

*Chartered Insurance
Institute of Nigeria*

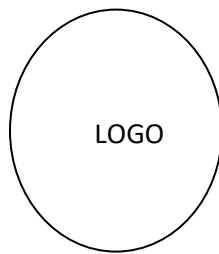
Chief Examiners' Report

April 2020 Examination

Diploma in Insurance (D01 – D19)

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)	<i>Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)</i>
Start each question on a fresh page	<i>Write after invigilators have declared "time-up"</i>
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	<i>Write your name on any part of the answer scripts</i>
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.	<i>Nurture fear on any subject. There is no subject that distinction cannot be obtained.</i>
Attend the Annual Students' Forum	<i>Avoid the Annual Students' Forum</i>
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); cinigeria.com (CIIN)	
INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT. ANY CANDIDATE CAUGHT AND/OR FOUND TO BE CEHEATING/HAVE CHEATED, WILL BE BARRED FROM PARICIPTING 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
DIPLOMA

YEAR 2020 FIRST DIET EXAMINATION PAPER

SUBJECT D01
INSURANCE PRACTICE AND REGULATION

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D01 - INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	53%
Highest Score:	84%
Lowest Score:	22%
Average Score:	53%

Breakdown Updates**Question 1**

Majority of the candidates answered the question correctly. However, few candidates could not explain the full meaning of the trade associations. Overall performance is very good.

Question 2

This question was well attempted by almost all the candidates. However, few candidates could not explain the points correctly. Overall performance is good.

Question 3

The part (b) of the question was not well attempted as the candidates could not explain the relationship between indemnity and subrogation. Overall performance is fair.

Question 4

The candidates answered the question correctly and they were also able to explain the concept/objective of the question. Overall performance is good.

Question 5

Most of the candidates attempted the question correctly. The overall performance is very good.

Question 6

Overall performance is fair as most of the candidates could not explain the points satisfactorily.

Question 7

Overall performance is very good. Most of the candidates got the answer correctly and were able to explain the principles.

Question 8

Most of the candidates got the answer to the (a) part while the (b) part was missed by almost all the candidates. The overall performance is fair.

Question 9

Majority of the candidates did not get the facts correctly but they were simply hovering around the answers. Overall performance is just average.

Question 10

Majority of the candidates missed the procedure but relied on practice to answer the question. Overall performance is just above average.

Question 11

Majority of the candidates went off-track thereby securing low marks. Overall performance is below average.

Question 12

Only few of the candidates answered the question correctly. Overall performance is below average.

Question 13

Few of the candidates answered part (a) correctly while majority could mention but not explain the points in part (b). Overall performance is below average.

Question 14

Overall performance is very poor as majority of the candidates went off-track.

Question 15

A poorly attempted question. Nearly all the candidates who answered it got it wrong as they failed to define what business interruption was nor its specific cover, Overall performance is very poor.

Question 16

Most of the candidates attempted the question, and were able to list the types of annuity contracts but could not explain them. Overall performance is just fair.

Question 17

A poorly attempted question. Majority of the candidates seemed not conversant with survey requirements and provisions. Overall performance is extremely poor.

Question 18

Only few candidates answered it correctly. Overall performance is extremely poor.

Chief Examiner's Comments on Overall Performance:

The overall performance is simply average and not encouraging at all.

Chief Examiner's Suggestions on Improvement:

Candidates can do better if they dedicate themselves to in-depth study and keep abreast of events/relevant information in the insurance industry relating to educational development.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. List five (4) organisations/trade associations that are involved in promoting and/or enforcing ethics, standards of knowledge and professionalism in Nigeria Insurance Market.

Solution

The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:

- Nigerian Insurers Association (NIA)
- Nigerian Council of Registered Insurance Brokers (NCRIB)
- Institute of Loss Adjusters of Nigeria (ILAN)
- National Insurance Commission (NAICOM)
- Chartered Insurance Institute of Nigeria (CIIN)
- Professional Reinsurance Association (PRAN)
- Association of Registered Agents of Nigeria (ARIAN)

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

2. Mention any four (4) elements/factors that are taken into account in the calculation of premium in general insurance?

Solution

The elements/ factors that are taken into account in the calculation of premium in general insurance are:

- reserves for expected claims
- reserves for operational expenses such as staff salaries, office expenses, advertising expenses, commissions, e.t.c.
- profit margin
- general inflation
- interest rates.

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

- 3(a) Explain the main difference between captive insurance and self-insurance.

(6 marks)

- (b) Briefly explain how indemnity is a corollary of subrogation.

(4 marks)

Solution

- (a) The main difference between captive insurance and self-insurance is that captive insurance is where an organisation sets up a subsidiary or an affiliate company to insure and provide cover for its risks and assets,

while self-insurance is a situation where an organisation sets aside funds to mitigate or settle losses that may arise from its operation instead of transferring its risks to a conventional insurer.

(3 marks for each correctly stated explanation/definition per term. Sub-Total: 6 marks)

- (b) Indemnity is a corollary of subrogation in the sense that under common law, when an insurer has indemnified the insured under a contract of insurance, the insurer is allowed to take the rights of the insured and recover any amount payable from other third party who is liable for the loss (negligent third party). This is the subrogation right of the insured which is transferred to the insurer under the policy condition.

(2 marks for each correctly stated explanation. Maximum of 2 explanations to be graded.

Sub-Total: 4 marks)

4. Enumerate the two (2) importance of insurable interest in a contract of insurance.

Solution

The two (2) importance of insurable interest in a contract of insurance are that:

- there can be no valid contract of insurance without a legally recognized relationship at common law, which also distinctly differentiates it from gambling
- no insurance contract can exist without a subject matter of insurance which must also bear a legal relationship with the insured.

(5 marks for each correctly stated importance. Total: 10 marks)

5. List any four (4) reasons why there is government regulation/supervision of insurance industry in any country.

Solution

The reasons why there is government regulation/supervision of insurance industry in any country are:

- to maintain adequate solvency margins
- for equity, fairness and reasonableness among operators
- to maintain competence and public confidence in the industry
- to enforce the doctrine of insurable interest and eradicate any element of gambling in any insurance contract
- to maintain and ensure enforcement of certain compulsory insurances e.g. group life, employers' liability, motor third party insurance, e.t.c.

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

6. Enumerate any four (4) methods/techniques/medium that are used by insurers to detect and reduce fraudulent claims in UK and Nigeria.

Solution

The methods/techniques/medium that are used by insurers to detect and reduce fraudulent claims in UK and Nigeria are:

- motor insurance anti-fraud and theft register
- claims and underwriting exchange
- Nigerian Insurers' Association "Consult the Lead"
- Nigeria Insurance Industry Database (NIID)
- Various Offices Technical Committees e.g. MTC (Motor Technical Committee), MOC (Marine Offices Committee); LOC (Life Offices Committee), e.t.c.

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

7. Mention and briefly explain any two (2) important principles that make an insurance contract valid.

Solution

The important principles that make an insurance contract valid are:

- utmost good faith
- insurable interest
- indemnity

(2 marks for each correctly stated principle. Maximum of 2 principles to be graded. 3 marks for each correct and complete explanation of the principle. Sub-Total per principle: 5 marks. Grand Total: 10 marks)

- 8(a) Enumerate the main three (3) areas of risks covered under Marine Insurance in accordance with Marine Insurance Act 1906. (6 marks)
- (b) What does P and I Club mean and what is it used for, under marine liability cover? (4 marks)

Solution

a) The three main areas of risks covered under Marine Insurance in accordance with Marine Insurance Act 1906 are **marine hull, cargo and freight**.

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

b) P & I Club means Protection and Indemnity Club. (1 mark)

It is used for provide cover for club members and/or ship owners to an agreed value. (3 marks)

9. Briefly enumerate the features of renewal procedure in general insurance business.

Solution

On general insurance policies, the policy period is usually for a period of twelve months and renewal is not obligatory on the part of the insured. However, insurers will take steps to have policy renewed for another year by issuing renewal notice to the insured, usually three months prior to the renewal date and if the insured wishes to renew, the renewal premium would be paid before the expiry date. In addition, where the premium is not paid by the expiry date, this implies that the insured is not willing to renew.

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

10. Explain briefly the procedures for coinsuring risks with more than one underwriter.

Solution

The procedures for coinsuring risks with more than one underwriter is what is collectively known as co-insurance. This occurs where the total sum insured on the risk is too large to be accepted by one primary insurer, or where the insured (or its broker) wishes to interest several insurers. In such instances, a collective policy is issued by the leading insurer, and each insurer will sign the proportion allotted to it.

Under coinsurance policies, the liability of each insurer is several and not joint. In the vent of failure of one of the insurers to meet its liability, other insurers will not be affected. Also, in coinsurance, the lead insurer is responsible for issuance of all necessary documents and earns a percentage of income as overriding commission for these services.

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

11. Distinctly compare the claim procedures in Life Assurance with that of the general business insurance.

Solution

S/No	Procedure	Life Assurance	General Business
1	Notification	Not necessarily immediate	Must be immediately notified
2	Loss Details Provision	Provided by beneficiaries/other concerned entities	Provided by the insured
3	Right of Action	No subrogation rights	Subrogation rights exists

4	Contribution Condition	No contribution rights	Contribution rights exists
5	Claim Procedure	Can be solely pursued by others	Cannot be solely pursued by others

(2½ marks for each distinct and complete comparison. Maximum of 4 to be graded. Total: 10 marks)

12. Describe the provisions of the Data Protection Act 1988 and explain its application to insurance, in two (2) distinct ways.

Solution

The provisions of the Data Protection Act 1988 are that the Act allows insurers to collect data about their prospects/clients and risks being insured. The Act also creates rules over the way/manner of obtaining, processing and retaining personal information of clients/prospects, However, it defines personal information as any set of data that relates to an individual which can be identified, while also ensuring that data processing is not limited to electronic processing of data but includes other forms.

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

The application of the Act to insurance are that:

- it establishes principles to make sure that the personal information so collected is handled properly, fairly and lawfully
- insurers must obtain the consent of the data owner
- the data obtained must be adequate, relevant and not excessive for its intended purpose.

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

13(a) Mention any two (2) types of with-profit life assurance. (4 marks)

(b) Explain “term assurance” and mention any two (2) types of term assurance. (6 marks)

Solution

(a) The types of with-profit life assurance are:

- ordinary life assurance
- industrial life assurance
- endowment assurance
- whole life assurance
- permanent health insurance.

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

(b) Term assurance is the oldest form of life assurance and it pays the sum assured on death, provided the death occurs within the specified term. If

however the life assured survives to the end of the term, then no payment is made on the policy. (2 marks)

The types of term assurance policies are:

- level term assurance
- increasing term assurance
- decreasing term assurance
- convertible term assurance
- family income benefit

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

14. List any four (4) special features uniquely applicable to Life Assurance as compared to general insurance business.

Solution

The special features uniquely applicable to Life Assurance as compared to general insurance business are:

- premium payment
- participation in profits
- surrender value
- paid-up policies
- investments.

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

Part II

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

Each question carries 30 marks.

- 15(a) Discuss in details the scope of cover under Business Interruption Insurance (consequential loss).
- (b) Explain how business interruption insurance can be arranged with material damage policy.
- (c) Mention the two (2) basis under which cover is arranged under Business Interruption policy.

Solution

(a) Business Interruption Insurance (otherwise known as consequential loss) cover losses resulting from damage to physical property by fire and special peril which affects the continuation of business operations. The damage caused to the physical property such as building, must be as a result of an insured peril and it must also result into disruption of business operation that leads to loss of profits

by the insured organisation. The policy also covers costs of plants and machinery during the period of which the operation of the company is disrupted.

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

(b) Business interruption insurance can be arranged with material damage policy under a combined all risk insurance with various sections. These sections will allow losses to be accommodated which will flow from insured risks to the insured properties that eventually results into financial losses. The policy is also combined in order to reduce the premium costs if the sections were to be individually insured and also to avoid having multiple policy documents.

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

(c) The two (2) basis under which cover is arranged under Business Interruption policy are:

- costs of overhead expenses
- increase in cost of running the business (temporarily) while the property is under repair(s)

(5 marks for each correctly stated feature. Sub-Total: 10 marks)

(Grand Total: 30 marks)

16(a) Define the term “annuity”. (5 marks)

(b) List and explain four (4) types of annuity cover. (20 marks)

(c) Differentiate between annuity cover and ordinary life assurance. (5 marks)

Solution

(a) Annuity is defined as a contract under which a person (called an annuitant) receives an agreed income in agreed intervals, in return for payment a purchase price to an insurance company. (5 marks)

(b) The various types of annuity cover that exist are:

- immediate annuity
- deferred annuity
- guaranteed annuity
- reversionary annuity
- joint life annuity (various variant)

(The list above is not exhaustive. Candidates are required to not only state types of annuity but also explain them briefly. 2 marks for each correctly stated type. 2½ marks for correctly stated explanation. Maximum of 2 explanations under each type. Sub-Total per type: 5 marks.

Grand Sub-Total: 20 marks)

(c) Annuity payments are substantially made to the annuitant while the person is still living while ordinary life assurance pays only at either maturity or death – whichever is earlier. (5 marks) (Grand Total: 30 marks)

- 17(a) Discuss the features of survey report in general business insurance underwriting. (15 marks)
- (b) Explain how claim(s) is/are being handled by reinsurance company in the reinsurance market. (10 marks)
- (c) Mention any two (2) methods of resolving complaints and disputes arising from claim settlement. (5 marks)

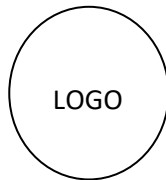
Solution

- (a) The features of survey report in general business insurance underwriting are it will show:
- a full description of the risk such as the premises plan, type of processes being carried out, details of the insured's occupation, e.t.c.
 - the extent of the MPL (Maximum Probable Loss) or EML (Estimated Maximum Loss) which is the maximum loss that could occur at a given period
 - the loss prevention recommendation
 - the advice to the insured on what steps to be taken to either prevent (or in the occurrence of) a loss
- (5 marks for any correct and completely stated feature. Maximum of 3 to be graded. Sub-Total: 15 marks)
- (b) Claim(s) is/are being handled by reinsurance company in the reinsurance market in the same way that an insurance company processes claim; the only difference is that each claim is processed based on the type of reinsurance contract that the business was placed on.
- (Candidates should earn full marks as allotted below if they explicitly explain the claim process one or one or they generically explain it.
- (2½ marks for each correctly stated process. Maximum of 4 processes to be graded. Sub-Total: 10 marks)
- (c) The methods of resolving complaints and disputes arising from claim settlement are:
- arbitration clause
 - alternative dispute resolution (mediation or conciliation)
 - litigation
- (2½ marks for each correctly stated method. Maximum of 2 to be graded. Sub-Total: 5 marks)
- (Grand Total: 30 marks)

- 18(a) State the law that governs marine insurance business in Nigeria. (5 marks)
- (b) Mention the two (2) significant features of marine insurance contract. (10 marks)
- (c) List any three (3) clauses applicable under Marine Insurance Act 1906. (15 marks)

Solution

- (a) The law that governs marine insurance business in Nigeria is the Marine Insurance Act (1961). (5 marks)
- (b) The two (2) significant features of marine insurance contract are:
- it is a contract of indemnity (i.e. it is a contract whose purpose is to compensate for the loss suffered by the assured as caused by a specified peril)
 - it provides indemnity against losses solely incident to “marine adventure” only.
- (5 marks for each correctly stated feature. Sub-Total: 10 marks)
- (c) The clauses applicable under Marine Insurance Act 1906 are:
- Marine Cargo: Institute Cargo Clause A, B and C (1982)
 - Marine Time Clauses Hull 1955
 - Marine Voyage Clauses Hull 1995
 - Institute War and Strikes Clauses Hulls 1995
 - Institute War and Deductibles Clauses
- (5 marks for each correctly stated clause. Maximum of 3 to be graded. Sub-Total: 15 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D04
BUSINESS PRACTICE

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

D04 - BUSINESS PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all the 20 compulsory questions, which carries 10 marks each, the paper carries a total of 200 marks.

You are strongly advised to attempt ALL the 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:	36%
Highest Score:	77%
Lowest Score:	11%
Average Score:	43%

Breakdown Updates**Question 1**

Majority of the candidates failed this question. Even the few who passed it just scored slightly above average.

Question 2

It is quite evident that it is either the candidates did not understand the question or they were ill prepared. The question was very poorly answered.

Question 3

Performance in the (a) part was average as there seem to be a general confusion with the candidates while the (b) part was understood as performance was above average.

Question 4

Only about 50% of the candidates understood the question and were able to answer it correctly.

Question 5

The performance of candidates could be split each side - some answered it quite well while some answered it very poorly.

Question 6

This question seems popular among the candidates as majority of them answered it correctly.

Question 7

Some candidates highlighted sources of information while some mentioned medium rather the levels of information. Performance is average.

Question 8

Overall performance on this question is slightly above average

Question 9

Both parts were poorly answered as candidates could not state the registers maintained by a company secretary well enough nor did they know the role of external auditors. Overall performance is poor.

Question 10

Most of the candidates attempted the question. However, only few of them are made to state the reasons for calling EGM. Overall performance is average.

Question 11

Majority of the candidates got the solution correctly with only a few of them mixing the question up. Overall performance is above average.

Question 12

About 90% of the candidates who attempted the question scored about 80% of the allocated marks but in the remaining 10%, there was a confusion between solvency and liquidity. The performance is commendable.

Question 13

Majority of the candidates attempted this question. While some got it right scoring good marks, some of them mixed the question up giving responses for (b) to (a) and vice-versa.

Question 14

Most candidates have a better performance on this question which could be predicated on their understanding of it; although some of them still performed poorly.

Question 15

This question looks fairly popular among the candidates as the general performance is above average and the question is well attempted.

Question 16

This is well attempted as candidates showed a great understanding of it.

Question 17

The provided answers were generally satisfactory. While a handful of them got it right, few of them adopted watery description to explain the terms.

Question 18

Many candidates were confused as they mixed up the advantages with the disadvantages. Overall performance is not impressive.

Question 19

This was not a popular question with the candidates. It is either the candidates were not aware of the topic or they were inadequately prepared.

Question 20

The performance of candidates on the question is brilliant. Although some left is unanswered.

Chief Examiner's Comments on Overall Performance:

The overall performance is far from encouraging as the pass rate, 35%, is far below average.

Chief Examiner's Suggestions on Improvement:

Probably due to the circumstances surrounding putting this examination on hold, it is quite evident through the answering pattern of the candidates that majority did not prepare well for the examination, which is a cause for concern. With a little more efforts at preparation the performance would have been better.

Invigilators must also be guided to specifically demonstrate to candidates on how to enter the question they answer as the entry is done wrongly which caused great confusion and waste of time during the grading exercise.

1. 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.

Solution

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)

2. Explain what you understand by:
 - (a) the structure of an organisation, with at least three (3) points. (6 marks)
 - (b) management structure of an organisation, with at least two (2) points. (4 marks)

Solution

- (a) The structure of an organisation:
 - entails the shape of configuration of the organisation (not chart)
 - relates to how the work is organised
 - shows who does what
 - shows the communication channels
 - sets out relationship and status, levels of authority and means of control
 - is determined by management
- (2 marks for each correctly stated point. Maximum of 3 to be graded. Sub-Total: 6 marks)

(b) The management structure of an organisation is an element of overall structure and denotes how the management exercises control. This may be represented in a “flat” structure, where control is delegated or “vertical management structure” that are more hierarchical.

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

3. Differentiate between

(a) financial objectives and strategic objectives.

(b) debt and equity.

Solution

(a) **Financial objectives** are concerned with the way the business wants to use the money which it controls; while **strategic objectives** are the tactical aims that the business wishes to achieve through effective management.

(2½ marks for each correctly defined term. Sub-Total: 5 marks)

(b) **Debt** is money raised by borrowing it from another organisation where the lender transfers the money to the borrower, who can use it to fund their own business operations; while **equity** is the name given to money raised by issuing shares in an organisation where the shareholder hands over money to the company and receives equity (i.e. a quantified stake, usually in the form of share certificates) in the future profit of the company.

(2½ marks for each correctly defined term. Sub-Total: 5 marks)

(Grand Total: 10 marks)

4(a) Describe the two (2) steps involved in identifying a performance gap.

(4 marks)

(b) With the aid of a diagram, explain the term “performance gap”. (6 marks)

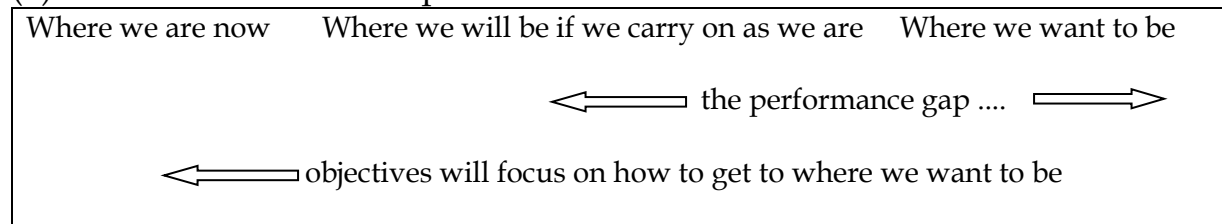
Solution

(a) The two (2) steps involved in identifying a performance gap are:

- to decide at what stage in its development the business wants to be at a particular time in the future. This can be expressed in terms of new products, market shares, improved customer satisfaction, e.t.c.
- to analyse the state the company is likely to be in at that time if no changes to current strategy are made

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

(b) The Performance Gap



(6 marks)

5. List ten (10) relevant trends that can affect the operation of a business.

Solution

The trends that can affect the operation of a business are:

- increasing consumer demands
- alternative markets
- fierce global competition
- over-supply
- reduced product life cycle
- cost pressures
- shareholder impatience
- organizational inertia
- inadequate quality
- skills shortages
- technology

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

6(a) Write short notes on:

(i) Internet portals and (ii) e-commerce.

(b) Briefly enumerate any five (5) responsibilities that a manager is appointed to perform in an organisation.

Solution

(a) (i) **Internet portals** are websites to which visitors flock because they provide a range of information and links about a particular topic or area. For example, an insurance company might draw on data from its entire customer base to make available wide-ranging knowledge of some topics in order to attract visitors and potential customers to its site e.g. claims statistics may produce information on loss prevention that is of universal interest. Also, CIIN portal which gives information about CIIN examinations to its teeming members and other research interest individuals. (2 marks)

(ii) e-commerce is the name given to electronic businesses/transactions. These type of transactions can be carried out swiftly and efficiently over the internet, with instant payments for goods and/or services by credit/debit cards e.g. sales of insurance policies over the internet. (2 marks)

(b) The responsibilities that a manager is appointed to perform in an organisation are:

- structure and organize the team(s) to meet the needs of the job
- clarify the accountabilities and authorities of subordinates
- ensure that correct decisions are taken at the right time

- communicate regularly with staff members
- be a role model for junior colleagues and all persons within the business
- establish a system for monitoring results and performance
- establish a system of personal targets and a performance and reward review
- take a positive attitude towards employee representative and participation
- consider their responsibilities to society and the relationship between the work they control and the community at large
- ensure that staff are trained and developed

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

(Grand Total: 10 marks)

7(a) State the three (3) levels of information. (6 marks)

(b) Explain any one (1) of the stated levels above. (4 marks)

Solution

(a) The three (3) levels of information are:

- strategic information
- tactical information
- operational information

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

(b)

- **Strategic Information:** is used by senior managers to plan the objectives of their organisation and to assess whether the objectives are being met in practice. Such information includes overall profitability, the profitability of different segments of the business, future market prospects, the availability and cost of raising new funds, e.t.c. Strategic information will be used for management decision making described as strategic planning.
- **Tactical Information:** is used by middle management to ensure that resources of the business are employed to achieve the strategic objectives of the organisation. Such information includes productivity control or variance analysis reports, cash flow forecasts, e.t.c. a large proportion of this information is generated within the organisation and is likely to have an accounting emphasis. It is prepared regularly and used for management control.
- **Operational Information:** is used by front-line managers such as supervisors to ensure that specific tasks are planned and carried out properly.

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

Only 1 term to be graded)

- 8(a) Mention any five (5) regulatory risks in a corporate governance process.
- (b) List any two (2) of the three (3) main groups of people who take part in the business environment.

Solution

- (a) The regulatory risks in a corporate governance process include:
- financial failure
 - misconduct
 - consumer understanding
 - fraud or dishonesty
 - market abuse
 - money laundering
 - market quality
- (1 mark for each correctly stated risk. Maximum of 5 to be graded. Sub-Total: 5 marks)
- (b) The three (3) main groups of people who take part in the business environment are:
- consumers
 - the State
 - commercial enterprises
- (2½ marks for each correctly stated group. Maximum of 2 to be graded. Sub-Total: 5 marks)
- 9(a) One of the company secretary's role is to maintain the statutory registers of the organisation. List any two (2) of the registers. (4 marks)
- (b) Enumerate any three (3) of an external auditor's role in an organisation. (6 marks)

Solution

- (a) The statutory registers that a company secretary maintain are:
- register of members
 - register of directors and secretaries
 - register of directors' interests
 - register of charges
 - register of interest in shares (for public companies)
- (2 marks for each correctly stated register. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) An external auditor's role in an organisation are:
- to report the financial statements of a company have been properly prepared under the appropriate accounting rules
 - whether those accounts give a true and fair view of the state of the company's affairs
 - check whether the accounts comply with company legislation

- check whether the company has kept proper accounting record
- check whether the company's accounts are in agreement with those record
- check whether the information given in the directors' report is consistent with the accounts

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

(Grand Total: 10 marks)

10(a) Define the following terms as it relates to an annual general meeting of an insurance company:

(i) agenda (3 marks)

(ii) minutes (3 marks)

(iii) quorum. (2 marks)

(b) State reason(s) for calling an EGM (Extraordinary General Meeting) (2 marks)

Solution

(a) (i) **Agenda:** for a meeting is a list showing the order in which each item of business will be discussed at that meeting. (3 marks)

(ii) **Minutes:** are notes which record accurately the proceedings at meetings where lasting decisions are made. (3 marks)

(iii) **Quorum:** is the number of a company's members that must be present if the proceedings at its meeting are to be regarded as valid. (2 marks)

(b) An EGM (Extraordinary General Meeting) is called to discuss important special business. (2 marks)

(Grand Total: 10 marks)

11. State reason(s) why the following stakeholders are interested in the financial information of an organisation.

(a) customers (b) directors and managers

(c) competitors (d) general public

Solution

(a) **Customers:** of an organisation want to know that they are in safe hands of a reputable organisation who will keep to its promises. (2½ marks)

(b) **Directors and Managers:** of an organisation wants to know whether or not the organisation has been making the best use of its resources and also to know whether the organisation has enough money to expand its operations. (2½ marks)

(c) **Competitors:** uses financial information to help them understand the strength and weaknesses of the organisation. (2½ marks)

(d) **General Public:** to monitor aspects of the organisation's activities and people who might consider applying to work for the organisation. (2½ marks)

(Grand Total: 10 marks)

12. Explain the following accounting terms:
- (a) liquidity
 - (b) solvency
 - (c) profitability
 - (d) organisation's wealth

Solution

- (a) **Liquidity:** is the amount of cash which a business has, or has access to. The cash means the money that is instantly available for spending, which is vital to the existence of a business or that is needed to pay for the organisation's costs and expenses. (2½ marks)
- (b) **Solvency:** relates to an organisation's ability to pay its debts, and is applied to all trading companies. It is often expressed in relation to the credit risk presented by an organisation to a lender or creditor. (2½ marks)
- (c) **Profitability:** is the amount of money left over when all costs and expenses are subtracted from all of the organisation's income. This could either be positive (profit) or negative (loss) or zero (breakeven). (2½ marks)
- (d) **Organisation's Wealth:** is made up of fixed assets such as property, equipment, investments and current assets (cash, debtors) which can be turned into liquid funds (money). (2½ marks) (Grand Total: 10 marks)

13. Write short notes on:
- (a) depreciation
 - (b) accounting equation

Solution

- (a) **Depreciation:** all organisations purchase fixed assets e.g. buildings and machinery, for long term use in the business with the purpose of generating income for the future. These assets usually decline in value over time and the value of the asset is eventually reduced to nil. Accounting concepts require that some adjustments be made to the value of these fixed assets over their useful lives to reflect that, eventually, these assets will deteriorate or become obsolete. This is known as depreciation.
(2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks)
- (b) **Accounting Equation:** the relationship between the things owned by a business (its assets) and the funds which were used to buy them is expressed by the accounting equation:

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$

It is an accounting convention that the equation must always balance.

It can also be rearranged as:

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

Thus, accounting equation forms the basis of the more formal financial statements. It also forms the basis of the balance sheet.

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

14. Explain the following terms:

- (a) zero-based budgeting and (b) rolling budgets.

Solution

(a) **Zero-Based Budgeting (ZBB):** relies on managers to justify their expenditure from a fresh stand point. Rather than losing at the amount of expenditure which was budgeted for an item in the previous budget period. ZBB requires a manager to start from zero i.e. from a position of having nothing in their budget for the item in question. Any amount which the manager subsequently decides they need for that item must be justified and this justification will have to go through a formal challenge process which involves senior managers rather than the department's budget holders in making decisions about ZBB issues.

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

(b) **Rolling Budgets:** are budgets that consistently look forward. With a twelve-month rolling budget, as you come to the end of each month a new month is added at the far end of the whole twelve-month period. So, when they come to end of June in Year 1, the managers would hold June in Year 2 to the end of the twelve-month rolling period. In this way, managers are always looking twelve-months ahead and make alterations to the future budget on a regular basis.

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

15. With the aid of a table, distinguish between financial accounting and management accounting under the following characteristics:

- (a) audit requirements (b) legal requirements to publish the accounts
 (c) time periods (d) regulations
 (e) format

Solution

S/No	Characteristics	Financial Accounting	Management Accounting
1	Audit Requirements	Have to be audited by external auditors	Do not have to be audited by external auditors. Can be audited internally.
2	Legal Requirements to Publish the Accounts	Legally required to publish accounts	Not obliged by law to produce management accounts
3	Time Periods	Financial accounts are accurate and based on historical fact	Management accounting information is focused on the future

4	Regulations	Required by regulation to produce exact figures	Has no external regulatory materials
5	Format	Looks at and record the financial impact of events on the organisation as a whole	It is naturally segmented and concentrates on processes and individuals departments.

(1 mark for each correctly stated difference. Total: 10 marks)

16(a) "Ideas for new products can be generated from a wide range of sources".
Mention five (5) of such sources.

(b) Depict in a diagram, the steps for a new product development.

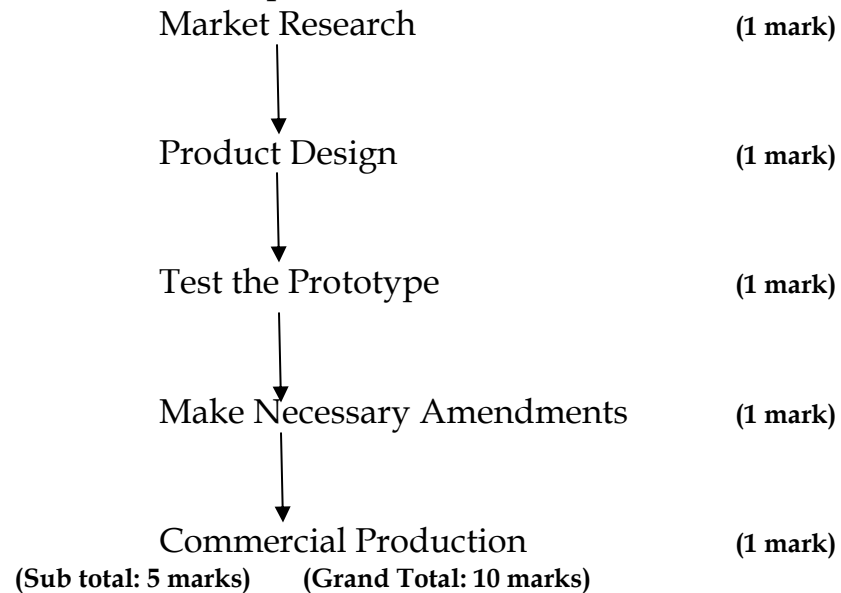
Solution

(a) The sources from which ideas for new products can be generated from are:

- existing customers
- organisation's staff members
- suppliers or agents
- competitors
- the Government
- the media
- trade associations

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

(b) Steps for a New Product Development



17. Differentiate between the set of terms below and give an example of each term:

- (a) products and services (b) needs and wants.

Solution

(a) **Products** are physical, visible, tangible, perishable or durable goods depending on their characteristics e.g. shoes while **Services** are those activities which do not have physical dimensions e.g. insurance, accountancy, e.t.c.

(1½ marks for correct definition/explanation and 1 mark for correct example. Sub-Total: 2 ½ marks on each term. Sub-Total: 5 marks)

(b) **Needs** are the basic forces that drive people and businesses. It may be human needs e.g. psychological or biological make-up while **Wants** are desires on the part of customers which may be prompted by the suggestion that an unsatisfied need exists e.g. shoes.

(1½ marks for correct definition/explanation and 1 mark for correct example. Sub-Total: 2 ½ marks on each term. Sub-Total: 5 marks)

18. List for each of the terms below as it relates to selection of prospective members of staff, two (2) advantages and two (2) disadvantages each:

- (a) interview model and (b) personality tests.

Solution

	Advantages	Disadvantages
Interview Model	1) Relatively inexpensive 2) Can be used for almost any job 3) They are structured and professionally coordinated	1) There are some doubts about how effective it is in finding the right candidate for the job 2) it relies on the expertise of the interviewers 3) Some interviewers may be dishonest
Personality Tests	1) Can be used to measure personality traits on a universal scale 2) It allows comparison to be made between different candidates on a level playing field 3) They are carefully researched and designed to highlight inconsistencies	1) They are very expensive to develop 2) May be regarded as unreliable 3) Limited to a narrow range of positions.

(1¼ marks for each correctly stated advantage/disadvantage. Maximum of 2 under each heading.

Grand Total: 10 marks)

- 19(a) In relation to corporate culture, what do you understand by the terms:
- (i) shared beliefs (2 marks)
 - (ii) values. (2 marks)
- (b) State the three (3) factors that can destabilise corporate culture. (6 marks)

Solution

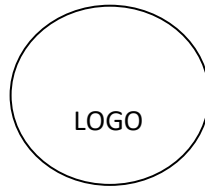
- (a) (i) **Shared Beliefs:** are what underlies the way that organizational systems and practices work. (2 marks)
- (ii) **Values:** are what is important about the organisation and what it stands for. (2 marks)
- (b) The three (3) factors that can destabilise corporate culture are:
- organizational crisis
 - adoption of a self-destructive culture
 - acquisition of, merger with or acquisition by other organisation.
- (2 marks for each correctly stated factor. Sub-Total: 6 marks)
(Grand Total: 10 marks)

20. List any eight (8) signs of a poorly motivated workforce.

Solution

The signs of a poorly motivated workforce are:

- abnormally high turnover or personnel
 - low productivity
 - poor quality of work
 - persistent lateness
 - could-not-care-less attitude to work
 - fixed ideas and excessive resistance to change
 - lack of acceptance of responsibility
 - plethora of petty complaints and grievances with little or no foundation
 - poor systems
 - inadequate conditions of employment
- (1¼ marks for each correctly stated sign. Maximum of 8 to be graded. Total: 10 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D05
INSURANCE LAW

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D05 - INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	26%
Highest Score:	72%
Lowest Score:	4%
Average Score:	39%

Breakdown Updates

Question 1

Attempt was good (90%). Performance was average (55%). Major error- candidates did not know how to write N8 billion in figures. Many wrote N8 million instead. Foreign candidates not familiar with NAICOM activities missed the question. Candidates are urged to get acquainted with NAICOM's activities and press releases as the question was a practical question – something that an aspiring insurer should know.

Question 2

Textbook question intended to test if candidates were aware of policies like BTE and ATE. Candidates answered the question in the light of public and professional liability covers. These policies were not designed to cover loss of cases in court. Candidates urged to read the coursebook well.

Question 3

Question was intended to test candidates' knowledge of sources of insurance law. Attempt was good (75%); performance was average (55-60%). Few candidates referred to the Acts of Parliament on insurance instead of the whole sources. Candidates need to read and understand the coursebook well and seek tutorial aid in their preparation for the future examination(s).

Question 4

Attempt was good (70%). Performance was poor (20%). Candidates were not familiar with the term "Rule Book" though the question was a textbook one. Candidates did not prepare well. Candidates for future examination should prepare well. The question was to test candidates' knowledge and understanding of the company's operational documents.

Question 5

The question dealt with the statutory damages done to the common law doctrine of contributory Negligence. Attempt was good (80%) but performance was poor (30%). Reason for this is lack of adequate preparation. Candidates wasted time in writing irrelevant things. Adequate preparation is recommended

Question 6

The question addressed a part of law of contract. It was intended to test candidates' understanding of how a contract can be discharged without incurring liability to breach. Attempt was good (80%); performance was poor (30-35%). Adequate preparation is recommended.

Question 7

This was intended to test candidates' knowledge of a bit of corporate governance by asking them to state type of meetings. Attempt was good but performance was poor. Reason may be poor preparation for the examination.

Question 8

This was to test candidates' understanding of the time to seek redress for some categories of tortious wrong. Attempt was good (90%); performance was poor (30-35%). Adequate preparation is also recommended.

Question 9

The question was to test candidates on remedies available to a principal whose agent refused to perform. Attempt was good and performance was awesome.

Question 10

The question was intended to see if candidates knew the situations when an undisclosed principal could be prevented from enforcing a contract with a third party who did not know him. Attempt and performance were awesome.

Question 11

Still on agency relationship- whether a principal is bound by the action of his agent. Many candidates missed it as they responded generally instead of being specific and direct to answering the question. Attempt was good (90%) but performance was poor- (25-30%). Candidates to seek tutorial aid.

Question 12

This was on the effect of misrepresentation in insurance contracts. Attempt was good (80%), performance was poor (25-30%). Candidates did have a good grasp of the requirements of the question. Candidates to seek tutorial aid.

Question 13

This was related to basis of contract- terms- promises exchanged by parties towards these things. Attempt was good (90%) and performance also good (80-90%).

Question 14

Dealt with transfer of obligations under contract. Attempt was good (90%), performance was poor (25%). Candidates need to prepare well for future examination(s).

Question 15

This was a practical question – subrogation. Attempt was good (90%) and performance was above average (55-60%). Candidates need to prepare well.

Question 16

This dealt with a popular topic in insurance- Insurable interest. What type of relationship will give rise to insurable interest to ground a valid insurance contract? Attempt was good (70%); performance was average (35-40%). Candidates need to prepare well for future examination.

Question 17

The question was intended to test candidates' knowledge of the principle/doctrine of contribution. Attempt was good (70%); performance was average (30-35%). The bane of candidates was their inability to fully explain the four segments of the question. Candidates need to have adequate understanding of all the topics of the coursebook.

Question 18

This question was on measure of indemnity in pecuniary and liability insurance. Attempt was good (75-80%). Performance was below average: less than 40%. Candidates failed to provide necessary and correct answers. Reason could have been inadequate preparation for the examination. Candidates are advised to prepare adequately for future examination(s)- read relevant textbooks and seek tutorial assistance.

Chief Examiner's Comments on Overall Performance:

Overall performance is below average.

Chief Examiner's Suggestions on Improvement:

These are as stated under each review on each question above.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

- 1(a) In exercise of its statutory powers and regulatory functions, the National Insurance Commission (NAICOM) reviewed in its circular referenced NAICOM/DPR/CIR/25/2019 dated 20th May 2019 (also re-circulated on 30th December 2019) the minimum paid up share capital for insurance and reinsurance companies in Nigeria. State the new minimum paid-up share capital for the following:
- (i) Life Insurance Business (ii) General Insurance Business
(iii) Composite Insurance Business (iv) Reinsurance Business
- (8 marks)
- (b) When is the deadline for compliance by both the existing insurance and reinsurance companies and new applicants according to the circular of
- (i) 20th May 2019 and (ii) 31st December 2019 in (a) above?
- (2 marks)

Solution

a) The new minimum share capital requirement as announced by NAICOM to all insurance operators in Nigeria are:

- Life Insurance Business: ~~₦~~8,000,000,000.00 (2 marks)
- General Insurance Business: ~~₦~~10,000,000,000.00 (2 marks)
- Composite Insurance Business: ~~₦~~18,000,000,000.00 (2 marks)
- Reinsurance Business: ~~₦~~20,000,000,000.00 (2 marks)

b) The required latest timeline for compliance according to the circular of:

- i) 20th May 2019: 30th June 2020 (1 mark)
- ii) 31st December 2019: 31st December 2020 (1 mark)
- (Grand Total: 10 marks)

2. “It is possible to insure against losing a case”. State and briefly explain the two (2) forms/classes of insurance available to litigations.

Solution

Insurance policy can be designed to cover litigants for losses on account of litigation. The two available forms are:

- **Before the Event (BTE) Policy:** this is often taken out without any particular piece of litigation in mind. It is in form of annual cover by which the insurers provide to the insured a form of helpline giving advice as soon as any legal problem arises. If any legal proceedings arise, the insured will still make his choice of counsel.

- After the Event (ATE) Policy: it is taken when embarking on a particular piece of litigation and it covers the risk of losing a case and the costs of the opponents and other expenses e.g. solicitors' fees. It is more expensive than BTE. The advantage over BTE is that costs of premiums are recoverable from the defendant if the claimant wins.

(2 marks for correctly stating the forms. 1 ½ marks for each correct explanation under each form. Maximum of 2 explanations to be graded. Sub-Total per form: 5 marks. Grand Total: 10 marks)

3. Master Johnson, a senior secondary school insurance student has approached you for guidance on the sources of the legal principles of insurance. With your knowledge of this course – D05 (i.e. insurance law), highlight by listing any four (4) sources of insurance law.

Solution

The sources of Insurance Law are:

- Legislation
- Judicial precedent
- Local custom
- Legal textbooks and journals
- Equity
- Common law

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

- 4(a) What is referred to as the “rule book” with reference to company law? (4 marks)
- (b) Highlight the three (3) matters that the “rule book” deals with. (6 marks)

Solution

(a) The “Rule Book” with reference to company law is the Articles of Association of a company. It is also referred to as the constitution of the company. (4 marks)

- (b) The three (3) matters that the “Rule Book” deals with are:
- regulates the company’s internal affairs
 - deals with matters such as the rights and duties of shareholders and directors of the company
 - deals with when and how to hold meetings by the company.

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

(Grand Total: 10 marks)

- 5(a) Define “contributory negligence”. (2 marks)
- (b) Explain the effect of the following statutes on the common law doctrine:
- (i) the Law Reform (Contributory Negligence) Act 1945. (4 marks)

- (ii) the Civil Liability (Contribution) Act 1978. (4 marks)

Solution

(a) Contribution Negligence can be defined as the negligent act that arises where a person/claimant has a hand in the calamity or injury that befalls him in the hands of another. At common law, it was a complete defence and in such an instance, the defendant will be without liability. (2 marks)

(b) (i) **The Law Reform (Contributory Negligence) Act 1945** provides that at common law, a claimant who had a hand in the calamity that befell him at the hand of another person was without remedy, the defendant would go scot free if he could establish that fact. This law was passed to correct that anomaly. By its provisions, especially, section 1(2), contributory negligence is no longer a complete defence. The Act makes it a mere plea in mitigation of liability. Reduction will be appropriate only if the claimant's behavior contributed to the accident and it made the accident more serious or both.

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

(ii) **The Civil Liability (Contribution) Act 1978** provides that the defendant calls upon a third party as may be apportioned him. The third party's contribution will be such as court finds to be just and equitable having regard to the extent of the third party responsibility for the damage. So, the effect is to change contributory negligence from being a complete defence and allowing the claimant to get relief from the defendants and also to allow the defendant to look to another person to satisfy a part of whatever liability may be apportioned.

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

6. Since a contract is formed by agreement, it follows that the parties can make a further agreement to release each other from their obligations. Briefly discuss.

Solution

A contract is an agreement between two parties. The contract is formed by their agreement. It follows that the contract can be dissolved by agreement also – in order to release themselves from their respective obligations. This process is called WAIVER – and by it, parties cease to perform obligations towards themselves. However, where one party has performed his duty towards the other who is yet to perform his, the latter party has to give some consideration in order for him to be released. This consideration would be anything acceptable to the party who has performed. This is ACCORD and SATISFACTION – the agreement to discharge being the ACCORD and the fresh consideration being the satisfaction.

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

7. How many types of meeting can a registered company hold as required by law? Enumerate these meetings and state the matters that can be discussed at each of such meeting.

Solution

A registered company can hold two types of meetings. (2 marks)
These are: (i) annual general meeting (AGM) (2 marks) and
(ii) extraordinary meeting (EGM) (2 marks)

At the AGM, account is given of the company's affairs over the past year, the dividend to be paid to ordinary shareholders and to the directed as elected or reelected. (2 marks)

At the EGM, urgent matters that cannot wait till the AGM are considered. (2 marks)
(Grand Total: 10 marks)

- 8 (a) With respect to the law of tort, define what you understand by "limitation of action". (4 marks)
- (b) What are the limitation periods for:
- (i) personal injuries, libel or slander (3 marks)
 - (ii) property damage claims and most other tortious wrongs? (3 marks)

Solution

(a) With respect to the law of tort, the term "limitation of action" is a situation whereby the law debars a claimant from bringing up action expiration of the period prescribed by law for bringing up such an action. The reason for this is that the law considers it unfair to allow possibility of a legal action to continue to hand over the defendant. Therefore, limitation laws prescribe time periods for beginning actions in court.

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

- (b) The limitation periods for:
- (i) **personal injuries, libel or slander:** 3 years for the claimant to begin his action against the wrongdoer. (3 marks)
 - (ii) **property damage claims and most other tortious wrongs:** 6 years (3 marks)

(Grand Total: 10 marks)

- 9 (a) Enumerate any three (3) remedies available to a principal whose agent fails to perform his (agent's) duties towards him (the principal). (6 marks)
- (b) An agent who reasonably incurs expenses in the performance of his principal's duties has the right to be indemnified by his principal. List any two (2) circumstances that this agent will lose this right. (4 marks)

Solution

- (a) The remedies available to a principal whose agent fails to perform his (agent's) duties towards him (the principal) are:
- sue the agent for damages for breach of contract
 - sue the agent in tort e.g. where the agent has refused to retain the principal's property
 - sue the agent or the donor to recover a bribe paid to the agent
 - if the breach is fraudulent, to rescind any contract made through the agent and refuse to pay commission
 - sue the agent for account if the agent fails to disclose full financial details of his agency dealings
- (2 marks for each correctly stated remedy. Maximum of 3 remedies to be graded. Sub-Total: 6 marks)
- (b) The circumstances that an agent who reasonably incurs expenses in the performance of his principal's duties may lose the right to be indemnified by his principal are:
- if his act was not authorized or subsequently ratified by the principal
 - if he is in breach of his duties as agent e.g. failing to obey his principal's instructions
 - the agent's act for which he claims indemnity is illegal or void by statute
- (2 marks for each correctly stated circumstance. Maximum of 2 to be graded. Sub-Total: 4 marks)
(Grand Total: 10 marks)

10. Where a third party contracts through an agent with an undisclosed principal, the said undisclosed principal can still enforce the contract against the third party. In what two (2) of the three situations is such an undisclosed principal precluded from doing so?

Solution

The three situations where an undisclosed principal can be precluded from enforcing a contract against a third party are:

- the undisclosed principal cannot sue if he did not exist or if he lacked capacity when the contract was made
- he cannot sue if the contract expressly provides that the person making it is the sole principal

- cannot sue if the third party can prove that he had some good reason for dealing with the agent personally e.g. because of his reputation or special skills.

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

11. (a) Does the third party in (10) above have any right(s) against the undisclosed principal and his agent? (2 marks)
- (b) Enumerate, if any, and briefly explain, two (2) of these rights. (8 marks)

Solution

- (a) Yes, the third party in (10) above have rights against the undisclosed principal and his agent? (2 marks)
- (b) The rights that the third party have are:
- if the undisclosed principal is wholly undisclosed, the third party can enforce the contract against the agent or against the principal (right of election). He cannot sue both together at the same time
 - he may sue the agent for breach of warranty of authority
 - he may sue the agent in tort e.g. tort of deceit

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

(Grand Total: 8 marks)

- 12(a) What is “misrepresentation”? (2 marks)
- (b) Enumerate any two (2) ways that misrepresentation can affect an insurance contract. (6 marks)
- (c) Can an insurer avoid a claim or contract based on misrepresentation? (2 marks)

Solution

- (a) “Misrepresentation” is a false statement of fact that induces the other party to enter into a contract. (2 marks)
- (b) The ways that misrepresentation can affect an insurance contract are that the misrepresentation must:
- be of fact, not of law or opinion or belief
 - be made by a party to the contract
 - be material (not irrelevant) to the issue at stake
 - induce the contract (i.e. the other party must rely on it to enter into the contract)

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

- (c) Yes, an insurer can avoid a claim or contract based on misrepresentation. (2 marks)

(Grand Total: 10 marks)

- 13(a) What do we refer to as “terms of a contract”? (2 marks)
(b) Warranty in an insurance contract can arise in two major ways. Enumerate and briefly explain these two (2) ways. (8 marks)

Solution

- (a) “Terms of a contract” refer to the details of the rights and duties and obligations of the parties under a contract. (2 marks)
(b) Warranty in an insurance contract can arise in two major ways. These are:
- **expressly:** in this instance, the terms are clearly stated in the policy document itself
 - **impliedly:** in this instance, the terms are not stated but they are rather implied into the contract e.g. warranty of seaworthiness in marine insurance, e.t.c.
- (2 marks for each correctly stated way. 2 marks for correct explanation. Sub-Total per way: 4 marks. Grand Sub-Total: 8 marks)

- 14(a) Define assignment in relation to an insurance contract. (2 marks)
(b) How can the assignment of the following be effected:
- (i) the subject matter of an insurance contract? (4 marks)
 - (ii) the benefit of an insurance contract? (4 marks)

Solution

- (a) Assignment in relation to an insurance contract refers to transfer to another person of the rights that exist under a contract and in some cases, may involve transfer of duties. (2 marks)
(b) Assignment of the following can be effected by:
- (i) **on the subject matter of an insurance contract:** the assignment of the subject matter does not carry automatic assignment of the insurance policy relating to it i.e. the transferee cannot leverage on the transferor’s insurance policy on the subject matter of the insurance contract that is transferred to the transferee. The basic principle is that upon disposal by the transferor, the insurance contract is brought to an end because the transferor will no longer have insurable interest in the property again. The transferee will need to arrange his own insurance with his insurer.
(2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks)
 - (ii) on the benefit of an insurance contract: the benefit can be assigned without putting an end to the main contract. In this instance, the subject matter is not changed in any other aspect of the risk. If the benefit is payable, it will be paid to on the happening of exactly the agreed events, to the transferee. This can be done in two ways, which are: equitably or statutorily.
(2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks) (Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. As a doctrine in favour of the underwriters or insurers preventing an insured from recovering more than an indemnity, can subrogation rights be modified or denied an insurer? Fully justify your response.

Solution

Subrogation is a doctrine in favour of the underwriters or insurers in order to prevent the assured from recovering more than a full indemnity, it is a corollary of indemnity and applies to indemnity contracts only. (4 marks)

However, as a results of some factors, the rights given by the doctrine to insurers may be modified or taken away from them. (2 marks)

These are:

- **Market Agreements:** between insurance companies waiving their subrogation rights against third parties especially where the third party is the insured, if the third party has his own liability insurance, it means that the two insurers will be claiming from one another. For two reasons, insurers do not like this as it is considered that there will be administrative costs and it is considered wasteful and expensive. They do not want to get involved in “pound (money) swapping”. The commonest example of waiver of subrogation is in two field of motor insurance, where a network of “knock-for-knock” agreement developed in the United Kingdom and in some other countries. The effect of the agreements is that when an accident occurs involving so many insured vehicles by different insurers, each insurer will settle its policyholder for the damages suffered provided the policy covers the damage and gives up any subrogation rights attaching to it. The knock-for-knock arrangement has broken down in the UK. Other forms of market agreements are immobile property agreements between motor insurers and property insurers which covers impact damage by motor vehicles. Under these agreements, losses are shared in a predetermined proportion.
- **Subrogation Waiver Clause:** there can be a contractual waiver of subrogation right by inserting in the policy a “subrogation waiver” clause, which will bar the insurer from exercising subrogation right against certain persons associated by the insured e.g. a parent company and its subsidiary. Even where there is no such clause, the contract of parties could be interpreted to bar the insurer from exercising right of subrogation

against some third parties e.g. if a contract (construction) between A & B states that certain property shall be at the sole risk of A; the courts may assume that A had agreed not to sue B for any damage to the property depriving A's subrogation right. The way parties have arranged their insurance may persuade a court that there should be no subrogation right, in *Mark Rowlands Limited v. Beri Inns*, the court held that since the insurance involved was intended for both the landlords and the tenants, who are the appellant and respondent in the case, this implied that respondents were relieved of liability for any loss that was covered by the insurance policy, hence no subrogation right was available for the appellant's insurers.

- **Coinsurance Cases:** An example of co-insurance is where a policy is either joint or composite. The principle is that where there is a "waiver of subrogation" clause, subrogation right will not be exercised against a co-insured so whether or not there is such clause, subrogation right will be denied in co-insurance cases e.g. *Petrofina Limited v. Magnaload Limited*
- **Public Policy:** the policy of the law may necessitate that subrogation right be denied an insurer. Two cases illustrate this principle. In *Lister v. Romford Ice and Cold Storage Limited*, insurers waived their right against employee who injured a fellow employee to make for industrial harmony. In *Morris v. Ford Motor Co.*, the court emphasized that industrial relations would be harmed if employees could be sued personally. Here, subrogation right was denied for reason of public good.

(2 marks for each correctly stated basis of modification. 2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total per modification basis: 6 marks. Grand Sub-Total: 24 marks)
(Grand Total: 30 marks)

- 16(a) Define insurable interest. (3 marks)
- (b) Why is insurable interest crucial in an insurance contract? (2 marks)
- (c) Discuss any five (5) examples of relationships that will give right to insure in property insurance. (25 marks)

Solution

- a) Insurable interest is the legal right to insure arising out of a financial relationship recognized at law, between the insured and the subject matter of insurance. (3 marks)
- (b) Insurable interest is crucial in an insurance contract because without it, the contract will simply be a gambling endeavor. (2 marks)
- (c) Examples of relationships that will give right to insure in property insurance are:

- **Outright owners of property:** i.e. rightful owners of property can insure the property because insurable interest resides with them.
 - **Part of Joint Owners:** have their insurable interests arising as a result of their partial ownership or interest that they have in the property.
 - **Mortgagees and Mortgagors:** they both have rights to insure to the extent of their right as lenders and borrowers respectively.
 - **Executors and Trustees:** for the property in their care or charge, they have insurable interest.
 - **Bailees:** as persons who have legal right of possession of goods in their possession, bailees have insurance interests in such goods.
 - **People Living Together:** one spouse or persons living together have insurable interest in property belonging to the other if its use and possession is shared.
 - **Finders and People in Possession:** finders of articles, in the absence of the real owner, have possession, so such people can therefore insure the articles. Possession even when wrongful, can give right to insure.
- (3 marks for correctly stating the relationship. 2 marks for correct explanation. Sub-Total per relationship: 5 marks. Sub-Grand Total: 25 marks)
(Grand Total: 30 marks)

17. Discuss fully the following in relation to the doctrine of contribution as it relates to insurance:
- two or more policies of indemnity exist (4 marks)
 - on the policies, each insures the subject matter that brings about the loss (4 marks)
 - on the policies, each insures the peril that brings about the loss (4 marks)
 - on the policies, each insures the same interest in the subject matter of insurance (10 marks)
 - on the policies, each policy is liable for the loss. (8 marks)

Solution

Contribution can only occur in the following instances as explained below:

- Where two or more policies of indemnity exist:** the policies must be contracts of indemnity and not of any other i.e. life policies (or non – indemnity policy cannot contribute
(2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks)
- On the policies, each insures the subject matter that brings about the loss:** the two or more policies must relate to the same subject matter and the loss must relate to it. The subject matter must be common to both although the covers

in the policies need not be exactly the same. It is enough if there is sufficient overlap.

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

(c) **On the policies, each insures the peril that brings about the loss:** here, the peril must be common to all the policies, just as the ranges of property need not be the same so also the perils covered by the two policies. the perils need not be identical, an overlap between the perils in the policies is sufficient.

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

(d) **On the policies, each insures the same interest in the subject matter of insurance:** here, the interest must be common to all the policies. For example, in *North British and Mercantile Insurance Company v. London, Liverpool and Globe Insurance Company*, it was established that for there to be contribution, there must be double insurance for common interest. In this case, a bailee insured goods in a rented warehouse in which the landlord had also taken an insurance policy. Damage resulted from a fire incident at the warehouse for which the Bailee's insurer settled a claim and thereafter sought to claim from the landlord's insurer. The court held that they could not because the interests insured were different. Different interests may attach to a property – landlord/tenant, mortgagee/mortgagor, e.t.c. if each takes out a policy in respect of its own interest, there is no double insurance, hence no contribution.

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

(e) **On the policies, each policy is liable for the loss:** here all concerned insurers must be liable to be called upon to remedy the loss provided that there is no breach of any of the contribution condition. A good example of this can be found in *Legal and General Insurance Society v. Sphere Drake Insurance Company Limited*.

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

18. What is the measure of indemnity in the following types of insurances?

- (a) (i) Pecuniary Insurances (5 marks)
(ii) Liability Insurances (5 marks)

- (b) Enumerate and briefly explain any four (4) factors that can limit the insured's entitlement to full indemnity. (20 marks)

Solution

a) Claim under a policy of indemnity is a claim for unliquidated damages. The exact amount of compensation is not known in advance and has to be fixed afterwards on the basis of loss actually suffered.

Measure of indemnity varies from one type of insurance to the other. For example, in the following types of insurances, indemnity can be by:

(i) **Pecuniary Insurances:** these may involve business interruption covering loss of profit or credit insurances which cover bad debts arising from insolvency or default of the insured's trading partners. For business interruption, loss is paid in accordance with a standard formula agreed and set out in the policy. This is because it is usually difficult to determine how much profit will be made. For credit insurance, the measure of indemnity is the amount of bad debt less any recoveries.

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

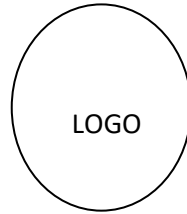
(ii) **Liability Insurances:** the measure of indemnity is the amount awarded by the court or negotiated out of court settlement plus costs and expenses arising in connection with the claim e.g. solicitors fee, court fee and payment for medical reports or services of expert witnesses plus other incurred expenses with the consent of the insurer.

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

(b) The factors that can limit the insured's entitlement to full indemnity are:

- **Sum insured or limit of liability:** the insured's entitlement cannot be greater than the maximum sum insured or the limit of liability as applicable.
- **Other policy limits:** if there are other policy limits apart from the sum insured/limit of liability, then the insured's entitlement cannot also be greater than these stated policy limits.
- **Under insurance and average clauses:** if the sum insured is lower than the value at risk and/or there are average clauses stated in the policy, then the insured's entitlement will be reduced proportionately to the percentage of underinsurance in place.
- **Excess or deductible:** if the policy condition states that the insured will bear the first x-part of each and every claim, called an excess or a deductible – depending on the value, then every entitlement will be less the excess or deductible.
- **Franchise:** if the policy condition states that the insured will bear all claims that is below a certain stated value, called a franchise, then any claim below the stated value will not be indemnified on, thereby limiting the insured's entitlement. However, all claims above the stated value will be indemnified in full.

(3 marks for correctly stating the factor. 2 marks for correct explanation. Maximum of 4 factors to be graded. Sub-Total per factor: 5 marks. Grand Sub-Total: 20 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA
YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D10
COMMERCIAL INSURANCE PRACTICE

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

D10 - COMMERCIAL INSURANCE PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	0%
Highest Score:	44%
Lowest Score:	25%
Average Score:	32%

Breakdown Updates

Question 1

This question is unpopular among the candidates as only one scored average while others scored below average. A woeful performance it is. This shows that they are not in tune with topical issues in insurance.

Question 2

Candidates showed an understanding of this question. The candidates answered and passed except for one who scored half of the allotted marks; all others scored quite high.

Question 3

This question tested the knowledge of the candidates on proposal form and quite disappointedly, performance generally was average. This is an indication that the candidates do not really read to understand the rudiments of insurance.

Question 4

The question tested the candidates' knowledge of underwriting consideration and 75% of them performed impressively while 25% of them failed. It is quite a simple question.

Question 5

The candidates scores were average. It is quite disturbing however that not all candidates know what to write on such a simple question like benefits of insurance.

Question 6

This question is extremely poorly attempted. Infact, none of the candidates scored any mark on it.

Question 7

Only one candidate scored above average is this question while others failed it. Candidates need to improve their understanding of underwriting consideration in various classes of insurance.

Question 8

Overall performance was poor. Candidates did not show that they understood what was asked.

Question 9

It was not a good performance as candidates did not grasped the entirety of the questions.

Question 10

Candidates did not do well as they lacked understanding of the questions asked. Performance was woeful.

Question 11

Performance here was very poor.

Question 12

Overall performance in this question was below average.

Question 13

Overall performance was great as candidates understood the question and tackled it very well.

Question 14

The response to the question was great as demonstrated the overall score.

Question 15

No candidate attempted this question, an indication that candidates lack knowledge of estimated maximum loss.

Question 16

We had one candidate that attempted this question and performance was good.

Question 17

No candidate attempted this question, an indication that candidates lack knowledge of basic underwriting factors in insurance.

Question 18

Candidates chose the questions but output was terribly low. Performance was woeful; an indication of lack of understanding of the question.

Question 19

Only one candidate managed to score half of the marks while others failed. It is still testing the knowledge of underwriting consideration. This performance is quite worrisome.

Chief Examiner's Comments on Overall Performance:

Overall performance is woeful as no candidate passed the course.

Chief Examiner's Suggestions on Improvement:

Candidates should be encouraged to continue reading their text materials and coursebooks since 99% of the question are set from the coursebooks.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. 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.

Solution

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)

- 2(a) Itemise any three (3) details of the information contained in a typical commercial insurance proposal form. (6 marks)
- (b) Explain why underwriters are particular with:
 - (i) proposer's financial history
 - (ii) proposer's name. (4 marks)

Solution

- (a) The details of information contained in a typical commercial insurance proposal form are:

- name of proposer
- address of proposer
- business of the proposer
- general particulars such as claim history
- specific proposed cover e.g. asset protection

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

- (b) Underwriters are particular with:
 - (i) **proposer's financial history:** in order to undertake credit search of the proposer's financial health

(ii) **proposer's name:** in order to identify who the proposer for the contract is and also avoid disputes at a later date, whilst also helping to provide some clues about the proposer like trade/occupation.

(2 marks for each explanation. Grand Sub-Total: 4 marks)

(Grant Total: 10 marks)

3. Outline any two (2) specific questions shown in each of the following individual classes of insurance proposal forms:

- (a) theft insurance
- (b) employers' liability
- (c) product liability
- (d) computer insurance
- (e) money insurance.

Solution

(a) **Theft Insurance:** types of goods; value of target contents/stock; physical security protection; alarm system and method of signaling. e.t.c.

(b) **Employers' Liability:** numbers and groups of employees; annual wage roll per group; details of work with dangerous machinery or at dangerous location, e.t.c.

(c) **Product Liability:** nature of goods, annual turnover; import/export details; limits of liability to be covered, e.t.c.

(d) **Computer Insurance:** types of equipment, value of the equipment, security protection available, e.t.c.

(e) **Money Insurance:** annual amount of money transported, maximum amount of money on the premises overnight/during the day, details of safe, e.t.c.

(1 mark for each correctly stated question. Maximum of 2 to be graded under each insurance type. Sub-Total per insurance term: 2 marks. Grand Total: 10 marks)

4. Enumerate with two (2) reasons each, why the following terms put underwriters on the edge when assessing proposed risks:

- (a) insurance history and
- (b) moral hazards.

Solution

(a) **Insurance History:** these put underwriters on guard as they need to consider reasons why the risk is proposed and also source out the reasons why it is available for quotation at that point in time. This will give them to know and also provide an opportunity to investigate the circumstances thoroughly before coming to a decision regarding acceptance and terms. It will also help to be able to decide on the special terms to be imposed, premiums payable and if required, decline the risk in its entirety or come off it – if it is a renewal business.

(b) **Moral Hazards:** these put underwriters on guard as they need to be able to determine the extent of any likely moral hazard and thus determine the terms of placement of the risk in their books; or if considered as not meeting the company's risk appetite, prepare a ground for declinature.

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

- 5(a) Give one (1) reason why individuals and organisation buy commercial insurance. (4 marks)
- (b) List any three (3) benefits of combined policy to an SME (Small and Medium Enterprise) policyholder. (6 marks)

Solution

- (a) The reasons why individuals and organisation buy commercial insurance are either to fulfil statutory requirements or to meet business requirement. (4 marks for any of the two points)
- (b) The benefits of combined policy to an SME (Small and Medium Enterprise) policyholder are:
- one policy incorporates one premium, one renewal date and one document
 - a number of individual covers can be combined as required
 - the actual levels of covers, terms and conditions are tailored to meet the needs of the individual business
 - it is far more flexible than the standard package type cover
- (2 marks for each correctly stated benefit. Maximum of 3 to be graded. Sub-Total: 6 marks)
(Grand Total: 10 marks)

- 6(a) Describe how premium is adjusted for buildings in course of erection. (6 marks)
- (b) What does “impact perils” cover? (4 marks)

Solution

- (a) Premium is adjusted for buildings in course of erection as follows:
- for small cases, the rate of premium will be applied to 50% of the sum insured. This produces a fairly equitable situation for both parties (3 marks)
 - the alternative is to have declarations of value at monthly intervals, as in stock declaration insurance and apply the rate to the average declaration. This will produce a fairly accurate premium by setting the premium earned against an additional charge or refund as the case may be. (3 marks)
- (Sub-Total: 6 marks)
- (b) Impact perils cover:
- impact by third party vehicle or animals (2 marks)
 - impact by any road vehicle or animals. (2 marks)
- (Sub-Total: 4 marks)
(Grand Total: 10 marks)

- 7(a) How would the underwriter decide on the insured/proposer’s premises susceptible to high flood risks? (4 marks)
- (b) Itemise six (6) examples of trades/occupations with a very high theft risk that insurers are not always willing or in a rush to underwrite or come on risk on. (6 marks)

Solution

- (a) The underwriter will decide on the insured/proposer's premises susceptible to high flood risks by either:
- avoiding the risk OR
 - undertaking a survey to check the system facts OR
 - providing flood cover but at a higher than normal excess or at additional premiums OR
 - applying conditions specifying storage of goods at a minimum height off the ground

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

- (b) The examples of trades/occupations with a very high theft risk that insurers are not always willing or in a rush to underwriter or come on risk on are:

- | | |
|-----------------------------------|-------------------------|
| * Amusement Arcades | * Goldsmith/Silversmith |
| * Prawn Brokers | * Museums |
| * Casinos, Gaming and Night Clubs | * Security Companies |
| * Market Traders | * Kiosks . |

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

(Grand Total: 10 marks)

- 8(a) List any six (6) segments (or sections) that you would, as an astute underwriter, include in the asset protection section of a combined policy document. (6 marks)

- (b) Enumerate any four (4) standard exceptions under a theft cover. (4 marks)

Solution

- (a) The following are the segments (or sections) that you would, as an astute underwriter, include in the asset protection section of a combined policy document:

- | | | | |
|---------------|--------------|--------------|------------|
| * Definitions | * Perils | * Exceptions | |
| * Cover | * Conditions | * Clauses | * Schedule |

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

- (b) The standard exceptions under a theft cover are:

- theft while the premises are empty
- fraud or dishonesty
- unexplained shortages
- damage where the insured or their employees are involved
- list of valuable type of goods.

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

(Grand Total: 10 marks)

9. Business interruption is arranged as part of the commercial package or combined policy. Enumerate:
- (a) any three (3) issues that the proposer/insured will consider in deciding its maximum indemnity period. (6 marks)
 - (b) any two (2) issues that the underwriter will consider in arranging the cover? (4 marks)

Solution

(a) The issues that the proposer/insured will consider in deciding its maximum indemnity period in a business interruption policy are:

- repair or reinstate the building
- repair or replace specialised machinery
- replace stock or raw materials
- recover the customer base
- recover the lost share of the market

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

(b) The issues that the underwriter will consider in arranging the cover are:

- name of the proposer/insured
- trade/business description
- location/premises
- type of cover

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

(Grand Total: 10 marks)

10. Business interruption insurance policy grants extensions to cover denial of access to the insured premises caused by damage to other local premises. Enumerate the four (4) losses that are usually covered under the policy as a result of denial of access to the insured property.

Solution

The four (4) losses that are usually covered under the policy as a result of denial of access to the insured property are losses arising from:

- occupation of the premises by terrorists
- unlawfully occupied by third parties
- closed down by the police or any statutory body
- thought to contain explosive device.

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

11. Carefully, in chronological order, establish the steps used in calculating a loss in a gross profit/income type of insurance cover.

Solution

The steps used in calculating a loss in a gross profit/income type of insurance cover, chronically arranged are:

- establish the duration of the indemnity period
- calculate the rate of gross profit
- calculate the reduction in turnover
- establish the loss of gross profit
- calculate the increase in cost of working
- identify any savings in expenses
- check the adequacy of the sum insured.

(1 mark for each correctly stated step. 3 marks for correct arrangement. If the candidate did not correctly arrange it, it is 0 mark for not arranging chronically. Total: 10 marks)

12(a) For a claim in business interruption to succeed, the insured must establish that a damage has occurred. Enumerate any three (3) ways by which the insured/insurer can establish this. (6 marks)

(b) Establish what is covered in explosion. (4 marks)

Solution

(a) For a claim in business interruption to succeed, the insured must establish that a damage has occurred in any of the following ways:

- the damage must be caused by an insured peril
- the property must be in use by the insured
- the property must be in use for the purpose of the business
- the damage must cause the interruption

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

(b) Explosion peril covers:

- explosion from flammable gases/liquids, chemicals or boilers on/off the insured premises
- it excludes explosion of insured's own boiler, machine or apparatus covered appropriately/more specifically under engineering policy

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

(Grand Total: 10 marks)

13(a) Itemise any six (6) professions that professional indemnity cover is designed for. (6 marks)

(b) Other than the insured, list the four (4) other parties that are covered under the motor third party policy. (4 marks)

Solution

(a) The professions/professionals that professional indemnity cover is designed for are:

* Solicitors

* Accountants

* Architects

* Surveyors * Insurance Brokers * Stockbrokers
* Doctors, Nurses and Other Medical Practitioners.

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

(b) Other than the insured, four (4) other parties that are covered under the motor third party policy are the:

* driver/user * third party * passenger

* personal representative of the insured .

(1 mark for each correctly stated party. Total: 4 marks)

14. Enumerate any five (5) factors that underwriters will consider when assessing contractor's risk/insurance proposal?

Solution

The factors that underwriters will consider when assessing contractor's risk/insurance proposal are:

* claims history

* location of risks

* concentration of values

* site features

* risk management with joint code of practice

* nature of work

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

Part II

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

Each question carries 30 marks.

15(a) What is estimated maximum loss (EML)? (4 marks)

(b) Briefly explain your understanding of EML (estimated maximum loss). (6 marks)

(c) Enumerate any four (4) uses of/needs for EML (estimated maximum loss). (12 marks)

(d) Itemise any four (4) reasons why insurance need reinsurance in their operations. (8 marks)

Solution

(a) Estimated Maximum Loss (EML) is an estimate of the maximum loss which could reasonably be expected from a fire and/or explosion peril when it occurs on an insured property. (4 marks)

(b) EML (estimated maximum loss), as defined above can be arrived at by underwriters whereby they accept that the following risks could have an impact on the amount to be arrived at. These are having a fire brigade within reasonable expectations, having adequate water supplies available, having installation of

automatic fire detection systems, e.t.c. After these, the underwriters will have to consider, within the realm of probability, that having taken into account all those factors that are likely to increase or lessen the extent of loss, they will then estimate the figures accordingly. EML allows underwriter/insurer extra capacity to in order to assume larger risks and on its calculation, it excludes coincidences and catastrophic losses which may be possible but are unlikely.

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

(c) The uses of/needs for EML (estimated maximum loss) are that insurers use EML to:

- identify the maximum loss which is likely to occur in a normal circumstance
- assess and manage exposure to risk
- ensure that insurers are making full use of the company's full capacity
- protect the balance sheet
- help in the purchase of reinsurance programmes

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

(d) The four (4) reasons why insurance need reinsurance in their operations are to:

- build capacity
- spread the risk
- smoothen the cost of large claims
- build confidence in the insurer by its clients and the insuring public.

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

(Grand Total: 30 marks)

16. Enumerate on each of the risks below, four (4) rating factors that insurers will take into account when assessing the risks:

- (a) fine art and species (b) bonds and
(c) blood stocks.

Solution

The rating factors that insurers will take into account when assessing the Following risks are:

(a) **fine art and species:**

- type of items to be used e.g. paints
- market value of the items or other basis of valuation
- where cover is required e.g. at one specific premises
- details of where the items will be stored such as the building construction

- details of how the items will be transported such as method of transportation, security, protection, e.t.c.
- general particulars about the proposer.
(2½ marks for each correctly stated factor. Maximum of 4 to be graded. Sub-Total: 10 marks)

(b) **bonds:**

- no general rating because of the variety of bonds available in the market
- premium charged reflect the limit of financial compensation to be paid in the event of a claim being made
- premiums are likely to be flat fee arrangements since bonds are not renewable
- integrity of the proposer/insured is very crucial
(2½ marks for each correctly stated factor. Candidates are free to concentrate on any particular type of insurance bond. Maximum of 4 to be graded. Sub-Total: 10 marks)

(c) **blood stocks:**

- animal value
- service fees
- saddling and tack values
- personal accidents benefits
- activities undertaken
- limits of liability
- age of animals
- claims experience and animal health record.
(2½ marks for each correctly stated factor. Maximum of 4 to be graded. Sub-Total: 10 marks)
(Grand Total: 30 marks)

17. State and explain the four (4) underwriting factors to consider before deciding to accepting a theft risk proposed for insurance.

Solution

The four (4) underwriting factors to consider before deciding to accepting a theft risk proposed for insurance are:

- **location of the property:** this will indicate whether the risk is situated in an area that the insurer considers to be a high/medium/low crime area. The decision to accept or reject the business will follow from this.
- **property to be insured:** under this, the insurer will consider the replacement cost of the property, whether or not the property is in high demand, the type of goods being produced by the insured which are classified by insurers as target goods/stock, the security of the premises, e.t.c. to enable the insurer make an informed decision.

- **security of the premises:** the focus of the insurer here will be on the level of security that will be required to make the risk acceptable to the insurer. The insurer has a number of options and it may be able to agree to accepting the risk on either the existing security, or a minimum security level regarding doors and locks. The insurer will also visit the premises to assess the level of security watch guards and specify any requirements that may be necessary to making the risk acceptable.
- **previous claims history:** the insurer will be interested in the proposer's claim history at the proposed premises and at other premises which the proposer may have occupied in the past 3-5 consecutive years. Repeat "visits" by thieves are quite common and recent claims at the premises will influence the acceptance or otherwise of the theft risk. If the claims history is poor and the risk has had all practicable protection systems implemented, the only option, other than refusing theft cover, may be to ask the proposer to be a coinsurer and carry as much of the risk as possible.

(2½ marks for each correctly stated factor. 2½ marks for each correctly stated point under each factor. Maximum of 2 points to be graded under each factor. Sub-Total per factor: 7 ½ marks.

Grand Total: 30 marks)

- 18(a) Carefully enumerate any six (6) costs that a typical legal expenses policy cover(s). (18 marks)
- (b) List any four (4) information contained in a certificate of motor insurance? (12 marks)

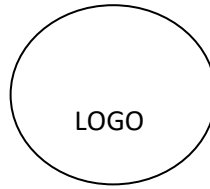
Solution

- (a) The costs that a typical legal expenses policy cover are costs:
- of pursuing actions against third parties for enforcement of legal rights
 - connected with contracts entered into
 - connected with debt recovery
 - connected with tenancy disputes
 - of defending a claim where costs are not otherwise insured
 - of defending industrial tribunal cases
 - defending tax or VAT investigations.
- (3 marks for each correctly stated cost. Maximum of 6 to be graded. Sub-Total: 18 marks)
- (b) The information contained in a certificate of motor insurance are:
- registration mark
 - type of vehicle
 - effective dates of cover (commencement and expiry)

- persons or classes of persons permitted to drive the vehicle
- limitations as to the use of the vehicle
- confirmation that the insurance complies with the law
- confirmation that the insurer is authorised to underwrite the business.

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

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D11
PERSONAL INSURANCE PRACTICE

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

D11 - PERSONAL INSURANCE PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	45%
Highest Score:	80%
Lowest Score:	10%
Average Score:	45%

Breakdown Updates**Question 1**

Majority of the candidates did not know the full meaning of NCRIB. This is quite worrisome.

Question 2

Most of the candidates that attempted this question understood the question and exhibited in-depth knowledge.

Question 3

Majority of the candidates defined caveat emptor did not know the statutes that modified this doctrine.

Question 4

Majority of the candidates understood the topic and attempted the question brilliantly.

Question 5

Few candidates that attempted this question understood the facts and principle behind the case.

Question 6

Majority of the candidates did not understand the topic and gave poor solution.

Question 7

The question was brilliantly attempted.

Question 8

Only few candidates scored above 50%. Some candidates wrongly stated salvage as an advantage of 'old for new'.

Question 9

The question was not well attempted. Many candidates stated that credit/debit cards were specific exclusions for money under household policy instead of shortage due to error or omission, losses not reported to police within 24 hours and confiscation and detention by Custom.

Question 10

Not many candidates remembered that sporting equipment and pedal cycles are common extensions to a household policy.

Question 11

Many candidates erroneously stated Total Permanent Disablement and weekly benefits as forms of personal accident.

Question 12

Surprisingly some candidates did not know the full meaning of NCD (No claim Discount).

Question 13

This question was poorly attempted. Only few candidates were able to correctly state (i) extended warranty (ii) legal expenses and breakdown recovery

Question 14

A popular question which was well attempted by candidates.

Question 15

Simple question but few candidates did not mention points from the coursebook therefore they could not earn allotted marks.

Question 16

Some candidates avoided this question. Those that attempted it scored good marks.

Question 17

Majority of the candidates that attempted this question did well

Question 18

Few candidates that attempted the question performed above average.

Chief Examiner's Comments on Overall Performance:

Overall performance was below average as the number of candidates who passed was less than 50%.

Chief Examiner's Suggestions on Improvement:

Candidates are encouraged to work harder when preparing for the examinations.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks

- 1(a) What is the full meaning of NCRIB? (2 marks)
- b) Enumerate any four (4) roles played by NCRIB in the regulation of insurance broking business in Nigeria. (8 marks)

Solution

a) Nigerian Council of Registered Insurance Brokers (2 marks)

b) 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)

2. State and explain any two (2) main reasons why consumers have had a growing influence in the market place.

Solution

The reasons why consumers have had a growing influence in the market place are:

- **greater competition:** competition is intense. Sellers must work hard to remain profitable in the face of declining returns. Insurers and intermediaries compete with service. Recognizing the importance of customers have become a power strategy.
- **consumer awareness:** consumers have obtained more legal rights and are increasingly aware of this.
- **customer expectation:** customer expectations have increased over the years. Education has helped customers in this area. Today, there is customers service desk in nearly all the insurance companies e.g. free telephone numbers, 24/7 helplines and recovery services are the order of the day.

(2 marks for each correctly stated reason. 1½ marks for each correct and completely stated point. Maximum of 2 points to be graded under each reason. Maximum of 2 reasons to be graded. Maximum of 4 to be graded. Sub-Total: 8 marks)

3(a) What does the doctrine term “caveat emptor” mean? (4 marks)

(b) Enumerate any three (3) statutes that have modified this doctrine? (6 marks)

Solution

(a) “Caveat Emptor” means let the buyer beware i.e. buyers should take steps to make themselves aware of any defects of the product as they have no remedy against the sellers except there is evidence of misrepresentation or fraud on the part of the sellers. However, insurance contracts are not subject to this rule.

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

(b) The statutes that have modified this doctrine are:

- the Sales of Goods Act 1979
- the Misrepresentation Act 1967
- the Supply of Goods Act 1973
- the Unfair Contract Terms Act 1977

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

4(a) What is material fact as contained in the Marine Insurance Act 1906? (2 marks)

(b) List any four (4) facts that proposers need not disclose when proposing for insurance? (8 marks)

Solution

(a) Material fact as contained in the Marine Insurance Act 1906 is defined as “every circumstance is material which would affect the judgement of a prudent underwriter in fixing the premium or determining whether he will take the risk”. (2 marks)

(b) The facts that proposers need not disclose when proposing for insurance are:

- facts of law
- facts that an insurer is deemed to know
- facts which the insurer has been put on enquiry
- facts which insurer’s survey should have noted
- facts superfluous to disclose by the reason of expressed or implied warranty
- facts which the proposer does not know
- spent convictions

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

- 5(a) State the facts of the case in *Gaskarth v. Law Union Insurance* (1876). (7 marks)
- (b) What is the insurance principle behind the case? (3 marks)

Solution

(a) The facts of the case in *Gaskarth v. Law Union Insurance* (1876) are that fire damaged a wall (1 mark) and left it weakened (2 marks). Several days later (1 mark), a gale blew the wall down (1 mark). It was decided by the court that fire was not the proximate cause of the wall falling down (2 marks).
(Sub-Total: 7 marks)

(b) “Proximate cause” is the insurance principle behind the case. (3 marks)

6. Comprehensively list any four (4) principal exclusions in a household policy where cover is extended to include accidental damage to televisions, radio, computers, video recorders and cable/satellite/digital television receivers.

Solution

The principal exclusions in a household policy where cover is extended to include accidental damage to televisions, radio, computers, video recorders and cable/satellite/digital television receivers are:

- wear, tear and maintenance
- electrical or mechanical breakdown
- damage caused by clearing, repair or dismantling the item
- loss or corruption of computer software

(2½ marks for any correctly stated exclusion. Total: 10 marks)

7. Explicitly define proximate cause as stated in *Pawsey v. Scottish Union and National Insurance Company* (1908).

Solution

Proximate cause as stated in *Pawsey v. Scottish Union and National Insurance Company* (1908) is the active (1 mark) and efficient cause (1 mark) which sets in motion a train of events (2 marks) which brings about a result (2 marks), without the intervention of any force starting and working actively (2 marks) from a new and independent source (2 marks).

(Grand Total: 10 marks)

8. What are the two (2) main advantages and the two (2) main disadvantages to the insurer in the provisions of “old for new” cover in household insurance?

Solution

S/No	Advantages	Disadvantages
1	Higher premium	Moral hazard
2	Reduction in claims disputes	Increase in fraudulent claim

3		Difficulties in ensuring that sums insureds are adequate
---	--	----------------------------------------------------------

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

9. What are the four (4) specific exclusions to cover for money under a household policy?

Solution

The four (4) specific exclusions to cover for money under a household policy are:

- shortages due to error or omission
- losses not reported to the police within 24 hours
- confiscation or detention by customs or other officials
- money held or used for business purposes.

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

10. List any five (5) common extensions to a household policy.

Solution

The common extensions to a household policy are:

- all risks/personal possessions
- money and credit cards
- legal expenses
- pedal cycles
- sports equipment
- frozen foods

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

11(a) What are the most common forms of personal accident cover? (4 marks)

(b) Briefly explain what any two (2) of the stated forms on personal accident cover in (a) above cover. (6 marks)

Solution

(a) The most common forms of personal accident cover are:

- accident only policies
- accident and sickness policies
- injuries by accident in specific circumstances

(2 marks each for any two correct forms stated. Maximum of 2 to be graded. Sub-Total: 4 marks)

(b) Candidates are required to explain any two of the three forms stated in (a) above.

(1½ marks each for any complete and correctly stated explanation. Maximum of 2 to be graded per form. Sub-Total per form: 3 marks. Sub Grand Total: 6 marks)

(Grand Total: 10 marks)

12(a) What does the acronym “NCD” mean? Explain what the term stands for? (4 marks)

(b) State the scale of NCD in a standard private motor insurance policy. (6 marks)

Solution

(a) “NCD” means No Claim Discount (2 marks)? It stands for the situation whereby a policyholder being entitled to a discount at renewal of his policy having not lodged/submitted any claim in the previous insurance year(s) (2 marks)
(sub Total: 4 marks)

(b) The scale of NCD in a standard private motor insurance policy is:

Period	Nigeria	UK	
Year 1	20%	30%	(1.2 marks)
Year 2	25%	40%	(1.2 marks)
Year 3	33.33%	50%	(1.2 marks)
Year 4	40%	60%	(1.2 marks)
Year 5	50%	60%	(1.2 marks)

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

13(a) What are the three (3) additional motor benefits available in personal insurance market today which are not covered by the private motor insurance policy? (3 marks)

(b) Explain any two (2) of those benefits. (7 marks)

Solution

(a) The three (3) additional motor benefits available in personal insurance market today which are not covered by the private motor insurance policy are:

- extended warranty insurance
- legal expenses insurance
- breakdown recovery

(1 mark for each correctly stated benefit. Total: 3 marks)

(b) **Extended Warranty Insurance:** new cars carry guarantee for a certain time (1 mark), usually a year. Often the car breaks down after the guarantee has expired due to a defect from the manufacturer (1 mark). This cover extends the guarantee. (1½ marks)

(Sub-Total: 3½ marks)

Legal Expenses Insurance: this policy is to pay the legal expenses incurred in the process of claiming against persons responsible for death or personal injuries to the insured or an authorized driver. (3½ marks)

Breakdown Recovery: a car owner may find out that the car breaks down unexpectedly (1 mark). If the owner is a member of the monitoring organisation, they will be able to call for assistance from the recovery organisation (1 mark), who will give roadside assistance or tow the vehicle to a garage (1 mark). However, a lot of insurance companies have introduced breakdown cover. Payment is made by insurers for the cost of roadside repairs and towing to the mechanic workshop (½ mark).

(Sub-Total: 3½ marks)

Maximum of 2 benefits to be graded. Grand Sub-Total: 7 marks

(Grand Total: 10 marks)

14. What are the four (4) main categories of personal general insurance?

Solution

The four (4) main categories of personal general insurance are:

- household insurance
- travel insurance
- private motor insurance
- miscellaneous personal insurances including personal accident, creditor and extended warranty.

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

Part II

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

Each question carries 30 marks.

15(a) List and explain ten (10) media channels of advertising. (20 marks)

(b) List and explain any two (2) indirect marketing channels of distribution of an insurance product. (10 marks)

Solution

(a) The media channels of advertising are:

- **television:** it has the advantage of both audio and visual. It can make a strong impact on the consumers. Its main disadvantage is that it lasts for a short time and is very costly.
- **radio:** it is used less often than television but does have the advantage of being cheaper and making it easier to reach a particular market segment
- **newspapers:** it can be used as direct advertising at a target market. The disadvantage is that the reader has to be sufficiently interested and motivated to read.
- **posters:** may be placed in public places. It can be used to reinforce a television or press campaign.

- **displays:** it can be provided in shops and post offices. They are likely to provide leaflets including an enquiry/application form.
- **direct mail:** this can be used primarily to keep intermediaries informed and provide them with promotional materials on the company's latest products and can also be used as a form of direct marketing.
- **sponsorship:** companies can use sponsorship to put their name before potential customers. Some insurance companies sponsor sporting activities such as football, badminton, e.t.c.
- **sales promotion:** it may take the form of small gift items to intermediaries/customers such as calenders, diaries, memo pads, biros, e.t.c.
- **publicity:** general publicity can take the form of newspaper articles, jingles, e.t.c. It can also take the form of television consumer programmes.
- **personal selling:** this is an oral presentation in a conversation with one or more prospective buyer(s) of insurance.
- **information technology and promotion:** today, many advertisements are done through facebook, Instagram, whatsapp, (i.e. on social media platforms in general).

(1 mark for correctly listed medium. 1 mark for correct explanation. Sub-Total per medium: 2 marks. Maximum of 10 to be graded. Grand Sub-Total: 20 marks)

(b) The indirect marketing channels of distribution of an insurance product are through the use of:

- **company agents:** these are intermediaries who are unable to offer the customers a choice of product and can only advise on placement with one insurer for any particular product type. Traditionally, this category of intermediary has included estate agents, travel agents and other professionals whose clients may have a demand for personal insurance. In Nigeria, these agents must be licenced by the National Insurance Commission.
- **insurance brokers:** they are the professional insurance intermediaries who offer customers a choice of products from various insurers. In Nigeria, must be licenced by the National Insurance Commission, must also belong the Nigerian Council of Registered Insurance Brokers (NCRIB). The Chief Executive of a brokerage firm must be at least an associate member of the Chartered Insurance Institute of Nigeria.
- **insurance consultants:** these are also professionals who are paid to analyse insurance coverages. Their job is to provide information to people or buyers about various insurance plan options. They provide consultations, discuss fees, set up insurance contracts between insurers and customers, e.t.c. they

might work on behalf of a single insurance company or multiple insurance companies.

(2 marks for correctly listed channel. 1½ marks for any correct explanation. Maximum of 2 explanations to be graded per channel. Sub-Total per channel: 5 marks. Maximum of 2 channels to be graded. Grand Sub-Total: 10 marks).

(Grand Total: 30 marks)

16. Fully enumerate any ten (10) of the main exclusions in a typical travel insurance policy.

Solution

The main exclusions in a typical travel insurance policy are:

- death or bodily injury or sickness caused by drugs (unless medically prescribed and not for drug addicts)
- death, bodily injury or sickness caused by intoxicants
- death, bodily injury or sickness contributed to by insanity, venereal diseases, pregnancy, childbirth or any naturally occurring condition or any gradual operating cause
- death, bodily injury or sickness consequent upon any physical or mental defect (so that if a proposer suffers from say diabetes, this must be disclosed)
- death, injury or sickness whilst taking part in hazardous pursuits, including hockey, using ropes to climb, potholing, caving, racing, skiing or ski-diving
- death, injury or sickness caused by suicide or self-infliction
- loss of baggage caused by confiscation
- loss of baggage or personal belongings whilst unattended
- loss of corneal caps, micro lenses, stamps, manuscripts or documents
- loss of camping equipment
- loss of cash/cheques, unless reported to the police within 24 hours
- damage to fragile articles

(3 marks for each complete and correctly stated exclusion. Maximum of 10 to be graded. Grand Total: 30 marks)

17(a) Enumerate any four (4) details of drivers that insurer will like to know when underwriting any proposed motor insurance risk. (14 marks)

(b) State and briefly explain any four (4) reasons why personal lines insurers purchase reinsurance cover. (16 marks)

Solution

(a) The details of drivers that insurer will like to know when underwriting any proposed motor insurance risk are the drivers':

- ages
- occupation

- licence details
- accident and loss history
- conviction history (only those convictions that are not spent)
- disability
- country of origin.

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

(b) Personal lines insurers purchase reinsurance cover for the following reasons:

- **security:** insurers seek security and peace of mind through arrangement of reinsurance
- **stability:** reinsurance allows insurers to avoid fluctuation in claims cost from year to year and within an underwriting year
- **capacity building:** reinsurance allows insurance to accept larger risks which they could have declined or partially accepted
- **catastrophe protection:** insurers are not immune from major incidences that could cause a catastrophic loss. Reinsurance cover provide instant remedy for this
- **macro benefits:** the cost of risk is spread across the nation and the world through reinsurance, hence a claim does not impact on only a particular economy with an effective reinsurance program in place.

(2 marks for correctly stated reason. 2 marks for correct explanation of the stated reason.

Maximum of 4 reasons to be graded. Sub-Total per reason: 4 marks. Grand Total: 16 marks)

18. Write short notes on the following:

- (a) Alternative Dispute Resolution (b) Rehabilitation of Offenders Act 1974
 (c) Claims Inspector (d) Uninsured Drivers' Agreement
 (e) Retention.

Solution

(a) **Alternative Dispute Resolution:** there are a number of other forms of dispute resolution which are neither litigation or arbitration. These operate by bringing third parties to help reach an agreement. The third party must be independent. It also leads to greater degree of trust and openness. It can be like a mediation service available for disputes.

(b) **Rehabilitation of Offenders Act 1974:** the objective of this law is to rehabilitate offenders who have not been convicted of any serious offence after a certain period of years. It has the effect of modifying the duty of disclosure as the Act states that certain criminal convictions are deemed to be "spent" after a period of time. This Act does not apply to all convictions.

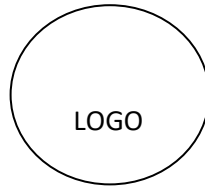
(c) **Claims Inspector:** claim inspectors are employees of insurance companies who are assigned to investigate claims. These are not employees of independent firms. Many companies employ a team of their own inspectors to deal with smaller claims and employ loss adjuster(s) for big claims.

(d) **Uninsured Drivers' Agreement:** the objective of this agreement is to settle unsatisfied court judgements where damages are awarded for third party personal injury and third party property damage to a certain limit and where there is no insurance policy in force. NAICOM handles this for the Nigerian Insurance Industry.

(e) **Retention:** it is the amount that the cedant (or ceding company to a reinsurer) want to pay when there is a claim. The first decision to be taken with regards to reinsurance is the retention level. A company when deciding on its retention will consider and be influenced by:

- the capital and free reserves
- the size of the portfolio, premium income and profitability
- the spread of risks and pattern of losses
- the type and cost of reinsurance
- its corporate strategy.

(3 marks for each correct and complete point made. Maximum of 2 complete points per term to be graded. Sub-Total per term: 6 marks. Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D12
LONG TERM BUSINESS

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
D12 - LONG TERM BUSINESS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	0%
Highest Score:	23%
Lowest Score:	23%
Average Score:	23%

Breakdown Updates**Question 1**

Performance was average. Adequate preparation for examination cannot be over-emphasized.

Question 2

The candidate avoided the question; meaning that the candidate did not prepare well for the examination as this was a direct question from the coursebook.

Question 3

Performance was good as the candidate was able to tackle it very well.

Question 4

The candidate understood the question and the performance was above average.

Question 5

The candidate avoided the question; indicating lack of proper preparation for the examination.

Question 6

The question was avoided by the candidate.

Question 7

Lack of preparation and lack of understanding of the question produced very low result.

Question 8

Performance was very poor to this textbook question; which is an indication that there was inadequate preparation for the examination.

Question 9

The candidate avoided this question entirely.

Question 10

Response was very poor. The candidate demonstrated enormous lack of knowledge of life assurance and the question asked.

Question 11

The candidate avoided the question.

Question 12

The candidate did not attempt the question.

Question 13

The candidate did well here as the score was well above average.

Question 14

Here is another demonstration of lack of knowledge of the course.

Question 15

The candidate did not understand the question as performance was poor.

Question 16

There was gross misunderstanding of the question, hence performance was extremely severe and low.

Question 17

Not attempted.

Question 18

Not attempted.

Chief Examiner's Comments on Overall Performance:

The performance was highly unimpressive as the candidate failed woefully.

Chief Examiner's Suggestions on Improvement:

Any candidate that choose to sit for this course should be encouraged to prepare adequately in order to prevent this kind of dismal performance. Believing in office practice to tackle professional examination is not healthy and cannot deliver the required impacts.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks

- 1(a) What is the full meaning of NCRIB? (2 marks)
- b) Enumerate any four (4) roles played by NCRIB in the regulation of insurance broking business in Nigeria. (8 marks)

Solution

a) Nigerian Council of Registered Insurance Brokers (2 marks)

b) 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)

2. Under the Financial Ombudsman Service (FOS), only an eligible complainant can make a complaint to the FOS.

(a) Give any two (2) classes of who an eligible complainant is. (4 marks)

(b) Enumerate the three (3) timeframes within which complainants must refer the case. (6 marks)

Solution

(a) An eligible complainant is one of the following:

- a private person or an individual
- a business with a stated annual turnover
- a charity with a stated annual income
- a trust with a stated net asset value.

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

- (b) The three (3) timeframes within which complainants must refer the case are:
- six months after the firm's final response
 - six years after the event complained about
 - three years after the complainant knew or should have known there was a case for complaint
- (2 marks for each complete and correctly stated timeframe. Sub-total:64 marks)
(Grand Total: 10 marks)

3. In the conduct of life and pension business, the Conduct of Business (COB) rules sets out different types of customers.
- (a) List any two (2) classes of the stated customers under the COB rules (4 marks)
- (b) Enumerate two (2) types of specific customers under the listed classes in (a) above. (6 marks)

Solution

- (a) The classes of the stated customers under the COB rules are:
- private customers
 - intermediate customers
 - market counterparty
 - various other State or supranational bodies
 - another authorized firm.
- (2 marks for each correctly stated class. Maximum of 2 to be graded. Sub-total: 4 marks)
- (b) The specific customers under the listed classes in (a) above are:
- **private customers:** a customer who is not a market counterparty or an intermediate customer
 - **intermediate customers:**
 - a local or public authority
 - a company listed on a recognized stock exchange
 - a company which has share capital or net assets of a minimum stated amount
 - a partnership which has stated net assets
 - a trustee of a trust (other than a pension trust) which has assets of a stated amount
 - a trustee of a pension trust of at a stated least number of members and also of stated assets.
 - **market counterparty:**
 - a government of a country
 - a central bank of a country
- (2 marks for any specifically listed customer. Maximum of 3 to be graded. Sub-Total: 6 marks)

4. List any ten (10) information as contained in the Medical Certificate of Cause of Death (MCCD) issued by certified hospitals or health institutions.

Solution

The information contained in the Medical Certificate of Cause of Death (MCCD) issued by certified hospitals or health institutions are:

- name of the deceased
- age
- cause of death (primary)
- time of death
- type of ailment
- secondary cause of death
- witness and the signature
- medical physician that attended to the deceased last
- qualification of the medical physician
- signature of the medical physician
- name of the hospital
- sex
- declaration.

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

- 5(a) What are substantive policies? (2 marks)
- (b) Briefly enumerate issues that determine the scale of surrender value in substantive policies? (8 marks)

Solution

(a) Substantive policies are those life assurance contracts/policies that have investment elements attached and also have surrender value. They can be surrendered for cash or terminated before the maturity date of the contracts e.g. endowment, unit trust and whole life policies. (2 marks)

- (b) The issues that determine the scale of surrender value in substantive policies are as enumerated below:
- surrender value in the early years of the policy is low and usually discouraged. This is because life offices have to recover the initial expenses involved in setting up the policy
 - for conventional endowment and whole life policies, the actual value on surrender will depend on the length of time that the policy has been in force and whether or not the policy is with profit
 - the surrender value of the sum assured will be a portion of that sum assured. If the policy is with profit, there will be an allowance for the reversionary bonus attaching to the policy at the time of surrender

- the surrender value of a unit-linked policy will depend on the bid price of the units held on the day of surrender. There may be a penalty to pay for early surrender or an adjustment to the value of with profit if the market is volatile.

(4 marks for any complete and correctly explained issue. Maximum of 2 issues to be graded.)

Sub-Total: 8 marks)

(Grand Total: 10 marks)

6. Explain how a claimant/estate can recover policy proceeds in the event of:
- life assured committing suicide voluntarily while of sound mind
 - life assured committing suicide while insane
 - life assured within one year of start of the policy
 - life assured in the hand of an interested third party
 - life assured in a policy a third party is interested in.

Solution

(a) **life assured committing suicide voluntarily while of sound mind:** the claimant/estate will not be able to recover policy proceeds as it is against public policy for someone to benefit from his/her own criminal act.

(b) **life assured committing suicide while insane:** the claimant/estate will be able to recover policy proceeds.

(c) **life assured within one year of start of the policy:** incomplete question

(d) **life assured in the hand of an interested third party:** the claimant/estate will not be able to recover policy proceeds.

(e) **life assured in a policy a third party is interested in:** he claimant/estate will be able to recover policy proceeds if the death of the life assured is not linked to or attached to the third party.

(2 marks for each correctly answered question. Question (c) is a bonus to all. Total: 10 marks)

7(a) What is the meaning of "assignment of a life policy"? (4 marks)

(b) List three (3) different types of assignment available in life assurance contracts. (6 marks)

Solution

(a) "Assignment of a life policy" is a transfer of ownership from one person to another. This often happens on life assurance contracts and offices must have methods of dealing with assignment to make sure that when the insured event happens, during the period of assignment, payment is made to the person with title deeds without any compromise. (4 marks)

(b) The different types of assignment available in life assurance contracts are:

- by way of sale
- by way of gift
- under trust

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

8. Explain the procedure used by life offices to grant policy loan to policyholder.

Solution

The procedure used by life offices to grant policy loan to policyholder are:

- the policyholder applies for a loan
- the life offices responds with a willingness to grant the loan on the security of their own policies and this applies only to certain classes of policies with surrender value
- the policyholder will execute a mortgaged deed in favour of the life office and this will contain the normal conditions relating to the life policy
- the deed may also have a clause giving the life office power to surrender the policy to itself to repay the loan if the borrower defaults on payment of interest or premium
- a life office will generally only lend if it can get first charge on the policy
- loans are useful alternatives to surrendering the policy where some of the policy proceeds are required immediately
- once the loan is fully paid off/written off, the loan period automatically ceases

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

9. Describe how the under-listed life contract proposals are accepted and/or the policy is set up and/or consequently insured:
(a) investment contracts (b) retirement contracts.

Solution

(a) **Investment Contracts:** single premium investment policies do not usually have any life assurance cover other than the provision for a return of their investment value if death occurs before maturity. Therefore, no health questions are asked on the proposal form and no underwriting is also required. In addition, acceptance is straightforward once the cheque payment has cleared although some of the acceptance letters and cancellation notices will still be used.

(b) **Retirement Contracts:** basic retirement benefit policies have no life assurance cover and if death occurs before the selected retirement age, there will be a return of the current value of the retirement fund. Once again, no health questions will be asked and no underwriting is required. In this instance also, acceptance is straightforward and the documentations used are similar in

principle to that used for a term assurance contract though cancellation notices may vary. For occupational schemes, the life office will issue a single policy document to the employer containing a definition of the members and their respective benefits together with trust document and scheme rules.

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

10. Outline any five (5) methods of dealing with under-average lives during the underwriting of life assurance proposals.

Solution

The following are the methods of dealing with under-average lives during the underwriting of life assurance proposals:

- * accept as standard lives
- * exclusions
- * debts
- * monetary extra
- rating up
- * postponement
- * declination.

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

11. Risk assessment demands that underwriters examine factors that would influence their decision in accepting or rejecting a risk presented for life assurance. Enumerate the four (4) major headings/factors that influence underwriters in the assessment of the proposed risks.

Solution

The four (4) major headings/factors that influence underwriters in the assessment of the proposed risks are:

- * medical factors
- * residential factors
- * financial factors
- * occupational factors

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

12. (a) List the four (4) types of contract available under personal pension plans. (8 marks)

(b) What do you understand by the term “contracting out” under a personal pension scheme? (2 marks)

Solution

(a) The four (4) types of contract available under personal pension plans are:

- a with profit personal pension
- a unit linked personal pension
- a deposit account
- a unit trust.

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

- (b) “Contracting out” under a personal pension scheme means that when personal pension scheme is used to contract-out of the State Second Pension (S2P) in which case the scheme will have to have appropriate scheme certificate. The scheme must contain guarantees and restrictions relating to protected rights in the proceeds of investment of the national insurance rebate.

(2 marks)

(Grand Total: 10 marks)

- 13(a) Besides the forces of demand and supply, enumerate any two (2) other factors that influence the share prices of listed/quoted companies?
- (b) What are the two (2) groupings of amounts payable on death for low cost whole life policy?

Solution

- (a) Besides the forces of demand and supply, the other factors that influence the share prices of listed/quoted companies are:
- general economic and political climate
 - investors sentiments
 - price movement of individual shares influenced by events specific to that company or that business sector.

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

- (b) The two (2) groupings of amounts payable on death for low cost whole life policy are:
- basic sum assured plus bonuses
 - guaranteed debts sum assured.

(2½ marks for each correctly stated factor. Sub-Total: 4 marks)

14. Various sectors of the economy combine to make-up the market for long term business. Enumerate any five (5) groupings of key players in your country’s insurance industry.

Solution

The groupings of key players in any country’s insurance industry are:

- * providers
- * buyers
- * trade associations
- * intermediaries
- * regulator(s)
- * consultants.

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

Part II

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

Each question carries 30 marks.

15. Carefully outline and briefly explain what a claims officer will be investigating if (s)he were to receive a notice of claims from a claimant following the death of a life assured within eight (8) weeks of policy document issuance.

Solution

In the event of receipt of receive notice of claims from a claimant following the death of a life assured within eight (8) weeks of policy document issuance, a claim officer will be investigating the following issues:

- possible non-disclosure of pre-existing medical condition
- deceased medical history/record
- probable fraud/fraudulent claims arrangements
- place of death
- probable suicide
- whether the probable non-disclosure is related to the cause of death
- whether the cause of death is an excluded peril

(candidates are required to correctly, but briefly, explain the stated issues above, and thereafter earn the marks as allocated here - 3 marks for each correctly stated issue, 1½ marks for each correctly stated point under each issue, maximum of 2 points to be graded under each issue. Then, maximum of 5 issues to be graded. Sub-Total per issue: 6 marks. Grand Total: 30 marks)

- 16(a) Explain any five (5) reasons why frequency loadings in premium is important to life offices. (20 marks)
- (b) Outline the four (4) ways through which life policies can change ownership. (10 marks)

Solution

- (a) The reasons why frequency loadings in premium is important to life offices are:
- premiums are always calculated on yearly basis
 - the actuarial calculations assume that premium will be available for investment at the start of the year not on instalmental basis within the year
 - these instalmental premiums cannot be simply divided straight-away as it will affect the actuarial assumptions
 - paying premiums instalmentally defeats the assumptions hence a loading has to be made to reflect the frequency of payment
 - the loading helps to recover investment returns that could have been made if premiums were made once annually at the start of the year.

(4 marks for each correct and completely stated reason. Maximum of 5 to be graded. Sub-Total: 20 marks)

(b) The four (4) ways through which life policies can change ownership are through:

- * absolute assignment
- * mortgage
- * trust
- * bankruptcy

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

(Grand Total: 30 marks)

17(a) How is inheritance tax treated on:

- (i) own life policy (ii) life of another policy (iii) trust policy?

(b) How is capital gain tax treated on:

- (i) own policy (ii) assigned policy
(iii) policy owner in second endowment policy.

Solution

(a) Inheritance tax (IHT) treatment on:

(i) **own life policy:** IHT is applicable here and it means that the policy proceeds will be taxed upon payment.

(ii) **life of another policy:** the policy proceeds is not taxable because no transfer of wealth takes place in death.

(iii) **trust policy:** policy proceeds are not taxed because as transfer has taken in death and it was not part of the deceased estate.

(b) Capital Gain Tax treatment on:

(i) **own policy:** there is no capital gain tax charged since ownership of a life policy does not change.

(ii) **assigned policy:** tax is charged since one person has acquired a policy from another, i.e. the policy has been assigned by the original owner.

(iii) **policy owner in second endowment policy:** tax is charged profit of the policyholder's capital gain tax rate.

18. Given that:

l_x = number of the lives at the start of age x

d_x = number of lives dying at age x

q_x = the rate of mortality at age x

e_x = the expectation of life at age x .

Also that an extract from a mortality table on male lives is given as:

Age x	l_x	d_x	q_x	e_x
0	100000	814	0.000814	73.4130

10	98935	18	0.000180	64.1950
20	98496	83	0.000840	54.4520
30	97645	89	0.000910	44.8830
45	95521	254	0.002660	30.6840
50	93925	436	0.004640	26.1590

- (a) What is the probability (P_x) that a person aged 45 will survive for another one year? (10 marks)
- (b) (i) How many male(s) will live at age 20? (4 marks)
- (ii) How many male(s) will live at age 50? (4 marks)
- (c) What is a market counterparty? (12 marks)

Solution

(a) The probability (P_x) that a person aged 45 will survive for another one year, $P_x = \frac{l_{x+1}}{l_x} = \frac{l_{50}}{l_{45}} = \frac{93925}{95521} = 0.98329$

(3 marks) (2 marks) (2 marks) (3 marks) (Sub-Total: 10 marks)

(b) (i) Number of male(s) that will live at age 20

= $l_x = l_{20} = 98496$

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

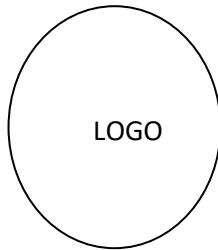
(ii) Number of male(s) that will live at age 50

= $l_x = l_{50} = 93925$

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

(Sub-Total: 8 marks)

- (c) A market counterparty is a customer who is:
- a government of a country
 - a central bank of a country
 - various States of supranational bodies
 - another authorized firm.
- (4 marks for each correctly stated definition. Maximum of 3 to be graded. Sub-Total: 12 marks)
- (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D13
MARINE AND AVIATION INSURANCE

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D13 - MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate: 57%

Highest Score: 64%

Lowest Score: 20%

Average Score: 45%

Breakdown Updates**Question 1**

43% of the candidates got above average in this question. This is below average.

Question 2

57% of the candidates got above average in this question. This is above average.

Question 3

43% of the candidates got above average in this question. This is below average.

Question 4

14% of the candidates got above average in this question. This is far below average.

Question 5

43% of the candidates got above average in this question. This is below average.

Question 6

86% of the candidates got above average in this question. This is well above average.

Question 7

57% of the candidates got above average in this question. This is a little above the average.

Question 8

71% of the candidates got above average in this question. This is above average.

Question 9

43% of the candidates got above average in this question. This is below average.

Question 10

29% of the candidates got above average in this question. This is far below average.

Question 11

Only 14% of the candidates got above average in this question. This is also far below average.

Question 12

43% of the candidates got above average in this question. This is below average.

Question 13

43% of the candidates got above average in this question. This is below average.

Question 14

No candidate (0%) got above average in this question. This is very worrisome and well far below average.

Question 15

29% of the candidates got above average in this question. This is far below average.

Question 16

Only 14% of the candidates got above average in this question. This is also far below average.

Question 17

Only 14% of the candidates got above average in this question. This is also far below average.

Question 18

Only 14% of the candidates got above average in this question. This is also far below average.

Chief Examiner's Comments on Overall Performance:

The overall performance is not encouraging although a little above 50% of candidates that presented themselves for the course got above the pass mark.

Chief Examiner's Suggestions on Improvement:

There is a great need for candidates who plan to sit for this course to seek help from experts in this field of insurance before presenting self for examination in it.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1(a) What agency of government is responsible for aircraft registration in Nigeria? (4 marks)

(b) To what agency must aircraft accidents be reported in Nigeria? (4 marks)

(c) Who appoints the commissioner for insurance in Nigeria? (2 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)

2(a) What month of the year does mid-summer occur in the Northern Hemisphere?

(b) What is the imaginary circle lying midway between the North and South poles called?

Solution

(a) June (5 marks)

(b) Equator (5 marks)

3. What are liner vessels?

Solution

Liner vessels are vessels that run on fixed routes and schedules between specified ports or range of ports. Their other attributes are that:

- The route schedules and cargo tariffs are advertised in advance
- They only deviate from their specified routes when induced by worthwhile cargo
- Liner services are popular among principal trading nations of the world
- Often from their own country to worldwide destinations and back home
- Cargoes are often goods of high value in proportion to weight
- Cargoes are booked in advance to fill the space of the vessel
- Cargoes are also brought overland to the ports of call.

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

4. What are the full forms of the following abbreviations:

(a) FOB (b) CIF

- (c) CPT (d) DDU and
- (e) DDP

Solution

- (a) FOB: Free on Board (2 marks)
- (b) CIF: Cost, Insurance and Freight (2 marks)
- (c) CPT: Carriage Paid To (2 marks)
- (d) DDU: Delivered Duty Unpaid (2 marks)
- (e) DDP: Delivered Duty Paid (2 marks)

(Grand Total: 10 marks)

5. List the five (5) types of claim under which collision liabilities may be limited in accordance with the convention on "Limitation of Liability for Maritime Claims 1976".

Solution

The five (5) types of claim under which collision liabilities may be limited in accordance with the convention on "Limitation of Liability for Maritime Claims 1976" are:

- loss of life or personal injury, or loss of or damage to property occurring on board or in connection with the operation of the ship
- loss resulting from delay in the carriage by sea of cargo, passengers or their luggage
- loss resulting from infringement of rights other than contractual rights occurring in direct connection with the operation of the ship or salvage operations
- (loss) in respect of missing, removal, destruction or the rendering harmless of a ship which is sunk, wrecked, stranded or abandoned
- (loss) in respect of the removal, destruction or rendering harmless of the cargo of the ship.

(2 marks for each correctly stated type of claim. Total: 10 marks)

6. Describe briefly the following types of marine policies:

- (a) time policy (b) voyage policy
- (c) mixed policy (d) construction policy and
- (e) open policy.

Solution

- (a) **time policy:** insures the subject matter for a period of time
- (b) **voyage policy:** insures the subject matter from one place to another irrespective of the length of time taken
- (c) **mixed policy:** covers both voyage and a period of time (as a vessel of a voyage and a period in port after arrival)

- (d) **construction policy:** (building risk) insures a vessel in course of building, irrespective of the length of time taken
- (e) **open policy:** a cargo policy expressed in general terms to cover a number of shipments to be declared.

(2 marks for each correct and complete explanation. Total: 10 marks)

7. State any five (5) of the main factors that are considered in determining the rate percent per annum of a hull time risk.

Solution

The main factors that are considered in determining the rate percent per annum of a hull time risk are:

- type of ship
- tonnage and age
- trading limits, cargoes carried and suitability for such trade
- management, ownership and past claims record
- conditions of insurance
- classification society
- flag and protection and indemnity club membership
- valuation
- repair costs.

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

8. To what extent does the duty of disclosure fall on a marine insurance broker who is only an agent of the insured?

Solution

The extent to which the duty of disclosure falls on a marine insurance broker who is only an agent of the insured are:

- the duty of disclosure of all material facts falls even more heavily on the broker
- apart from disclosing every material fact which the assured ought to disclose, the broker is also expected to disclose every material fact that is known
- a broker is deemed to know every circumstance which in the ordinary course of their business ought to be known by the broker
- failure in these respects entitles the underwriter to avoid the policy
- if the policy is avoided by the underwriter and negligence is established by the client, the broker may be liable for damages for breach of contract.

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

- 9(a) Why are “general average” and “salvage charges” as well as “both to blame collision” clauses not provided for in the Institute Cargo Clauses (Air) (excluding sendings by post)?
- (b) What is the maximum period of cover, after unloading the goods from the aircraft at the named destination or after arrival at the place where the contract of carriage is terminated?

Solution

- (a) “General average” and “salvage charges” as well as “both to blame collision” clauses are not provided for in the Institute Cargo Clauses (Air) (excluding sendings by post) because the Institute Cargo Clauses (Air) excluding sending by post 1/1/82 was constructed for a different form of transport, which is air transport, as against sea transport. (5 marks)
- (b) The maximum period of cover, after unloading the goods from the aircraft at the named destination or after arrival at the place where the contract of carriage is terminated is 30 (thirty) days owing to the quick nature of air transportation and its ancilliary services. (5 marks)
- 10(a) Where are Lloyd’s marine policies signed? (2 marks)
- (b) What jurisdiction are Lloyd’s marine polices subject to? (2 marks)
- (c) What is the designation of the official that signs Lloyd’s marine policies? (2 marks)
- (d) Name any two (2) items that are contained in the schedule of a Lloyd’s marine policy. (4 marks)

Solution

- (a) Lloyd’s marine policies are signed in Lloyd’s Policy Signing Office. (2 marks)
- (b) The jurisdiction that Lloyd’s marine polices are subject to is exclusive jurisdiction of the English Courts. (2 marks)
- (c) The designation of the official that signs Lloyd’s marine policies is the General Manager of Lloyd’s Policy Signing Office. (2 marks)
- (d) The following are the items that are contained in the schedule of a Lloyd’s marine policy:
- * policy number
 - * name of assured
 - *vessel
 - * voyage or period of insurance
 - * subject matter insured
 - * agreed value (if any)
 - * amount insured hereunder
 - * premium
 - * clauses, endorsements, special conditions and warranties.
- (2 marks for each correctly stated item. Maximum of 2 to be graded. Sub-Total: 4 marks)
(Grand Total: 10 marks)

11. Under the Marine Insurance Act 1906 when and how is a marine policy assignable?

Solution

Under the Marine Insurance Act 1906, a marine policy is assignable at all effective time unless it contains terms expressly prohibiting assignment, either before or after the loss (2 marks)

The following is the how it can be assigned:

- may be assigned by endorsement thereon or in other customary manner
- where the broker who effected the policy had signed their name and the agent of the first seller had signed his name, that endorsement in blank had assigned all claims on the policy to the holder of the policy
- it is not customary to assign the policy by mere delivery
- the Institute Hull Clauses contain special provisions concerning assignment of interest in the policy or in any monies which are payable thereunder.

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

(Grand Total: 10 marks)

12(a) What is the importance of subrogation in aviation hull and liability insurance? (4 marks)

(b) How does the principle of contribution apply to Aviation Insurance? (6 marks)

Solution

(a) The importance of subrogation in aviation hull and liability insurance is that after indemnifying the insured, the doctrine of subrogation entitles the insurer to take over any legal right the insured has against any third party. Subrogation also has assumed great significance in aviation insurance because of the large amounts of money involved on both hull and liability insurances.

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

(b) The principle of contribution apply to Aviation Insurance as follows:

- at common law, an insured with more than one insurer may claim in full against any one of the insurers
- policy conditions however seek to contribute pro-rata to the loss or possibly not to contribute if there is in existence a policy more specifically covering the insured object or peril
- it is rare in aviation insurance these days for an insured to be doubly/multiply insured.

(2 marks for each complete and correctly stated point. Sub-Total: 6 marks)

(Grand Total: 10 marks)

13. Why is satellite insurance usually written on the basis of total loss coverage?

Solution

Satellite insurance is usually written on the basis of total loss coverage because:

- many of the parts of the satellite are “single point failures”
- the loss of one part may compromise the entire or major parts of the operation
- almost all launch vehicle failures result in total loss
- once in orbit, the repair of a satellite is not feasible
- if 50% or more of the operational capability or orbital lifetime is lost, the coverage will respond on total loss basis.

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

14(a) Who has exclusive sovereignty over airspace in the following instances:

- (i) over a nation (ii) over the high seas and (iii) over the outer space. (6 marks)

(b) When and between two cities did the first regular service of international air transport take place? (4 marks)

Solution

(a) (i) **over a nation:** the Nation concerned has exclusive sovereignty over the airspace above it (2 marks)

(ii) over the high seas: no Nation has exclusive sovereignty over the high seas as it is free (2 marks)

(iii) over the outer space: the outer space is regarded as “Province of Mankind” so no Nation has exclusive sovereignty over it. (2 marks)

(Sub-Total: 6 marks)

(b) The first regular service of international air transport took place on March 22nd 1919 (2 marks), between Paris (1 mark) and Brussels (1 mark).

(Sub-Total: 4 marks)

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15(a) Describe briefly the three (3) important elements of a “bill of lading”. (15 marks)

(b) (i) What type of licence must an airline company obtain to be able to undertake public transport by air? (5 marks)

(ii) What two (2) important requirements must the airline fulfil before being granted the licence? (10 marks)

Solution

(a) The three important elements of a “bill of lading” are:

- **a receipt for goods:** Carriage of Goods by Sea Act 1992 states that a bill of lading shall be a conclusive evidence for shipment of the goods or their receipt for shipment.
- **a written evidence of the terms of the contract of carriage:** although no document is legally necessary in contract of affreightment between the carrier and shipper. In practice, the terms agreed are invariably expressed in writing in the bill of lading.
- **a document of title:** the shipowner is obliged to deliver the goods to the holder of the first bill of lading presented to them provided they have no knowledge or notice of anything making it wrong to do so.

(3 marks for stating the importance. 2 marks for correct explanation. Sub-Total per importance: 5 marks. Grand Sub-Total: 15 marks)

(b) (i) The type of licence that an airline company must obtain to be able to undertake public transport by air is the Air Operator’s Licence simply called the Operating Licence. (5 marks)

(ii) The two (2) important requirements that the airline must fulfil before being granted the licence are that:

- the applicant must provide evidence of adequate insurance to cover death or injury to passengers in an accident; and also insurance against third party damages
- except those operating aircrafts with fewer than 20 seats, the applicant must demonstrate that they have enough funding to have a reasonable chance of avoiding failure in their early days.

(5 marks for each correct and completely stated requirement. Sub-Total: 10 marks)
(Grand Total: 30 marks)

16. State briefly the information required by each of the following items usually contained in a marine insurance broker’s slip:

- | | |
|---------------|--------------------------|
| (a) Type | (b) Form |
| (c) Assured | (d) Period |
| (e) Interest | (f) Sum Insured or value |
| (g) Situation | (h) Conditions |
| (i) Premium | (j) Brokerage |

Solution

(a) **Type:** whether total loss, partial loss, all risk, e.t.c. (3 marks)

(b) **Form:** the policy form to be used with appropriate Institute Clauses (3 marks)

(c) **Assured:** name, address and business or occupation (3 marks)

- (d) **Period:** the term of insurance (3 marks)
- (e) **Interest:** subject-matter e.g. hull, cargo or freight (3 marks)
- (f) **Sum Insured or value:** the value of the subject-matter (3 marks)
- (g) **Situation:** the trading area of the vessel or the voyage to be made
- (h) **Conditions:** Institute Clauses e.g. Institute Cargo Clauses (A) (1/1/82),
Institute War Clauses (Cargo) 1/1/82, Warranties, e.t.c. (3 marks)
- (i) **Premium:** usually designated "rates" : rates percent of the sum(s) insured
or value to be charged. Sometimes, the Broker will insert a rate they hope the
leading underwriter will accept. (3 marks)
- (j) **Brokerage:** usually expressed as a percentage of total gross premium by
brokers. (3 marks)

(Grand Total: 30 marks)

- 17(a) What is freight and how is it insured?
- (b) What are "PPI policies"? what type of insurances are they used for and
how are claims settled under such policies?

Solution

- (a) Freight means the remuneration payable to a shipowner

- for the carriage of goods
- for the hire of their ship or cargo space in it

It includes the profit derivable from the carriage of their own goods as well as
those of other persons.

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

It is the usual practice for ship-owners to insure their freight by:

- a twelve-month policy
- the amount being insured is roughly the equivalent of the goods
amount of freight at risk on any voyage

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

(Grand Sub-Total: 15 marks)

- (b) "PPI policies", known as Policy Proof of Interest" Policies are policies which
forgo proof of interest and are such void. Yet, they are commonly used
because commercial interests prefer a policy which does not require the
need to rove to a court that they have insurable interest in order to recover.

(5 marks)

The type of insurances that they are used for are insurance policies for
shipowners "disbursements", "increased value" and sundry insurances.

(5 marks)

The claims, once admitted by the insurers are settled by making immediate
payment – if required.

(5 marks)

(Grand Sub-Total: 15 marks) (Grand Total: 30 marks)

- 18(a) When and why is “notice of abandonment” given, and when is it necessary? (15 marks)
- (b) State the measure of indemnity in the following cases of partial loss of a ship, subject to any express provision in the policy:
- (i) where the damaged ship has been fully repaired (5 marks)
 - (ii) where the damaged ship has only been partially repaired (5 marks)
 - (iii) where the damaged ship has not been repaired and has not been sold in her damaged state during the risk. (5 marks)

Solution

- (a) **When given:** It is given when the assured wants to claim for CTL. It may be given in writing or by word of mouth or partly in writing and partly by word of mouth and may be given in any terms which indicate the intention of the assured to abandon his insured interest in the subject matter insured unconditionally to the insurer. (5 marks)

Why it is given: Notice of abandonment, as a precondition of Constructive Total Loss (CTL). (5 marks)

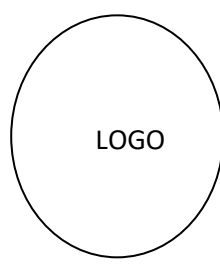
When is it necessary: it is not necessary but rather it is unnecessary where at the time when the assured receives information of the loss, there would be no possibility of benefit to the insurer if notice were not given to him OR where notice is waived by the insurer OR where an insurer has re-insured his risk. (5 marks)

(Grand Sub-Total: 15 marks)

- (b) (i) **where the damaged ship has been fully repaired:** reasonable cost of repairs, less customary deductions, but not exceeding the sum insured in respect of any one casualty. (5 marks)
- (ii) **where the damaged ship has only been partially repaired:** reasonable cost of repairs as indicated in (i) above and reasonable depreciation, if any, arising from the unrepaired damage, provided that the aggregate amount shall not exceed the cost of repairing the whole damage, computed as in (i) above. (5 marks)
- (iii) **where the damaged ship has not been repaired and has not been sold in her damaged state during the risk:** indemnity for reasonable depreciation arising from the unrepaired damage, but not exceeding the reasonable cost of repairing such damage as computed in (i) and (ii) above. (5 marks)

(Grand Sub-Total: 15 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D17
OPERATIONAL MANAGEMENT

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D17 - OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate: 73%

Highest Score: 85%

Lowest Score: 37%

Average Score: 58%

Breakdown Updates**Question 1**

64% pass rate. Fair attempt.

Question 2

Question is friendly to candidates. 91% pass rate.

Question 3

Fair attempt. Candidates were more residual in attempt than technical approach.

Question 4

Good attempt but average performance.

Question 5

Very poor attempt.

Question 6

Zero failure rate. Very good attempt.

Question 7

Fair attempt. Question is very friendly.

Question 8

82% pass rate. Good attempt.

Question 9

Average performance overall.

Question 10

37% pass rate. Question is simple but technical those who passed it score averagely.

Question 11

About 50% pass rate.

Question 12

About 45% pass rate. Question simple enough for hardworking candidates.

Question 13

Fair attempt.

Question 14

Just fair attempt.

Question 15

Good attempt. 82% pass rate.

Question 16

Fair attempt.

Question 17

The 'B' part of the question was largely answered. More studious candidates got it right. Generally, it was a fair attempt.

Question 18

Candidate are familiar with question. Stating the answers in sequence was some challenge. Generally fair attempt.

Chief Examiner's Comments on Overall Performance:

Good attempt by all candidates. Overall of 73% pass rate is good enough.

Chief Examiner's Suggestions on Improvement:

Good efforts but candidates need to be more hardworking. Questions are fair enough, even for busy candidates.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. 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.

Solution

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. Total: 10 marks)

2. Give five (5) examples of "self-generated" time stealers.

Solution

Some examples of "self-generated" time stealers are:

- disorganization - messy desk
- procrastination - putting things off till later
- inability to say NO to interruptions
- poor delegation
- failure to prioritise
- perfection

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

3. State five (5) steps for a typical brainstorming session.

Solution

Five (5) steps for a typical brainstorming session are:

- assemble the group
- appoint a session leader

- explain the focus of the session
 - set a time limit for the session
 - select a recording method
 - individuals to make as many suggestions as possible in the set time
 - no criticisms, evaluation or lengthy explanations are allowed.
- (2 marks to each correctly stated example. Maximum of 5 to be graded. Total: 10 marks)

4. Define “motivation factors” and “hygiene factors” of Herzberg.

Solution

“Motivation Factors” are those factors which make people work better or harder e.g. recognition. (5 marks)

“Hygiene Factors” are those factors which are a negative influence if they are not right, but do not really have any positive effect if they are more than adequate e.g. “company policy of administration”. (5 marks)

(Grand Total: 10 marks)

5. “Leadership is being visible when things go wrong, and invisible when they are working well”. This is “facilitative” style of leadership. Mention four (4) principal roles of the facilitator.

Solution

The four (4) principal roles of the facilitator are:

- teacher – shows how things are done
- guide – provides wise counsel and advice
- coach – provides direct instruction
- leader – leads by exemplifying the values of the organisation and team

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

6. Mention five (5) roles of the “sponsor” in project management.

Solution

The roles of the “sponsor” in project management are:

- has overall responsibility for the project
- appoints project manager
- helps to define goals, objectives and success criteria
- provides support for project team
- authorizes, obtains resources and expenditure for the project
- re-presents the project to senior management
- judges the overall success of the project.

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

7. Key Performance Indicators (KPIs) can be results-oriented or efforts-oriented. Give two (2) examples each of results and efforts oriented KPIs.

Solution

Examples of:

- **Result Oriented KPIs:**

- * Sales Volume and/or Revenues
- * Rates return in investment

- * Market Share
- * Asset Growth

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

- **Efforts Oriented KPIs:**

- * number of potential customers contacted

- * number of complaints handled

- * extent of relationships with customers

- * efforts applied to improve staff relations

- * active pursuing of debtors

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

(Grand Total: 10 marks)

8. There are five (5) styles to conflict management. List them.

Solution

The five (5) styles to conflict management are:

- * Accommodation

- * Power

- * Avoidance

- * Negotiation

- * Integration.

(2 marks to each correctly stated style. Total: 10 marks)

9. Many organisations are moving away from the permanent (8-5) type of contracts as this do not provide them with the flexibility they need. Enumerate two (2) key reasons for this.

Solution

The key reasons for this are:

- companies need specialized skills for particular periods (5 marks)

- consumers are now demanding service outside traditional working windows: evenings and even weekends. (5 marks)

(Grand Total: 10 marks)

10. Person specification identifies the attributes of the person to be looked for at an interview. Enumerate five (5) attributes in this regard.

Solution

These five attributes to look for are:

- * physical makeup

- * education and business attainments

- * general intelligence

- * special aptitudes

- * interests

- * disposition

- * circumstances e.g. flexibility to work overtime.

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

11. When an agent joins a call centre, the agent will need at least four (4) skills to start on phones. List these four (4) skills.

Solution

These four skills are:

- * customer service/sales handling
 - * call handling
 - * product knowledge
 - * system knowledge
- (2½ marks to each correctly stated skill. Total: 10 marks)

12. State two (2) differences between counselling and coaching.

Solution

S/No	Counselling	Coaching
1	Focusses on problem solving	Goes beyond problem solving to establish opportunities for development
2	Looks at the past	Looks to the future

(2½ marks to each correctly stated difference. Total: 10 marks)

13. Enumerate five (5) topics that you will discuss with new recruits under a classroom induction programme.

Solution

Topics that will be discussed with new recruits under a classroom induction Programme are:

- company history and culture
- company personnel policy, career opportunities, staff representation
- company’s business, its market and distribution
- customer focus and communication skills
- product knowledge
- relevant financial services training and competency
- processes and procedures.

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

14. Despite the benefits of training, some people do not wish to learn. State four (4) reasons people are discouraged from learning.

Solution

Reasons why people are discouraged from learning are:

- when staff are employed for a short period of time
- people who have reached the limit of their own level of ability
- lack of confidence and the fear that extra skills will bring additional responsibilities
- those who have no wish to progress because they feel sufficiently fulfilled by their present work

- some feel they know it already
 - social, family, domestic pressures from outside the work environment
 - those who have been discouraged by inadequate original training.
- (2½ marks to each correctly stated reason. Maximum of 4 to be graded. Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. There are differences between “general attributes of a project” and “attributes of a successful project”.
- State five (5) general attributes of a project
 - State five (5) attributes of a successful project
 - Mention five (5) duties of a project manager

Solution

- The general attributes of a project are that:
 - the stated objectives and deliverables are achieved
 - the project is delivered on time
 - the project is within budget
 - the project is performed to an agreed specification
 - the project meets pre-defined success criteria
 - the project satisfies the sponsor and beneficiaries.

(2 marks to each correctly stated attribute. Maximum of 5 to be graded. Total: 10 marks)
- Attributes of a successful project are:
 - stated objectives are achieved
 - stated deliverables are met
 - project is delivered on time
 - project is delivered within budget
 - project is performed to an agreed specification

(2 marks to each correctly stated attribute. Maximum of 5 to be graded. Total: 10 marks)
- Duties of a project manager are:
 - establishes the project organisation, gains commitments from interested parties
 - responsible for all team management, reporting and documentation
 - prepares and gains agreement to project plans
 - ensures tasks are completed on time and that they are of required quality
 - identifies and ensures resolution of potential risks and issues
 - reports progress to the sponsor.

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

(Grand Total: 30 marks)

16(a) Ability to spot some symptoms of unresolved conflicts in groups help in conflict resolution. Identify ten (10) symptoms of unresolved conflict. (20 marks)

(b) Mention four (4) common differences between parties in conflicts. (10 marks)

Solution

(a) Symptoms of unresolved conflict are:

- ideas are attacked before they are completed
- comments are made with vehemence
- members belittle one another's ideas or the ability of the group
- members accuse one another of not understanding
- members distort one another's ideas
- members are impatient with one another
- members stick to their own points of view rather than finding common goals
- members take sides
- suggestions do not build on previous suggestions
- there is little movement towards solution of problems
- win-lose pressures and attitudes occur
- members attribute negative motives to others.

(2 marks to each correctly stated symptom. Maximum of 10 to be graded. Total: 20 marks)

(b) Common differences between parties in conflicts are differences in:

- * ideas * background * understanding * purpose/aim
- * costs * position

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

(Grand Total: 30 marks)

17(a) Identify the 5Cs of decision making and state three (3) action points under each C. (25 marks)

(b) State one (1) major difference between this approach to decision making and other approaches. (5 marks)

Solution

(a) The 5Cs of decision making and action points under each C are:

- **Consider:**
 - clarify the problem. Check for cause and effect and make sure it is your decision to take
 - clarify ultimate objective time and other constraints
 - ask yourself and others what information you need
- **Consult:**
 - make maximum of information available

- call a meeting of those involved or their representatives
- decide at which stage the consultation will stop. Make clear right of appeal
- **Crunch:**
 - gather all the options
 - take the decision
 - write down implementation plan
- **Communicate:**
 - brief what will happen, why and whom the decision affects
 - back up briefing with written confirmation of the decision
 - make sure everyone understands when the decision will be implemented
- **Check:**
 - check that briefing is carried out
 - run spot checks to monitor effectiveness
 - review decision and take any necessary corrective action.

(2 marks for each correctly stated C; 1 mark for each complete and correctly stated action point.

Sub-Total per C: 5 marks. Grand Sub-Total: 25 marks)

- (b) This process of decision making is frequently more complex than as simply stated above and the major difference between this approach to decision making and other approaches is that it concentrates on the action that the decision taker (or manager) must take along with the involvement of the concerned people (or staff members) in the decision making process.

(5 marks)

18(a) State in sequence, the ten (10) stages of a typical recruitment process.

(20 marks)

(b) State two (2) action points under the first five (5) stages.

(10 marks)

Solution

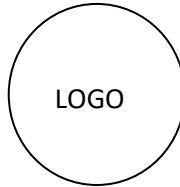
(a) The ten (10) stages of a typical recruitment process are:

- i) determine the business needs
- ii) decide job descriptions, competencies, person specification
- iii) decide recruitment sources
- iv) pre-screening
- v) assessment of application forms and CVs
- vi) decide interview approach and structure
- vii) conduct interview and selection process
- viii) take selection decision
- ix) offer job
- x) evaluation

(2 marks for each correctly stated stage. IT MUST BE SEQUENTIALLY ARRANGED. Total: 20 marks)

- (b) State two (2) action points under the first five (5) stages. (10 marks)
- i) **determine the business needs:**
 - job analysis
 - base on projected staffing requirements
 - ii) **decide job descriptions, competencies, person specification:**
 - identify skills required
 - identify competencies required
 - prepare job description and person specification
 - iii) **decide recruitment sources:**
 - medium must be flexible and responsive
 - advert must be based on job description and person specification
 - iv) **pre-screening:**
 - use of telephone interview screening
 - use of agencies, when appropriate
 - pre-screen against person specification
 - v) **assessment of application forms and CVs:**
 - decide assessment process
 - process must be competency based.

(1 mark for each correctly stated action point. Maximum of 2 under each stage, Sub-Total: 10 marks)
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

YEAR 2020 FIRST DIET 2020 EXAMINATION PAPER

SUBJECT D18
PROPERTY CLAIMS HANDLING

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

D18 - PROPERTY CLAIMS HANDLING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate:	29%
Highest Score:	74%
Lowest Score:	6%
Average Score:	39.68%

Breakdown Updates

Question 1

As simple as the question is, it is evident that the candidates' knowledge of this aspect of Insurance Act is very shallow. Candidates should acquaint themselves more with existing laws and regulations.

Question 2

Very interesting question. The candidates got it wrong, and wrote requirements for claims processing. Just about 25% performed well here.

Question 3

Candidates fairly attempted the question. The few that showed the understanding of the question scored high marks.

Question 4

This is a very standard question which was attempted by all the candidates, with an average performance by all.

Question 5

Most of the candidates were able to answer the (a) part very well but the (b) and (c) were kind of difficult for them to comprehend.

Question 6

Candidates failed to demonstrate understanding of principal sections of a property Insurance policy, hence performance was average in the (a) part; while in the (b) part, there was the same lack of understanding. Overall performance was slightly below average.

Question 7

This question is very straightforward. It is painful that most candidates could not even write one way by which insurable interest arises. Majority of them could not state correctly the formula for calculating average.

Question 8

This question was largely misunderstood by candidates. Many of the candidates concentrated on definition rather than providing underwriting factors, which was what was asked for. This account for loss of marks. Overall performance was woeful.

Question 9

Only few candidates demonstrated proper understanding that the reinstatement average is 85% of the value of the rule on completion of Reinstatement. A few who knew did not show workings to arrive at the figure

Question 10

60% of the candidates answered the questions very well and passed it.

Question 11

A large percentage of the candidates, also performed very well on the question and were able to do justice to the question except for the (c) part which many could not express well.

Question 12

Very standard question. Majority of the candidates performed averagely well.

Question 13

Very few candidates showed deep understanding for the part (b) of the question which is a great pitfall to them. In all, the question was averagely attempted.

Question 14

Most of the candidates performed excellently and this is commendable.

Question 15

Majority of the candidates did not attempt this question. Many who attempted it seem not to have an understanding of the question and therefore only few of them scored above average.

Question 16

Candidates who attempted the question failed to demonstrate the step to step approach of working out details. Valuable marks were lost as a result of this. Overall performance was just average.

Question 17

Most of the candidates who attempted it understand the questions and passed it but several did not attempt it possibly they had alternatives.

Question 18

A few of the candidates were able to name specifically four succinct examples of how tort in liability may arise. Most were beating around the bush as they were not sure of how liability may arise.

Chief Examiner's Comments on Overall Performance:

Probably the candidates took for granted the need for adequate preparation for the course as the pass rate was dismally below average (12% of those who sat for the examination).

Chief Examiner's Suggestions on Improvement:

Candidates should as a matter of practice, prepare adequately for any examination as the questions were from the coursebook except for the regulatory question, which they were also informed to read up on.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. State five (5) classes of insurances that Section 72 (2) of the Insurance Act 2003 made classified as "domestic insurance".

Solution

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

- (a) fire insurance and reinsurance business ;
- (b) motor insurance and reinsurance business ;
- (c) liability insurance and reinsurance ;
- (d) life insurance and reinsurance business ;
- (e) accident insurance and reinsurance business; and
- (f) such other insurance and reinsurance business as the Commission may from time to time prescribe.

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

- 2(a) An insured informed your organisation through a letter that an unidentified aircraft flew past his property on 31st January 2020. He alleged that the aircraft dropped "something" / "an object" from the sky which damaged his property. He said that the impact left a damage estimated at ₦3,000,000.00 to his property. The letter was on intent to make a claim under his impact peril policy. You are required to:
 - (i) state whether or not the insured has a valid claim **(2 marks)**
 - (ii) state the requirements needed to succeed in making a claim under an impact peril policy. **(4 marks)**
- (b) As a claim handler, state the requirements in Data Protection Act (1998) that you must be aware of as it relates to this claim. **(4 marks)**

Solution

- (a)
 - (i) The claim is NOT valid. **(2 marks)**
 - (ii) The requirement needed to succeed in making a claim under an impact peril policy is that there must be a physical collision between the aircraft (or part of it) and the property for the claim to stand. **(4 marks)**
- (b) As a claim handler, the requirements in Data Protection Act (1998) that you must be aware of as it relates to this claim is that there must be physical collision between the aircraft or a part of it and the property for the claim on impact perils is to succeed. **(4 marks)**

(Grand Total: 10 marks)

3. In a typical property insurance policy, the insured is expected to perform certain duties under the claims condition. Enumerate any five (5) of these duties/requirements stated in the claims conditions.

Solution

The duties/requirements stated in the claims conditions in a typical property insurance policy that the insured is expected to perform are to:

- notify the insurer of the damage
- deliver full details of the claim at his/her own expense
- submit the details within 30 days of the occurrence of the event
- deliver proof and carefully worded information relating to the claim
- deliver details of the claim within 7 days in the case of damage caused by riot
- take reasonable action to prevent further damage and, in addition, prevent hindering the insurer if they wish to take any action (i.e. the policyholder common law duty).

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

- 4(a) The property insurance market is a huge one consisting of many players. List five (5) components that make up the market.
- (b) List any two (2) of the three (3) principal players in the distribution end (often called intermediaries) of the property insurance market.

Solution

- (a) The five component players that make up the property insurance market are:

- | | | |
|-----------------|----------------------------------|------------|
| * policyholders | * intermediaries | * insurers |
| * reinsurers | * third party administrators | |
| * assessors | * trade and market associations. | |

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

- (b) The three (3) principal players in the distribution end (often called intermediaries) of the property insurance market are:

- | | |
|------------------------------------------|-------------------|
| * insurance brokers | * lloyd's brokers |
| * independent intermediaries/consultants | |

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

(Grand Total: 10 marks)

- 5(a) Describe the contra proferentum rule as it affects insurance contracts. (2 marks)
- (b) To adequately protect high value stocks or vulnerable items, insurers demand among other things, installation of good alarm system by the

policyholder. List three (3) main elements of the alarm systems insurers always ask for. (3 marks)

- (c) For all risk policies, the onus of proving the operation of exclusions rest on the insurers. What are the six (6) groups of exclusions found in a typical all risk policy? (5 marks)

Solution

(a) The contra proferentum rule as it affects insurance contracts states that when a policy wording is ambiguous, the ambiguity will be construed against the party that drew it up, i.e. the insurer. (2 marks)

- (b) The three main elements of the alarm systems insurers always ask for are:
* protection circuit * control circuit
* warning or signaling circuit
(1 mark for each correctly stated element. Maximum of 3 to be graded. Sub-Total: 3 marks)

- (c) The six (6) groups of exclusions found in a typical all risk policy are:
* exclusion of events * exclusion of property
* standard work exclusion * standard radiation exclusion
* consequential loss * norther Ireland overriding exclusion
(1 mark for each correctly stated group. Maximum of 5 to be graded. Sub-Total: 5 marks)
(Grand Total: 10 marks)

6(a) List six (6) principal features/sections of a property insurance policy. (6 marks)

- (b) Mention the four (4) express conditions that are found in property insurance policies. (4 marks)

Solution

(a) The six (6) principal features/sections of a property insurance policy are:
* operative clause * definition * exclusions
* warranties * schedules * conditions
(1 mark for each correctly stated feature. Sub-Total: 6 marks)

(b) Thee four (4) expressed conditions that are found in property insurance policies are:

- conditions precedent to the contract
- conditions subsequent to the contract
- conditions precedent to liability of the insurer
- conditions subsequent to the liability of the insurer.

(1 mark for each correctly stated condition. Sub-Total: 4 marks).
(Grand Total: 10 marks)

7(a) Identify four (4) ways by which insurable interest may arise in property insurance policies. (4 marks)

(b) State the formula for calculating:

(i) pro-rata average (ii) reinstatement average

(iii) day one average. (6 marks)

Solution

(a) Four (4) ways by which insurable interest may arise in property insurance policies are:

* ownership * in mortgage – mortgagee/mortgagor * tenants

* under statutes * purchasers * bailors

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

(b) The formula for calculating:

(i) pro-rata average = $\frac{\text{sum insured} * \text{agreed loss}}{\text{value at risk}}$ (2 marks)

(ii) reinstatement average = $\frac{\text{sum insured at date of loss}}{\text{value at risk at date of reinstatement}} * \text{agreed loss}$ (2 marks)

(iii) day one average = $\frac{\text{day one declared value}}{\text{day one value at risk}} * \text{agreed loss}$ (2 marks)

(Sub-Total: 6 marks)

(Grand Total: 10 marks)

8. In perils policy, the policyholder must show the operation of an insured peril and the insurer must demonstrate the operation of any exclusion on which it seeks to rely. As the estate property claim handler, describe what you are to look out for in the following peril policies:

(a) explosion (b) storm

(c) earthquake (d) Impact

(e) subsidence.

Solution

As the estate property claim handler, the things to look out for in the following peril policies are:

(a) **explosion:**

- the extent of explosion cover
- confirmation of the type of explosion cover (whether it is limited or full)
- definition of explosion covered by the policy

(b) **storm:**

- exclusions to the covered peril e.g. loss or damage to gates/hedges/fences

- damage arising from alteration or extension under construction
 - definition of the covered storm by the policy
- (c) **earthquake:**
- stated standard exclusions
 - damage caused by the earthquake itself
 - definition of earthquake in the policy
- (d) **Impact:**
- impact damage by any vehicle/train/animal
 - excluded damages caused by insects, birds or domestic pets
 - excluded damage caused by load or a vehicle rolling over
 - excluded damage caused by load falling from a vehicle
- (e) **Subsidence:**
- excluded damage caused by coastal erosion
 - damage arising from inadequate foundation
 - excludes demolition construction, alteration or repairs to the structure
 - damage to or resulting from the movement of solid floor slabs
 - note the definition of “sinking movement in a vertical direction” by the policy
- (2 marks for any correctly stated item to look out for under each term. Total: 10 marks)

9. You are required to adjust the following and justify why average should or should not be applied in the adjustment below:

Sum Insured:	N230,000.00
Value of Risk:	N210,000.00
Value of Risk on Completion of Reinstatement:	N240,000.00
Agreed Loss:	N 10,000.00

Solution

Reinstatement Average = 85% of N240,000.00	(2 marks)
= N204,000.00	(2 marks)

From the above, since the 85% of value at risk on completion of reinstatement is less than the sum insured, average will NOT apply. (4 marks)

Therefore, the entire claim of N10,000.00 will be paid in full to the insured. (2 marks)

(Grand Total: 10 marks)

10(a) State two (2) penalties for under-insurance in domestic insurance policies. (4 marks)

- (b) What is the relevance of Arbitration Clause in the property insurance policy? (2 marks)
- (c) What is "nuisance" and how can it be said to have occurred? (4 marks)

Solution

- (a) The two (2) penalties for under-insurance in domestic insurance policies are:
- application of pro-rata average either as a specific policy condition or as an option to be exercised by insurers at their discretion
 - reduction on the basis of payment from reinstatement to indemnity – at insurer's discretion
 - settlement on the basis of second-hand value
- (2 marks for each correctly stated penalty. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) The relevance of Arbitration Clause in the property insurance policy is to protect the insurer where there is any doubt over the value of the claim arising from the policyholder going ahead with work before insurers have been able to inspect the damage. (2 marks)
- (c) "Nuisance" is an unlawful interference with a person's use of or enjoyment of land or some rights over or in connection with the land. (2 marks)
- It can be said to have occurred if there is a continuity or a recurrent state of affairs, not an isolated case/incident, that interferes with a person's enjoyment of land. (2 marks)

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

- 11(a) What is the position of subrogation at common law. (3 marks)
- (b) How does the policy condition modify the common position? (3 marks)
- (c) List four (4) conditions that must be met for contribution to apply at common law? (4 marks)

Solution

- (a) The position of subrogation at common law is that insurers can only exercise subrogation rights after indemnifying the policyholder. (3 marks)
- (b) The policy condition modifies the common position by stating that subrogation rights accrue to insurers once the insurer has accepted liability/confirmed liability i.e. before the actual indemnification of the policyholder. (3 marks)
- (c) The four (4) conditions that must be met for contribution to apply at common law are:

- there must be two or more indemnity policies in existence as at the date of loss and must be liable for the loss
 - the policies must cover a common insurable interest
 - the policies must cover a common peril that led to the loss
 - the policies must cover a common subject-matter of insurance
- (1 mark for each correctly stated condition. Sub-Total: 4 marks)
(Grand Total: 10 marks)

12(a) Define proximate cause as stated in the case of *Pawsey v. Scottish Union and National Insurance Company (1908)*.

(b) State two (2) ways by which liability can arise under contract.

Solution

(a) Proximate cause as stated in the case of *Pawsey v. Scottish Union and National Insurance Company (1908)* is the active and efficient cause that sets in motion a train of events which brings about a result without the intervention of any force started and working actively from a new and independent source. (5 marks)

(b) Two (2) ways by which liability can arise under contract are:

- a lease may create liability on the landlord to maintain the premises. The lease may specify remedy for the breach
- goods-in-transit may be subject to contractual obligations identifying the responsibility of the bailee.

(2½ marks for each correctly stated way. Sub-Total: 5 marks)
(Grand Total: 10 marks)

13(a) What is tort? (2 marks)

(b) Illustrate four (4) scenarios by which tort can arise? (8 marks)

Solution

(a) Tort is a civil wrong. (2 marks)

(b) The scenarios whereby tort can arise are:

- liability arising from a breach of duty required by law
- from nuisance
- fire as a result of negligent act of a contractor
- water damage following inadequate or incorrect plumbing
- impact by road vehicle arising from negligence of the driver
- subsidence from nuisance or the negligent removal of support following construction of adjacent building

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

(Grand Total: 10 marks)

- 14(a) What is negligence? (4 marks)
(b) State requirements needed to succeed in a claim of negligence. (6 marks)

Solution

- (a) Negligence is the omission to do something which ordinarily regulate the conduct of human affairs which a prudent and reasonable man would do or doing something which a prudent and reasonable mane would not do. (4 marks)
(b) The requirements needed to succeed in a claim of negligence are:
- there must exist a duty of care
 - there must be a breach of that duty of care
 - the breach must have led to the claim suffered by the claimant.

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

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. List and explain any five (5) methods of how goods that are no longer regarded as acceptable to the policyholder can be disposed or reclaimed under salvage.

Solution

The methods of how goods that are no longer regarded as acceptable to the policyholder can be disposed or reclaimed under salvage are:

- **cleaning:** chemical deodorization to remove the smell of smoke and professional cleaning may restore the goods to a condition it was prior to the loss. Prompt action has to be taken in order to achieve this act in realising a good salvage.
- **trimming:** goods sold by the piece in standard sizes could be trimmed to the next size(s) in order to preserve their salvage value.
- **refinishing:** this is of importance to textiles/bale clothes which has been wet. They can be refinished provided they are returned to the mill before being completely dried out. This is to enhance its salvage realisation.
- **damage allowance:** skilled negotiation is required here. Many policyholders will be reluctant, especially if the sale of the damaged goods may be thought likely to damage their brand reputation in the eyes of the public.
- **repacking:** sometimes, stock is so well packed that whilst its packing is damaged, the products itself may be undamaged. If this is so, the stock can be repacked and sold off in the usual way, care should however be taken to

ensure that the repacking and its attendant cost do not exceed the sound value of the stock.

- **sale by public auction:** there is no reason why goods cannot be disposed of through an auction. In this way, the market value can be obtained which may be higher than the offer from salvage dealers.
- **Salvage dealer as agent:** if dealing with particularly unusual items where the value may be difficult to ascertain, instead of asking for a salvage dealer to bid for the goods, there is no reason why the dealer should not be asked to act as agent in return for a negotiated commission.

(3 marks for each correctly stated method. 3 marks for each correctly stated point under each method. Sub-Total per method: 6 marks. Maximum of 5 methods to be graded. Total: 30 marks)

16. Two of your clients have properties in prime locations within the city centre. The city is fluid with urban renewals and a strict conformity to certain standards during building, rebuilding and renovation of properties. The City Authorities issue these guides and guidelines to property owners from time to time and there are costs attached to meeting and maintaining the City Authority's requirements.

Your organisation provides for these costs under the Public Authorities Clause in the property policy. the clients have the clause formed and attached to their policies.

One black Friday, fire broke out in two of the properties causing extensive damage. The clients filed their claims which included the additional costs imposed by the City authorities.

Here are the details:

	Client A (₺)	Client B (₺)
Value to the damage suffered	20,000,000.00	25,000,000.00
Sum Insured as at date of loss	30,000,000.00	45,000,000.00
Value at Risk before Public Authority Requirements	40,000,000.00	50,000.00
Public Authority's Requirements Costs	5,000,000.00	5,000,000.00

As the claim handler, apportion the amount payable to each of the clients for the public authorities' clause.

Solution

Since there is underinsurance in the two cases, public authorities' clause average will apply. (2 marks)

$$\text{Percentage Payable} = \frac{\text{Sum Insured at date of loss}}{\text{Value at risk at date of reinstatement}} * \text{Agreed Loss} \quad (2 \text{ marks})$$

Apportionment	Client A	Client B
Sum Insured at date of loss	30,000,000	45,000,000
Value at risk at date of reinstatement	40,000,000	50,000,000
Value of damage (agreed loss)	20,000,000	25,000,000
	$= \frac{30\text{m} * 20\text{m}}{40\text{m}}$ (2marks each)	$\frac{45\text{m} * 25\text{m}}{50\text{m}}$
	= 15m (2marks each)	= 22.5m
Then percentage	$= \frac{15\text{m}}{20\text{m}} * 100$ (2marks each)	$\frac{22.5\text{m}}{25\text{m}} * 100$
	= 75% (4marks each)	= 90%
Amount Payable	$= \text{N}5\text{m} * 75\%$ (2marks each)	$= \text{N}5\text{m} * 90\%$
	= N3,750,000 (1mark each)	N4,500,000.00

(Grand Total: 30 marks)

17. Explain, with at least five (5) justifications, the reasons why accurate reserving is important to insurers.

Solution

Accurate reserving is important to insurers for the following reasons:

- filing of annual returns since insurers are required to submit annual financial statements that shows estimates of outstanding claims or major cost of claims
- gives insurers opportunity to adjust underwriting philosophy in view of deteriorating claims experience
- premiums could be increased or reduced at renewals after appropriate adjustments had been made as a result of the reserved claims
- for new business, insurers could pull out of a particular class of business or could serve notice of cancellation of the business if situation is dire
- assess the profitability of a particular class of business
- know how to make adjustment in response to experiences in the year of account to reflect the experience of that year
- examine current and past data to forecast future results.

(6 marks for each correct and complete reasons for reserving. Maximum of 5 to be graded. Total: 30 marks)

- 18(a) State the effect of a breach of:
- (i) condition precedent to the contract (5 marks)
 - (ii) condition subsequent to the contract (5 marks)
- (b) What further actions can be taken in respect of (a) above. (10 marks)
- (c) Cite four (4) examples of how a tortious liability may arise. (10 marks)

Solution

- (a) (i) **condition precedent to the contract:** the insurer avoids the policy abiiinitio. (5 marks)
- (ii) **condition subsequent to the contract:** the policy remains in force except in respect of the particular item affected by the breach. (5 marks)

(Grand Sub-Total: 10 marks)

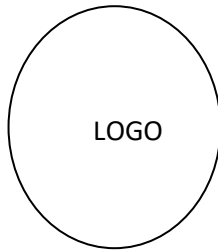
- (b) (i) **condition precedent to the contract:** the claim will not be paid since the insurer can void (or has voided) the policy abiiinitio; and the premium will be returned to the policyholder. (5 marks)
- (ii) **condition subsequent to the contract:** the claim will be paid since the policy is in force and the particular/affected item will be deleted from the policy. (5 marks)

(Grand Sub-Total: 10 marks)

- (c) Four (4) examples of how a tortious liability may arise are:
- fire as a result of the negligent act of a contractor
 - water damage following inadequate or incorrect plumbing or contractor piercing pipes
 - impact by a road vehicle occasioned by negligence from the driver of the vehicle
 - subsidence resulting from nuisance.

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

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

YEAR 2020 FIRST DIET 2019 EXAMINATION PAPER

SUBJECT D19
SUBSIDENCE CLAIMS HANDLING

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

D19 - SUBSIDENCE CLAIMS HANDLING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Summarized Statistics

Pass Rate: 100%
Highest Score: 67%
Lowest Score: 67%
Average Score: 67%

Breakdown Updates

Question 1

Poorly answered by the candidate.

Question 2

Well answered by the candidate.

Question 3

Well answered by the candidate.

Question 4

Fairly well answered by the candidate.

Question 5

Poorly answered by the candidate.

Question 6

The candidate appeared not to know this particular question.

Question 7

Well answered by the candidate.

Question 8

Well answered by the candidate.

Question 9

Well answered by the candidate.

Question 10

The candidate did not know this question.

Question 11

Fairly answered by the candidate.

Question 12

Well answered by the candidate.

Question 13

Well answered by the candidate.

Question 14

The candidate did not know this question.

Question 15

Well answered by the candidate.

Question 16

The question was not chosen by the candidate.

Question 17

Well answered by the candidate.

Question 18

The question was not chosen by the candidate.

Chief Examiner's Comments on Overall Performance:

The performance of the only candidate was encouraging.

Chief Examiner's Suggestions on Improvement:

The course is an interesting one; therefore, candidates are encouraged to show more interest in sitting for it as an elective course.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

- 1(a) In exercise of its statutory powers and regulatory functions, the National Insurance Commission (NAICOM) reviewed in its circular referenced NAICOM/DPR/CIR/25/2019 dated 20th May 2019 (also re-circulated on 30th December 2019) the minimum paid up share capital for insurance and reinsurance companies in Nigeria. State the new minimum paid-up share capital for the following:
- (i) Life Insurance Business (ii) General Insurance Business
(iii) Composite Insurance Business (iv) Reinsurance Business. (8 marks)
- (b) When is the deadline for compliance by both the existing insurance and reinsurance companies and new applicants according to the circular of (i) 20th May 2019 and (ii) 31st December 2019 in (a) above? (2 marks)

Solution

a) The new minimum share capital requirement as announced by NAICOM to all insurance operators in Nigeria are:

- Life Insurance Business: ₦8,000,000,000.00 (2 marks)
- General Insurance Business: ₦10,000,000,000.00 (2 marks)
- Composite Insurance Business: ₦18,000,000,000.00 (2 marks)
- Reinsurance Business: ₦20,000,000,000.00 (2 marks)

b) The required latest timeline for compliance according to the circular of:

- i) 20th May 2019: 30th June 2020 (1 mark)
- ii) 31st December 2019: 31st December 2020 (1 mark)
- (Grand Total: 10 marks)

2. State the two (2) torts that can place a liability for subsidence damage on a third party claim.

Solution

The two torts that can place a liability for subsidence damage on a third party are:

- negligence and
- nuisance

(5 marks for each correctly stated point. Total: 10marks)

- 3(a) Define “a complaint” under “subsidence claims handling process”. (4 marks)

- (b) Regulations brought in under the Insurance Act, in Section 17(1)e lay down strict rules on the record to be maintained by an insurer on claims processing. Mention any three (3) of these record. (6 marks)

Solution

a) A complaint is defined as an expression of dissatisfaction, oral or written, justified or not, for or on behalf of the policyholder. (4 marks)

b) The record to be maintained by an insurer on claims processing are:

- date of the claim
- name of the claimant
- address of claimant
- date of settlement of the claim or date of repudiation of the claim
- grounds for rejection/repudiation
- details of litigation (where applicable)
- decision of the courts in the matter (where there is litigation)

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

4. Notwithstanding the fact that it is important to diagnose damage caused by subsidence, it is equally important to be able to diagnose loses from other causes. Mention any five (5) other causes of crack damage to buildings under subsidence claims handling.

Solution

These are:

- thermal movement
 - lintel failure
 - chemical attack
 - roof spread
 - cavity wall tie failure
 - lack of lateral restraint
 - degradation of the building fabric
- (2 marks for each correctly stated point. Maximum of five to be graded. Total: 10marks)

5. Mention any five (5) legislations that affect the handling of subsidence claims.

Solution

- Defective Premises Act 1972

- Limitation Act 1980
- Latent Damage Act 1986
- Misrepresentation Act 1967
- Public Health Acts
- Highways Act 1959
- Cal Mining Subsidence Act 1991
- Party Wall etc Act 1996
- Town & Country Planning Act 1990
- Construction (design and Management) Regulations 1994
- Health & Safety @ Work Act 1974

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

6. **Complete the blank spaces in the statement below:**

“The purpose of regulation is to protect the policyholder and to set rules, in the context of,,, and

Solution

“The purpose of regulation is to protect the policyholder and to set rules, in the context of claims, covering probity, competence, complaints and succession management.

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

Answer True or False to the following questions (Question 7 - 10).

7. If the lifecycle of a subsidence claim is non-rigidly monitored, kept to the minimum and careful explanation provided to the policyholder throughout the claim, then the expectation of customer retention is retained.
8. The Party Wall etc Act 1996 does not require notice to be served on the adjoining owner advising on the intended work and seeking their assent to such.
9. Movement in the soil from the leeching effects of roots is not conditional upon extreme dry periods but may vary from summer to winter.
10. If a property owner knows that there is a defect to their property and does not take remedial action in consequence of which damage is occasioned to the adjoining property, then a nuisance has arisen which is not actionable.

Solution

7. False
8. False
9. True
10. False

11. The investigation of drains involves at least two separate approaches. State and explain these two (2) approaches and what they should reveal.

Solution

- **The 1st approach involves the placement of a CCTV camera down the drain with a video recording taken.** This will reveal any dislodged joints and cracks plus any tree root intrusion.
- **The 2nd approach is a water volume test,** here the lower manhole is bunged and the drain filled with water. The level of the water is then monitored for any reduction. If a reduction, then this indicates the length of drain under observation is leaking.

(Stating the approaches - 2½ marks each; explaining the approaches - 2½ marks each.

Total: 5marks per point. Grand Total: 10marks)

12. Briefly explain how “landslip covers” differ in scope from “subsidence and heave covers”.

Solution

Landslip cover is generally not restricted, as with regards to the perils of subsidence and heave to the site upon which the building stands. Also, where there is landslip of adjacent or distant land causing damage to the subject building is covered, whereas the subsidence does occur while there is no building present in the land.

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

13. Explain a situation where two-year-old house suffers subsidence damage and after investigation it is found that foundations contain insufficient cement in the concrete. Give reasons why the policy would cover the loss.

Solution

The situation is a case of defective workmanship as regards the two-year-old building. Consequently, the exclusion relating to defective workmanship would

be used to repudiate the claim, Hence, the loss is not covered under subsidence policy.

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

14. Mention the major reason why it is necessary to introduce regulation to the general insurance industry for the protection of the customer?

Solution

The major reasons why it is necessary to introduce regulation to general insurance industry is to:

- protect the consumers and their rights;
- prevent misrepresentation
- prevent mis-selling of products to the customers
- it is also extended to claims to prevent delay in claim settlement
- to restore customer confidence in the insurance industry.

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

Part II

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

Each question carries 30 marks.

15(a) Who are the three (3) potential parties for a recovery action in a subsidence claim? (18 marks)

(b) State one (1) reason each for your selection above. (12 marks)

Solution

a) The three potential parties for a recovery action in a subsidence claim are:

- the builder of the property
- the vendor of the affected property
- a surveyor carrying out a pre-purchase survey or a mortgage valuation inspection

(6 marks for each correctly stated potential party. Sub-Total: 18 marks)

b) The reasons for each selection are:

- the builder of the property: if defectively constructed and where such defects caused or contributed to the subsidence
- the vendor of the affected property: if it can be proved that (s)he knew of the problem and failed to notify the purchaser of the defect
- a surveyor carrying out a pre-purchase survey or a mortgage valuation inspection, if (s)he failed to identify subsidence during the pre-survey exercise.

(4 marks for each correctly stated reason. Sub-Total: 12marks)

(Grand Total: 30 marks)

16. Usually, each insurer has different interpretation of regulations and to achieve uniformity of approach, a protocol on what constitute complaint competent claim handling was agreed upon. State the five (5) sections that this uniform approach address and explain any three (3) of the stated sections with short and concise points, except complaints.

Solution

a) The five sections that the uniform approach on what constitute competent claim handling are:

- training and competence
- claims handling
- file management
- complaints and
- surge plans.

(3 marks for each correctly stated section. Sub-Total: 15 marks)

Any of the explanatory points below suffices:

- **Training and Competence:**
 - adjusters must demonstrate their employees are competent at what they do
 - employees' authorities are defined appropriately for the work they do
 - there are adequate controls over allocation of claims
 - employees are appropriately trained and supervised
 - competence is regularly reviewed.
- **Claims Handling:**
 - adjusters must respond promptly to a claim notification
 - adjusters must disclose their role as agent and detail what action will take place and when
 - adjusters must advise whether cover exists under the policy or not
 - adjusters must identify other parties who will contact insured on behalf of insurer
 - adjusters must handle claims fairly and promptly
 - adjusters must give customers reasonable guidance to help them make a claim

- adjusters must keep a customer reasonably informed on progress of claim
- adjusters must explain why a claim is being refused or the settlement is not the amount claimed
- adjusters must settle a claim promptly once settlement has been agreed.
- **File Management**
 - a file must be kept with full claims details
 - the file should detail each communication including the date
 - details must be recorded of the date when the claim was settled and the detail of the settlement
 - files must be kept for a minimum of agreed years
- **Surge Plans:**
 - all adjusters engaged by insurers must have a written contingency plan reviewed annually detailing the extent to which service provision can be escalated
 - in the event of local emergencies, adjusters must keep insurers and policyholders advised of arrangements in place during an emergency
 - in the event of widespread emergency, arrangements will be published for handling the said emergency.

(2½ marks for each correctly stated point. Maximum of 2 points per stated process. Total of 5 marks under each stated process. Sub-Total: 15 marks)
(Grand Total: 30 marks)

- 17(a) In what circumstances would subsidence damage to a swimming pool fail for the consideration of insurers? (10 marks)
- (b) A builder is installing new drains through the foundation wall of a house and disturbs the bearing resulting in subsidence to the property. Would the policy cover such damage? Respond with reason(s). (10 marks)
- (c) A two-year old house suffers subsidence damage and it is found through investigation that the foundation contains insufficient cement in the concrete. Would the policy cover such damage? Respond with reason(s). (10 marks)

Solution

a) If the main house is damaged at the same time and from the same cause, then the swimming pool falls within cover. Otherwise, it does not.

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

b) No, the exclusion relating to the building undergoing structural alteration would debar the claim.

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

c) No, the exclusion relating to the defective workmanship would debar the claim. (10 marks)

18. Following the first visit to a subsistence claim site, explain the types of investigation that you would commission, the reasons for such commissioning and the answers you are looking for.

Solution

- The type of Investigation I would commission on my first visit to a claim site is to request to bore a trial hole in order to determine the nature and depth of the foundations
- A trial bore will then be commissioned to extract soil samples for analysis in order to determine the susceptibility of the soil to shrinkage
- The extraction of any tree roots found will be analysed to see whether the tree may be contributing to the movement
- A test and survey on the drainage system to establish any leakage that might be causing movement
- The trial hole and more are relevant if sub-structural movement is later found as necessary as they indicate the type of underpinning and the depth to which such should go
- Tree management can flow from the establishment of tree causation and may remove the cause and the same applies to the repair of any leaking drains

(6 marks for each correctly stated point. Maximum of 5 points to be graded. Total: 30 marks)