) Acts-in-Force Clause |
| (vii) Hours Clause | |

Solution

(a) Interlocking Clause:

This clause arises in policies incepting during contracts. If a loss is spread over more than one year because the original policies incept in different years, the reinsured might have to run more than one retention

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

(b) Index (Stability) Clause:

The Index (Stability) clause apportions the effect of inflation between limit and deductible, usually geared to wages. The purpose is to maintain the relative value of the retention and cover at the time of payment of a claim with that prevailing at the commencement date of the treaty underwriting year.

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

(c) Claims Series Clause

Claims series clause defines a claims series event by relating all claims from the same specific common cause involving one original insured, arising from a product of the same design or specification.

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

(d) Aggregate Extension Clause

The purpose of the aggregate clause extension clause was to allow cover for underlying aggregated claims as one loss to reinsurance contracts where the original policy giving rise to the claims making up an aggregate loss was written on aggregate basis.

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

(e) Local Jurisdiction Clause

The purpose of the local jurisdiction clause is to ensure that claims falling to the reinsurance cover shall be settled in accordance with the law of those countries specified in the territorial scope.

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

(f) Acts-in-Force Clause

This is also known as the 'change in law' clause. The purpose of this clause is to avoid an increase to reinsurer's liability due to change in law of a country which

would increase reinsurer's liability substantially from that envisaged at the outset of the treaty.

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

(g) Hours clause

The hours clause stipulates that the reinsured can seek cover for all losses arising from the insured peril for a set number of hours following the commencement point.

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

(Grand Total: 34 marks)

12(a) What is gross net premium income as it applies to a non-proportional reinsurance contract? (2 marks)

(b) When considering which method of reinsurance to adopt for the protection of individual risks or a particular class of business, an insurer has to take a number of different factors into account before deciding which is the most appropriate to meet all or most of its business objectives. Enumerate and briefly explain four (4) circumstances when the use of treaty excess of loss will be considered appropriate for an insurer. (32 marks)

Solution

a) Gross Net Premium Income is an agreed amount of money paid by the insurer under a non-proportional contract when the contract is agreed. This amount may be subject to alteration at the end of the term of the contract, dependant on the amount of risk ceded to the treaty. (2 marks)

b) The circumstances when the use of treaty excess of loss will be considered appropriate for an insurer are:

i) on the nature of business to be protected: when considering the choice of reinsurance protection, particular attention must be paid to the nature of the original business to be protected. Whilst all original risks could probably be reinsured on an individual basis (facultatively), this would prove inconvenient and administratively expensive for an insurer with any sizeable portfolio of business. If the portfolio is made up of a number of small risks for which there is little exposure, the insurer may not wish to pass on the substantial volume of premium to its reinsurer on a largely profitable account but merely protect

against an 'unforeseen' event which may accumulate the exposure of the insurance company to a degree which substantially affects its profitability.

ii) on exposure to large losses: excess of loss can be used specifically to protect the insurer against an exposure to a specific large loss event such as a windstorm where the portfolio is exposed to large individual losses and to the effects of the accumulation of loss as a result of a particular event. While protection for large specific cases can be catered for by surplus treaty arrangements, full protection for classes of business without known sums insured cannot. Provision should be made for the effects of any possible catastrophe situation that may arise.

iii) on ease of use: when the ease of what method to be used is of importance, then a major attraction of the excess of loss treaty is its simplicity of operation, particularly where the need for reinsurance is deemed to be more important for the control of exposure to loss rather than other financial considerations. The insurer must ensure that its retention and the amount of cover it purchases are sufficient to meet its foreseeable needs but after that, it need no longer be concerned about the reinsurance of individual risks. The insurer will be liable for all losses that fall below the limit of the deductible (the retention) and reinsurers will be liable for all losses greater than this amount.

iv) on level of protection and retention required: when assessing the amount of protection required and the level at which the protection starts needs great care on the part of the insurer. If it is issuing original policies providing unlimited liability – as in the case of some motor third party insurances in some parts of the world – it must ensure that its last layer of protection is unlimited or it may find itself having to retain, in addition to its agreed retention, any loss amounts that are greater than the total amount of reinsurance purchased. In this instance, treaty excess of loss comes in handy subject to the understanding that if the retention is set at too high a level in relation to the anticipated normal losses of the class of business being protected, the insurer may find that in a typical year it ends up paying not only the cost of the reinsurance premiums but also the full cost of all claims. Any recovery from reinsurers will only be applicable to the exceptionally large claims to the account, of which there should be very few and which occur infrequently.

v) on whether to use an excess of loss with other types of reinsurance: treaty excess of loss reinsurance may be used by an insurer as the sole means of protecting an account or class of business by purchasing protection both at a per risk level and for catastrophe situations. It is also widely used in conjunction with proportional reinsurances, particularly where the insurer does not want the restrictions to the amount of risk cover that may be available from excess of loss reinsurers, and is concerned with the effect that an accumulation of losses arising out of one event may have on its overall net retained liability. In this case, the individual risk protection would be provided by quota share and/or surplus treaties, and/ or facultative policies, with the excess of loss treaty being in place to respond when the accumulated losses to the reinsured on individual risks arising out one event reach an unacceptable level. This point will vary depending on the financial strength of the company concerned but would be deemed to be the point at which true catastrophe protection would commence.

vi) other circumstances/factors could be: other factors/circumstances also influence the decision as to which form of treaty reinsurance an insurer will select. These are: (i) what will be the administrative costs and how easy will it be to operate? (ii) what is the effect on the company's net retained premium income and does this support its overall business strategy? (iii) is reinsurance required solely to control exposures to losses or is it required to assist with other financial considerations such as easing or meeting solvency regulations? (iv) does the company want to use reinsurance as a means of expanding its book of business by use of reciprocal exchanges?

(4 marks for summarized circumstance; 2 marks for each correctly stated point under the circumstance.
Maximum of 2 points to be graded under each circumstance. Sub-Total for each circumstance - 8 marks. Maximum of 4 circumstances to be graded. Grand Sub-Total: 32 marks)
(Grand Total: 34 marks)

- 13(a) Consideration is a requirement of all contracts, including contracts of reinsurance. What is the consideration usually provided for in a reinsurance agreement? (4 marks)
- (b) When an unknown cedant is offering business to a reinsurer, there should be some specific information concerning the proposed reinsurance that should be made available to the reinsurer by the cedant. Enumerate and explain any four (4) of this information. (30 marks)

Solution

a) The consideration usually provided for in a reinsurance agreement is that **one party, the reinsured, will promise to pay a premium** and **the other party, the reinsurer, will promise to provide an indemnity.**

(2 marks for each bolded phrase. Sub-Total: 4 marks)

b) When an unknown cedant is offering business to a reinsurer, there should be some specific information concerning the proposed reinsurance that should be made available to the reinsurer by the cedant. These are:

- **Class or Classes of Business to be Covered:** there should be a clear indication to the reinsurance underwriter of the precise risks to be protected by the reinsurance. If possible, the nature and extent of original coverage should be outlined and, with a new cedant, examples of original policy wordings would be advantageous. Also, full details of the territorial scope of the proposed reinsurance would be useful.
- **Original Policy Sums Insured.** details of the sums insured or the limits of liability being issued by the cedant should be made available, including any deductibles that are applied to the original policies. A risk profile of the portfolio of risks to be protected should be prepared.
- **Risk Profile:** as well as details of the different sums insured that are being underwritten by the cedant, this should also indicate whether the account consists of similar risks or is a varied book of business. The risk profile should indicate whether the portfolio consists entirely of direct insurances or whether there is an element of inwards reinsurance business, as this may present the potential reinsurer with significant additional unknown accumulation exposures. Finally, the relationship between any hazardous and non-hazardous risks in the portfolio should be made clear and what, if any, special perils or risks may be covered.
- **General Experience:** there may be concerns about the cedant's experience in the particular class or classes of business that it is proposed the protection will cover. Positive information confirming the overall experience of the company to manage its accounts and its claims as well as the individual experience and competence of the actual underwriters can be beneficial in negotiating the required reinsurance. Information concerning the development of the cedant's premium income over the past five to ten years is also a valuable indicator as to whether the company's

attitude to growth is aggressive or conservative, particularly if it is supported with a record of individual policy numbers issued.

- **Claims Experience:** this information more than any other, forms the basis of the negotiations on the price of the reinsurance. Claims experience influences the premium required by non-proportional reinsurers and the commission that proportional reinsurers will be prepared to allow. Any claims details must be sufficient to enable the reinsurer to assess what its future liabilities may be. It would not be adequate to advise whether the particular reinsurance being placed has had any losses or not. This could be misleading if the cedant has recently increased its general underwriting policy, increased its original policy limits or changed its underlying proportional arrangements over the past few years. All of which would require the reinsured to provide 'as if' loss figures. In the case of non-proportional reinsurances, claims which previously were settled below the deductible may now be considerably greater due to the effect of inflation or changes in law and attitude of courts in settling compensation claims. Consequently, it may be necessary to obtain details of all claims that have affected the portfolio or at least all claims larger than, say, 50% of any proposed reinsurance deductible.

With a liability account (long-tail business), there is a need for reinsurers to project the anticipated eventual loss experience for each underwriting year. This is because of the length of time it can take for claims to be reported and settled. Therefore, statistics that predict the possible outcome are required. Such loss details are called 'development' or 'triangulation' statistics and will give paid and outstanding loss figures as at annual review dates on an individual claims basis. This information not only proves invaluable for rating the risk but also gives a significant insight to the reinsured's claims-reserving philosophy and expertise.

- **Exclusions:** in addition to any standard exclusions that will be applied, such as nuclear or war risks, the cedant should provide, wherever possible, details of the business or perils that it does not underwrite or for which it does not require reinsurance. Even if such a list is available, it will not be unusual for reinsurers to impose their own exclusions, especially if the definition of the class of business or account being protected is not

precisely defined such as 'Reinsured's Marine Account' or 'Whole Account Reinsurance.

- **Reinsurance Preference:** this has a major influence on the price of its reinsurance and, in some instances, on the availability of reinsurance, and there are different factors to be considered for proportional and non-proportional reinsurances.

(2 marks for correctly stated information. 2 marks for any correct explanation on each information. Maximum of only two complete and correct explanations to be graded per information. Sub-Total: 30 marks)

(Grand Total: 34 marks)

14. Liability reinsurance is either proportional or non-proportional and the latter is determined by various rating methods.
- (a) Enumerate and fully explain any three (3) of these rating methods. (30 marks)
- (b) Concisely mention the main difference that made these different rating methods in existence. (4 marks)

Solution

a) The different rating methods for rating non-proportional liability reinsurance arrangements are:

- **experience rating:** is used for layers where past claims experience is relevant for the expected future claims cost. The key issues for this method are:
 - past claims represent past claims values and must be revalued to the values that apply to the underwriting year for which the excess of loss premium is calculated
 - past claims experience is not the whole picture so allowance must be made for the IBNR and IBNER.
 - To achieve a representative past claim experience, the past premium income of the reinsured must be revalued to the underwriting year for which the excess of loss premium is calculated
 - claims are revalued by reference to the claims inflation experienced in the country in which the claims occurred
 - past premiums are revalued according to the rate increases effected by the reinsured on its past premiums for the portfolio reinsured
 - the burning cost for the layer to be rated is calculated on the adjusted past premiums and the adjusted claims values
 - an IBNR factor is then added to the adjusted burning cost in order to arrive at the expected loaded burning cost.

- **exposure rating:** is used where there is no past claims experience to the layer. This method is not appropriate to an unlimited class of business such as motor but used for policies where limits apply e.g. public liability, professional indemnity, e.t.c. The method is derived from the increased table of limits concept. Reinsurers have their own excess limits scales which are, to a certain extent, derived from claims experience and substantially from market knowledge and technical experience. In arriving at an appropriate scale, the reinsurer takes the type of portfolio written by the reinsured into account, in particular, whether there is an exposure to high value claims.
- **market rating:** where reinsurers have provided excess of loss reinsurance to a number of reinsured for the same class of business written in the same country, they produce market rates. In this instance, reinsurers pool the premium and claims experience together to construct an excess of loss program for the market and then determine the applicable rates at different levels of retention. This is usually done in any of the two ways below:
 - compares the rates derived for a layer for an individual reinsured against the market rate for that layer; then determines in what extent there is a variance and adjusts the individual rate if necessary
 - where the individual treaty layer has no claims experience, the underwriter uses the market rate to determine the premium rate.
- **extrapolation rating:** here, where there is no claims experience for a higher layer, the claims experience for the lower layers is extrapolated using a mathematical distribution such as “pareto”. This is based on the actual distribution of the loss and notwithstanding the mathematical rate that will be produced, reinsurers will require a minimum rate for the cover that is justifiable. For example, in the case of unlimited layers for motor excess of loss.

(4 marks for any correctly stated method. 3 marks for any correctly stated point. Maximum of 2 marks to be graded per method. Sub-Total per method - 10 marks. Maximum of 3 methods should be graded. Grand Sub-Total: 30 marks)

b) The main difference that made these different rating methods in existence are whether the past claims experience is representative of the future claims cost, or where there is little or no past claims experience, an assessment of the exposure to the excess layer will be carried out in order to arrive at an appropriate premium.

(4 marks for any completely stated difference that tallies with the above)
(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A825

APPLICATION OF REINSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A825 –APPLICATION OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	80%
Highest Score:	76%
Lowest Score:	37%
Average Score:	61%

Breakdown Updates

Question 1

The question was well attempted by all the candidates. About 70% of the candidates scored above average in this question. The question tested the candidates' knowledge of retention.

Question 2

The question tested candidates' knowledge of Alternative Dispute Resolution (ADR). The candidates performed excellently. Over 70% of the candidates scored 100% in this question.

Question 3

The question was well attempted and the candidates did very well. All the candidates scored above 4 marks. About 90% of the candidates scored (6 marks) in the question.

Question 4

The question tested the candidate's knowledge of sources of investable funds for a reinsurance company. About 73% of the candidates scored above average.

Question 5

The question tested candidates' knowledge of environmental functions that may influence insurers' loss ratio. Most of the candidates got this wrong as they concentrated on National Catastrophic Costs. About 33% of the candidate got this correct and scored 100% in the question.

Question 6

This question tested the candidates' knowledge of basic principle of reinsurance i.e. objective of reinsurance program. Only one candidate scored below average. The question was well attempted. About 93% of the candidates scored above average.

Question 7

The question tested candidate knowledge of factors to consider in choosing a reinsurance broker. All the candidates scored above average. The candidates demonstrated a good understanding of the topic.

Question 8

The question tested candidates' knowledge of Solvency Margin. Most of the candidates demonstrated a good understanding of Solvency Margin and its uses but failed to state the amount of solvency.

Question 9

(a) tested the candidates' knowledge of the reinsurance aspects of NAICOM Prudential Guidelines. The candidates performed woefully in this question. The performance showed that the candidates

are not conversant/familiar with the prudential guidelines. In the part (b), candidates' performances were very good; the question tested their knowledge of premium portfolio transfer; while for the (c) part, candidates' practical knowledge of the preparation of Portfolio Transfer Statement was stated and most of them understood this and were able to score maximum marks. 60% of the candidates scored above average here.

Question 10

The question tested candidates' knowledge of Aggregate Exposure. The question was not well attempted as only one candidate attempted the question and scored above average. Candidates are advised to read wide and get familiar with the coursebook.

Question 11

The question tested candidates' knowledge of one of the basic principles of Reinsurance i.e. the facts to be considered in choosing reinsurer. About 93% of the candidates attempted the question and 9% scored above average.

Question 12

The question tested candidates' knowledge of ways in which profitability of a treaty can be expressed. Most of the candidates misinterpreted this to mean ratios employed to gauge underwriting performance which substantially affected their scores. None of the candidates scored above average. The performance here was poor.

Question 13

Only five candidates attempted this question. The question tested candidates' knowledge of underwriting of non-proportional reinsurance and 40% of the candidates that attempted the question scored above average. This re-emphasizes the fact that practical knowledge of the subject matter needs to be taken seriously by candidates.

Question 14

The question tested candidates' knowledge of methods of transferring unearned premium from one set of Reinsurer to another. The candidates' demonstrated good knowledge and understanding of the subject matter as almost all the students got it correctly. However, question 14b was misinterpreted by most of the candidates to mean types of proportional treaty reinsurance rather than the basis upon which proportional treaty accounts are prepared.

Chief Examiner's Comments on Overall Performance:

The candidates did very well and the overall performance was excellent as about 47% of the candidates got distinction. About 80% of the candidates passed the examination.

Chief Examiner's Suggestions on Improvement:

Candidates are advised to get familiar with their course book as well as regulatory requirement as it affects reinsurance and Reinsurance Operators. Also, candidates need to understand that the course is 'Application of Reinsurance' hence, they need to improve on the practical aspects of reinsurance.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Why can retentions not be set solely mathematically or by computer models?

Solution

Retentions cannot be set solely mathematically or by computer models because the retention figure is usually a compromise between that which would best satisfy the overall aims and wishes of the prospective reinsured, their risk appetite, the demand of the reinsurer and some other subjective factors. Although in theory, mathematical formulae and computer models can assist the reinsured in arriving at a desirable level of retention, in practice well-tried market custom and usage plays a major role.

(6 marks in all. 2 marks for each of the bolded key terms, and 2 marks for explaining the use of mathematical models and formulae.)

2. Differentiate between alternative dispute resolutions from formal dispute resolution procedures.

Solution

Alternative dispute resolutions (ADR) differ from formal dispute resolution procedures in that there is **no judge or arbitrator**. The parties themselves arrive at a solution of accommodation. This may not be the true legal standings of the parties, but will be **a solution that all parties can accept**. **ADR proceedings have the status of "without prejudice" settlement** discussions which will not be held binding until all parties agree.

(2 marks for each of the bolded points. 6 marks in all).

3. Write short notes on any three (3) of the following:

(i) Retrocession cover

(ii) Security rating

(iii) Profit commission

(iv) Claims reserve.

Solution

Retrocession: This is the process by which a reinsurance company arranges reinsurance cover to protect its portfolio of reinsurance business it has written. The principal objectives of a retrocession arrangement include increase acceptance capacity, limit the exposure to loss, and give greater stability to the results.

Security Rating: one of the purpose of reinsurance is to transfer risks which the reinsured does not want to bear. The purpose is neglected if the reinsurer is not able to honour its financial obligations to the reinsured through the insolvency of

that reinsurer. Hence, there is need for an independent and external ratings of a company's ability to pay claims, its overall financial and its earning history.

Profit Commission: This is a percentage of the profit made by the reinsurer out of the treaty which is returned to the reinsured at the close of each treaty year. It encourages sound underwriting on the part of the reinsured. The profit commission is paid in addition to the normal commission received by the reinsured.

Claims Reserve: This is a process of estimating and making provision for claims in the books of the company. Claims reserve may be a reserve for incurred claims on an individual case reserve for indemnity and expenses of a particular case. There is also provision for Incurred but not reported claims (IBNR) which equally forms part of claims reserves.

(2 marks each. Maximum of 3 to be graded. 6 marks in all)

4. List the two (2) main sources of investible funds for a reinsurance company.

Solution

The two sources of investible funds for a reinsurance company are:

- capital or non-insurance funds
- reinsurance funds generated by the business written (i.e business cash flow).

(3 marks each. 6 marks in all)

5. List any three (3) environmental factors that may influence an insurer's loss ratio in any year?

Solution

The environmental factors which may affect an insurer's loss ratio include:

- * Inflation
- * Recession
- * Competition
- * Employment Levels
- * Technological; and
- * Legal Development

(2 marks each. Maximum of 3 to be graded. 6 marks in all)

6. Enumerate any three (3) principal objectives of a reinsurance programme.

Solution

The principal objectives of a reinsurance programme are:

- * automatic cover
- * adequate capacity
- * sufficient scope
- * economic advantage
- * security and continuity

(2 marks each for each correct objective. Maximum of 3 to be graded. Total: 6 marks in all)

7. List any three (3) factors that an underwriter should consider in choosing a reinsurance broker.

Solution

The factors that an underwriter should consider in choosing a reinsurance broker are:

- what the insurer requires from the broker
- expertise of the broker
- financial stability and probity of the broker
- reputation for service and being able to service their needs.
- ability of the broker to offer value-added security vetting of reinsurers.

(1½ marks each for each correct type of information. Maximum of 4 to be graded. Total: 6 marks in all)

8(a) What is “solvency margin? and what is it used for?

(b) State any two (2) amounts of solvency.

Solution

(a) “Solvency margin” is the product of a calculation of the assets of a company after taking all its liabilities into account (2 marks). It is used to ensure that insurance companies have sufficient assets to meet their liabilities (2 marks).

(b) The different amounts of solvency include:

- required margin of solvency
- guaranteed fund
- minimum guarantee fund.

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

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9(a) List the requirements for submission of reinsurance treaties/arrangements according to Section 4.2 of the NAICOM prudential guidelines”. (10 marks)

(b) Discuss, with at least four (4) points, the phrase “Premium Portfolio Transfer Mechanism”. (10 marks)

(c) OkeOwa Insurance Plc has a general accident surplus treaty on a clean cut basis for 2019 underwriting year effective 01/01/2019. The following are extracts from the General accident treaty.

- (i) Premium reserve is 40% (ii) Loss Reserve is 95%

In addition, the following was extracted from the book of OkeOwa Insurance Plc as at 31st December 2019

- Gross premium Ceded for 2019 was ₦40,000,000
- Gross premium Ceded for 2018 was ₦20,000,000
- Outstanding losses as at 31st December 2019 was ₦16,000,000
- Outstanding losses as at 31st December 2018 was NIL

In 2019, the following panels of reinsurers were on OkeOwa General Accident security list.

- Alpha Re 35%
- Beta Re 25%
- Tango Re 20%
- Omega Re 20%

In year 2020, OkeOwa's General Accident treaty security list is as follows:

- Alpha Re 35%
- Beta Re 25%
- Tango Re 10%
- Omega Re 0%
- Pluto Re 30%

Given the above information

- (i) Prepare a portfolio adjustment statement as at 1st January 2020. (22 marks)
- (ii) List any two (2) factors or reasons for preparing portfolio adjustment statement? (8 marks)

Solution

a) Section 4.2 of the prudential guideline on reinsurance treaties / arrangements (except Oil and Gas) states that;

- an Insurer shall ensure that the "treaty slips" are fully signed by all the participating reinsurers
- all reinsurance treaties and life treaty cover-notes/addendum, for the following year, shall be filed with the Commission on or before 31st December of the preceding Year or 15 days before the effective renewal date for those whose treaty renewal dates do not fall on 1st of January. In both cases, the submissions shall also be accompanied by the following :
 - Signed slips of all reinsurance arrangements and not only cover-notes issued/signed by the reinsurance brokers;
 - Evidence of premium remittance for the previous four (4) quarters (i.e. 4th, 1st, 2nd and 3rd Quarters);

- evidence of payment of Minimum and Deposit (M&D) Premium for the following year on the General Business treaties; and
- the financial strength rating of the foreign reinsurers.

(Sub-Total: 10 marks)

(b)

- The main reason for using premium portfolio transfers is to transfer unexpired liability under a treaty from one reinsurer to another.
- This transfers normally takes place on the anniversary date of the treaty.
- Thus, if one reinsurer is to be relieved of its liability under a treaty at the end of a treaty year, in the last account of the year they will be debited with a percentage of the premium they have received in that year.
- The new reinsurer which takes over the business from the subsequent is credited with the premium which has been withdrawn from the previous reinsurer.
- The effect is to relieve the old reinsurer of any liability in respect of the unexpired portion of the risks accepted in the preceding years. The new reinsurer accepts this liability. Thus the new reinsurer assumes liability for all claims arising in the current year on the running-off of the old risks.

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

(c) (i)

GENERAL ACCIDENT SURPLUS TREATY PORTFOLIO ADJUSTMENT STATEMENT			1 mark
YEAR : 2019			0.5 mark
COMPANY: OKEOWA INSURANCE PLC			0.5 mark
GROSS PREMIUM CEDED 2019	40,000,000.00		
OUTSTANDING LOSS 2019	16,000,000.00		

PREMIUM PORTFOLIO @ 40% OF N40,000,000=	16,000,000.00		1 Mark
LOSS PORFOILO @ 95% OF N16,000,000 =	15,200,000.00		1 Mark
ALPHA RE	WITHDRAWAL	ASSUMPTION	
ALPHA RE @ 35% OF N16,000,000 =	5,600,000.00		1 Mark
ALPHA RE @ 35% OF N15,200,000 =	5,320,000.00		1 Mark
ALPHA RE @ 35% OF N16,000,000 =		5,600,000.00	1 Mark
ALPHA RE @ 35% OF N15,200,000 =		5,320,000.00	1 Mark
TOTAL	10,920,000.00	10,920,000.00	
BALANCE DUE TO/FROM ALPHA RE	0	0	
BETA RE	WITHDRAWAL	ASSUMPTION	
BETA RE @ 25% OF N16,000,000 =	4,000,000.00		1 Mark

BETA RE @ 25% OF N15,200,000 =	3,800,000.00		1 Mark
BETA RE @ 25% OF N16,000,000 =		4,000,000.00	1 Mark
BETA RE @ 35% OF N15,200,000 =		3,800,000.00	1 Mark
BALANCE DUE FROM/TO BETA RE	0	-	
TOTAL	7,800,000.00	7,800,000.00	
TANGO RE	WITHDRAWAL	ASSUMPTION	
TANGO RE @ 20% OF N16,000,000 =	3,200,000.00		1 Mark
TANGO RE @ 20% OF N15,200,000 =	3,040,000.00		1 Mark
TANGO RE @ 10% OF N16,000,000 =		1,600,000.00	1 Mark
BETA RE @ 10% OF N15,200,000 =		1,520,000.00	1 Mark
BALANCE DUE FROM TANGO RE		3,120,000.00	

TOTAL	6,240,000.00	6,240,000.00	
OMEGA RE	WITHDRAWAL	ASSUMPTION	
OMEGA RE @ 20% OF N16,000,000 =	3,200,000.00		1 Mark
OMEGAE RE @ 20% OF N15,200,000 =	3,040,000.00		1 Mark
OMEGA RE @ 0% OF N16,000,000 =		-	1 Mark
OMEGA RE @ 0% OF N15,200,000 =		-	1 Mark
BALANCE DUE FROM OMEGA RE		6,240,000.00	
TOTAL	6,240,000.00	6,240,000.00	
PLUTO RE	WITHDRAWAL	ASSUMPTION	
PLUTO RE @ 0% OF N16,000,000 =	-		1 Mark
PLUTO RE @ 0% OF N15,200,000 =	-		1 Mark

PLUTO RE @ 30% OF N16,000,000 =		4,800,000.00	1 Mark
PLUTO @ 30% OF N15,200,000 =		4,560,000.00	1 Mark
BALANCE DUE TO PLUTO RE	9,360,000.00		
TOTAL	9,360,000.00	9,360,000.00	

(Sub-Total: 22 marks)

(c) ii. The reasons or factors for preparing portfolio adjustment statement are:

- outright removal of a particular reinsurer from the treaty security
- reduction in share of a particular reinsurer(s)
- increase in shares of a reinsurer(s)
- addition of a new reinsurer (s) to the treaty.

(4 marks for each correctly listed factor/reason. Maximum of 2 to be graded. Sub-Total: 8 marks in all)

(Grand Total: 50 marks)

Part III

Answer **THREE** of the following **FIVE** questions.

Each question carries **34** marks.

10(a) What are aggregate exposures? What are the two (2) distinct elements that it comprises of? (7 marks)

(b) List three (3) reasons why aggregate exposures are monitored. (9 marks)

(c) List and explain six (6) factors involved in determining a reinsurers gross aggregate exposure. (18 marks)

Solution

a). Aggregate is simply another word for “the sum of”. Exposure means the financial commitment of the reinsurer. Therefore, aggregate exposures are the sum of the financial commitments of a reinsurer. It can be in terms of a particular client, in a particular country or territory or as a result of a particular event.

(3 marks)

This commitment comprises two distinct elements, namely:

- **limits of liability:** the reinsurer undertakes to indemnify the reinsured in the event of a loss occurrence (2 marks)
- **Reinstatements of the limit of liability** (i.e. projecting ultimate liability for an ultimate premium, assuming reinstatements are paid. (2 marks)
(Grand Sub-Total: 7 marks)

b). Aggregate exposures are monitored for the following reasons:

- primarily to ensure that in the event of a major loss (or series of major losses) arising out of a series of risks, the total aggregate loss to the reinsurer does not exceed an amount, which could jeopardise their profitability or their solvency.
- to determine the level of a reinsurer's current aggregation.
- to consider, upon being presented with a contract of reinsurance, whether current aggregation can be safely increased within permitted limits.
- to assess whether current aggregations should be reduced by means of retrocession or other risk transfer mechanisms.
(3 Marks for each well-explained reason. Maximum of 3 to be graded. Total: 9 marks)

c). The factors involved in determining a reinsurer's gross aggregate exposure are:

- policy limit of the insurance and reinsurance contract
- number of reinstatements: where the number is limited
- possible Maximum Loss (PML): this is the reinsured's or reinsurer's estimate of the maximum loss likely on one risk or contract.
- levels of deductibles and aggregate deductibles.
- basis of operation of insurance and reinsurance contract: per risk/ per reassured/ per event.
- type of business written: for example, direct /reinsurance /retrocession. The type of business written by the reinsured will have a material effect on the reinsurer's ability to calculate their exposures. It is easier to calculate aggregate exposures if the reinsured is writing direct business. But it is difficult to do so if the reinsured is equally writing a reinsurance business e.g. facultative. Writing retrocession business makes this worse.
- types of contract written: e.g. proportional or non-proportional business. Proportional business provides coverage on every risks ceded and consequently, a reinsurers aggregate exposure is only limited by the number and size of the risks ceded. Where non proportional business is accepted, if the contracts are not limited in the number of reinstatements provided, the reinsurer's aggregate exposure is limited only by the number of occurrences which will arise.
- level of information provided on the underlying contracts

- other contracts terms: indexation clauses
- width of exposure: geographical area of loss
- size of lines accepted.

(3 marks each for any 6 well-explained factor. Maximum of 6 to be graded. Sub-Total: 18 marks)
(Grand Total: 34 marks)

11(a) List and explain five (5) factors that an underwriter would consider when choosing its reinsurer. (25 marks)

(b) The cover provided by a proportional treaty should be defined in what three (3) areas? (9 marks)

Solution

a) The factors that an underwriter would consider when choosing a reinsurer include the following:

- business philosophy
- communication
- types of reinsurance required
- business acceptance policy of the reinsurer selected
- standard of security required
- whether or not the insurer is authorised to transact this type of business
- strength of the reinsurer's balance sheet and solvency margin
- reputation of the reinsurer
- retrocession policy of the reinsurer
- ultimate ownership of the reinsurer

(Candidates are required to explain fully the factors stated by them and the marks should be allotted as follows: 3 marks for correctly stating the factor; 2 marks for correct explanation. Maximum of one explanation is required per factor. Maximum of 5 factors should be graded. Sub-Total per factor: 5 marks. Grand Sub-Total: 25 marks)

(b) The cover provided by a proportional treaty should be defined in the following areas:

- various classes of business which may be ceded under the treaty
- perils covered under the treaty
- territorial scope of the treaty.

(3 marks each, 9 marks in all)
(Grand Total: 34 marks)

12(a) Discuss six (6) main ways by which the profitability of a treaty can be expressed. (30 Marks)

(b) List any four (4) clauses included in a non-proportional liability treaty which might affect the reinsurer's liability. (4 marks)

Solution

a) The different ways by which the profitability of a treaty can be expressed i.e. when considering whether or not a contract is profitable, are as follows:

- the parties involved, the reinsured and reinsurer have different expectations over time, profit, in terms of underwriting performance will be affected by other factors such as expenses, cost and investment income.
- the type of contract: Proportional contracts are on a continuous basis, subject to the notice of the termination clause, and lend themselves to a measure of profitability or equalization of result over a period of time. Non-proportional treaty and facultative arrangements, on the other hand, are usually renewable on an annual basis and results are measured over a shorter timescale than that applicable to proportional treaties.
- the circumstances prevailing when the contract was effected, in terms of portfolio composition of premium income may have altered significantly, so that a profit or loss on a current basis may be misleading
- in terms of the underwriting experience of the intrinsic business, the contract may be profitable, but the acquisition and servicing costs may be unduly heavy
- an unprofitable treaty, driven by competitive pressure on the reinsurer, may be capable of becoming profitable in a hardening market.
- a profitable treaty, to the reinsured, may incur an opportunity cost and produce less of an overall return on the premium than if the premium had been invested in a different way as part of a risk management strategy.
- periodically, the commission received on proportional reinsurances will need to be re-examined and, for non-proportional reinsurance, the reinsured must ensure that it is not paying a disproportionately high amount of its original premium income in comparison to its overall retention, either on a per risk, per event or aggregate basis.
- other related issues which affect the ultimate profit of a treaty or a contract, not directly determined by the underwriting performance. These may include; the delay in receiving accounts and monies from the other party, government intervention in respect of the movement or valuation of currencies or the insistence by a legislative body to impose price controls or new taxes.

(6 marks for each well explained points. Maximum of 5 points to be graded. Sub-Total: 30 marks in all)

(b) Clauses included in a non-proportional liability treaty which might affect the reinsurer's liability includes:

- extra contractual obligation clause
- aggregate deductible clause

- aggregate extension clause
- indexation or stability clause
- acts in force clause
- local jurisdiction clause
- applicable law clause
- term and cancellation clause
- north american exclusion clauses.

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

(Grand Total: 34 marks)

- 13(a) As a reinsurance manager, discuss the three (3) general considerations you would consider while underwriting a non-proportional treaty. (18 Marks)
- (b) State and explain the four (4) main issues you will consider when underwriting a non-proportional property treaty. (16 marks)

Solution

- (a) The following general issues will be considered by the reinsurance manager

- **Retention of the reinsured:** under a non-proportional treaty, the retention known as the deductible, the reinsured pays up to a fixed amount of each loss regardless of the size of the original policies while the reinsurer pays the amount in excess of that sum up to the treaty limit. The reinsurer will need to be sure that the reinsured is retaining a reasonable amount and not merely acting, as an intermediary with no real interest in the outcome.

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

- **Scope of the treaty:** a non-proportional treaty should state clearly what is covered and what is excluded under its terms. For example, a property per loss occurrence or per event must give a clear definition (both in time and space of what constitute a single event arising from natural perils. The treaty will also define what is excluded from its scope. For example, liability reinsurers are particularly aware of risks arising out of hazardous activities such as demolition, mining and waste disposal, where the potential liability associated with pollution and seepage of water may be heavy.

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

- **Basis of cover:** the reinsurer will also have to ascertain the basis on which the treaty will be written. This will determine when the losses will arise, over what period of time and amount of reserves it has to maintain. The options are as follows; Losses occurring during, policies issued or renewed during; losses discovered/claims made during.

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

(Grand Sub-Total: 18 marks)

(b) The following issues will be considered by the reinsurance manager when underwriting a non-proportional property reinsurance:

- **Required capacity of the treaty:** Capacity of the treaty will depend on its purpose, and therefore, the levels set for the limit. It should be assessed on a per risk treaties, per event treaties and excess of loss ratio treaties.
- **Claims experience and reserving:** The reinsurer will want to establish the experience of the prospective reinsured. An analysis of losses paid and outstanding will be required, by classification of risk to see where the losses are coming from, their size and frequency
- **Price and premiums:** The reinsurer will consider the price to be charged for the cover, to what extent, if any will it be adjustable; and when and how it will be paid. In determining the price, the reinsurer will take the following into account; exposures in the portfolio to be covered, required limits of cover, past claims experience, assumptions made regarding IBNER, reinsurers expenses, inflation, required profit margin, reinstatement provision. Premiums may be flat premium, Fixed rate of premium or variable rate of premium.
- **Reinstatements:** Reinstatements allow the cover to be replaced following a claim to the treaty. The price quoted for the cover will depend on the number of reinstatement and whether or not an additional premium is required.
- **Other Terms and Conditions:** The reinsurer may apply other terms and conditions as appropriate e.g. interlocking clause, hours clause, two risk warranty, co-reinsurance clause, event limit, applicable law clause, etc.

(Under each issue, 2 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 4 Marks. Maximum of 4 issues to be graded. Grand Sub-Total: 16 marks)

(Grand Total: 34 marks)

14(a) The reinsurance market has devised some comparatively simple methods to calculate an equitable premium to be transferred from one set of reinsurers to another. List and explain the common methods. (24 marks)

(b) Proportional treaty accounts are prepared on two basis. List and explain these two (2) basis. Give an example of each. (10 marks)

Solution

a) The most common methods used to calculate an equitable premium to be transferred from one set of reinsurers to another are:

- **fixed percentage:** under this method, a simple percentage (normally 35%) is applied to the premium accounted to reinsurers in the outgoing year and is paid to reinsurers in the incoming year as premium portfolio.

- **eight basis:** Under this method, each of the four calendar quarters is divided equally into two, making eight blocks of premium. Each block has an earned and unearned element and a fraction of eight is applied on a progressive earned/unearned basis.
- **twenty-fourth basis:** under this method, which provides greater precision than eights basis, each calendar month is divided equally into two, making 24 blocks of earned and unearned premium and a fraction of 24 is applied on a progressive earned/unearned basis.

(4 marks for each correctly stated basis. 2 marks for each correct explanation under each correctly stated basis. Maximum of 2 points to be graded. Sub-Total per basis = 8 marks. Grand Sub-Total: 24 marks)

b) Proportional treaty accounts are prepared on an 'underwriting year' basis or on a 'year of account' basis as explained below:

- **Underwriting Year Basis:** Here the year of origin of the cession risks is of paramount importance in that, in whatever year the claim arises, time claim is closed to the year in which the risk was ceded to the treaty. And its determined by the inception date of the original policy. For example, if a risk is ceded in the calendar year 2018 (I.e. between 1 January 2018 to 31st December 2018, then any claims made under this policy will be recovered from the reinsurers of the calendar year 2018.
- **Year of Account (Clean Cut) Basis:** In order to facilitate technical accounting, reinsurers have devised another method called 'clean cut' accounting in view of the administrative burden of the underwriting year basis. This involves accounting for premiums, commissions, expenses and losses in the calendar year in which they are accounted irrespective of;
 - The year of origin of the cessions; and
 - The year of origin of the loss.

An allowance is also made for unearned premium and outstanding losses, and identified amounts for each are either transferred into or out of a particular treaty period normally 12 months, thus clean-cutting premium and liabilities between different treaty periods. The mechanism is known as portfolio transfer system.

(2 marks for each correctly stated basis. 1 mark for each correct explanation under each basis. Maximum of 1 complete one to be graded. 1 mark for each example given under each base. Maximum of 1 on each base to be graded. Sub-Total: 5 marks. Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A930

INSURANCE BROKING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A930 -INSURANCE BROKING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	77%
Highest Score:	87%
Lowest Score:	18%
Average Score:	53%

Breakdown Updates**Question 1**

The question was well attempted by the candidates and about 60% of the candidates did very well and scored above average.

Question 2

About 70% of the candidates did very well and understood the question while the residual 30% did not perform well.

Question 3

About 85% of the candidates performed below the pass mark and some of them did not attend to the question. Only about 10% understood the question.

Question 4

The question was well attended to by the candidates and they scored good points.

Question 5

This question was well attended to and the candidates score good points above average.

Question 6

This question was poorly answered by majority. The candidates have difficulty in differentiating the Lloyd's brokers from ordinary brokers.

Question 7

There was poor performance by the candidates as they could not understand the question. They mixed the risk survey for market survey.

Question 8

This question was fairly done. About four candidates scored above average.

Question 9

Majority of the candidates that attempted it did it very well. The general performance was above average.

Question 10

The question was well attempted by the candidates and those who attempted it scored above average.

Question 11

This question was avoided by majority of the candidates. There were only two candidates that attempted the question and they performed woefully.

Question 12

Candidates answered the (a) and (b) parts quite well but seemed not to understand the (c) and (d) parts well.

Question 13

This question was well attempted as it shows that the question was understood by the candidates.

Question 14

This question does not seem to be understood by those candidates that attempted it as points given were not correct.

Chief Examiner's Comments on Overall Performance:

The overall performance was average.

Chief Examiner's Suggestions on Improvement:

Candidates are encouraged to keep up the good performance as this portrays that they studied diligently for the examination. It also is a marked improvement in performance in recent years in the course.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Outline any six (6) types of intermediary involved traditionally in placing insurance.

Solution

The types of intermediary involved traditionally in placing insurance are:

- full time insurance brokers, agents and consultants
 - part time agents, consultants
 - travel agent, airlines and tour operators
 - property companies, landlord and managing agents
 - retailers and motor traders
 - banks, building societies and other financial institutions
 - newspaper and magazines
- (1 mark for each correctly stated intermediary. Maximum of 6 to be graded. Total: 6 marks)

2. Outline any three (3) statutory legal objectives of FSA.

Solution

The FSA statutory legal objectives are:

- market confidence
 - public awareness
 - consumer protection
 - reducing financial crime.
- (2 marks for each correctly outlined objective. Maximum of 3 to be graded. Total: 6 marks)

3. Briefly explain the position of the law on the case of *Turpin v. Bilton (1843)*.

Solution

In *Turpin v. Bilton (1843)*, an insurance broker agreed to arrange for the insurance of the plaintiff's ship (2 marks). He failed to do so (1 mark), the ship was lost (1 mark) and he was held liable in damages to the plaintiff (2 marks). (Total: 6 marks)

4. List the three (3) sanctions open to CII on erring members.

Solution

The three (3) sanctions open to CII on erring members are:

- expulsion from the Institute
 - revocation of professional qualifications
 - revocation of Chartered Title holder status.
- (2 marks for each correctly listed sanction. Total: 6 marks)

5. Mention six (6) sources of data available publicly for a research.

Solution

The sources of data available publicly for a research are:

- the internet
- the annual report and accounts
- directories of businesses
- subscription databases
- analysts' reports
- insurers may be willing to provide information
- some brokers use telephone canvassing technique.

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

6. Enumerate any three (3) services that Lloyd's brokers perform more than ordinary brokers.

Solution

The services that Lloyd's brokers perform more than ordinary brokers are:

- policy preparation
- account administration
- appointment of loss adjusters
- claims handling
- claims negotiation

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

7. Enumerate the three (3) reasons why a broker may undertake surveys.

Solution

The three reasons why a broker may undertake surveys are:

- in support of a risk management exercise
- for the purpose of obtaining detailed underwriting information
- on behalf of insurers.

(2 marks for each correctly stated reason. Total: 6 marks)

8(a) Define the term "marketing". (2 marks)

(b) List any two (2) core principles of marketing. (4 marks)

Solution

(a) "Marketing" is the management process which identifies, anticipates and supplies customer requirements effectively and profitably. (2 marks)

(b) The core principles of marketing are that marketing:

- focuses attention towards the needs and wants of the market place
- is concerned with satisfying those needs and wants

- requires that business decision must be made with a careful and systematic consideration of the customer
 - is about meeting customer needs and wants and obtaining satisfaction; not selling to customers
 - must reflect the dynamic nature of the market and respond and react to changing trends
 - is not a specific function, but must be the basis of the underlying philosophy of the business
 - organisations that are marketing-led tend to have different systems of management
- (2 marks for each correctly stated principle. Maximum of 2 to be graded. Total: 4 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9.(a) (i) What is the full meaning of NCRIB? (2 marks)
- (ii) Enumerate any four (4) roles played by NCRIB in the regulation of insurance broking business in Nigeria. (8 marks)
- (b) Mention four (4) key areas a broker needs to understand on an insurance program. (10 marks)
- (c) List five (5) advantages of a global insurance programme. (10 marks)
- (d) List five (5) key reasons for building a broker's website. (10 marks)
- (e) Enumerate four (4) purposes of risk evaluation? (10 marks)

Solution

- (a) (i) Nigerian Council of Registered Insurance Brokers (2 marks)
- ii) The following are the roles played by NCRIB in the regulation of insurance broking business in Nigeria:
- regulating the practice of insurance broking
 - registering and keeping membership record of all licensed insurance brokers
 - ensuring that ethical and professional standards are followed in the practice of the broking profession
 - enforcing the provision of the enabling Act (NCRIB Act 2003) and disciplining any erring member who disregard any provision/section in the Act
 - organizing seminars, conferences and retreat for members as part of the MCPD

- liaising with NAICOM and other agencies/bodies on issue bothering on the broking profession

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

(Grand Sub-Total: 10 marks)

(b) The key areas that a broker need to understand on an insurance program are:

- the client's business and its markets
- the client's exposure, loss experience and profile
- the client's ability and appetite to retain risk and the market's expectation of imposed levels of self-insurance
- how the client values services surrounding the insurance contract
- the client's organisations and management style.

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

(c) The advantages of a global insurance programme are:

- consistency of cover
- central control of cover and cost
- savings obtained through group insurance purchases
- simpler identification of losses worldwide
- can act as a vehicle for a global approach to the management
- facilitates controlled participation in its own risk by the parent
- premium allocations can be adjusted for claims experience

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

(d) The key reasons for building a broker's website are to:

- sell insurance
- sell a particular kind of insurance only
- advertise
- give particular product information
- provide information
- provide quotes
- request information from a customer and provide them into a quote

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

(e) The purposes of risk evaluation are to assess:

- the financial value of a given risk
- probability
- impact of self-insurance and deductibles
- possibility of cost-effective loss elimination, reduction and control measures

- viability of risk transfer o insurers or a captive
(2½ marks for each correctly stated purpose. Maximum of 4 to be graded. Sub-Total: 10 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

- 10(a) List the three (3) types of businesses identified by the traditional marketing theory. (6 marks)
- (b) In competitive economics, all businesses face a range of internal and external forces that can have a profound impact on their success. List any seven (7) of those forces. (14 marks)
- (c) List seven (7) methods of conducting survey. (14 marks)

Solution

- (a) The three (3) types of businesses identified by the traditional marketing theory are:

* production led * sales led * marketing led

(2 marks for each correctly stated type. Total: 6 marks)

- (b) The forces that all businesses face in competitive economics which can have a profound impact on their success are:

- the internal organisation of the company
- competition
- distribution to customers
- the supply chain
- the world and domestic economic climate
- socio-cultural factors affecting and influencing customers
- the political climate
- regulation
- consumerism
- other global issues such as terrorism threat, e.t.c.
- issues specific to the particular business sector.

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

- (c) The methods of conducting survey are:

* face to face * instant response questionnaire * panels
* postals * telephone * email/website response
* continuous research * interactive approach.

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

(Grand Total: 34 marks)

- 11(a) What is corporate governance? (4 marks)
- (b) Although detailed practice varies, most brokers set out explicit rules that govern the operation of security committees to ensure that the committee operates truly independently. Enumerate the four (4) rules that generally apply to this situation. (10 marks)
- (c) Insurers are usually “classified” by brokers into two (2) distinct groups. State these two (2) groups and provide details of information contained in such classifications. (20 marks)

Solution

- (a) Corporate governance deals with ways and manners (2 marks) through which a company is being managed (2 marks). (Sub-Total: 4 marks)
- (b) The four explicit rules that govern the operation of security committees to ensure that the committee operates truly independently are:
- the constitution of the committee and the procedures for electing chairmen, executives and other members
 - minimum parameters concerning the basic financial strength of an insurer
 - the independence of the function to ensure that its decisions cannot be overruled by senior management of the company
 - procedures to avoid conflict of interests.
- (2½ marks for each correct and completely stated rule. Sub-Total: 10 marks)
- (c) These two classifications are:
- classified on an unrestricted basis: i.e. the insurer can be approached for cover on any type of business
 - classified but restricted: i.e. the insurer may only be used in a restricted fashion which could relate to
 - geography
 - types of business
 - a requirement that the insured be provided with prescribed information
 - a requirement that the insurer can only be used on express instructions from the client
- (5 marks for any correctly stated point. Maximum of 4 to be graded. Sub-Total: 20 marks)
(Grand Total: 34 marks)

- 12(a) Enumerate any three (3) consequences of consolidation, as it relates to the staff members and customer service in the insurance industry. (9 marks)
- (b) Fully state any two (2) impacts of a mistake on the reputation of a broker. (6 marks)

- (c) What quality issues arise out of the use of emails? Enumerate any five (5). (10 marks)
- (d) List three (3) benefits of an effective diary system? (9 marks)

Solution

- (a) The consequences of consolidation, as it relates to the staff members and customer service in the insurance industry are:
- job reductions have resulted in experienced people leaving the industry through redundancy or early retirement
 - the focus on cost has led to extensive “de-skilling” with jobs reorganised to allow for un-skilled labour to “process” tasks
 - staff have had to cope with learning new working practices and new systems
 - organisations can become inward looking as they try to consolidate the merger, causing customer service to suffer.
- (3 marks for each correct and completely stated consequence. Maximum of 3 to be graded. Sub-Total: 9 marks)
- (b) The impacts of a mistake on the reputation of a broker are:
- litigation by a dissatisfied client with damage to the broker
 - a dissatisfied client who moves to another broker or works in/with another company, will take their low opinion of the broker to the new broker and even its new company
 - the insurer’s opinion of the broker will be damaged
 - in the worst-case scenario, the regulator could review the broker’s authorisation.
- (2 marks for each correct and completely stated impact. Maximum of 3 to be graded. Sub-Total: 6 marks)
- (c) The quality issues that arise out of the use of emails are:
- instant communication
 - ability to transfer considerable quantities of information to many people
 - attachments can be altered or corrupted
 - incorrect delivery
 - lack of proof of receipt/and/or proof that the mail was read by intended recipients
 - lack of proper documentation/physical backing up of messages
- (2 marks for each correct and completely stated issue. Maximum of 5 to be graded. Sub-Total: 10marks)
- (d) The benefits of an effective diary system are to:
- alert the broker that a renewal is due
 - ensure that tasks are completed within agreed timelines

- ensure the tasks passed to another party are duly logged and monitored
- ensure that premiums are collected from clients and paid to the market within agreed timescale.

(3 marks for each correct and completely stated benefit. Maximum of 3 to be graded. Sub-Total: 9 marks)
(Grand Total: 34 marks)

13. (a) Explain any five (5) key functions of a broker. (20 marks)
- (b) Define material fact. (4 marks)
- (c) List five (5) benefits of a broker developing good relationship with their clients. (10 marks)

Solution

- (a) The key functions of a broker are:
- understand the clients' business and its risk and insurance needs
 - design the most appropriate insurance cover
 - take instructions from clients
 - execute the client's instructions in an efficient manner
 - explain the needs of and the behaviour of the market to the client.
 - Maintain effective relationships with the market
 - Assist in the negotiation of claims
 - Provide continuous services and advice
- (4 marks for each correct and completely stated function. Maximum of 5 to be graded. Sub-Total: 20 marks)
- (b) Material fact is any material or important information (1 mark) that would influence a prudent underwriter or insurer (1 mark) in deciding whether a risk is acceptable, (1 mark) and if so, the premium, terms and conditions to be applied (1 mark). (Sub-Total: 4 marks)
- (c) The benefits of a broker developing good relationship with their clients are:
- transaction and maintenance costs are reduced
 - there is a greater likelihood of increased business patronage from the client
 - retention rates are better
 - information flow from the client to the broker is improved
 - impacts of complaints can be mitigated against
 - referrals to other businesses are far more likely
 - client will have a greater perception of value
- (2 marks for each correct and completely stated benefit. Maximum of 5 to be graded. Sub-Total: 10 marks)
(Grand Total: 34 marks)

- 14(a) Apart from regulating requirements, for what duly explained reasons should a broker deal with a wide variety of market? (24 marks)

- (b) Enumerate four (4) of the issues that a broker should consider when an insurer goes into liquidation? (10 marks)

Solution

- (a) Apart from regulating requirements, a broker should deal with a wide variety of market for the following reasons:

- to reduce exposure to a sudden change in underwriting philosophy by insurers
- to reduce exposure to insolvency of an insurer
- to provide the widest knowledge of what is available in the market
- to ensure that competitive terms are obtained
- to ensure the availability of capacity
- to ensure the ability to deal with unusual/uncommon risks.

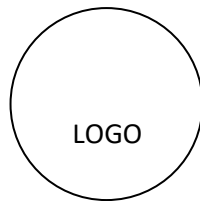
(Candidates are required to discuss the above points and NOT simply enumerate them. 3 marks each for enumerating/stating the reasons. 3 marks for each complete and correct explanation. Sub-total per reason: 6 marks. Maximum of 4 reasons to be graded. Grand Sub-Total: 24 marks)

- (b) The issues that a broker should consider when an insurer goes into liquidation are:

- quoted new business(es)
- existing policies/businesses
- forthcoming renewal business(es)
- unpaid claims
- outstanding premiums from unpaid policies already on cover

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

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A935

MANAGEMENT

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A935 -MANAGEMENT

INSTRUCTIONS TO CANDIDATES

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	73%
Highest Score:	80%
Lowest Score:	12%
Average Score:	53%

Breakdown Updates**Question 1**

Brilliant performance. Most candidates scored full marks.

Question 2

Very good attempt as in (1) above.

Question 3

Fair attempt.

Question 4

Very good attempt as in (1) above.

Question 5

Fair performance.

Question 6

Performance above average level.

Question 7

Question is simple but technical. Fair overall attempt.

Question 8

Very good performance.

Question 9

Part (a) of the question, which is the regulatory part, was poorly attempted.

Question 10

Very fair attempt. 50% of candidates attempted with fair performance.

Question 11

Fair performance.

Question 12

Only 19% of candidates attempted the question. More studious students will find it easier to attempt and pass this question.

Question 13

Fair attempt and fair performance.

Question 14

Average performance by candidates.

Chief Examiner's Comments on Overall Performance:

Majority of the candidates that passed were simply on average scores and not exceptional though 12% of them got distinction. In general, the performance was just average.

Chief Examiner's Suggestions on Improvement:

To be more hard-working as performance can be better if candidates are more studious. Candidates are also encouraged to give greater attention to regulatory aspect of insurance.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Define stakeholders and state three (3) examples of stakeholders of a school.

Solution

Stakeholders include those people or organisations that have an interest in the process of the organisation, whether or not they actually have a financial shareholding in it. (3 marks)

Examples of stakeholders of a school include: children who attend the school, their parents, local shops who rely on the school for their businesses, teachers, ministry of education, e.t.c.

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

2. "Flat" and "vertical" are commonly used to describe management structures broadly. Enumerate two (2) features of vertical structure.

Solution

In vertical structure,

- there is clear demarcation of authority to take decisions
 - authority increases for those in position that are higher up the ladder
 - routine decisions may need to be approved by more senior managers
- (3 marks for each correctly stated feature. Maximum of 2 to be graded. Total: 6 marks)

3. Provide the full meaning of STEP as the acronym for the external environmental factors of a business.

Solution

S - Social

T - Technological

E - Economic

P - Political.

(1½ marks for each correctly stated meaning. Total: 6 marks)

4. State two (2) reasons why fire-fighting and short-term crisis management have generally displaced long-term plans in management.

Solution

The reasons why fire-fighting and short-term crisis management have generally displaced long-term plans in management are:

- management may be complacent or reluctant to "rock the boat"
- management may have a myopic vision, hence limited view of alternatives

- managers are too distracted by the daily business of survival
- management may be too constrained by lack of resources to contemplate strategic options

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

5. Define “Critical Success Factors” (CSF) and give three (3) examples.

Solution

Critical Success Factors (CSF) are those quantifiable factors that will determine successful implementation of the corporate strategy in the eyes of the organisation’s managers. (3 marks)

Examples include profitability, service performance, expansions, new branches, clients base, e.t.c.

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

(Grand Total: 6 marks)

6. Enumerate three (3) of the five (5) basic styles or methods of handling conflicts.

Solution

The five (5) basic styles or methods of handling conflicts are:

- * accommodation
- * power
- * avoidance
- * negotiation
- * integration.

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

7. Balanced scorecards measure an organisation’s performance from four (4) perspectives. State these four (4) perspectives.

Solution

The four perspectives of balanced scorecards in measuring an organisation’s performance are:

- financial perspective
- internal perspective
- customer perspective and
- learning and growth perspective.

(1½ marks for each correctly stated perspective. Total: 6 marks)

8. Action Centred Leadership (ACL) of Dr. John Adair identifies three key areas of effectiveness. Enumerate these three (3) key areas.

Solution

The three (3) key areas of effectiveness identified by Dr. John Adair under Action Centred Leadership (ACL) are:

- * the task
- * the team
- * the individual.

(2 marks for each correctly stated area. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) According to NAICOM Market Conduct and Business Practice guidelines for insurance institutions, state the five (5) requirements for insurance sales through internet and mobile telecom operators. (10 marks)
- (b) (i) Enumerate fully five (5) reasons why Government restrict global trade. (15 marks)
- (ii) Mention five (5) obstacles to global trade. (15 marks)
- (c) The number of consumers now prepared to buy or obtain service over the telephone is growing year by year. Enumerate five (5) products/services, apart from those in insurance sector, that can be bought through use of the telephone channel. (10 marks)

Solution

- a) According to NAICOM Market Conduct and Business Practice guidelines for insurance institutions, the five (5) requirements for insurance sales through internet and mobile telecom operators are:
- i. the address of the insurer's head office and the contact details of the supervisor/manager of the head office
 - ii. the contact details of the insurer, branch or intermediary; and of the supervisor/manager responsible for the supervision of the business, if different from (i) above
 - iii. the jurisdiction in which the insurer or intermediary is legally permitted to provide insurance
 - iv. procedures for the submission of claims and a description of the insurer's claims handling procedures
 - v. contact information of the authority or organisation dealing with dispute resolution and or customer complaint
- (2 marks for each correctly stated requirement. Sub-Total: 10 marks)

- a) The reasons why Government restrict global trade are:
- to protect new domestic industries from competition in their early years
 - to enable old industries to decline gradually and with minimum disruption to workers
 - as a way of executing foreign policy, for example, by enforcing an embargo
 - to encourage social policies such as support for agriculture and farmers
 - to maintain full employment at home
 - to gain strategic power within an industry sector.
- (3 marks for each correctly stated reason. Maximum of 5 to be graded. Grand Sub-Total: 15 marks)

b) The obstacles to global trade are:

- State intervention that is deliberately aimed at restricting international trade
- poor transport services
- poor communication
- non-standardisation of business practices, laws, tariffs and taxes
- lack of respect for the rule of law
- currency and exchange rate risks

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

c) Products/services, not limited to insurance sector alone, that can be bought through use of the telephone channel are:

- classified advertisements
- airline ticket sales
- catalogue shopping
- credit card enquiries
- telebanking
- motor/home/health/life insurance
- financial services like mortgage
- holiday packages
- computer equipment
- household items

(2 marks for each correctly stated product/service. Maximum of 5 to be graded. Grand Sub Total: 10 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Mention any seven (7) topics classroom induction programme will cover.

(14 marks)

(b) Suggest five (5) ways that line managers can use in evaluating training effectiveness.

(10 marks)

(c) Mention five (5) ways the training specialist within an organisation provides support for the line manager.

(10 marks)

Solution

a) The topics that classroom induction programme will cover are:

- company's history and culture
- health and safety
- company personnel policy, career opportunities and staff representation

- company's business, markets and distribution
 - customer focus and communication skills
 - product knowledge
 - processes and procedures
 - systems training
 - managing work priorities
 - using online databases and resources
- (2 marks for each correctly stated topic. Maximum of 7 to be graded. Sub-Total: 14 marks)

- b) The ways that line managers can use in evaluating training effectiveness are:
- ask direct questions of the trainee at the time of the training and also later
 - spot-checking on work done in newly trained areas of activities
 - observing any increased confidence and more use of initiative by the trainee
 - backlogs or targets before and afterwards
 - observing if staff turnover and absenteeism improved as a result of the training
 - check for general improvement of relations between staff and their supervisors
 - appraisals
- (2 marks for each correctly stated way. Maximum of 5 to be graded. Sub-Total: 10 marks)

c) The training specialist within an organisation provides support for the line manager in any of the following ways:

- conducting training needs analysis
 - developing and conducting courses
 - developing training packages
 - designing individual learning programs
 - training managers in training skills
 - evaluating training
 - providing information.
- (2 marks for each correctly stated way. Maximum of 5 to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 11(a) Explain the following performance incentives in performance management:
 (i) Team Bonuses (ii) Profit Sharing (iii) Gain Sharing (18 marks)
- (b) Mention eight (8) purposes of performance appraisal system. (16 marks)

Solution

a) (i) **Team Bonuses:**

- relates to the achievement if group targets or objectives

- important to consider how the bonus will be distributed between individual team members
- distribution is often on an equal split or percentage of salary basis
- it can create internal team tensions caused by a non-performing team member
- other team members exert pressure to perform on non-performing colleague(s).

(ii) **Profit Sharing:**

- designed to reward individuals on the basis of organizational performance
- assist in engendering the commitment of all employees covered by the scheme
- too often, there is no clear link between individual performance and profit share levels.

(iii) **Gain Sharing:**

- gains made as a result of formulation and implementation of ideas by employees on certain areas of the organisation's performance
- groups of employees meet regularly to identify ways of improving performance. If the ideas implemented produce financial gains for the organisation, a percentage of the gain is distributed to members of the group.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total per point: 6 marks. Grand Total: 18 marks)

b) The purposes of performance appraisal system are to:

- establish whether a job holder is achieving the results expected
- examine why there may be a shortfall in performance and therefore establish training or other needed support
- establish whether the job holder has more to contribute in this or larger jobs
- provide information in connection with career development and manpower planning
- impact a salary system geared to the reward of achievement and endeavors
- evaluate training and selection procedures
- improve individual motivation
- encourage managers to recognize the importance of performance, counselling and training
- encourage constructive dialogue about performance between managers and team members

- input a promotion system based on objective achievements
- communicate the company's concern for its staff and its positive desire to encourage individual development.

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

(Grand Total: 34 marks)

- 12(a) Managers must view change and innovations as opportunities to seize rather than threats to fear. Enumerate eight (8) key steps in managing operational change. (24 marks)
- (b) State any five (5) actions to be taken in having a structured approach to time management. (10 marks)

Solution

a) The key steps in managing operational change are:

- accept that dealing with continually changing situations is a normal part of the job
- control routine work and create time to consider the innovative aspects of the job
- maintain a well-informed knowledge of developments in the industry
- monitor the environment for signals, trends and developments in the attitudes and behaviour of competitors, customers and the market
- regularly discuss new ideas and issues to stimulate a positive attitude to change
- encourage staff to raise issues affecting their work
- watch for signs that unaccepted practices is inappropriate
- discuss future plans and issues with staff on a regular basis
- communicate internal changes to staff
- be experimental and flexible in dealing with other people's ideas
- try out new techniques and ideas wherever appropriate
- create a working atmosphere in which ideas and issues are carefully attended to.

(3 marks for each correctly identified way. Maximum of 8 to be graded. Sub-Total: 24 marks)

b) The steps to a structured approach to time management are:

- think through what you want to do and achieve
- set business, personal, career goals and objectives
- ensure the set objectives are SMART i.e. Specific, Measurable, Achievable, Realistic and Timebound
- plan and prioritize needed to achieve the tasks and objectives
- apply "paretos law" (i.e. the 80/20 principle)

- analyze the current use of the time and work out how it could be used more effectively
- take the necessary action
- apply self-control and discipline.

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

(Grand Total: 34 marks)

13. Leadership is being visible when things go wrong and invisible when things are working well. This is true of facilitative style of leadership.

(a) Discuss the four (4) principal roles of the facilitator. (12 marks)

(b) Mention four (4) of the skills used by facilitative leaders. (12 marks)

(c) Discuss the two (2) main components of transactional leadership. (10 marks)

Solution

a) The four (4) principal roles of the facilitator in the facilitative style of leadership are:

- **teacher:** shows how things are done by providing relevant and meaningful information and instruction
- **guide:** provides wise counsel and appropriate advice
- **coach:** provides direct instruction to fine-tune individual performance
- **leader:** leads by example exemplifying the values of the organisation and the team.

(2 marks for each correctly stated role. 1 mark for each correct and complete explanation. Sub-Total per role: 3 marks. Grand Sub-Total: 12 marks)

b) The skills used by facilitative leaders are:

- recognizing the needs of team members
- handling conflicts
- encouraging communication and dialogue
- encouraging responsibility and accountability
- creating openness and trust among team members
- fostering a climate of learning and development

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

c) The two (2) main components of transactional leadership are:

- the leader provides a rewards if, and only if, the followers perform adequately and/or try hard enough
- the leader does not seek to change the existing working methods of the followers so long as performance goals are met, and only intervenes if something is wrong.

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

(Grand Total: 34 marks)

14. Corporate culture is simply defined as “the way we do things around here”.
- (a) Mention five (5) characteristics each of bureaucratic culture and matrix culture. (30 marks)
- (b) State two (2) other types of corporate culture. (4 marks)

Solution

a)

S/No	Bureaucratic Culture	Matrix Culture
1	Pyramidal in shape	Resource allocation and goal-setting decisions are made bureaucratically
2	Has a clear hierarchy of positions	Operational decisions are made on a project group basis
3	Has a well-developed system of codified rules and norms for workers	Specialist staff are used across the whole organisation
4	Employees are appointed and promoted according to open and testable procedures	The organisation relies on a team system
5	There is highly developed specialization of tasks	There is a cross disciplinary approach
6	There is certainty and stability for employees with regard to the work and standards expected of them.	A more stimulating work environment is provided for individual workers.

(3 marks for each correct and completely stated characteristic. Maximum of 5 to be graded per term.
Sub-Total per term: 15 marks. Grand Sub-Total: 30 marks)

b) Two (2) other types of corporate culture are:

- motivational culture and
- organic culture.

(2 marks each. Sub-Total: 4 marks)
(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A940

FINANCE AND ACCOUNTING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A940 -FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	13%
Highest Score:	58%
Lowest Score:	25%
Average Score:	42%

Breakdown Updates

Question 1

The question tested candidates on classifications of Accounts. All candidates attempted the question and the pass rate was about 60%.

Question 2

The examiner tested candidates on personal and impersonal accounts by asking them to give examples. The performance was poor as the pass rate was about 25%.

Question 3

This question was on final accounts. The performance was very poor as no candidate received a single mark in this question. The pass rate was zero. Candidates are advised to take this aspect of the syllabus very strictly

Question 4

This question is on the accounting record that must be kept according to the company Act. The response from most candidates was very poor. This indicates that some of them did not study very well. The pass rate was about 20%.

Question 5

The question tested candidates on the basic concepts of accounting. The question was poorly attempted. The pass rate was below 50%.

Question 6

Candidate's poor performance on this question shows lack of preparation and attention to this aspect of the syllabus. The pass rate is about 10%.

Question 7

The question tested candidates on types of cost accounting methods. The performance was average as the pass rate is about 50%.

Question 8

This question was on standard costing. Many of the candidates that attempted the question obtained the maximum marks available whereas the other could not obtain a single mark. The pass rate is about 60%.

Question 9

Only one candidate obtained 50% of the marks available. The pass rate is about 35% on the average on this question.

Question 10

This is an optional question, testing the candidates' knowledge of a simple financial statement's interpretation. Most off the candidates completely avoided the question. The few that attempted it scored below pass mark.

Question 11

This question was on reasons for supervision of Insurance Industry and withdrawal of authorization. The pass rate was a little above 50%. Candidates are advised to take every aspect of the course very serious.

Question 12

The candidates displayed a good knowledgeable of the question. They actually did well to earn pass mark. The pass rate was about 50%.

Question 13

This question tested candidates' knowledge about taxation, especially Value Added Tax. Only few candidates that attempted this question could not obtain average mark. The pass mark is about 40%.

Question 14

This is an optional question. The question tested candidates on long-term insurance fund. 50% of the candidates attempted the question. The performance was not encouraging as the pass rate was about 20%.

Chief Examiner's Comments on Overall Performance:

The performance is generally poor. The candidates did not displayed interest in the course. Answer provided showed lack of preparation.

Chief Examiner's Suggestions on Improvement:

Candidates are advised to study harder and ensure that every aspect of the syllabics is covered. This will enhance their performance in future examinations.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Accounts are classified into two (2). Mention the two (2) classifications and give two (2) examples of each.

Solution

The two classifications of Accounts, with examples, are:

- Real Accounts: cash, land, buildings, cows, e.t.c.
- Nominal Accounts: debtors and creditors (assets and liabilities accounts); wages, sales, premiums, commission, depreciation.

(1 mark for each corrected stated classification. I mark for each correctly stated example. Maximum of 2 examples should be graded. Sub-Total per classification: 3 marks. Grand Total: 6 marks)

2. List three (3) examples of personal accounts and three (3) examples of impersonal accounts.

Solution

Solution

Account Type	Examples
Personal Accounts	Debtors, creditors, assets, liabilities
Impersonal Accounts	Wages, sales, premium, commission, depreciation

(1 mark for each correctly stated example. Maximum of 3 to be graded per account type. Total: 6 marks)

3. When the final accounts and their notes are produced by a limited company, they may be referred to as or accounts.

Solution

When the final accounts and their notes are produced by a limited company, they may be referred to as **published accounts** or **shareholders accounts**.

(3 marks for each bolded phrase above. Total: 6 marks)

4. Company Act requires every company to keep accounting record sufficient to show and explain the company's transactions and to perform two duties.

Outline the two (2) duties.

Solution

The two duties that the Company Act requires every company to keep on accounting record in order to show and explain the company's transactions are:

- to disclose with reasonable accuracy, at any time, the financial position of the company at all times
- to enable the directors to ensure that any balance sheet and profit and loss account prepared for the purposes of the Act complies with its requirements.

(3 marks for each correctly stated duty. Total: 6 marks)

- (b) Companies limited by shares other than those classified as small ones are supposed to submit annual returns of some documents and record to the corporate affairs commission not later than 42 days after their annual general meeting. Outline any four (4) of such required documents and record. (10 marks)
- (c) Next level Plc has authorized share capital of ₦20,000,000.00 divided into 600,000 ordinary shares of ₦25.00 each, 50,000 8% preference shares of ₦100.00 each. After ascertaining the net profit for the year ended 31st December 2018, the following balances remained in the ledger:

	Dr (₦'000.00)	Cr (₦'000.00)
50,000 8% Preference Shares at N100.00 each		5,000
600,000 Ordinary Shares of N25.00 each		15,000
Retained Earnings		2,380
General Reserve		2,278
Trade Receivables	830	
Trade Payable		652
Inventory	1,200	
Freehold Property at Cost	11,890	
Plant and Machinery at Cost	14,000	
Provision for Depreciation on Plant and Machinery		6,000
Furniture and Fittings at Cost	1,000	
Provision for Depreciation and Furniture and Fittings		400
Cash at Bank	2,790	

After extracting the above balances, it was decided to pay a full year's dividend on the preference shares and the directors decided to recommend a dividend of 7% on the ordinary shares and to transfer ₦800,000.00 to general reserve.

Required:

Prepare the statement of financial position of Next Level Plc as at 31st December 2018 in accordance with the requirements of International Financial Reporting Standards (IFRS). (Show your workings). (20 marks)

- d) A publicly quoted company in Nigeria is required to prepare general purpose financial statements. This is in line with IAS 1 which is on presentation of financial statements. List four (4) of those statements. (10 marks)

Solution

- (a) i) 6 per mille.

(4 marks)

ii) Examples of ethical practices required from a member of the Chartered Insurance Institute of Nigeria are that:

- acting responsibly and with integrity in their professional activities at all times to their clients and the society as a whole
- compliance with the code of ethics, all relevant laws and other regulatory requirements and appropriate code of practice and codes of conduct
- demonstrating professional competence by meeting the technical and professional standards commensurate to their level of qualification and position of responsibility and completing their duties with due skill, care and diligence
- upholding professional standards in all dealings and relationships
- respecting the confidentiality of information acquired in professional and business relationships
- applying objectivity in making professional judgments and in giving opinion and statements.

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

b) The required documents that companies limited by shares other than those classified as small ones are supposed to submit annual returns of some documents and record to the corporate affairs commission not later than 42 days after their annual general meeting are:

- annual returns and financial statements of the company
- auditor's report
- register of members of the company
- indebtedness of the company
- the directors' report

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

c) Next Level Plc

Statement of Financial Position as at 31st December 2018

	N'000	N'000
ASSETS		
NON-CURRENT ASSETS:		
Property, Plant and Equipment (W ₁)		20,000 (1mark)
CURRENT ASSETS		
Inventory	1,200	(1mark)
Trade Receivables	830	(1mark)
Cash at Bank	2,790(1mark)	<u>4,820</u> (1mark)
		<u>25,310</u> (2marks)
EQUITY AND LIABILITIES		
EQUITY		
600,000 Ordinary Shares at N25 each	15,000	(1mark)
50,000 8% Preference Shares at N100 each	5,000	(1mark)
General Reserve (W ₄)	3,078	(1mark)
Retained Earnings (W ₅)	1,580 (1mark)	29,658 (1mark)
CURRENT LIABILITIES		
Trade Payable		<u>652</u> (1mark)
TOTAL EQUITY AND LIABILITIES:		<u>25,310</u> (2marks)

WORKING NOTES

1) Property, Plant and Equipment (W₁)

	Cost N'000	Accumulated Depreciation N'000	Net Book Value N'000
Freehold Property	11,890	-	11,890
Plant and Machinery	14,000	6,000	8,000
Furniture and Fittings	1,000	<u>400</u>	<u>600</u>
	<u>26,890</u> (1mark)	<u>6,400</u> (1mark)	<u>20,490</u> (1mark)

iv) Retained Earnings (W₄)

	N'000
Ledger Balance	2,380
Less Transfer to General Account	(800)
Ending Balance	1,580 (1mark)

v) General Reserve (W₅) = N2,278,000 + N800,000 = N3,078,500.00 (1mark)
(Grand Sub-total: 20 marks)

d) The statements that a publicly quoted company in Nigeria is required to prepare in line with IAS 1 which is on presentation of financial statements are:

- a statement of financial position as at the end of the reporting period
- a statement of comprehensive income for the reporting period
- a statement of changes in the equity for the period
- notes comprising a summary of significant accounting policies and other explanatory information
- a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

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

(Grand Total: 34 marks)

Part III

Answer **THREE** of the following **FIVE** questions.

Each question carries **34** marks.

10 (a) Outline four (4) activity ratios that can be calculated on any financial statement of account and indicate how they are calculated. (16 marks)

(b) Enumerate, three (3) advantages and three (3) disadvantages of divisionalisation. (18 marks)

Solution

a) Some activity ratios that can be calculated on any financial statement of account and how they are calculated are:

i) **Turnover: Net Assets** which shows how effectively the company is using its assets in generating business.

ii) **Trading Profit: Turnover** which is an indication of the average profitability of each unit of sales)

iii) **Sales: Fixed Assets**

iv) **Sales: Current Assets**

v) **Sales: Stock** although this is not appropriate for insurance

vi) **Sales (Premiums): Debtors**

(2 marks for each correctly stated activity ratio; 2 marks for each correct explanation on how the ratio can be calculated. Sub-Total per ratio: 4 marks. Maximum of 4 to be graded. Grand Sub-Total: 16 marks)

b)

S/No	Advantages	Disadvantages
1	Better quality decision	Lack of goal congruence
2	Speedier decisions	Increased costs
3	Higher motivation levels	Less control
4	Frees senior management	Less Direction
5	Trains junior management	

(3 marks for each correctly stated point. Maximum of 3 to be graded under each column. Grand Sub-Total: 18 marks)
(Grand Total: 34 marks)

11(a) Enumerate (12) reasons why supervision is considered necessary for the insurance industry. (24 marks)

(b) Authorization to write new business may be withdrawn on the discretion and/or directive of the Regulator. Outline five (5) circumstances in which such power can be invoked. (10 marks)

Solution

a) The reasons supervision is considered necessary for the insurance industry are:

- requirements for compulsory insurance (not strictly control of insurers, but clearly related in that it creates a demand and gives the State an even stronger duty to ensure that insurers are secured
- authorization of insurers for some or all classes of business
- control of managers, e.t.c.
- regulation of premium rates
- regulation of policy conditions
- limitation of expense charges
- financial requirements – deposits, minimum capital, solvency
- requirements for annual (or more frequent) returns
- powers of direction and other interventions (particularly relating to assets)
- controls on advertising and marketing
- controls on intermediaries, commission payment, e.t.c.
- nationalization and the probabilities of overseas competition
- compulsory compensation schemes for affected policyholders and claimants.

(2 marks for each correctly stated reason. Maximum of 12 to be graded. Sub-Total: 24 marks)

b) Some circumstances where the authorization to write new business may be withdrawn on the discretion and/or directive of the Regulator are:

- at the request of the company
- if the company has failed to satisfy an obligation imposed by the Act
- if there exist a ground which would stop the Regulator from issuing an authorization
- if the company has ceased to be authorized in the State where its head office is situated
- where it ceases to carry on insurance business of a particular class or classes
- where it has not commenced business in a class within twelve months of authorization.

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

(Grand Total: 34 marks)

12(a) List and explain six (6) factors that should be taken into consideration when trying to set the required size for a business. (18 marks)

(b) Explain what you understand by solvency margin and briefly explain the two (2) methods of calculating solvency margins for General Business Insurance.

(16 marks)

Solution

a) The factors that should be taken into consideration while trying to set the required size are the:

- size of the insurer (net retention)
- type of business undertaken (class and geography)
- efficiency of management (i.e. claims and expense control, underwriting ability)
- risk of outstanding claims exceeding provisions thereafter
- possibility of a collapse in investment values at a time when cash is needed
- danger of default by debtors, particularly reinsurers
- harmful effects of an increase in inflation rates, whether general or specific in relation to the business. Such as motor repair costs or courts awards
- degree of exposure to exchange rate risk
- existence of equalization or other reserves counted as liabilities
- basis of valuing assets and liabilities.

(Candidates are required to give a brief explanation on all the stated factors)

(2 marks for correctly stated factor. 1 mark for explanation. Total: 18 marks)

b) A solvency margin is the **excess of the value of (an insurer's) assets over the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulation.**

(1 mark for each bolded and coloured phrase. Total: 4 marks)

Two (2) methods of calculating solvency margins for General Business Insurance are:

Method I – Based on Premiums

The starting point is to gross worldwide general business premiums for the previous financial year in order to make sure that this is an annual premium figure, it is divided by the number of months in the financial year and multiplied by twelve (obviously, this only alters the figure if the financial year does not cover the normal twelve months' period). A figure is then calculated being 18% of the first ten million units of the account. The calculated figures are added together and multiplied by a percentage which is normally that which claims net of reinsurance recoveries bear to gross claims incurred in the last financial year; however, the percentage must not be less than 50%.

Method II – Based on Claims

Add together all claims incurred (gross) in the referenced period (the last three financial years for most classes but seven years of more than half the gross premiums from storm, hail or frost). Then divide this figure by the number of months in the referenced period and multiply by twelve – thus bringing the figure to the annual basis.

(2 marks for each correctly mentioned method. 2 marks for each correct explanation and complete explanation under each method. Sub-Total: 4 marks. Grand Total: 8 marks)

(Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

13(a) It is the function of the Federal Inland Revenue Services in the country of any insurer's operation to raise taxes in accordance with legislation from many sources. List and briefly explain any three (3) of such sources.

(12 marks)

(b) While computing corporation tax, certain expenses are not allowable. List and explain two (2) of those expenses.

(9 marks)

(c) (i) What is Value Added Tax (VAT)?

(2 marks)

(ii) How is VAT calculated?

(2 marks)

(iii) Explain the terms standard rated; zero-rated and exempt supplies. (9 marks)

Solution

a) The sources that the function of the Federal Inland Revenue Services in the country of any insurer's operation to raise taxes in accordance with legislation are through:

- **income:** Income for tax purposes can be derived from many sources such as annual profits or gains in respect of rent and similar payment from land and property in Nigeria. Tax on personal income and allowances, taxes on profit arising from public revenue, dividends payable. Taxes on emoluments from any office or employment including pension taxes on distribution made by companies resident in Nigeria
- **capital gain:** these are tax charges at the effective rate of income tax on any profit arising from chargeable gain on disposed tangible asset during the financial year. Chargeable gains represent the difference between the indexed cost of a chargeable assets at the end of the financial year. Capital losses are deducted from capital gains in calculating the net gains that are assessable to tax.
- **value added:** this is a tax levied basically on all suppliers of goods and services. It is derived from tax legislation. Supplier may be classified in several ways for the purpose of VAT (i.e. not taxable, taxable, exempt and non-supplies. All suppliers of goods or services are taxable at the standard rate as determined by the federal government.
- **transfers of capital on death:** this is also called inheritance tax. The purpose is to tax the value of transfers of chargeable assets made either on the death of the individual or within the previous seven years of that death.

(2 marks for each correctly mentioned source. 2 marks for each correct explanation and complete explanation under each source. Sub-Total: 4 marks. Grand Sub-Total:12 marks)

b) The following expenses are not allowed for consideration when computing corporation tax:

- **Expenses Not Incurred Wholly and Exclusively for the Purpose of Earning Profits:** there should be some element of necessity or benefit for the company in incurring allowable expense e.g. a subscription to the professional body will be allowable but a political donation will not be allowable.
- **Appropriation of Profit:** such as the payment of dividends or corporation tax itself, will not be treated as a charge against income for corporation tax purposes.
- **Any Charge for Depreciation in the Accounts of the Company:** this is disallowed but is replaced by capital allowance which are prescribed statute.

(2½ marks for each correctly mentioned expense. 2 marks for each correct explanation and complete explanation under each expense. Sub-Total: 4½ marks. Grand Sub-Total: 9 marks)

c) Value Added Tax (VAT) is a tax levied basically on all supplies of services and goods in Nigeria. It is derived from Tax Legislation. (2 marks)

ii) It is calculated by charging the approved percentage on the amount of goods and services purchased. The general rule is that all supplies of goods and services are taxable at the approved/standard rate (currently 7.5% in Nigeria). (2 marks)

iii)

- **Standard Rated Supplies:** include sales of furniture, fittings, catering services, management or inspection services, computer hire, internally printed stationery, e.t.c.
- **Zero-Rated Supplies:** include insurances of persons (including reinsurance), certain disposals or leases of property.
- **Exempt Supplies:** include loans to others (rewarded by interest), certain buildings (rents) and issues of shares.

(3 marks for each correct explanation. Sub-Total: 9 marks. Grand Sub-Total: 13 marks)
(Grand Total: 34 marks)

14(a) List and explain any five (5) General Principles that should guide investment by insurers. (15 marks)

(b) i Enumerate five (5) features of Long Term Insurance Fund – Life Assurance (10 marks)

ii Enumerate three (3) features of Long Term Insurance Fund – Unit Linked Business. (9 marks)

Solution

a) The general principles that should guide investment by insurers are:

- **Legal:** the law requires insurers to separate funds for investment. Life fund and general business funds must be separated for different types of investments.
- **Mr. Pegler:** J.B.H. Pegler updated the principles of investment in the Institute of Actuaries paper in relation to life assurance with regards to the valuation of investment.
- **Yield:** it should be the aim of insurers investment policy to invest its funds to earn the maximum expected yield thereon.
- **Spread:** investment should be spread over the widest possible range in order to secure the advantages of favourable and minimize the disadvantages of unfavourable political and economic trends.

- **Future Trends:** offices should vary their investments in accordance with their view of probable future trends.
- **Social and Economic Factors:** offices should endeavor to orientate their investment policy to socially and economically desirable ends.
- **Sundries:** these provides most of the general guidelines e.g. a higher risk profile may be adopted by a life insurer to try and improve the attractiveness of its with-profit portfolio.

(2 marks for correctly stated principle. 1 mark for correct explanation. Maximum of 5 principles to be graded. Sub-Total: 3 marks. Grand Sub-Total: 15 marks)

b) i) **Features of Long Term Insurance Fund – Life Assurance are:**

- the contracts are long term ones and as such lapse incurs losses to the insured, thus premium income tends to be constant and reliable
- outgo can be estimated reasonably accurately both as to the timing and amount – there are not likely to be sudden calls for funds
- the catastrophe risk is unlikely to be significant
- the premium takes into account income to be earned over the period of the policy. the life fund relies for its solvency on its investment income as much as on the premium stream
- investment policy is as important as the underwriting policy and considerable reserves buildup in the life fund held in trust for policyholders
- home business is still much more significant than that transacted overseas
- in view of the long term nature of the contract, some accounts frequently need to be consider inflation effects in determining the benefits ultimately payable
- annuity and bonds= business both guarantees surrender values and cash options give rise to somewhat different considerations, notably leading to a greater need for liquidity

(2 marks for correctly and completely stated feature. Maximum of 5 features to be graded. Grand Sub-Total: 10 marks)

ii) **Features of Long Term Insurance Fund – Unit Linked Business are:**

- they could be managed funds in a broad mix of internal and overseas fixed interests, equity and properties
- they could also be equity funds possibly concentrating on some certain factors
- they could be internationally invested with worldwide equity exposure
- they could be fixed interest fund, generally being securities only but not necessarily so

- they could also be property fund involved in really property investment, which may also be specialized
- they could be money fund which is investment in cash deposits or similar liquid financial instruments.

(3 marks for correctly and completely stated feature. Maximum of 3 features to be graded. Grand Sub-

Total: 9 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT A945

MARKETING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2020
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A945 -MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	27%
Highest Score:	81%
Lowest Score:	2%
Average Score:	41%

Breakdown Updates

Question 1

Almost all the candidates that attempted this question scored at least 4 out of 6 marks allocated. The performance is highly impressive as average percentage passed was above 85%. This notates that the candidates studied this aspect of the syllabus very well and as advised to keep it up in the future examination.

Question 2

Only few candidates scored the maximum marks on this question. The question tested candidate's understanding of factors influencing the amount of completion affecting a given product or service. The overall performance is below 50%.

Question 3

The examiner tested candidates' knowledge of evaluation of insurable services. This was a straightforward question that was attempted by all candidates. However, the performance was not good as the pass rate is about 40%.

Question 4

This question was misinterpreted by candidates. Majority of them supplied wrong answers. Only very few candidates obtained pass mark in the question. The pass rate was about 30%.

Question 5

The question was meant to test candidates' knowledge and understanding of market research. Surprisingly the answer provided showed the lack of understanding of the concept. The pass vote is below 50%.

Question 6

The question tested candidates' knowledge of the concept of advertising. The question is direct but the answers indicated lack of good understanding of the concept. The pass rate is below 50%. Candidates are advised to concentrate more on this aspect of the syllabus.

Question 7

The question tested the candidates' knowledge of customer care strategy. While the question was attempted by over 90% of the candidates, the pass rate was less than 50%.

Question 8

The question tested the candidates' understanding of the structure of international marketing operators. As out 40% of the candidates supplied wrong answer to the direct question. The pass is below 50%.

Question 9

Majority of the candidates understood the question but provided scanty answers even where they were asked to explain in details. The pass rate is below average. Candidates' are advised to pay more attention to every aspect of the syllabus and industry practice.

Question 10

This is an optional question. A direct question, testing the candidates' knowledge of direct marketing system. While over 80% of the candidates attempted the question, less than 50% of them got a pass mark. This further exemplifies the candidates' inadequate preparation for the examination.

Question 11

The question tested candidates understanding on the popular concept of SWOT. It is highly surprising that more than 60% of candidate that attempted the question supplied wrong answers. The pass rate is about 38%.

Question 12

The question tested candidates' knowledge of popular topic "market research". One would expect impressive performance from candidates but few of them scored pass mark. The pass rate is just a little above 50%.

Question 13

This is an optional question. Examiner tested candidates' understanding of distribution channels, franchising and involvement of intermediaries in distribution channels. Above 70% of the candidates attempted the question and the pass rate is above 50%.

Question 14

The question tested candidates' knowledge of information technology as applied to marketing as well as question on components of foreign market. Majority of candidates performed below expectation in this question. The pass rate is about 35%. Candidates should note that this type of question cannot be avoided in their examination.

Chief Examiner's Comments on Overall Performance:

The overall performance is below expectation. Unlike preceding years, the answers showed lack of adequate preparation. Preparation notwithstanding long time available for them to study.

Chief Examiner's Suggestions on Improvement:

Candidates are advised to study harder and ensure that they cover all the aspects of the course. There is no short-cut to success in this kind of course.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. To bring about an exchange of goods and services, the seller must perform five acts. Mention any three (3) of those acts.

Solution

The acts that the seller must do in order to bring about an exchange of goods and services are:

- identifying the potential buyers
- developing appropriate solutions to their needs, whether products or services
- communicating information to those potential buyers about these solutions
- making the exchange
- delivering the offering.

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

2. A number of factors influence the amount of competition affecting a given product or service. List two (2) of such factors.

Solution

The factors that influence the amount of competition affecting a given product or service are:

- organisations operating in the market
- consumers interest in buying products and services in the market
- factors external to the market.

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

3. The evaluation of insurance services is in two (2) folds. Mention them.

Solution

The two folds that the evaluation of insurance services are in are:

- when disaster strikes, the service must meet or exceed the customer's expectation
- if disaster never strikes, the customer must feel pleased that they have bought the insurance, even though all they have experienced is peace of mind.

(3 marks for each correctly stated fold. Total: 6 marks)

4. There are four components involved in formulating a marketing strategy for services. Enumerate any three (3) of these four components.

Solution

The four (4) components involved in formulating a marketing strategy for services are:

- establishing the corporate concept
 - analyzing both the external and internal environments
 - formulation of a marketing strategy
 - implementation, control and evaluation of the whole process
- (2 marks for each correctly stated component. Maximum of 3 to be graded. Total: 6 marks)

5. Market research provides qualitative, scientific and statistical information about the way the organisation’s customers are reacting to its offerings. Outline any three (3) of such information.

Solution

The information that market research provides about the way the organisation’s customers react to its offerings are:

- the number of sales made in a given period
 - the value of sales made in a given period
 - the organisation’s share of the total market
 - the competitor’s share of the total market
 - the number and value of sales within different regions or market segments.
- (2 marks for each correctly stated information. Maximum of 3 to be graded. Total: 6 marks)

6. Advertising can be very effective in breaking down barriers in the communication process overtime. Explicitly show by means of a table, three (3) ways by which advertising helps in this process.

Solution

Unawareness	Make impact Fly the flag Inform about product/service Overcome forgetfulness
Awareness	Convey specificity Inform about what the product/service does Provide assurance
Comprehension	Establish credibility Reduce hostility Emphasise benefits Demonstrate fitness

Conviction	Overcome apathy Get customer to take action Encourage ownership Generate demand
Action	Get customer to take action

(1 mark for each correctly stated "means" and 1 mark for any correctly stated action by which the "means" is done. Maximum of 3 means to be graded. Total: 6 marks)

7. When an organization recognizes the importance of customer service as a device for developing new business and preserving existing business. It is essential that the marketing manager is clear about how it will be created and used there are four main steps in creating a customer service strategy. Outline these four (4) steps.

Solution

The customer service strategy steps that will be created and used are:

- identify a service mission
- set the customer objectives
- decide on the customer service strategy
- implement the strategy

(1 mark for each correctly identified steps. 2 marks for correct arrangement of the steps. Total: 6 marks)

8. There are two main structures for managing international marketing operations. Enumerate the two (2) main structures.

Solution

The two (2) main structures for managing international marketing operation are:

- centralized marketing and
- decentralized marketing.

(3 marks for each correctly stated structure type. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) (i) What is the full meaning of NCRIB? (2 marks)
- (ii) Enumerate any four (4) roles played by NCRIB in the regulation of insurance broking business in Nigeria. (8 marks)
- (b) List, explain and give an example on each of the five (5) conditions that must be met before a successful marketing exchange transaction can be said to have occurred. (25 marks)

- (c) From a seller's perspective, the conditions necessary for an exchange can only be met after the seller or some exchange specialist acting on the seller's behalf – has successfully performed several risks. Mention and explain any five (5) of those risks. (15 marks)

Solution

- (a) (i) Nigerian Council of Registered Insurance Brokers (2 marks)

ii) The following are the roles played by NCRIB in the regulation of insurance broking business in Nigeria:

- regulating the practice of insurance broking
- registering and keeping membership record of all licensed insurance brokers
- ensuring that ethical and professional standards are followed in the practice of the broking profession
- enforcing the provision of the enabling Act (NCRIB Act 2003) and disciplining any erring member who disregard any provision/section in the Act
- organizing seminars, conferences and retreat for members as part of the MCPD
- liaising with NAICOM and other agencies/bodies on issue bothering on the broking profession

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

(Grand Sub-Total: 10 marks)

b) The five (5) conditions that must be met before a successful marketing exchange transaction can be said to have occurred are:

- i. there must be at least two parties
- ii. both parties must offer something of value (e.g. money, goods, services, an idea)
- iii. both parties must be aware of each other's existence
- iv. both parties must be capable of communication and delivery
- v. both parties must be free to accept or reject the other party's offer
- vi. both parties must be willing and able to negotiate terms of exchange that they find acceptable.

(2 marks for each correctly listed condition; 2 marks for each correct explanation of the listed condition. 1 mark for each completely and correctly stated example. Sub-total per condition = 5 marks.

Grand Sub-Total: 25 marks)

c) Those risks from a seller's perspective that the seller or its representative needs to perform are:

- i. identify potential buyers
- ii. develop appropriate solutions to the buyers' needs
- iii. communicate information to those buyers about the available solutions

- iv. make the exchange
- v. deliver the offering

(2 marks for each correctly listed risk; 1 mark for each correct explanation of the listed risk. Sub-total per risk = 3 marks. Grand Sub Total: 15 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Direct marketing encompasses a number of media and is one of the most popular forms of advertising for insurance organisations. It comprises of four (4) main methods. List and explain these methods. (12 marks)

(b) There are four (4) main strategies for improving the insurance service process so as to improve the effects of marketing. Mention and explain these four (4) strategies. (12 marks)

(c) The insurance organization must strive to match its offering to groups whose needs it can best satisfy, and these groups will differ according to certain factors. List and give examples of each of the four (4) factors used in stratifying these groups. (10 marks)

Solution

a) The four (4) main methods used in direct marketing as a form of advertising for insurance organisations are:

- i. **Direct Mail:** unsolicited letters are sent to a list of potential customers whether these are already policyholders or those who have not yet bought from the organisation.
- ii. **Direct Response Advertising:** advertising which invites interested people to contact the insurer for more information, often about a special offer.
- iii. **Telemarketing/Telesales:** unsolicited telephone calls are made to a list of potential customers.
- iv. **Internet Marketing:** emails are sent to a list of potential customers.

(2 marks for each correctly listed method; 1 mark for each correct explanation of the listed method. Sub-total per method = 3 marks. Grand Sub-Total: 12 marks)

b) The four (4) main strategies for improving the insurance service process as it relates to improving the effects of marketing are:

- i. **Reducing Divergence:** by standardizing the service and limiting the extent to which it might be customized to individuals. While this offers the prospects of reducing costs and improving productivity, it can also alienate those customers who should benefit from customization.

- ii. **Increasing Divergence:** by allowing for greater customization and flexibility for which it might be possible to charge premium prices, this may be a suitable strategy for niche positioning of the insurance market.
- iii. **Reducing Complexity:** by omitting steps and activities from the process. This has the effect of making control easier since some peripheral activities disappear.
- iv. **Increasing Complexity:** by adding more services to the core insurance offering. These additional services are intended to be for the customers' benefit but they can also make the process so complicated that customers are reluctant to waste the effort they have already made by moving to a competitor.

(2 marks for each correctly listed strategy; 1 mark for each correct explanation of the listed strategy. Sub-total per strategy = 3 marks. Grand Sub-Total: 12 marks)

c) The four (4) factors used in stratifying the groups that insurance organization strives to match its offering to in order to best satisfy their need are:

- i. **demographic factors:** i.e. age, gender, education, occupation
- ii. **buying behavior:** i.e. heavy/light users of insurance
- iii. **geographical location:** i.e. where the customers are based or where they are working or where they located their businesses
- iv. **behavioural factors:** i.e. do customers take or avoid risks?

(1½ marks for each correctly listed factor; 1 mark for each correct explanation of the listed factor. Sub-total per factor = 2½ marks. Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

11(a) With the aid of a table/diagram, explain SWOT (Strength, Weakness, Opportunities and Threat) analysis. (12 marks)

(b) As far as competitive strategies are concerned, Miles and Snow classify businesses into four strategic types. List and explain these four (4) types. (12 marks)

(c)i. Define the term "action plan" with reference to marketing. (2 marks)

ii. An action plan for marketing should be worked out for each separate project, campaign or area and should include certain points. List four (4) of these points. (8 marks)

Solution

a) SWOT analysis.

Strengths	Weakness
Size and status of the organisation	Poor coordination between regional/branch offices
Experience and track record	Shortage of some key skills
National coverage	
Quality of service provided	

Quality of staff Willingness to innovate Close relationship with customers Advances in technology deployment	Inconsistency of quality standards across departments Existence of too many mismatched clients Inexperience new recruits to the workforce
Opportunities Increase in home ownership by young people Use of other non-insurance services to attract more insurance clients Extension of regional coverages in places where not currently operating Deployment of the IT facilities to more effective and better usage	Threats Economic downtown Loss of key personnel Challenges of recruiting the right caliber of people Deregulation of insurance services leading to stiffer and more competition If expansion is not curtailed, it could head to stretched resources and consequent inefficiencies

(1½ marks for each correctly listed point under each term. Maximum of 2 to be graded under each term. Sub-total per term = 3 marks. Grand Sub-Total: 12 marks)

b) As far as competitive strategies are concerned, Miles and Snow classify businesses into four (4) strategic types. These are:

- i. **prospectors:** these pursue growth through the early development of new products and services. In new markets, they operate on a broad market that is occasionally redefined. They compete by stimulating and meeting new market opportunities. They may not maintain strength over time in all the markets. They are suitable for volatile and/or unstable environments.
- ii. **defenders:** these attempt to locate and maintain a secure position in relatively stable service or product areas while paying less attention to new product development. They offer a limited range of services compared to their competitors and try to protect their domain.
- iii. **Analysers:** these attempt to maintain a strong position in their markets but seek to expand into new product markets. They try to sustain a stable, limited line of products and services; and also follow a selected set of promising new developments in their industry
- iv. **Reactors:** these are the businesses with no clearly defined business strategy. They tend not to have as consistent a customer-orientation focus unlike their competitors; and are not as willing to assume the risks of new products development as other competitors.

(2 marks for each correctly stated type; 1 mark for each correct explanation of the stated method. Sub-total per method = 3 marks. Grand Sub-Total: 12 marks)

c) i) An action plan, with reference to marketing, is the document on the marketing strategy, that shows the measures and projects which has been adopted, a timetable, an allocation of responsibility and how resources are to be allocated. (2 marks)

ii) The following are the points that an action plan for marketing should include:

- objectives of the plan which must be specific, measureable, achievable, relevant and time-defined
- strategy for achieving these objectives
- specific activities which will be undertaken
- allocation in specific responsibility for carrying out each activity
- dates for starting and finishing each activity
- specific estimated resource requirement (based on time estimates) for the period of implementation
- expected cost of the activities
- expected result (sometimes called milestones) on completion of each activity.

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

(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

12a Market research is methodical and typically follows an ordered series of six (6) steps or stages. List and fully explain these six (6) stages. (12 marks)

(b) With the aid of diagram, articulate the value chain analysis for an insurance company. (12 marks)

(c) New product development is best done as a series of steps. List and briefly explain the five (5) stages of new product development. (10 marks)

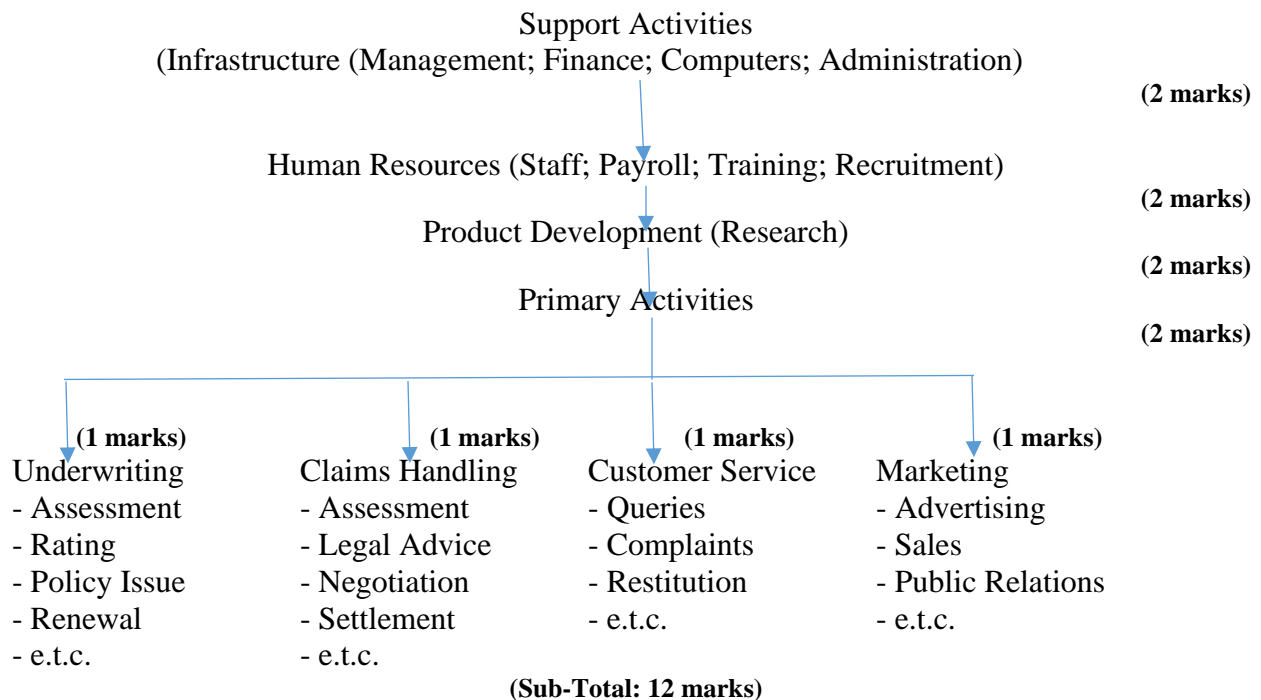
Solution

a) Market research is methodical and typically follows an ordered series of six (6) steps or stages. These steps are:

- **Identifying the Missing Information:** this is done by identifying the information required by the organisation and the questions for which the market research will provide answers
- **Determining the Data Needs and Sources:** researcher need to identify what kind of data they need and the likely sources of such data e.g. historical record to show the trend, street interviews to determine public perception and awareness of organisation's products and services
- **Research Design:** questions which will produce the unambiguous answers need to be formulated. Quantitative and unequivocal factual answers can be recorded in a number referenced way

- **Design of Sample Size and Characteristics:** need to identify a target group from whom the information will be gathered. Selecting a sample that represents a wide cross-section of types within the group will minimize the risks of bias answers
 - **Data Collection:** data can be collected in a variety of ways. Data collection can be distorted by the following:
 - interviewee who do not respond at all
 - interviewers who ask questions incorrectly
 - interviewers who record answers incorrectly
 - **Tabulation and Analysis:** the raw data need to be tabulated to make it easier to draw inferences about inferences about needs and average behavior from the aggravated answers
- (1 mark for each correctly stated step. 1 mark for any correctly stated explanation. Sub-Total per Step = 2 marks. Total: 12 marks)

b) The value chain analysis for an insurance company in diagram is:



c) The five (5) stages of new product development are:

- **Objectives and Strategies for New Products:** this is aimed at securing future volume and profit growth for the organisation. It may also aim to maintain its position in the market as an innovator or at defending its current market share.

- **Idea Generation and Processing:** this is focused on new ideas on how to exploit the market opportunities and it could come from any source e.g. customers, organisation's own staff, competitors, government, academia, e.t.c. The new ideas need to be thoroughly screened before taking a final decision on them.
- **New Product Design:** the process is here is to first have an initial "rough" idea of the product to be developed, then identify the key benefits in the products for the customer, the key product features, determine how to position the product within the existing market, evaluate the product within the existing market and then redesign the "rough" idea to incorporate the developmental work done on it.
- **Testing:** this is aimed at using panels of experts drawn from the industry to carry out consumer tests and also testing the effectiveness of the proposed marketing mix.
- **Commercialisation:** this is when significant financial investment is made on the new product for marketing production and physical distribution of the product.

(1 mark for correctly stated stage. 1 mark for correct explanation on each correctly stated stage. Sub-Total per stage - 2 marks. Grand Sub-Total: 10 marks)
(Grand Total: 34 marks)

- 13(a) Outline five (5) main objectives why organisations design marketing distribution channels. (10 marks)
- (b)i What is "franchising"? (4 marks)
- ii Mention and give examples of four (4) main franchise systems. (8 marks)
- (c) With reference to the operations and involvement of intermediaries in distribution of insurance services, explain the following terms:
- (i) functional efficiency
 - (ii) scale efficiency; and
 - (iii) transactional efficiency. (12 marks)

Solution

a) The five (5) main objectives why organisations design marketing distribution channels

- to make the product or service available to customers
- to ensure that promotional effort is devoted to the product or service as close as possible to the customer
- to provide the highest level of customer service
- to gather feedback from customer/intermediaries
- to take advantage of economies of scale.

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

b) i) "Franchising" is a method of distribution that gives third parties the right to participate in the organisation's business provided they accept the terms of the franchise and of the franchisee fee. (4 marks)

ii) The four (4) main franchise systems are:

- Manufacturer-Retailer Franchise Systems e.g. car dealer
- Manufacturer-Wholesaler Franchise Systems e.g. soft-drink bottling franchise
- Wholesaler-Retailer Franchise Systems e.g. franchised pharmacies
- Service Sponsor-Retailer Franchise Systems e.g. car-drive, fast food, hotel chains.

(1 mark for each correctly stated system. 1 mark for any correctly stated example. Sub-Total per System = 2 marks. Grand Sub-Total: 8 marks)
(Grand Sub-Total: 12 marks)

c) a) **Functional Efficiency:** intermediaries may perform one or more marketing activities more efficiently than manufacturers or their customers because of their specialization and greater economies of scale. For example, an insurance broker can spread costs across different insurers and perform selling functions at lower cost per insurer.

(b) **Scale Efficiency:** by purchasing large quantities of goods from manufacturers, storing them and then breaking them down into smaller quantities that their customers prefer to purchase, wholesalers and retailers enable manufacturers and their customers to operate at the most efficient scale.

(c) **Transactional Efficiency:** by purchasing goods from a variety of suppliers and then storing, promoting and selling them, wholesalers and retailers make it possible for customers to acquire wide assortments of products from a single source with one transaction. It reduces time and effort that would have been expended at sourcing for the products individually.

(2 marks for each correctly stated explanation. Maximum of two explanations to be graded under each term. Sub-Total per term = 4 marks. Grand Sub-Total: 12 marks)
(Grand Total: 34 marks)

14(a) Owing to advances in technology, many products and services are delivered without the customer and supplier ever meeting. Mention and explain any two (2) examples of these distribution channels. (12 marks)

(b) Broadly speaking, the internet presents four distinct distribution features. Outline these four (4) features. (12 marks)

(c) Outline five (5) different components of foreign market. (10 marks)

Solution

a) The examples of the distribution channels where owing to advances in technology, many products and services are delivered without the customer and supplier ever meeting are:

- **Telecommunications and Call Centres:** development in database management systems combined with advances in communication technology have led to the growth of call centres. These are groups of telephone agents who are also computer operators linked sometimes electronically as well as vocally by telephone lines.
- **Television Shopping and Direct Response:** television can also be used as a medium of distribution and sales of goods and services. Television shopping channels have also been developed over the years. It allows viewers to see and buy the products and services.
- **Internet and E-Commerce:** the net allows computer users to communicate cheaply, quickly and internationally, E-commerce is the conduct of business electronically using the internet. Businesses are carried out swiftly and efficiently, with instant payment for goods electronically.

(2 marks for each correctly stated channel. 2 marks for any correctly stated explanation.
Maximum of 2 complete explanations to be graded per channel. Sub-Total per System = 6 marks. Grand Sub-Total: 12 marks)

b) The four (4) distinct distribution features of the internet are:

- a direct link between customers and businesses to complete transactions or swap information more easily
- technology that lets companies bypass traditional distributors
- a way for organizations to develop and deliver new products and services for customers
- a way for organizations to become the dominant player in their field e.g. by controlling access to customers and setting new business rules.

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

c) The different components of foreign market are:

- physical and geographical environment
- legal environment
- political environment
- cultural environment
- competitive environment
- local infrastructure

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

(Grand Total: 34 marks)