



*Chartered Insurance  
Institute of Nigeria*

*Chief Examiners' Report*

*October 2019 Examination*

*Advanced Diploma in Insurance (A510 – A943)*

LOGO

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A510**

**RISK, REGULATION AND CAPITAL ADEQUACY**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**A510 - RISK, REGULATION AND CAPITAL ADEQUACY**

**INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper.

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

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

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

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

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

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

A formular sheet will be issued for use with this paper.

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:	44.22%
Highest Score:	85%
Lowest Score:	18%
Average Score:	52.91%

**Breakdown Updates****Question 1**

A straight forward question. Most candidates scored high marks, except for few among them that did not do well. The overall performance on average was good.

**Question 2**

Most of the candidates that attempted the question understood it and performed very well. Majority of the candidates scored above average.

**Question 3**

The question was on sources of insurance information in Nigeria/Cameroon/The Gambia/Rwanda. About 65% of the candidate were able to answer it correctly and scored very well.

**Question 4**

The question was on Binomial distribution. The question was among the compulsory questions, but many of the candidates did not attempt it. It therefore, appeared that majority of the candidates did not know it. In view of this, it is advisable that question on Binomial distribution is repeated in future.

**Question 5**

The question was on reinsurance method (i.e. quota share reinsurance). Only few candidates scored above the average mark for the question.

**Question 6**

The question was on elementary probability (i.e. without replacement events). Most of the candidates got it wrong. Only very few scored any mark at all. Much fewer score a 100% grade on it.

**Question 7**

The question was on physical and moral hazards. Majority of the candidates scored well.

**Question 8**

The question was on types of correlation. Majority of the candidates demonstrated a low understanding of the topic. Only few among them scored above the pass mark for the question.

**Question 9**

The question was attempted by all the candidates. Over 95% of the candidates passed the question, which was on data representation.

**Question 10**

The question was on measures of central tendency and attempted by about 80% of the candidates. Over 50% of the candidates scored the pass mark for the question.

**Question 11**

Some of the candidates displayed low understanding of the question asked on major types of risks. The questions on major types of risks may be repeated in the future in view of the poor performance of the candidates.

**Question 12**

This question was on correlation co-efficient. Over 95% of the candidates attempted the question, but the performance was generally poor.

**Question 13**

Majority of the candidates that attempted this question scored the pass mark for the question.

**Question 14**

The question was on risk management and attempted by almost all the candidates. Some of the candidates wrote off-point answers.

**Chief Examiner's Comments on Overall Performance:**

The overall performance is considered as below average. The candidates are advised to study more for future examination on the course.

**Chief Examiner's Suggestions on Improvement:**

The Institute may consider organizing a free intensive class on the course as a revision class for one or two days.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. Outline any three (3) features of the arithmetic mean.

### **Solution**

The features of the arithmetic mean are:

- i) it is very easy to calculate
- ii) it is easy to understand
- iii) it makes use of all the variables given in the data
- iv) it is the best known of the averages
- v) it can be used for further mathematical processes
- vi) it is mostly affected by extreme values

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

2. Mention three (3) benefits of risks in the business world.

### **Solution**

Four benefits of risks in the business world are:

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

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

3. Mention six (6) sources of insurance information in Nigeria/Cameroon/Rwanda/The Gambia.

### **Solution**

The sources of insurance information in Nigeria are:

- i) National Insurance Commission
- ii) Insurance Associations
- iii) Chartered Insurance Institute
- iv) Professional Insurance Association Bodies
- v) Central Bank
- vi) Ministry of Finance (Insurance Department)
- vii) Bureau of Statistics / Federal Office of Statistics
- viii) Insurance magazines
- ix) Insurance Online Channels/Websites

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

- 4(a) What is a binomial distribution? (3 marks)  
 (b) Write out the formula for the binomial distribution. (3 marks)

**Solution**

- a) A binomial distribution is a discrete probability distribution which exists between two alternative of success or failure. (3 marks)  
 b)  ${}^n C_x p^x q^{n-x}$  OR  ${}^n C_x q^x p^{n-x}$  (3 marks)

- 5(a) What is a quota share reinsurance? (2 marks)  
 (b) State any two (2) circumstances in which quota share is desirable. (4 marks)

**Solution**

a) A quota share reinsurance arrangement is one in which the cedant and reinsurer agrees to share the premium and sum insured (i.e. maximum liability on the risk) in a fixed percentage, and any claim payment arising as a result of a loss is also agreed to be shared between them in that fixed percentage. The percentage of the risk kept by the cedant is known as the gross retention of the cedant in a quota share arrangement. Thus, in a quota share, the reinsurer participates in every risk with the cedant.

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

- b) Quota share is desirable in any of these circumstance:  
 i) for newly established insurance companies  
 ii) for financially weak insurance companies mainly to meet up with their solvency margin level  
 iii) to avoid random fluctuation in the claims ratio  
 iv) to protect the cedant against high frequency of losses

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

6. A box contains 3 red, 4 white and 5 brown balls (all identical in size, except in colours). If three balls are picked from the box at random without any replacement, what is the probability that the three balls picked are of different colours?

**Solution**

Probability of chosen 3 ball of different colour without replacement

**RWB or RBW or WRB or WBR or BWR or BRW** (1½ marks)

$$= \left[ \frac{3}{12} \times \frac{4}{11} \times \frac{5}{10} \right] + \left[ \frac{3}{12} \times \frac{5}{11} \times \frac{4}{10} \right] + \left[ \frac{4}{12} \times \frac{3}{11} \times \frac{5}{10} \right] + \left[ \frac{4}{12} \times \frac{5}{11} \times \frac{3}{10} \right] + \left[ \frac{5}{12} \times \frac{4}{11} \times \frac{3}{10} \right] + \left[ \frac{5}{12} \times \frac{3}{11} \times \frac{4}{10} \right]$$

(1½ marks)

$$= \left[ \frac{6}{1320} \right] + \left[ \frac{60}{1320} \right] + \left[ \frac{6}{1320} \right] + \left[ \frac{60}{1320} \right] + \left[ \frac{6}{1320} \right] + \left[ \frac{60}{1320} \right]$$

(1½ marks)

$$= \left[ \frac{360}{1320} \right] \left[ \frac{3}{11} \right] = 0.27$$

(1½ marks)

7. Distinguish between a physical and moral hazard with one (1) relevant generic example.

**Solution**

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

(2 marks for each correct definition/explanation. Sub-Total: 4 marks. 1 mark for each correct example. Sub-Total: 2 marks. Grand Total: 6 marks)

8. Outline any three (3) types of correlation.

**Solution**

The following are the various type of correlation:

- i) Positive/direct correlation
- ii) Negative/inverse correlation
- iii) Zero correlation
- iv) Spurious correlation
- v) Perfect correlation

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

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

- 9(a) Mention the four (4) stages involved in the registration for insurance and reinsurance companies in the Nigeria Industry Market space. (10 marks)
- (b) The table below represents the gross premium income of life offices in Nigeria for 2016, 2017 and 2018:

	2016	2017	2018
<b>Lines of Business</b>	<b>N' million</b>	<b>N' million</b>	<b>N' million</b>
Individual Life	120	150	250
Group Life	145	190	340
Annuities	30	50	80
Credit Life	70	110	200
Health	60	80	110

- i. Make use of multiple bar charts to represent all the lines of business for the 3-year period. (18 marks)



- ii. Make use of component bar charts to represent all the lines of business for the 3-year period. (18 marks)
- iii. Mention any two (2) advantages of a pie chart as a method of data presentation. (4 marks)

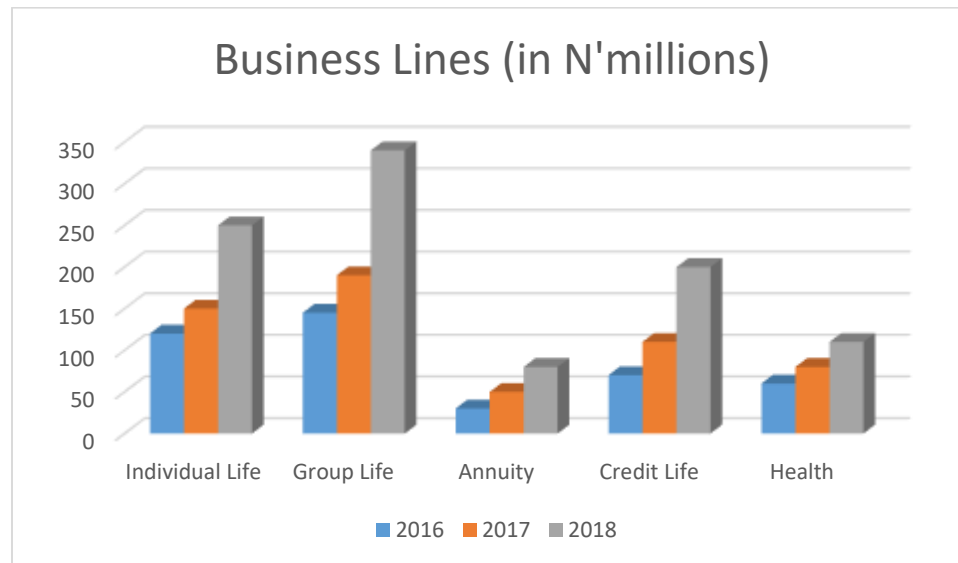
**Solution**

a) The four (4) stages involved in the registration for insurance and reinsurance companies in the Nigeria Industry Market space are:

- Preliminary Stage
- Application Stage
- Verification Stage
- Registration Stage

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

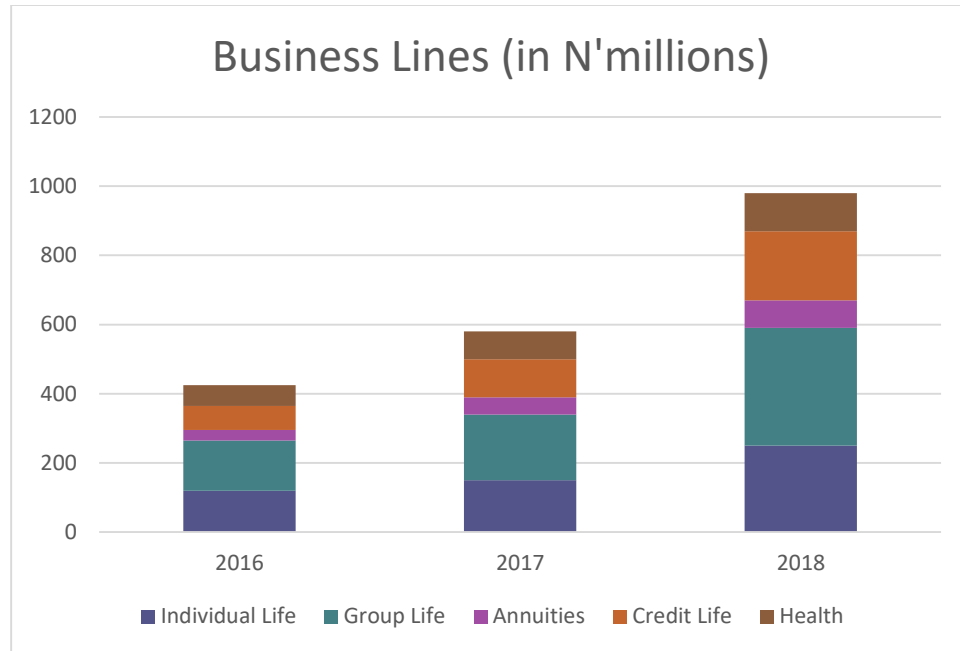
b)i)



(1 mark each for all correctly plotted and labelled bar charts. 3 marks for correct heading with correct amount listing. Total: 18 marks)

ii)	2016	2017	2018
Lines of Business	N' million	N' million	N' million
Individual Life	120	150	250
Group Life	145	190	340
Annuities	30	50	80
Credit Life	70	110	200
Health	60	80	110
<b>Total:</b>	<b>425</b>	<b>580</b>	<b>980</b>

(1 mark for each correct total per year shown above. Sub-Total: 3 marks)



**(1 mark for all correctly drawn histogram. Sub-Total: 15 marks)**

**Grand Total: 18 marks**

iii) Advantages of a pie chart are:

- it does not require any complex calculation
- it is very easy to compute
- it is very easy to understand
- it makes comparison between/among variable represented clearer.

**(2 marks for any correctly stated advantage. Maximum of 2 to be graded. Total: 4 marks)**

### Part III

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

Each question carries **34** marks.

10. The following table shows the frequency distribution of motor insurance claims of the newly established CIIN Insurance Plc in 2018:

Claims (N'000)	Frequency
100 - 200	8
200 - 300	10
300 - 400	24
400 - 500	20
500 - 600	22
600 - 700	12
700 - 800	4
<b>Total:</b>	<b>100</b>

You are required to find, showing the completed table and all calculations, the

- mean
- median
- mode

**Solution**

Claims (N'000)	Class Limits	Frequency (f)	X	fX	Cumulative Frequency
100 – 200	<b>100 – 200</b>	8	<b>150</b>	<b>1,200</b>	<b>8</b>
200 – 300	<b>200 – 300</b>	10	<b>250</b>	<b>2,500</b>	<b>18</b>
300 – 400	<b>300 – 400</b>	24	<b>350</b>	<b>8,400</b>	<b>42</b>
400 – 500	<b>400 – 500</b>	20	<b>450</b>	<b>9,000</b>	<b>62</b>
500 – 600	<b>500 – 600</b>	22	<b>550</b>	<b>12,100</b>	<b>84</b>
600 – 700	<b>600 – 700</b>	12	<b>650</b>	<b>7,800</b>	<b>96</b>
700 – 800	<b>700 – 800</b>	4	<b>750</b>	<b>3,000</b>	<b>100</b>
		100		44,000	

(¼ mark for each correctly completed bolded data. Total: 7 marks)

(a) **Mean** =  $\frac{\sum fX}{\sum f}$  (3 marks)  
 =  $44,000/100 = 440 = 440 \times 1000 = 440,000$  (3 marks)

(b) **Steps**

i)  $N/2 = 100/2 = 50$  (1 mark)

ii)  $1^{st} CF > 50 = 62$  (1 mark)

iii) The Median Class is: 400 – 500. (2 marks)

**Median** =  $L_1 + (N/2 - \sum f_i) / f_m) C$  (3 marks)

=  $399.5 + ((50-42)/20)101$  (1 mark)

=  $399.5 + (8/20)101 = 399.5 + 40.4 = 439.9 = 439.9 \times 1000 = 439,900$  (2 marks)

(c) **Mode** =  $L_1 + (\Delta_1 / (\Delta_1 + \Delta_2)) C$  (3 marks)

The Modal Class is: 300 – 400 (2 marks)

Mode =  $299.5 + (14 / (14+4))101$  (1 mark)

(where  $\Delta_1 = 24 - 10 = 14$  and  $\Delta_2 = 24 - 20 = 4$  and  $C = 101$ ) (1 mark each = 3 marks)

Mode =  $299.5 + (14/18)101 = 378.06 = 378.06 \times 1000 = 378,060.00$  (2 marks)

11(a) Describe the following with relevant examples where necessary:

- Pure and Speculative Risks
- Financial and Non-Financial Risks
- Particular and Fundamental Risks. (30 marks)

- (b) Outline any four (4) other risks which may be of interest to the insurance business practice. (4 marks)

### Solution

a) **i) Pure and Speculative Risks:** a pure risk is a risk which involves a possibility of a loss (in a worst scenario) or no loss nor profit (at best). Thus for a pure risk, it is either a person suffers a loss or in the absence of the loss, he remains in his position (status-quo) while a **speculative risk** gives someone a chance of making a gain in addition to making a loss or break-even. Investment risks generally are speculative risks. However, unlike the pure risks which are insurable, all speculative risks are not insurable (mainly because of the possibility or chance of gain involved in them).

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

**ii) Financial and Non-Financial Risks:** financial risks are risks whose effect (when it eventually happens) can be expressed in monetary values. For general insurance, risks may easily be expressed in monetary terms. However, for life assurance and other related insurance contracts, placing value on the subject matter is not as easy as it is found in the general insurance business. Financial risks are directly linked to insurable interest whose main feature is the capability of financial evaluation of the subject matter of insurance. Therefore, financial risks are insurable. While, **non-financial risks** are not insurable solely because monetary values cannot be placed on them. Non-financial risks are sub-divided into two; those with no financial implications and those with financial implications, but cannot be measured.

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

**iii) Particular and fundamental risks:** a particular risk is a risk which has its origin (its cause) known and its effect can be borne by individuals. Thus, particular risks are said to be personal in both its origin and effect, meaning it is caused by individual person and solutions can be proffered by individuals as well. Particular risks are insurable, except if it is perceived has been changed to a fundamental risk. While, **fundamental risks** are risks whose causes are beyond human control and consequences are felt by the society as a whole. Examples of risks with fundamental nature are floods, Tsunamis, earthquake as well as other major disasters. Though, perceived to be beyond human control, but some fundamental risks may occur from human mischief such as war, act of terrorism and civil commotion. Fundamental risks are generally considered uninsurable, but few of them these days may be covered at an additional premium.

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

b) Other risks which may be of interest to the insurance business practice are:

- Political risks
- Operational risks
- Environmental risks
- Security risks
- Construction risks

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

12. The following table indicates the relationship between two variables A (premium) and B (commission) in ten (10) different branches of an insurance company in The Gambia:

A	B
160	20
155	18
98	24
120	12
138	38
159	16
123	44
100	35
130	24
92	28

- a. Calculate the co-efficient of correlation through Karl Pearson method. (25 marks)
- b. Interpret the result obtained in (a) above. (4 marks)
- c. Mention two (2) usefulness of Spearman's rank order co-efficient over the Karl Pearson's method. (5 marks)

**Solution**

Let A = X and B = y

X	y	Xy	X <sup>2</sup>	y <sup>2</sup>
160	20	3,200	25,600	400
155	18	2,790	24,025	324
98	24	2,352	9,604	576
120	12	1,440	14,400	144
138	38	5,244	19,044	1,444
159	16	2,544	25,281	256
123	44	5,412	15,129	1,936

100	35	<b>3,500</b>	<b>10,000</b>	<b>1,225</b>
130	24	<b>3,120</b>	<b>16,900</b>	<b>576</b>
92	28	<b>2,576</b>	<b>8,464</b>	<b>784</b>
1,275	259	32,178	168,447	7,665

(½ mark for each correctly completed bolded data. Total: 15 marks)

a) The co-efficient of correlation through Karl Pearson method,  $r =$

$$r = \frac{n\sum Xy - \sum X\sum y}{\sqrt{(n\sum x^2 - (\sum x)^2)(n\sum y^2 - (\sum y)^2)}} \quad (2 \text{ marks})$$

$$= \frac{10(32,178) - (1,275)(259)}{\sqrt{((10 * 168,447) - (1,275)^2)((10 * 7,665) - (259)^2)}} \quad (2 \text{ marks})$$

$$= \frac{321,780 - 330,225}{\sqrt{((1,684,470 - 1,625,625) - (76,650 - 67,081))}} \quad (1 \text{ mark})$$

$$= \frac{-8,445}{\sqrt{((58,845))(9569))}} \quad (1 \text{ mark})$$

$$= \frac{-8,445}{23,729.47} \quad (1 \text{ mark})$$

$$= -0.35588 \quad (1 \text{ mark})$$

$$\cong 0.3559 \quad (2 \text{ marks})$$

b) The result obtained in (a) above shows that there is a **low or weak negative imperfect correlation.** (4 marks)

c) The usefulness of Spearman's rank order co-efficient over the Karl Pearson's method are:

- where the variables have already been ranked
- where it is difficult to quantify the variables
- where the variables have big values.

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

13(a) Describe the following events:

i. Mutually Exclusive Events (6 marks)

ii. Independent Events (6 marks)

iii. Dependent Events (6 marks)

iv. Compound Events (5 marks)

- v. A Priori Method of Deriving Probability (5 marks)
- (b) Mention six (6) items which should be part of the insurance companies financial and statistical returns to the Regulator. (6 marks)

**Solution**

a) i) **Mutually Exclusive Events:** two or more events are said to be mutually exclusive events if the occurrence of one excludes the occurrence of the other event(s). Therefore, if A and B are mutually exclusive events, it means it is either A occurs without B occurring, or B occurs without A occurring. Both A and B cannot occur at the same time.

(4 marks for correctly stated description. 2 marks for correct example. Total: 6 marks)

ii) **Independent Events:** two or more events are said to be independent events if the occurrence or non-occurrence of one does not affect the probability of occurrence of the other event(s).

(4 marks for correctly stated description. 2 marks for correct example. Total: 6 marks)

iii) **Dependent Events:** two or more events are said to be dependent events if the occurrence of one affects or depends on the occurrence of the other event(s).

(4 marks for correctly stated description. 2 marks for correct example. Total: 6 marks)

iv) **Compound Events:** Two or more events are said to be compound events if they occur simultaneously.

(3 marks for correctly stated description. 2 marks for correct example. Total: 5 marks)

v) **A Priori Method of Deriving Probability:**

A priori method is used in all situations where all the possible outcomes of an event are known before hand or prior to the event occurring, with all the possible outcomes in most cases having equal chance.

(3 marks for correctly stated description. 2 marks for correct example. Total: 5 marks)

b) Six (6) items which should be part of the insurance companies financial and statistical returns to the Regulator are:

- i) Financial Accounts
- ii) Balance Sheets
- iii) Actuarial Valuation/Investigation
- iv) Transactions with Connected Persons
- v) Allocation of Surplus
- vi) Detailed Statistical Analysis of Premiums and Claims by Standard Classes of Business
- vii) Separation of Assets and Liabilities Attributable to Long-Term Business

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

14(a) Describe Risk Management?

(6 marks)

(b) Explain in details the Risk Management Process.

(28 marks)

**Solution**

a) **Risk Management** may simply be defined as a continuous process of identifying, analyzing, evaluating, monitoring and taking best economic control of all those risks which may threaten the assets (human and non-human) of an organization. It may equally be described as the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

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

b) Stages of the risk management process are as follows:

- i. Define Organization's Strategic Objectives
- ii. Risk Assessment, which is of two components:
  - (a) Risk analysis–  
Risk identification  
Risk description  
Risk estimation
  - (b) Risk evaluation
- iii. Risk Reporting (in terms of threats & opportunities)
- iv. Decision
- v. Risk Treatment
- vi. Residual Risk Reporting
- vii. Monitoring

The explanation for the seven stages are as below:

i. **Define Organization's Strategic Objectives:** these are long term planned objectives which an organization is set out to achieve. Risk management generally enhances organization's strategic objectives through the following:

- by providing a framework in terms of activities in the most sequential & guided ways for the organization
- effective & efficient allocation and use of the organization's capital as well as other resources
- by protecting the organization's assets from all those risks that may threaten them

ii. **Risk Assessment:** is the overall process of risk analysis and evaluation. Thus, as earlier mentioned, there are two components of risk assessment: **risk analysis** and **risk evaluation**.

– Risk analysis comprises of risk identification, description and estimation.



(i) **risk identification:** This is a systematic way of identifying all the activities that may expose the organization to various risks.

(ii) **risk description:** This is the explicit description of all the risks identified under the risk identification stage in a way that would be readily understood by all the stakeholders.

(iii) **risk estimation:** These are the estimates both in terms of quantitative & qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as below may be used: (H - stands for High; M - stands for Medium or Middle; L - stands for Low).

**Risk evaluation** - This is the second and last component of risk assessment whereby opinions (judgments) are formed about the importance (value) and acceptability (appetite) of risk.

iii. **Risk reporting** - This reporting both the downside and upside aspects of the risks. In other words, we are reporting on what are the threats and opportunities associated with the risks under consideration.

iv. **Decision making** - Take informed decisions regarding the importance and acceptability of the risks having considered the threats & opportunities they present to the organization.

v. **Risk treatment** - The process of selecting and implementing measures to modify the risk and this basically includes:

- risk avoidance
- risk control
- risk transfer
- risk financing.

vi. **Residual risk reporting** - reporting the overall information about all the risks to the appropriate stakeholders as they are all affected separately. The stakeholders are - the board, the CEO, executive management, business units/departments, departmental heads and various individuals.

vii. **Monitoring** - There should be regular & continuous monitoring of the risk management process with a view of ensuring that there are no omissions in the actions identified to be carried out & any deviations noticed must be reported to the appropriate channel or authority.

(2 marks for each correctly stated stage. 1 mark for each correctly stated point under each stage. Maximum of 2 points under each stage. Sub-Total per Stage: 4 marks. Grand Total: 28 marks)

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**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A520**

**COMPANY AND CONTRACT LAW**

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

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**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A520 - COMPANY AND CONTRACT LAW

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 53.9%  
Highest Score: 77%  
Lowest Score: 24%  
Average Score: 52.12%

**Breakdown Updates****Question 1**

Misunderstood by candidates as that was no mention of the qualification of the office holder at all.

**Question 2**

It was not well answered and one of the things that can easily be ignored as no question has been asked in the last 8 years on this word.

**Question 3**

Most of the candidates never understood the latin word but a few who showed understanding did well. Understandably so, as picking a latin word/sentence from the course book out of many of such may not be expected, nevertheless it is from the course book.

**Question 4**

Good attempt by most candidates as it is a straightforward question; not too technical to understand.

**Question 5**

Well answered and it is meant to test the understanding of a not too popular area of the law.

**Question 6**

Also fairly answered as most candidates demonstrated knowledge of it.

**Question 7**

A popular question and very good attempt by candidates; assignment of policies is a very practical topic especially in life policies.

**Question 8**

A textbook question and most candidates scored well.

**Question 9**

A practical aspect of the practice as the documents is available in the public domain and most candidates did not find it difficult to mention common does like articles and memorandum of association, CV, practice e.t.c. (c) and (d) were textbook questions and so answered well but there was very poor response in (b)

**Question 10**

Agency is a textbook and popular question and so expectedly candidates did well.

**Question 11**

Also a textbook question, most candidates did well in 10(b) as contribution is one of the principles of insurance that cut across must textbooks.

**Question 12**

(a) and (b) are popular especially consideration which is also a feature in other subjects (c) is also in D05 and expectedly candidates did well.

**Question 13**

Most candidates did not attempt question 13 generally only 1 or 2 because b and c were probably not expected.

**Question 14**

Just a few attempted this question despite being a popular area perhaps because there were other options available.

**Chief Examiner's Comments on Overall Performance:**

None

**Chief Examiner's Suggestions on Improvement:**

The compulsory question is from a popular area and so candidates should be able to pass this subject more than ever before.

**Part I Answer ALL questions in Part I.**  
**Each question carries six (6) marks.**

1. Explain the term "Recorder" in law.

**Solution**

Recorders are part time members of the judiciary who are usually barristers or solicitors of at least 10 years standing; they retain their legal practice aided by a jury to try criminal cases though they deal with civil cases in the county courts and they are expected to serve a minimum of 30 days per year.

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

2. What is Cy-Press?

**Solution**

CY-Press is the **application of income realized from charitable objects to a similar charitable purpose** where the **specified charities in the trust deed have ceased to exist**.

(1½ marks each for the highlighted words. Total: 6 marks)

3. What do you understand by this term "in pari delicto potior est defendentis"?

**Solution**

The term "**in pari delicto potior est defendentis**" means where there is equal wrong doing the position of the defendant is stronger. The general rule is that an illegal contract is void and the court will not assist any party to enforce such contract in any way, therefore where money has changed hands under an illegal contract, the defendant is therefore in a stronger position than the plaintiff who seeks the help of the court to recover his property, since the plaintiff will be denied their help once the illegality of the agreement is discovered, consequently the defendant may then receive a wind fall through being able to retain the property for himself.

(3 marks for the bolded points. 1½ marks each for any correctly stated additional information. Maximum of 2 additional information to be graded. Sub-Total: 3 marks. Total: 6 marks)

4. What is "cause of action"?

**Solution**

Cause of action is the situation which gives rise to the plaintiff right to sue the defendant.

(6 marks)

5. State the remedies available to the beneficiaries in the event of a breach of trust.

**Solution**

The remedies available to the beneficiaries in the event of a breach of trust are:

- the beneficiaries may bring a personal action against the trustees.
- the beneficiaries may recover the trust property from any person into whose hands it has passed or claim anything into which the trust property has been converted.
- in certain situations, the beneficiaries may be entitled to institute criminal proceedings against the trustees.

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

6. What is accord and satisfaction?

**Solution**

A contract is discharged by accord and satisfaction where one party has fulfilled his part of the bargain and agrees to release the other party from his obligations in exchange for some fresh considerations for example a sum of money or some benefit which is different from that which was originally agreed. The payment of a smaller sum cannot however discharge a larger debt unless there is a change in the time or mode of payment or something extra is added. See pinnel's case (1602).

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

7. What is the meaning of "assignment of the subject matter"?

**Solution**

Assignment of the subject matter is the assignment of that object or physical property which is being insured for instance a motor car which can be transferred from one person to another or building under a house owner or fire policy which can be sold to another party. Assignment of the subject matter does not however, carry with it any assignment of the policy in question although s.47 of the Law of Property Act 1925 may give the purchase of property some benefits under the vendor's policy.

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

8. Explain the following terms as it relates to "innocent misrepresentation".

- Rescission
- Damages
- Refusal of Further Performance.

**Solution**

- Rescission:** this is available for any type of misrepresentation but section 2(2) of Misrepresentation Act 1967 allows the court to award damages in instead of rescission at its discretion where there is no fraud. This may be appropriate where the misrepresentation is a minor nature.
- Damages:** innocent misrepresentation may result in an award of damages if they are awarded in lieu of rescission but damages cannot

be claimed as of right where there is no fraud and the defendant has proved that he was not negligent, damages and rescission are thus effectively alternatives where there is no fraud. The court can choose which remedy is appropriate but will not award both.

- iii. **Refusal of Further Performance:** the insured party can choose to do nothing and raise misrepresentation as a defense if sued by the other. The insured party may alternatively, choose to affirm the contract if he wishes.

(2 marks each for every correctly explained term. Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks

- 9(a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,
- i. who is a “promoter”? (4 marks)
  - ii. mention any three (3) documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application. (6 marks)
- (b) State five (5) situations where the order of specific performance will not be awarded. (20 marks)
- (c) What is the position when two (2) causes, one insured and the other excluded, occur giving rise to a loss. (10 marks)
- (d) Identify five (5) situations where the Agent can delegate his functions. (10 marks)

### Solution

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

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

ii) The following are the documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application

- a) letter of intent
- b) profile of directors
- c) current CV of the proposed CEO
- d) sworn declaration of non-disqualification of the proposed directors
- e) proposed company name



- f) draft memorandum of association of the proposed company
- g) draft articles of association of the proposed company
- h) evidence of financial soundness of the shareholders supported by sworn affidavit confirming such
- i) evidence of confirmation (clean bill of health) from the primary regulator and approval by the regulator (where necessary)
- j) holding company structure and funding – where applicable
- k) class of insurance to be transacted (whether general, life or reinsurance)

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

b) The courts will not order specific performance in the following situations:

- where the plaintiffs can be compensated by an award of damages
- in a contract of personal service, such orders will restrict personal freedom
- where it would cause undue hardship to the defendant e.g. where the cost would be out of proportion to the benefit to the plaintiff
- where the plaintiff would not adequately surpass the performance
- where the contract is not supported by consideration
- where there has been undue delay on the part of the other party in seeking the remedy
- where the court cannot ensure that the other party will also honor his promise as the party's own obligations have not yet been fulfilled and could not in turn be enforced by specific performance.

**(4 marks each for every correctly stated situation. Maximum of 5 to be graded. Total: 20 marks)**

c) The loss to the Insured peril will be covered while those traceable to the expected peril will not be covered by the Insurer.

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

d) The Agent can delegate his functions in the following situations:

- where the principal expressly authorized the agent to delegate
- where custom or trade usage sanctions delegation
- where delegation is necessary to ensure proper performance
- where the work delegated is purely clerical
- where unforeseen emergencies arise which impose upon the agent the necessity of employing a substitute e.g. serious illness.

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

### Part III

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

Each question carries 34 marks.

- 10(a) Enumerate four (4) instances when the agent is the agent of the Insurance Company? (16 marks)
- (b) Enumerate and briefly explain any three (3) liability of the Agent, stating a scenario based example (not necessarily a cited case) on each enumerated liability. (18 marks)

#### Solution

- a) The Agent is the agent of Insurance Company in the following instances:
- if he has express authority from the company to receive and handles proposal forms
  - if he handles proposal forms accordingly to a previous course of business with the insurers and within the scope of an implied authority between both of them
  - if he surveys and describes the property in insurer's behalf
  - if he acted in tort express authority, where the company either ratifies his action or has ratified such actions in the past (*Murfit V Royal Ins Co.*)
  - if he expressly or impliedly has authority to collect premiums
  - if he is instructed by the insurers to ask questions and complete the answers on a proposal form.

(4 marks for each correctly enumerated instance. Maximum of 4 to be graded. Total: 16 marks)

- b) The liabilities of the agent are:
- the Agent is liable for a breach of warranty of authority if an agent purport to act as an agent when he has not been given that authority, he is liable to compensate the party to whom he contracts.
  - he is liable to his principal if he commits a tort which lays his principal open to a loss.
  - he is liable for breach of contract.

(3 marks for each correctly enumerated liability. Sub-Total: 9 marks. 2 marks for explaining the stated liability scenario. Sub-Total: 6 marks. 1 mark for giving a scenario-based example. Sub-Total: 3 marks. Grand Total: 18marks)

- 11(a) What is constructive total loss as defined in the Marine Insurance Act 1906 S.60? (16 marks)
- (b) Define contribution and state the conditions that must exist before the principle an apply. (18 marks)

#### Solution

- a) Constructive Total Loss as defined in the Marine Insurance Act 1906 S.60 as that situation where the assured is deprived of the possession of his ship or goods by a

peril insured against and (a) it is unlikely that he can recover the ship or goods as the case may be or (b) the cost of recovering the ship or goods (as the case may be) would exceed their value when recovered.

It is a situation where the property is not destroyed completely as in the case of a total loss but it is as good as lost as far as the insured is concerned e.g. in the case of a ship which runs aground on a sand bank and cannot be rebated. The insured abandons her to underwriters and the claim is dealt with as it were a loss with the vessel becoming the property of the underwriters.

(4 marks for every correctly stated point. Maximum of 4 to be graded. Total: 16 marks)

b) Contribution is defined as the right of an insurer to call upon others similarly but not necessarily equally liable to the same insured to share the cost of an indemnity payment. (4 marks)

If an insurer has paid a full indemnity, he can recover an equitable proportion from the other insurers of the risk (2 marks) but when the full indemnity has not been paid, the principle of contribution enables the total claim to be shared in a fair manner

(2 marks). (Sub-Total: 8 marks)

**The conditions that must exist before contribution can apply are:**

- the existence of 2 or more policies of indemnity
- the policies cover a common interest
- the policies cover a common peril which gives rise to the loss
- the policies cover a common subject matter
- each policy must be liable for the loss

It should be noted that the policies do not have to explicitly cover the same interests or perils or subject matter or insurance provided there is an overlap between one policy and another.

(2 marks for each correctly stated condition. Sub-Total: 10 marks) (Grand Total: 18 marks)

12(a) What is a Private Trust? (4 marks)

(b) Enumerate any four (4) "rules of consideration". (10marks)

(c) State and explain the main remedies in the law of contract. (20marks)

**Solution**

a) A private trust is one which is for the benefit of an ascertainable individual or individuals. Majority of such trusts are for identified and named beneficiaries such as "as for my son Olu Ayodele" or 'for my grandchild, Slyvanus Williams"

(3 marks for the correct definition. 1 mark for correctly stated example. Total: 4 marks)

b) The rules of consideration are that consideration:

- must be real or genuine; the court will not enforce vague promises or one in which there is no real benefit or detriment at all
- needs not be adequate; it must have some value in the eyes of the law, its' adequacy and its' relevance or otherwise
- must not be past; it must be given for the promise which it supports, when services have already been given for nothing, a subsequent promise to pay for them is not supported by good consideration
- must move from the "promise: i.e. a person cannot enforce a promise (even though it is made to him ) if the consideration for which it was supplied was wholly made by another person
- must be something for which the promisor was already bound to do.  
(2½ marks for each correctly stated rule. Maximum of 4 to be graded. Total: 10 marks)

c) The main remedies in the law of contract are:

- **Rescission:** this refers to cancellation of the contract. It is in respect of the reason for the breach which can be as a result of misrepresentation or breach of contract. Failure to perform a contract properly or at all will amount to a breach if the breach is sufficiently serious the insured party will be entitled to rescind which can also be refusal to further performance or refusal to accept further performance e.t.c.
- **Action for Damages:** the common law remedy for breach of contract is an award of damages and damages can be claimed as of right when a contract is broken. The main purpose of award of damages is to place the plaintiff in the same financial position as he would have enjoyed had the contract been performed fully and properly.
- **Action for Specific Performance:** the court may in its discretion order the defendant to honor his promise to the plaintiff rather than simply pay compensation for breaking it.
- **Action for Injunction:** the court may forbid the defendant to do something which he has promised not to do such as set up a business in competition with the plaintiff. Injunction can be prohibitory or mandatory, it is prohibitory when it is brought to prevent the breach of a promise or mandatory which is an order requiring the defendant to do something positive to end a wrongful state of affairs which he has brought about.
- **Action for recovery of cost:** an action for a recovery of an agreed sum of money may be brought when one of the parties has broken an undertaking to pay a specified sum of money.

(2 marks for stating the remedy. 1 ½ marks for any correctly stated point under the stated remedy. Maximum of 2 points to be graded under each remedy. Sub-Total: 3 marks; Total: 5 marks per remedy. Grand Total: 20 marks)

- 13(a) Distinguish between a “chose in action” and a “chose in possession”.(12marks)  
(b) Explain “assignment of a life policy by mortgage”. (12 marks)  
(c) Explain the term ‘ infavoremnegotii’. (10marks)

### **Solution**

a) A **chose in action** is a valuable but intangible piece of property, it cannot be physically seized but only enforced through an action in court while a **chose in possession** in contract is a piece of tangible property which can be seized or physically controlled. The common law courts originally did not allow a chose in action to be assigned but the court of chancery however did.

A chose in action can itself be either a legal case (such as rights under an insurance policy and contractual debts generally) or an equitable chose (such as a right to receive income from trust fund).

(3 marks for each correctly stated point. Maximum of 4 points to be graded. Total: 12 marks)

b) Life assurance policies provide a means of investment as well as source of protection, many life policies acquire surrender value once a certain number of premiums have been paid. The assured then has a useful and valuable piece of property which he can sell or transfer to another or use as a security. The assignment of a life policy by mortgage is where the policy is assigned as security for a loan or other debt and where the mortgage can be redeemed and the policy is recovered once the debt is repaid.

(3 marks for each correctly stated point. Maximum of 4 points to be graded. Total: 12 marks)

c) ‘in favoremnegotii’: also otherwise known as “validation” means that if the contract (or part of the contract) is valid under one system of law but invalid under another system of law, it may be inferred that the parties intended that the agreement should be governed by the former rather than the latter.

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

14. Under “subrogation”, the insurer is not entitled to recover more than he has paid out on the claim. Explain, in details, what you understand by the term subrogation and use a decided case to explain why the insurer cannot recover more than the amount the insured was indemnified with.

### **Solution**

Subrogation is a very crucial insurance concept. It is defined as the right of one person, having indemnified another under a legal obligation to do so, to stand in the place of that other and avail himself of all the rights and remedies of that other, whether already enforced or not.

It allows the insurers to recoup any profit the insured might make from the insured event. It also allows them to pursue, always in the name of the insured, any rights or remedies which the insured may possess that may reduce the loss.

It is important to also know that the insured is not prevented from recovering from a source in addition to his own insurers, what is being said is that should the insured succeed in doing so, the money he acquires is not his, but is held in trust for his insurers who have already provided indemnity.

If, however a part of the loss was not indemnified, the insured can recoup, without recourse to the insurer. The most fundamental point here is that the insured is entitled to indemnity but no more than that, while the insurer also is entitled to what has been expended on the claim and no more than that. The concept is only applicable to contracts of indemnity.

(5 marks for correct definition of subrogation. 5 marks each for any correctly stated point/explanation. Maximum of 4 of such points to be graded. Sub-Total: 20 marks. Grand Total: 25 marks)

**Decided Cases to buttress the statement above are assertion that:**

*Yorkshire Insurance Co. Ltd. V. Nisbet Shipping Co. Ltd. (1962)*: settlement had been made at GBP72,000 by insurers but due to the lapse of time between the claim payment and the recovery from the third party and due to the fact that the pound sterling had been devalued in the interval, the insured actually recovered GBP127,000. It was held that the insurers were only entitled to GBP72,000.

*Glen Line v. Attorney General (1930)*: where it was stated that "...subrogation will only give the insurer rights up to 20 shillings (100 pence) in the pound on what he has paid. By saying that "...the simple principle which I apply is that the insurer cannot recover under the doctrine of subrogation ... anything more than he has paid"

*Scottish Union & National Insurance v. Davis (1970)*: where insurers had paid GBP409 for repairs and attempted to subrogate as the insured had received GPB350 from another source. The judge held that the insurers were not entitled to recover saying that "...so far as the assured was concerned, they (the insurers) might have thrown GBP409 in bank notes into the Thames".

(4 marks for correctly stating the any of the decided cases. 3 marks for correct narration of the case and 2 marks for linking same with correct logic to the "subrogation" term. Sub-Total: 9 marks)

(Grand Total: 34 marks)

LOGO

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A530**

**BUSINESS AND ECONOMICS**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A530 - BUSINESS AND ECONOMICS

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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



**Chief Examiner's Summarized Statistics**

Pass Rate: 70.00%

Highest Score: 85%

Lowest Score: 20%

Average Score: 59.22%

**Breakdown Updates****Question 1**

The question was well understood. The pass rate was about 90%.

**Question 2**

The performance was good as most candidates highlighted more than four core elements of insurance code of conduct.

**Question 3**

The candidates' performance was fairly good except that they did not score as high as expected.

**Question 4**

The candidates' performances were fairly good except that they did not score as high as expected.

**Question 5**

The candidates who answered the question was about 95% of the total candidates while the percentage success was very outstanding as 98% of them scored 100%.

**Question 6**

The total pass performance was about 70%. This was due to candidates who provided answers that were outside the marking scheme.

**Question 7**

Some candidates did not understand the effect of inflation and unemployment on the insurance companies. Most gave definition and its general effect on the economy.

**Question 8**

The question was badly attempted as candidates failed to give the required definition the terms involved. Performance was just average.

**Question 9**

Many candidates did well on the questions but a few failed woefully for lack of understanding. Overall, performance was above average.

**Question 10**

A considerable number of candidates attempted the question with over 60% of the candidates passing the question.

**Question 11**

This is not a popular question. However, over 60% of the candidates that attempted the question passed.

**Question 12**

Only few candidates attempted the question. Few candidates performed averagely.

**Question 13**

Both part 'a' and 'c' were well attempted with good performance. The 'b' part was not well attempted. The overall performance was average.

**Question 14**

The question was very popular with above 90% attempt. 85% of the candidates passed.

**Chief Examiner's Comments on Overall Performance:**

The overall pass rate was 70%. This is a good performance.

**Chief Examiner's Suggestions on Improvement:**

Candidates should keep the performance up.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. Summarize in two (2) concise statements, the functions of any economic system.

### **Solution**

The functions of an economic system is to produce solutions to the basic economic problems of how to distribute limited resources to the unlimited human needs. A part of this system is to decide on what to produce, how to produce it and how to allocate the goods and services produced.

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

2. List three (3) core elements of insurance code of conduct in any country.

### **Solution**

The core elements of insurance code of conduct in any country are that members are to:

- behave with complete integrity in their professional life
  - comply with the law and with the best principles and practice relating to insurance
  - conduct themselves in a professional and honourable manner towards those with whom they are in contact with in business life
  - observe and apply the guide to good practice
  - give due and proper consideration to the requirements and interests of clients and respect the confidentiality of information
  - behave in a manner not to bring the name of the Institute into disrepute
- (2 marks each for any 3 correctly stated conduct. Maximum of 3 to be graded. Total: 6 marks)

3. Mention three (3) reasons that insurer might have for developing a website.

### **Solution**

The following are reasons that an insurer might have for developing a website:

- to boost the image of the company
- for advertisement
- for e-commerce
- to post details of the company to the whole world
- for premium comparison with competitors
- for sale of insurance products and services

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

4. Give two (2) examples each of any three (3) of the following terms:
- i. current assets
  - ii. current liabilities
  - iii. fixed assets
  - iv. long-term liabilities.

### **Solution**

Two examples each of the following terms are:

- i. current assets: cash, stock or debtor
- ii. current liabilities: bank overdraft, trade creditors
- iii. fixed assets: tangible, intangible and fixed assets
- iv. long-term liabilities: bank loans, mortgages, debentures

(1 mark each for any correctly stated example. Maximum of 2 to be graded per term. Maximum of 3 terms to be graded. Total: 6 marks)

5. Enumerate any six (6) section of the annual report of insurance companies.

### **Solution**

The sections in the annual report of insurance companies are:

- notice of meeting
- chairman's statement
- directors' report
- auditors' report
- profit and loss account for the current financial year and the year preceding it
- balance sheet for the current financial year and the year preceding it
- cash flow statement
- the group accounts – if the company has subsidiaries

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

6. Identify three (3) reasons for take-over and mergers of insurance companies.

### **Solution**

The reasons for take-over and mergers of insurance companies are:

- synergy –the whole entity had a greater value than the sum of the parts e.g. savings in IT costs
- it provides for geographical spread
- it provides for economies of scale
- the resultant company has a larger capital base
- the merged companies can act as non-stop shopping for customers

- it can provide more expertise in the end
- a friendly merger may be a defensive measure against a hostile take-over by an unwanted competitor

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

7. State two (2) effects each of:
- Inflation
  - Unemployment on an insurance firm.

### Solution

The effects of the following terms on an insurance firm are:

- Inflation:
  - it affects paying for rebuilding costs
  - wage increments
  - erodes the cash balances held by insurers for claims payments.
- Unemployment
  - income protection policy claims may rise
  - demand for insurance for luxury holidays fall
  - theft claims may rise or an increase in fraudulent claims may occur

(1½ marks each for any correctly stated effect. Maximum of 2 to be graded per term. Total: 6 marks)

8. Distinguish between “tight monetary policy” and “slack monetary policy”.

### Solution

A tight monetary policy is in place when the central bank is attempting to reduce the growth of the money supply. It is normally associated with high interest rates and restructuring by the government to finance their spending by issuing debt. It is used to reduce the rate of inflation.

On the other hand, monetary policy is slack when the central bank cuts interest rates and allow the money supply to grow quickly. It can be used to counteract the effects of a deep recession.

(3 marks each for any completely correct stated explanation. Maximum of 1 point per term to be graded. Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks.

- 9(a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,
- i. who is a “promoter”? (4 marks)
  - ii. mention any three (3) documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application. (6 marks)
- (b) State and discuss five (5) factors that affects the supply of insurance. (20 marks)
- (c) State and discuss five (5) factors that affects a person’s demand for insurance. (20 marks)

### Solution

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

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

ii) The following are the documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application:

- a) letter of intent
  - b) profile of directors
  - c) current CV of the proposed CEO
  - d) sworn declaration of non-disqualification of the proposed directors
  - e) proposed company name
  - f) draft memorandum of association of the proposed company
  - g) draft articles of association of the proposed company
  - h) evidence of financial soundness of the shareholders supported by sworn affidavit confirming such
  - i) evidence of confirmation (clean bill of health) from the primary regulator and approval by the regulator (where necessary)
  - j) holding company structure and funding – where applicable
  - k) class of insurance to be transacted (whether general, life or reinsurance)
- (2 marks each for correctly stated document. Maximum of 3 to be graded. Total: 6 marks)

b) The following are factors that affect the supply of insurance:

i) **level of premiums:** the higher premiums, the greater the chance of making a profit and the more willing underwriters are willing to offer policies.

ii) **costs:** as costs rise, the willingness to offer insurance policies fall as the profit margins are squeezed. The main costs are claims and falling interest rates in investment income.

iii) **level of capacity:** the higher the level of capacity, the lower the premiums are as competition to complete "capacity budgets" intensifies and underwriters force premiums down.

iv) **reinsurance:** the higher the reinsurance costs, the higher the premiums charged by the direct insurer (cedant), as the cedant must cover the reinsurance costs and make a profit.

v) **uncertainty:** as claims are events of chances, the uncertainty/unknown element means that premiums can be under-priced or overpriced for a given exposure. This will affect the willingness of the underwriters to supply insurance policies into the market place.

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

c) The following factors affect a person's demand for insurance:

i) **income and wealth:** consumers can only purchase insurance if they have sufficient income to do so. Their first needs will be food, shelter and clothing and only after these needs have been met will insurance be considered.

ii) **attitude towards risk:** different people have different views towards risk. Some do not care, while others seek protection and minimise risk by taking out insurance policies.

iii) **price of insurance:** a person will only pay for insurance if they feel it is worth it. They will weigh up the cost of the premiums against the probability of the risk occurring.

iv) **compulsory insurance:** the individual sometimes does not have a choice as the law makes the purchase of some insurance policies compulsory

v) **taxation incentives:** individuals can avoid paying taxes or are given tax relief by purchasing certain insurance policies. This therefore influences a person's demand for insurance as it relates to tax

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

### Part III

**Answer THREE of the following FIVE questions.  
Each question carries 34 marks.**

10. Fully explain the internal constraints that can affect the operation of a business from achieving its set objectives.

#### **Solution**

The internal constraints that can affect the operation of a business from achieving its set objectives are:

i) **the quality of management:** the management of any business entity is responsible for devising the firm's objectives and strategies. The managers must have vision which will eventually lead to the strategy for the future of the company. Managers must also have the willingness to change for better as the consumers can no longer wait for better product and services. Good management entails managing changes effectively and involves taking calculated risks.

ii) **employee motivation:** is critical in terms of determining productivity. A motivated group of employees work faster and more effectively. They tend to be more willing in terms of making suggestion to management on how production methods could be changed for better results. Motivated employees tend to be less inclined to take time off work or to be involved in industrial strike or action.

Management is responsible for enhancing employee motivation and must use combinations of delegation, promotion and training to motivate staff members for better performances.

iii) **Investment levels:** the level of investment made by a company can be critical in terms of the firm's ability to achieve its objectives. It plays a crucial role in determining both productivity and product quality levels. Firms invest in the following areas:



**iii-a) investment in new machinery:** investment in new machinery normally create an increase in productivity. Investment in modern equipments enables more output to be produced from a factory. Also, it give firms a cost advantage since new technology tends to be less wasteful in terms of raw material consumption it may also give the firms a marketing advantage.

**iii-b) investment in people:** the most important resource of a business is its people. Firms invest in people by training them which in turn creates several benefits such as:

- trained staff members are less likely to make mistakes and hence firm's products or services' quality is in top notch
- training can help to motivate the firm's staff making them to be more productive
- training is also important in terms of managing changes effectively

**iii-c) investment in new product:** the fact that most products have a finite life cycle means that it is vital that firms invest in new product development when the firm's existing products or range of good declines, it has to be replenished. Investing in new product development is expensive but essential for any firm's survival prospects.

**iv)ownership issues:**the ownership structure of an organization may have a significant effect on the way that business is run i.e. separating the ownership from those who run the business although there are arguments for and against this option.

(5 marks for each correctly stating the constraint. 3 marks for correct and complete explanation. Maximum of 4 constraints to be graded. Sub-Total per constraint: 8 marks. Sub-Total in all: 32 marks. 2 marks for correct intervening and presentation of points. Total: 34 marks)

- 11(a) Identify the organ responsible for the election of directors in a limited company. (2 marks)
- (b) Distinguish between an executive and a non-executive director. (8marks)
- (c) Suggest two (2) ways in which non-executive directors can contribute meaningfully to the success of the company (4 marks)
- (d) State five (5) jobs that are associated with the head-office or the regional office staff of an insurance company. (10 marks)
- (e) With the use of an example each, differentiate between objectives and strategy in a business organization. (10 marks)

## Solution

(a) The organ responsible for the election of directors in a limited company are the shareholders. (2 marks)

(b) **An executive director** is a full-time employee of the company. Each executive director is responsible for running a specific department or division within the company and can have input into any decision made by the board. Whereas a **non-executive director** is not an employee of the company. Rather, such a person is a seasoned manager who have valuable experience of contacts with other companies or organizations and is required to use such experience and/or contacts to improve the performance of the company.

(2 marks for each correctly stated point. Maximum of 2 points per term to be graded. Total: 8marks)

(c) The ways in which non-executive directors can contribute meaningfully to the success of the company can be by

i) acting as sharp independent external critics of the firm's management and its strategies;

ii) ensuring that the needs and requirements of the shareholders are never allowed to come second to the personal interests of the directors

iii) contributing to the knowledge and skills development on a wider area of the company's staff strength and expertise

iv) leveraging positively on the wide contacts for the growth and/or expansion of the company

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

(d) The jobs that are associated with the head-office or the regional office staff of an insurance company are:

i) to communicate strategies decided by the board down to branch level

ii) to set and monitor performance targets for the organization at branch level

iii) to provide the branches with support in the field e.g. training

iv) to make day-to-day operational decisions

v) to achieve the objectives set down by the head or regional office

vi) to collect performance data which are then communicated back up the hierarchy

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

(e) Objectives are medium to long-term targets determined by the board of directors. They can provide a sense of purpose and direction for the company. An example is for a firm to aim at giving the shareholders the best return they can get.

On the other hand, strategies are plans that are used to achieve the set objectives, the board of directors determines the company's strategy and are responsible for

implementing it. Employees must be motivated in order to implement strategies successfully.

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

12(a) Explain the following terms:

- i. networks
  - ii. computer systems
  - iii. e-Commerce
  - iv. www. (16 marks)
- (b) List and explain briefly the different types of market networks used in the insurance industry. Give an example for each type. (10 marks)
- (c) Differentiate between the following terms:
- i. market networks and global networks
  - ii. local area networks and wide area networks. (8 marks)

### Solution

- (a) i. **networks:** are collections of devices that are linked for the purpose of sharing data. A network system may consist of a server, which serves several personal computers or various terminals. It is possible to network several personal computers together e.g. LAN, WAN, e.t.c.
- ii. **computer systems:** are physical components which enable computerised information systems to run. They are referred to as hardware, and the programs which run on them are known as software.
- iii. **e-Commerce:** the advent of the internet has provided an alternative way to transact insurance businesses. The internet provided insurers the opportunity of distributing products and services as a distribution channel. The use of personal computers linked to the internet has a lot of advantages for the insurer and/or broker as well as the customer. E-Commerce is better suited to high volume and low premium business such as all personal line classes of insurance.
- iv. **www.:** is the acronym for world wide web. It is a system of millions of hypertext pages (i.e. pages linked together using associative hot words).

(2 marks for each correctly stated point. Maximum of 2 correct points to be graded per term. Sub-Total per term = 4 marks. Grand Total: 16 marks)

(b) The different types of market networks used in the insurance industry, with an example each are:

- **LIMNET (i.e. London Insurance Market Network):** was established in 1987 by LIRMA and ILU. LIMNET signed a contract with IBM for networking services to be provided by the managed network service provider. The aim was to provide common standards for network services and therefore increase efficiency and productivity, while reducing duplications and costs. LIMNET pioneered the use of EDI to reduce manual data entry in the London market.
- **Reinsurance and Insurance Network (RINET):** is a reinsurance and insurance network with headquarters in Brussels. The project was initiated in 1986 by Munich Re, Swiss Re and Sleandia International. Their objective was to establish a network for the exchange of information between international reinsurance and insurance business partners. The original three members were joined in 1987 by another five international insurers and worked to establish a structure, articles of association and standards, as well as choosing IBM's managed network for the venture.
- **Local Area Networks (LANs):** enable information, computing and communications resources to be shared between directly connected computers, often in the same building or in close vicinity. The computers are usually linked with cables and gateways are also used to connect local networks to each other.

(3 marks for each correctly stated type. 2 marks for each complete and correct explanation. Maximum of one explanation per term. Maximum of two types to be graded. Sub-Total per type = 5 marks. Grand Total: 10 marks)

(c) The difference between:

i. **market networks and global networks** are that market networks exist within specific markets to enable organizations within those networks to communicate and send data to each other electronically while global networks link machines in different continents e.g. the internet, by the use of the international telephone systems.

ii. **local area networks and wide area networks:** are that local area networks (LANs) enable information, computing and communication resources to be shared between directly connected computers, often in the same building or close vicinity. The computers are usually linked with cabling gateways being used to connect local networks to each other; while wide area networks (WANs) are distinguishable because of their longer distance communications and geographical

location. They may use telephone lines or communications may be provided by a common carrier.

(2 marks for each completely and correctly stated comparison on each term i.e. sub-total: 4 marks per set.  
Grand Total: 8 marks)

- 13(a) List and explain four (4) sources of short-term finance. (16 marks)
- (b) Distinguish between:
- i. ordinary shares and preference shares
  - ii. authorized share capital and issued share capital (12 marks)
- (c) What do you understand by the following terms:
- i) venture capital
  - ii) right issues (6 marks)

### Solution

- (a) Four (4) sources of short-term finance are:
- i) **overdrafts:** are used to finance temporary cash flows challenges. It is a facility granted by the firm's bank that allows it to draw more funds out than it has on deposit. The banks will usually set an overdraft limit which places a ceiling on the maximum amount the firm can borrow. Interest is then paid every month but only on the amount overdrawn at that point in time.
  - ii) **trade credit:** one measure of improving cash flow is to delay payment to suppliers in order to reduce cash outflows. If cash outflows can be reduced, there will be an improvement in the firm's short term cash flow position.
  - iii) **selling off surplus stock:** holding excessive amount of stock may damage a firm's cash flow as it ties up cash. In order to release this cash, the firm could sell off the surplus stocks.
  - iv) **selling fixed assets:** some firms may decide to solve their cash flow challenges by selling off a redundant fixed asset in order to generate a one-off cash injection. Other firms may decide to raise the money by selling the freehold on any property that they own.
  - v) **encouraging debtors to pay invoices earlier:** by offering more generous credit terms. This will assist the firm to receive its cash inflows earlier. Factoring companies aid this by offering agreements whereby they agree to pay up to 80% of any invoiced total immediately in return for 5% factoring fee, based on turnover.

(2 marks for correctly stated source. 2 marks for correct explanation on the term. Maximum if 4 terms to be graded. Sub-Total per term: 4 marks. Grand Total: 16 marks)

(b) i.

S/No	Ordinary Shares	Preference Shares
1	Also known as company's equity	It is not company's equity
2	Carry voting rights at the company's Annual General Meeting	Do not carry voting rights
3	Shareholders are not guaranteed a dividend payment as the shares offer a variable return	Dividend payment is guaranteed, which is an agreed percentage of the share nominal value and takes priority
4	They are the last in line of creditors should the company find itself in liquidation position	They take priority over ordinary shareholders if the company should find itself in liquidation position.

(1½ marks for each correctly stated comparison. Maximum of 2 points to be graded per term. Total: 6 marks)

ii.

S/No	Authorised Share Capital	Issued share Capital
1	Also known as nominal share capital	
2	Shows the maximum number of shares that the board of directors can issue	Describes the number of shares/amount of nominal value of shares held by the shareholders i.e. that have been sold to date
3	The company will not become liable for the amount until it has been issued to a shareholder	The company is liable to a shareholder for all amounts of the issued share capital

(3 marks for each correctly stated comparison. Maximum of 1 point to be graded per term. Total: 6 marks)

(c) i) **venture capital:** is a mixture of loan capital and share capital. Venture capital is invested in too risky businesses and provides additional long term finance.

ii) **right issues:** occurs when the board of directors issues new shares in the business. The right to buy these shares is offered to only exiting shareholders. Shareholders who do not wish to exercise their rights to the new issue can sell them to a third party.

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

- 14(a) State three (3) reasons why insurance companies need information about other companies, whether as clients or otherwise. (12 marks)
- (b) Adduce at least two (2) reasons why insurance brokers need information about companies to-be-brokered clients or companies. (4 marks)
- (c) Information is a vital tool in any insurance company. Mention and explain six (6) other parties that may be interested in information about any insurance company. (12 marks)
- (d) State the legal content of “directors’ report” of an insurance company. (6 marks)

### Solution

(a) The reasons why insurance companies need information about other companies, whether as clients or otherwise are:

- i) to calculate premiums
- ii) to work out whether the sum insured is adequate
- iii) to check the amount of claims
- iv) to assess whether a company’s shares are suitable as investment(s).

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

(b) The reasons why insurance brokers need information about companies to-be-brokered clients or companies are:

- i) to produce a formal underwriting submission to be presented to various underwriting organisations to obtain quotations
- ii) to list the viability of every potential business
- iii) to ascertain the acceptability by insurance companies
- iv) to ensure that their clients are financially strong and able to pay the premium to the insurers.

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

(c) Other parties that may be interested in information about any insurance company are:

- i) trade unions: to assess the viability of a wage demand
- ii) bankers: to advice on mergers and takeovers
- iii) stockbrokers: to advice on share prices and prospects
- iv) investors: to assess the viability of any investment in such company
- v) suppliers: to assess the credit worthiness of the company
- vi) lenders: to produce a credit check for a loan
- vii) potential employees: to assess on company suitability to own goals
- viii) existing employees: to have a good understanding of their employer and sustained payment of salaries

(1 mark for correct party mentioned. 1 mark for brief explanation. Maximum of 6 parties to be graded. Sub-Total: 2 marks per party. Grand Total: 12 marks)

- (d) The legal content of “directors’ report” of an insurance company are:
- i) in the case of every company, there shall for each financial year be prepared a report by the directors:
    - a) containing a fair view of the development of the business of the company and its subsidiaries during the financial year and their position at the end of it
    - b) stating the amount (if any) which they recommend should be paid as dividend and the amount (if any) which they propose to carry to reserves
  - ii) the names of persons who, at any time during the financial year under review, were directors of the company, and the principal activities in the course of the year, along with any significant changes in those activities during the year.

(6 marks for any full and correct stated content. Only one point should be graded. Total: 6 marks)



LOGO

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A655**

**RISK MANAGEMENT**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A655 - RISK MANAGEMENT

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate:	58%
Highest Score:	86%
Lowest Score:	15%
Average Score:	54.75%

**Breakdown Updates****Question 1**

All the candidates did very well on this question which signified that they really understood the process of risk management.

**Question 2**

The candidates seem to have better understanding of this particular question, hence the performance was great.

**Question 3**

The question was straight forward but most of the students did not get the answers right. Aside speculative and operational risk, they could not identify other risk such as political, environmental, security, e.t.c. risks.

**Question 4**

Majority of the candidates were able to summarize the key aspects of the risk management, and they were able to present the KEY aspects in stages in order of pointing. Only few candidates did not set out the stages of the key aspect of RISK MANAGEMENT.

**Question 5**

This question was based on the classification of risk and all the candidates did very well with adequate examples to back up their points, which signified that the candidates have in-depth knowledge of risk classification.

**Question 6**

The question was also a straight forward question but those who answer right got the whole mark while those who gave a wrong answer failed it out rightly.

**Question 7**

This was a favourable question and many candidates scored high marks. However, some of the candidates mixed up the definitions/explanation of the points/corporate governance requirements. Candidates need to pay attention to details.

**Question 8**

It was another straightforward question. Candidates did well. Only a few who did not understand what continuity plan is.

**Question 9**

This is the compulsory question that carries 50 points. The question was divided into three parts. They were well answered and good points earned. However, some candidates were mixing up the roles of NIA with that of NAICOM. Attention need to be paid to details in subsequent examinations.

**Question 10**

The performance of students on this was less than 70% and this could be better by paying more attention to details that is essential processes of risk management.

**Question 11**

The question though quite simple, was avoided by some candidates while some who attempted it did not have a good grasp on the question, that is, the qualities expected of a good/experienced risk manager. Those who understood it scored good marks.

**Question 12**

Although this question was optional; those that attempted it did not do well. The question requested for specific answers on advantages and disadvantages of setting review periods for individual aspect of risks.

**Question 13**

Most of the candidates got this question right and answers given were straight forward answers.

**Question 14**

Very few candidates attempted this question because it was optional and those that attempted the question performed below average because some of the candidates did not have in-depth knowledge of the issues/points/policies that a standard risk policy should address

**Chief Examiner's Comments on Overall Performance:**

None

**Chief Examiner's Suggestions on Improvement:**

Nothing that has to do with candidates' performance.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. Outline any three (3) of the risk management process.

### **Solution**

The five (5) process of risk management are:

- i) Identify risk
- ii) Analyse risk and impact
- iii) Decide on what risk is and is not acceptable
- iv) Control or transfer any unacceptable risk
- v) Review regularly

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

2. What are the factors that can influence an organisation's attitude to risk? Enumerate any three (3) of these factors.

### **Solution**

The following are factors that can influence an organization's attitude to risk:

- The financial strength and scale of the organisation that will allow a certain level of financial loss to be absorbed
- The culture of the organisation, the culture of its country of origin, of its unique marketplace, and of the board itself
- The flexibility within an organisation that will enable it to meet urgent needs and the option to cope with a risk incident in different ways
- The impact of each risk incident on the future trading activities of the organisation.

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

3. Outline any six (6) risk types aside speculative and operational risks which may be of interest to Insurance Companies.

### **Solution**

Six risk types, aside speculative and operational risks, which may be of interest to Insurance Companies are:

- Political risk.
- Environmental risk.
- Security risk.
- Construction risk.
- Reputational risk.
- Credit risk.

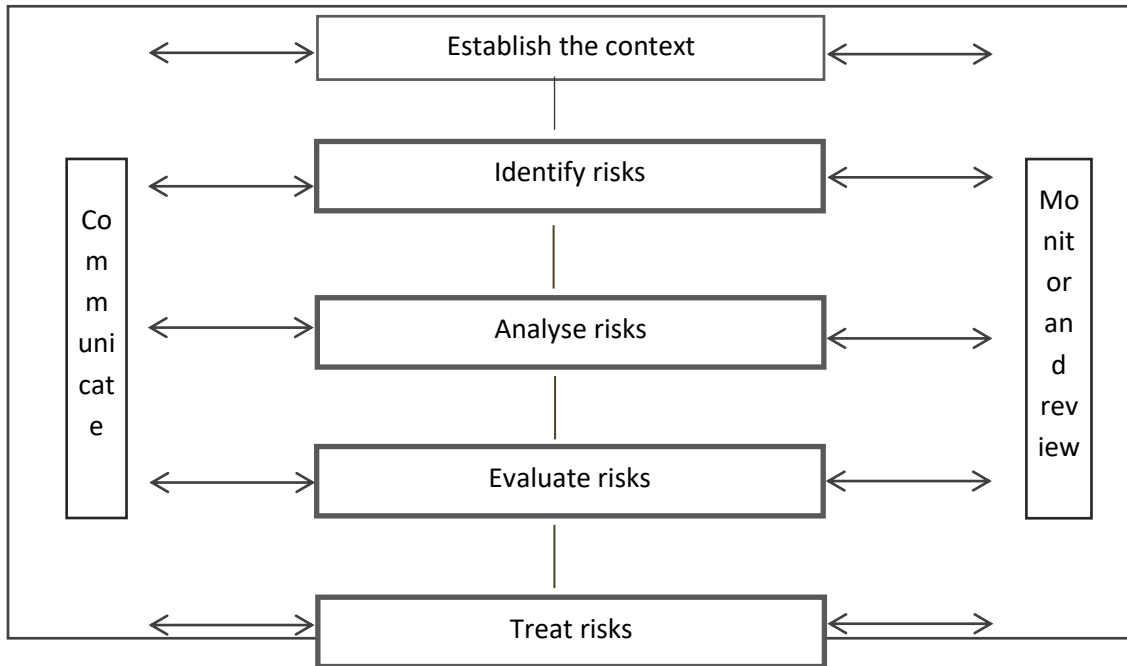
- Fundamental risk.

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

4. Summarise the key aspects of risk management.

**Solution**

The key aspects of risk management are:



(1 mark per correctly stated point in the boxes. Maximum of 6 to be graded. Total: 6 marks)

5. Explain the following risk classification:

- Pure and Speculative Risks
- Particular and Fundamental Risks.

**Solution**

(i) **Pure and Speculative Risks:** A pure risk is a risk which involves a possibility of a loss (in a worst scenario) or no loss nor profit (at best). Thus for a pure risk, it is either a person suffers a loss or in the absence of the loss, he remains in his position (status-quo). While, a speculative risk gives someone a chance of making a gain in addition to making a loss or break-even. Investment risks generally are speculative risks. However, unlike the pure risks which are insurable, all speculative risks are not insurable (mainly because of the possibility or chance of a gain involved in them).

(1½ marks for each correctly stated explanation. Sub-Total: 3 marks)

(ii) **Particular and fundamental Risks:** A particular risk is a risk which has its origin (its cause) known and its effect can be borne by individuals. Thus, particular

risks are said to be personal in both its origin and effect, meaning it is caused by individuals and solutions can be proffered by individuals as well. Particular risks are generally insurable. Whereas, fundamental risks are risks whose causes are beyond human control and consequences are felt by the society as a whole. Examples of risks with fundamental nature are floods, Tsunamis, earthquake as well as other major disasters.

(1½ marks for each correctly stated explanation. Sub-Total: 3 marks)

6. What are the dangers in using only a statistical analysis of risk?

**Solution**

The dangers in using only a statistical analysis of risk are that it provides only part of the picture. There is a possibility that the input data may be neither complete nor accurate. There are exposures also in that the historical data may not:

- Reflect how the organisation and its environment are currently changing
- Capture the way that loss experiences may change in the light of recent experiences
- Deal effectively with infrequent, possibly catastrophic risk

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

7. What are the four (4) main corporate governance requirements?

**Solution**

The four main corporate governance requirements are:

- Cadbury – Corporate governance recommendations
- Greenbury – Primarily regarding directors' pay and service contracts
- Hamel – a range of internal controls
- Turnbull – Practical guidance to help companies ensure they have effective risk management and control systems

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

8. Outline six (6) benefits a risk manager would achieve when establishing a continuity plan.

**Solution**

The benefits a risk manager would achieve when establishing a continuity plan are:

- a fast, authorised and visible control of the incident and its aftermath
- damage containment as far as it is possible
- security and safety is reinstated

- damage assessments are received with confidence and acted upon
  - financial and operational control remain in place
  - the brand value is protected
  - immediate responsibilities are met
  - the return to “business as usual” is accelerated
- (1 mark for each correctly stated point. Maximum of 6 to be graded. Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks.

- 9(a) What is the full meaning of NIA? Enumerate any four (4) roles of the body. (10 marks)
- (b) Your Legal Department had requested for advice on how liabilities assumed under any contract entered by other departments in the company can be handled and guided. List and explain at least five (5) key areas/points in your response to him as the Risk Manager of the company. Your response should be in an official **MEMO FORMAT**. **Answers not in MEMO FORMAT as specified by the examiner will be penalised.** (15 Marks)
- (c) Write a memo to your Managing Director explaining how brainstorming can assist you as the Chief Risk Officer of the organisation. **Answers not in MEMO FORMAT as specified by the examiner will be penalised.** (15 Marks)
- (d) Enumerate any four (4) factor that can influence an organization’s attitude to risk? (10 Marks)

### Solution

9) a) Nigerian Insurers Association. (2 marks)

Some of the roles are:

- to protect, promote, and advance the common interest of insurers
- to advise members on any action by government or any authority in connection with any legislation or policy
- to advise or consult with the government regarding any act by it or its agencies with regard to any matter relating to insurance
- to guide and assist members in complying with any statute, regulation and government directive relating generally to the insurance business



- to create better understanding of insurance by all sections of the community
  - to maintain constant dialogue with other trade associations
  - to consult, co-operate with any individual, association within or outside Nigeria having objectives similar to those of the Association
  - to promote cordial relationship among members
- (2 marks for any correctly stated role. Maximum of 4 roles to be graded. Total: 8 marks)

b) Candidate answers to the question should be in memo form as shown below:

**EYILOBE GUEST HOUSE  
INTERNAL MEMO**

Date: 11<sup>th</sup> October, 2019

From: The Risk Manager

To: The Company Secretary

Subject: RE: How Liabilities Assumed Under Contract could be Handled and Guided

---

Candidates should mention and explain any five of the following in the memo:

- The Contract usually impose responsibilities
- Risk Manager in conjunction with staff in legal department of the company will need to confirm any significant responsibilities that have been accepted.
- Various departments need to be informed to refer and work with both Company Secretary and Risk Manager before agreement becomes binding
- Risk Manager will need to understand the risk of a failure to meet responsibilities as contained in any contract paper.
- Various departments and Risk Manager must be aware of how breach could occur.
- Risk Manager should be able to evaluate the potential cost of a breach and come out with suggestions on how such would be funded.
- Risk Manager and Company Secretary will value the downside of all agreement.
- Risk Manager must be able to draw attention of other managers to any potential consequences of agreement reached that might be salient.

- Liabilities assumed can come under employee liability, contractual liability, product liability, occupation of land, breach of statutory duty and or officers' liability.

(5 marks for stating in memo format (i.e. 1 mark each for memo heading, date, from, to, subject). 2 marks for each correctly explained point. Maximum of 5 points to be graded. Sub-Total: 10 marks.

Grand Total: 15 marks)

c. Candidate answer to the question should be in memo form as shown below:

## **CCEE CONSTRUCTION COMPANY LTD**

### **INTERNAL MEMO**

Date: 11<sup>TH</sup> October, 2019

From: The Chief Risk Officer (CRO)

To: The Managing Director

Subject: RE: How Brainstorming Could Assist the Chief Risk Officer and The Organisation in General.

The following points should be developed by the candidates:

- Explanation of brainstorming is important and mentioning of who should be involved. i.e. Local Managers and Operators of Functions
- The nature of the business of the organisation will determine how regular brainstorming could be organised with relevant department.
- Person who understands a particular risk, risk incident and cost must be identified within the local environment and be involved in brainstorming
- Brainstorming when conducted properly and in a conducive environment brings out wealth of knowledge, experience and understanding that enable company to come out with blue prints.
- Brainstorming will help in creation of Risk Management Committee and necessary risk policy statement can be drawn up easily.
- Brainstorming is one way of tapping into understanding the company's risk exposure and how to handle such.
- Outcome of brainstorming usually provide education and better understanding for those concerned including all other staff within the organisation.

(5 marks for stating in memo format (i.e. 1 mark each for memo heading, date, from, to, subject). 2 marks for each correctly explained point. Maximum of 5 points to be graded. Sub-Total: 15 marks. )

d) Candidates should enumerate and discuss the following factors that can influence an organisation's attitude to risk:

- Financial strength and scale of the organisation that will allow a certain level of financial loss to be absorbed.
- Culture of the organisation, culture of the country, its unique market place and governing board.
- The flexibility within an organisation that will enable it meet urgent needs
- The option available within the organisation to cope with a risk incident in different ways.
- The impact of each risk incident on the future trading activities of the organisation.

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

### Part III

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

Each question carries **34** marks.

10. Enumerate and fully explain the "Risk Management Process".

#### **Solution**

The "Risk Management Process" is as stated below:

- i. Organization's strategic objectives
- ii. Risk assessment, which is of two components:
- iii. Risk reporting (in terms of threats & opportunities)
- iv. Decision
- v. Risk treatment
- vi. Residual risk reporting
- vii. Monitoring

(1 mark each. Total: 7 marks)

These are explained below:

i. **Organization's Strategic Objectives:** these are long term planned objectives which an organization is set out to achieve. Risk management generally enhances organization's strategic objectives through the following:

- providing a framework in terms of activities in the most sequential & guided ways for the organization
  - effective & efficient allocation and use of the organization's capital as well as other resources
  - protecting the organization's assets from all those risks that may threaten them
  - providing enabling environment for the people to work
  - aiding decision making process through coordinated planning and direction of business activities
  - volatility is reduced, especially in the less important aspects of the business.
- (6 marks)

ii. **Risk assessment:** which is of two components:

(a) Risk Analysis-

Risk identification

Risk description

Risk estimation

(b) Risk Assessment - the overall process of risk analysis and evaluation.

There are two components of risk assessment; risk analysis and risk evaluation.

- **Risk Analysis** comprises of risk identification, description and estimation.

(i) **risk identification:** This is a systematic way of identifying all the activities that may expose the organization to various risks.

(ii) **risk description:** This is the explicit description of all the risks identified under the risk identification stage in a way that would be readily understood by all the stakeholders

(iii) **risk estimation:** These are the estimates both in terms of quantitative & qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as H - M - L may be employed in describing the estimate values or attributes (H - stands for High; M - stands for Medium or Middle; L - stands for Low)

- **Risk Evaluation:** this is the second and last component of risk assessment whereby opinions (judgments) are formed about the importance (value) and acceptability (appetite) of risk.

(6 marks)

iii. **Risk Reporting (in terms of threats & opportunities):** this reporting both the downside and upside aspects of the risks. In other words, we are reporting on what are the threats and opportunities associated with the risks under consideration.

(3 marks)

iv. **Decision:** to take informed decisions regarding the importance and acceptability of the risks having considered the threats & opportunities they present to the organization. (3 marks)

v. **Risk Treatment:** the process of selecting and implementing measures to modify the risk and this basically includes:

- risk avoidance
- risk control
- risk transfer
- risk financing

Furthermore, please note that the minimum standard requirement for risk treatment method chosen is that it should be cost effective, laws & regulations compliant. (4 marks)

vi. **Residual Risk Reporting:** reporting the overall information about all the risks to the appropriate stakeholders as they are all affected separately. The stakeholders are - the board, the CEO, executive management, business units/departments, departmental heads and various individuals. (3 marks)

vii. **Monitoring:** there should be regular & continuous monitoring of the risk management process with a view of ensuring that there are no omissions in the actions identified to be carried out & any deviations noticed must be reported to the appropriate channel or authority. (2 marks)

(Grand Total: 34 marks)

11. As the Human Resources Manager who is considering engaging an experienced Risk Manager to assume The Group Risk Manager Position in an oil company in Port-Harcourt, Rivers State, Nigeria. List and discuss five (5) core competencies you will expect from the prospective applicants. Give reasons for each of the core competencies.

### **Solution**

The following are the Core Competencies expected of an experienced Group Risk Manager in an Oil Company in Port Harcourt are:

1. Thorough understanding of risk management principles, practices and techniques.
2. Thorough understanding of operational management principles, practices, techniques with special knowledge of:
  - i. Business continuity management
  - ii. People's attitude and employment laws (occupational health)

- iii. Nature and form of crime, fraud and security
  - iv. Environmental issues and regulations
  - v. E-business
3. Thorough understanding of risk financing, transfer products and services
  4. Wide reading culture and extensive knowledge of the operations and development (news) worldwide
  5. Analytical and problem-solving skills
  6. Project management skills
  7. Communication skills across all segments, board, management, external including government
  8. Ability to work with and influence people at all levels within and outside the organisation
  9. Good contingency planner and executioner
  10. Good/Basic understanding of the Port Harcourt environment/metropolis.

(2 marks for correctly stated competence. 2 marks for explaining the competence. 1 mark for stating the reason for the competence. Sub-Total per competence: 5 marks. Maximum of 6 competences to be graded. Sub-Total: 30 marks). Relating any of the competence to the location in any correct manner - 4 marks. Grand Total: 34 marks).

- 12(a) What aspects of a risk incident can affect the amount of the resultant financial loss? (16 Marks)
- (b) State the advantages and disadvantages of setting review periods for individual aspects of risks? (18 Marks)

### **Solution**

a) The following are aspects of a risk incident can affect the amount of the resultant financial loss:

- Monetary costs:
  1. The cost of replacing capital assets
  2. Loss of income, continuing costs and possibly increased costs whilst factories and other assets are being replaced
- Timing of litigation and other necessary payments
- Repeated incidents within one accounting period
- Criticality to the business of the amount of time needed to reinstate services and

- Administration costs and opportunity costs in the diversion of resources from mainstream operational needs  
(4 marks for each correctly aspect. Maximum of 4 to be graded. Total: 16 marks)

b) The advantages and disadvantages of setting review periods for individual aspects of risks are:

**Advantages:**

- Set management standards for individual units
- Ensure that risks come back onto the agenda regularly
- The assessment of risk isn't put off until a more "convenient" moment

**Disadvantages:**

- The risk may change between the review periods
- Operational units may feel that they do not have to consider the impact of any changes between review periods
- Risk understanding is not considered as an integral part of the changes

(3 marks for each correctly stated advantage and disadvantage. Maximum of 3 to be graded under each. Total: 18 marks)

13. What challenges can a risk manager face when trying to protect the good name of the organisation in the face of a major media attack? Briefly justify all your stated challenges.

**Solution**

The challenges that a risk manager can face when trying to protect the good name of the organisation in the face of a major media attack are (1½ marks for this):

- The speed needed to respond
- Stopping misinformation (especially from own staff who may not be aware of the whole or the latest picture)
- Getting consistent information out to what is sometimes just a scrum of reporters
- Ensuring that the spokesperson has the latest, trusted, information from within a fast-developing situation

- Providing a base of information that may be consistently valuable to a whole range of different audiences (and by necessity, stakeholders)
- Protecting sensitive information from a resourceful profession.

(6½ marks for each correctly stated and justified point (i.e. 3½ marks for mentioning the point; 3 marks for correct justification. Maximum of 5 to be graded. Total: 32½ marks. Grand Total: 34 marks)

14. List and explain any five (5) important issues points/policies that a standard risk policy statement should address.

### **Solution**

Candidates are required to list and explain the following policies.

A risk policy statement should address the following (**1½ marks for this**):

- Roles and objectives of the risk management functions
- How risks are to be identified, measured and prioritizes for action
- Decisions on which risks and levels of impact that can be retained within the organisation.
- The lines of authority and responsibility
- How risks are to be reported upwards and through the board
- The methods by which change is monitored within the organisation, particularly risks carried are identified for decision.

(6½ marks for each correctly stated and justified point (i.e. 3½ marks for mentioning the point; 3 marks for correct justification. Maximum of 5 to be graded. Total: 32½ marks. Grand Total: 34 marks)



LOGO

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A735**

**LIFE ASSURANCE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A735 - LIFE ASSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 46.18%

Highest Score: 76%

Lowest Score: 16%

Average Score: 49.88%

**Breakdown Updates****Question 1**

The question was well attempted by the candidates with good understanding of the topic.

**Question 2**

The question is to test the candidates understanding of facultative reinsurance. The candidates showed good understanding of this question. About 50% of the candidates scored above average.

**Question 3**

Well attempted question with majority of the candidates getting it correctly; overall performance was good.

**Question 4**

This is a question that tested the candidates understanding of the use of annuity product. The question was well attempted. About 50% of the candidates scored above average.

**Question 5**

Majority of the candidates who attempted this question had good understanding of the topic.

**Question 6**

This is a textbook question which most candidates did not understand hence, performance pass rate was average.

**Question 7**

This question well attempted by the candidates. However, some candidates went off line on the second leg of the question, while majority of them performed excellently well on the first leg of the question.

**Question 8**

This is a direct question that tested the candidates' understanding of the term "executor" and "administrator" when referring to the death of an individual. The question was well

attempted with good performance. About 50% of the attempt on this question scored above average.

#### **Question 9**

This is a compulsory question but unfortunately most of the candidates did not have idea of 'know your customer' so as to advise them on the appropriate policy suitable.

#### **Question 10**

The performance of the candidate on this question is relatively fair; most of the candidates did not understand the topic very well, which reflected in their dismal performance.

#### **Question 11**

This is a question that tested the knowledge of the candidate in underwriting. Those who attempted the question did well since it was optional but most candidates avoided it.

#### **Question 12**

Only few of the candidates attempted this question and majority of those that attempted it got it wrong. The overall performance for the question is very poor.

#### **Question 13**

This is a question that tested the candidates' understanding of the "principles of trust". The candidates who attempted this question had good understanding of the question hence, good performance. About 50% of the candidates scored above average of the allotted marks.

#### **Question 14**

Majority of the candidates that attempted this question scored well in the part 'a' but only 45% of the candidates understood the application as it relates to life assurance.

#### **Chief Examiner's Comments on Overall Performance:**

Not too impressive performance.

#### **Chief Examiner's Suggestions on Improvement:**

Nothing that has to do with candidates' performance.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. State three (3) advantages of the underwriting process to a life office.

### **Solution**

Three advantages of the underwriting process to a life office are:

- To ensure equitable evaluation of a proposer is carried out
  - To charge appropriate premium for cover provided
  - To ensure the insurer is financially strong to fulfil its obligation to all stakeholders
  - to prevent anti-selection against the insurer
- (2 marks for each correctly stated advantage. Maximum of 3 to be graded. Total: 6 marks)

2(a) Outline any four (4) disadvantages of a facultative reinsurance to the life offices. (4 marks)

(b) What is a free cover limit in life underwriting? (2 marks).

### **Solution**

a) The disadvantages of facultative reinsurance to the life offices are:

- there is no certainty as to risk acceptance since the risks are considered individually
  - it is very time consuming
  - it is also very cumbersome
  - it is usually more expensive than the treaty
  - there may be leakages of vital information to competitors.
  - It attracts lower reinsurance commission when compared to a treaty reinsurance.
- (2 marks for each correctly stated advantage. Maximum of 3 to be graded. Total: 6 marks)

b) Free cover limit in life underwriting is the level of sum assured which does not require medical examination in a group life business. (2 marks)

3(a) Outline the three (3) main ways of dealing with under-average lives in life assurance.

(b) What are the three (3) classification of extra risks in life business?

### **Solution**

(a) The three main ways of dealing with under-average lives in life assurance are:

i) Imposition of Special terms (ii) Postponement/Deferment (iii) Declinature  
(1 mark for each correctly stated way. Total: 3 marks)

(b) The three (3) classification of extra risks in life business are:  
(i) increasing extra risks (ii) reducing extra risks (iii) constant extra risks  
(1 mark for each correctly stated way. Total: 3 marks)

4. Mention any three (3) uses of annuity products.

### Solution

The uses of annuity products are:

- to make provision for children's education.
- for investment purposes.
- by the breadwinner for life protection (annuity certain)
- to augment pension.
- as means of providing for one's personal pension.

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

5. List three (3) criminal offences under the Money Laundering Regulations 1993.

### Solution

The criminal offences under the Money Laundering Regulations 1993 are:

- failure to report suspicion that a person may be attempting to launder money
- providing assistance to a suspected money launderer
- tipping off a person that are suspected of money laundering or are being investigated for the offence
- to possess, use or acquire the proceed(s) of drug trafficking in the knowledge that they have such proceeds

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

6(a) Distinguish between second mortgages and sub-mortgages. (2 marks)

(b) Outline any four (4) rights of a mortgagee. (4 marks)

### Solution

a) A **second mortgage** would arise in a situation where the mortgagor seeks for another or an additional loan with the same mortgaged property from another mortgagee. **While, a sub-mortgage** will arise in a situation where by the original mortgagee needs to seek for a loan amount and makes use of the mortgage property in his custody as collateral for the loan amount, but without transferring all his rights in the original mortgage to the new mortgagee to exercise.

(2 marks for each correctly stated point. 1 point per term. Total: 4 marks)

b) The rights of a mortgagee are:

- a right of repayment
- a right to appointment of a “receivership”
- a right of “power of sale”
- consolidation right
- foreclosure right
- tacking right

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

7. Give three (3) examples of occupational risks with higher risk of death by diseases.

### **Solution**

Some examples of occupational risks with higher risk of death by diseases are:

- publicans
- miners
- chemical workers
- asbestos workers

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

8. Distinguish between an “executor” and an “administrator” when referring to the death of an individual.

### **Solution**

When referring to the death of an individual, the legal personal representative of a person who dies testate is referred to as **an executor**, while the legal personal representative of a person who dies intestate is referred to as **an administrator**.

(3 marks for each correctly stated meaning. Total: 6 marks)

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

9(a) What is the provision of Section 50 (1) of the Insurance Act 2003 and its effect on the Nigerian Insurance Industry? (10 marks)

(b) Suggest in detail what contracts might be offered to each of the following prospects:

- i. a 35-year-old salesman of a beverage company, with a gross salary of NGN1,900,000.00 per annum, who is married to a wife and they both have three (3) children aged 8 years, 5 years and 2 years respectively.

- (10 marks)
- ii. A 50-year-old company director, married with four (4) children aged 20, 16, 13 and 7 years, lives in a 7-bedroom duplex apartment in Oriyomi Housing Estate, Abuja. He is presently processing a mortgage for a NGN20,000,000.00 loan facility. (10 marks)
- iii. A 60-year-old married man, who has just sold his partnership interest in a textile company in the city and intends to retire to his country home. (10 marks)
- (c) Describe the use of exclusion as a method of dealing with “under-average” lives. (10 marks)

**Solution**

a) Section 50 (1) of the Insurance Act 2003 provides that the receipt of an insurance premium shall be a condition precedent to a valid contract of insurance and there shall be no cover in respect of an insurance risk, unless the premium is paid in advance. (6 marks)

The effect of this provision of the Act has been positive on the Industry by way of improved liquidity. (4 marks)

b)

The contracts that might be offered to each of the following prospects are: -

- i. **Salesman**
- |                             |   |  |
|-----------------------------|---|--|
| Endowment Assurance         | - | Family protection                        |
| Family Income Benefit       | - | Family protection                        |
| Income Protection Insurance | - | Income protection on the                 |
|                             |   | Saleman following an accident or illness |

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

- ii. **Company Director**
- |                               |   |                                     |
|-------------------------------|---|-------------------------------------|
| Endowment Assurance           | - | To augment retirement benefit.      |
| Mortgage Protection Assurance | - | As collateral for house purchase    |
| Personal Accident Insurance   | - | Disability through accident         |
| Income Protection Insurance   | - | Illness and accident                |
| Annuity                       | - | Income at old age                   |
| Whole Life Assurance          | - | Family protection & inheritance tax |

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



iii. **Married 60 years Old Man**

The possibility here is that, having sold his partnership interest, the man is in a situation of having a large amount of capital and low income. The contracts required are therefore:

- **Immediate Annuity**: where income will start being paid immediately and for the rest of the annuitant's life
- **Joint Life and Live Survivor Annuity**: which pays annuity for the joint life times of the two annuitants and may continue to pay in full after the death of the first annuitant, but sometimes may reduce by say one-third.

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

(Grand Total: 30 marks)

- d. Under the Exclusion method of treating under average lives, the proposal may be acceptable at ordinary rates but death from the extra risk is excluded. For example, a proposal from an average life who is a boxer might be accepted at ordinary rates subject to an exclusion for death caused by boxing activities.

The demerit of this method is that cover is neither complete nor available when it might be needed most.

The method is most suited for occupational or pastimes extra risks such as diving, motorcycle racing e.t.c. rather than for a medical risk.

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

### **Part III**

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

**Each question carries 34 marks.**

10. A 45-year-old married man with three (3) children aged 11, 8 and 3 years has approached you for advice on how he can guarantee regular income for his family in case of early death or disability. What policies will you recommend to him? Justify, with detailed explanation, on the reasons for your recommendation.

### **Solution**

**Candidates are required to state the policy(ies) to be recommended; features of the policy(ies) and some advantages of the recommended policy(ies).**

The best policy to recommend in this instance is a EITHER a Family Income Protection Policy or a Trust Policy as explained below using the Trust Policy. Any Candidate that explains with any other correct type of policy, with justification, the grading should be appropriated as stated in the guide below.

For a 45-year-old married man with three (3) children aged 11, 8 and 3 years who has approached me for advice on how he can guarantee regular income for his family in case of early death of disability, I would recommend a

- that he writes a life policy under trust i.e. have a trust policy (9 marks)
- A trust is a means of arranging property to the benefit of other persons without giving them full control over the property
- It is often done for persons who are not capable of dealing with their property correctly e.g. minor, children, e.t.c.
- He may use it as a means of giving out property to his family while retaining some control over it by being one of the trustees in the case of disability
- It could also be for reasons of enjoying some tax benefits
- Trustees possess legal ownership of the trust property but cannot use it as their own personal property; the beneficiaries possess equitable interest
- The trustees have to use the property for the benefit of the beneficiaries according to the trust terms
- The beneficiaries can enforce their rights against the trustees by legal action if necessary
- There is usually no need for an agreement between the man and the beneficiaries, neither is there any need for consideration
- The advantage and provision of writing a life policy under trust include:
  - the policy is not part of the man's estate – on death
  - when alive (as in the case of disability), he can maintain control by appointment of trustee(s) while also nominating himself as one of the trustee(s), if he so desires
  - quicker payment to beneficiaries as there is no need to wait for grant of representative on death
  - provides flexibility as to how the proceeds are paid out
  - a power for the trustee(s) to pay premiums out of the trust property
  - a power for the trustee(s) to borrow to pay premiums

- a power for the trustee(s) to surrender the policy, or convert it or to exercise any option as would be required at any time
- a wide power for the trustee(s) to deal with the policy in any manner they think fit

(5 marks for any complete and correctly stated point. Maximum of 5 points to be graded. Sub-Total: 25 marks).

(Grand Total Marks: 34 marks)

- 11(a) What consideration must be taken into account by an underwriter when deciding the acceptance terms of a term assurance life policy. (28 marks)
- (b) State the three different categories of acceptance terms that can be offered under (a) above. (6 marks)

### Solution

- (a) The consideration that must be taken into account by an underwriter when deciding the acceptance terms of a term assurance life policy are:
- **size of the sum assured proposed:** it may be necessary to arrange for reinsurance where it exceeds the retention limit of the office
  - **age of the proposer:** the higher the age at entry, the higher the risk of death
  - **medical factor:** the underwriter will look out for medical factors affecting longevity i.e. any condition that can reduce the expectation of life. For example, heart diseases, cancer, kidney failure, e.t.c.
  - **occupational factors:** to check the occupation whether it presents greater than average risk of death by disease and/or accident e.g. bomb disposal worker or miners (lung diseases), e.t.c.
  - **residential factors:** like climate risks, political instability, war, diseases, e.t.c. Some places may present extra risk that are life threatening
  - **sports and pastimes:** unusually hazardous sports or pastimes should be of concern to the underwriter because of the high risk of accidental death e.g. boxing, motorcycle racing, e.t.c.
  - **financial factors:** the size of the sum assured proposed must be noted in line with the circumstances of the proposer. If the sum assured and/or premiums are not consistent with the life assured's situation, it could be a case of overselling with the attendant risks. In addition, when a policy is sold on a "life of another basis", the insurable interest position must be checked

(5 marks for mentioning the consideration. 2 marks for explaining the mentioned point.

Sub-Total: 7 marks for each correct point. Maximum of 4 points to be graded.

Grand Total: 28 marks)

(b) The three different categories of acceptance terms that can be offered under (a) above are:

- acceptance at ordinary rates of premium
- acceptance at special terms if found to be substandard (medically, hazardous occupation, sports/pastime, e.t.c.)
- alternative contract may be offered.

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

12(a) Describe in detail what you understand by 'Actuarial Valuation of life business'. (10 marks)

(b) Mention and explain any five (5) purposes of actuarial valuation to a life office. (15 marks)

(c) Define "surplus" in relation to actuarial valuation and mention any two (2) uses of surplus. (9 marks)

### **Solution**

a) Actuarial Valuation of a life business is a technical actuarial process of assessing the life fund in the light of mortality and interest rates as well as the benefits the life office has guaranteed to pay in the future.

It may equally be described as an assessment of the long term solvency of a life office in respect of its various life policies under its portfolio.

It evaluates the sufficiency of the life fund or assets over the life office net liabilities as at the valuation date.

The main purpose of the actuarial valuation is to determine whether or not a life office is solvent.

Actuarial valuation may also be referred to as **actuarial investigation** or **life valuation**.

If the assets of the life portfolio of a life office exceed its net valuation liabilities, there is a **surplus** and this means that the company is solvent. But if the assets short fall of the net valuation liabilities, this connotes a deficit and as such the company is said to be insolvent

(2½ marks for any complete and correctly point. Maximum of 4 points to be graded. Total: 10 marks)

- b) The purposes of Actuarial Valuation to a life office are that:
- it is required at the time of mergers and acquisitions between two or more life offices
  - it is carried out to test future funding or current solvency of the life office portfolio
  - to comply with the legal requirement
  - to determine the winding-up position of a life office
  - to know the pace of the life portfolio
  - to revalue the investment position of the life office
  - to determine whether or not a life office is in a state of solvency or deficiency

(2 marks for mentioning the purpose; 1 mark for explaining the mentioned purpose. Sub-Total per purpose: 3 marks. Maximum of 5 purposes are to be graded. Grand Total: 15 marks)

c) "Surplus" is the excess of the life fund over the net liabilities as at the valuation date. When there is a surplus, it means that the portfolio of such a life office is healthy and therefore the life office is solvent.

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

The uses of surplus are to:

- establish reserves for future uses.
- increase or add to the current reserves level
- pay bonuses and dividends.

(1½ marks for any correctly stated use. Maximum of 2 uses to be graded. Total: 3 marks)

13(a) What is the legal definition of a "trust"? (4 marks).

(b) Mention and explain two (2) differences between a trust corporation and individual trustee. (12 marks)

(c) Distinguish between the following types of trusts:

- i. Bare and fixed trusts. (9 marks)
- ii. Charitable and Statutory trusts. (9 marks)

### **Solution**

a) The legal definition of a trust is an equitable obligation binding the trustee to use the trust property only for the benefit of the beneficiaries of whom he may be one and any one of whom may enforce it. (4 marks)

b) The differences between a trust corporation and individual trustee are:

S/No	Trust Corporation	Individual Trustees
1	It is assumed to be immortal	It is not immortal
2	It is more expensive	It is less expensive
3	It possesses much more experience, especially in the areas of pension scheme administration and complex pension tax matters	It is not as experienced as the trust corporation

(3 marks for any corrected stated difference. Maximum of 2 pairs to be graded. Sub-Total per pair: 6 marks. Grand Total: 12 marks)

c) i) **Bare Trusts** are trusts where the sole responsibility of the trustee is to transfer the trust property to a named beneficiary. Therefore, after transferring the trust property to the sole named beneficiary or beneficiaries, the trust shall automatically come to an end. (4½ marks)

while **Fixed Trusts** are trusts in respect of which the beneficiaries of the trust are fixed at the inception of the trust and as such, cannot be subsequently changed either by the settle or himself or the trustee(s). This means that if a trust is created as a fixed trust, the beneficiaries as named from the onset cannot be changed, except through some laid down rule of law known as power of appointment trust. (4½ marks)

ii) **Charitable Trusts** are trusts created for the benefit of the public. They are trusts with charitable interests and they are sometimes referred to as Public Trusts. (4½ marks) while **Statutory Trusts** are trusts which have been specifically created by the statute. (4½ marks)

14(a) Briefly explain what you understand by the term “legal principles of insurance”. State all the standard “legal principles of insurance”. (7 marks)

(b) Mention and explain in details, with at least one (1) example each, the three (3) legal principles of insurance which are applicable to life assurance business. (27 marks)

## Solution

a) The term “legal principle of insurance” can be explained as the globally or universally acceptable principles that form the bedrock of insurance business practice. (1 mark)

The standard “legal principles of insurance are:

- |                      |          |        |
|----------------------|----------|--------|
| • Insurable Interest | (1 mark) |        |
| • Proximate Cause    | (1 mark) |        |
| • Indemnity          | (1 mark) |        |
| • Utmost Good Faith  | (1 mark) |        |
| • Subrogation        | (1 mark) |        |
| • Contribution       | (1 mark) |        |
| (Grand               | Total: 7 | marks) |

b) From the above stated principles, the three that are applicable to life assurance business are:

(i) **Utmost Good Faith (Uberrima fides)**: this is a legal principles of insurance which states that the two parties to a life insurance contract must disclose all relevant information relating to the proposed life (i.e. the life to be assured) in the life assurance contract to each other without necessarily being asked for. This relevant information in insurance are referred to as the ‘**material facts**’.

The principle of utmost good faith is considered as a fundamental principle and though it rests on both parties, it is more heavily rested on the assured/life assured. A failure on the part of either party to disclose any of the material facts, may give the aggrieved party the power to exercise his rights for breach of utmost good faith.

The remedies available to the aggrieved party as a result of breach of utmost good faith are to:

- i. repudiate the contract from inception
- ii. sue for damages in addition to (i) above
- iii. waive his rights under (i) and (ii) above.

(3 marks for correctly stating the principle. 2 marks for any correctly explanation. Maximum of 2 points to be graded. 2 marks for any correctly stated example. Grand Total: 9 marks)

(ii)**Insurable Interest**: Insurable interest is the legal right to insure which arises out of the financial relationship recognized at law between the assured and the event(s) or contingencies assured against, where by the assured or his named beneficiary benefits from non-occurrence of such events or contingencies assured against and would be prejudiced by their occurrence.

In life assurance, the insurable interest that governs the amount of the benefit which would be recovered at the time of the claim was that amount existing at the inception of the life assurance contract

Some of the features of insurable interest are that it must:

- be definite.
- be capable of financial valuation.
- involve the loss of a legal right.
- be legally valid and subsisting.

Some examples of how and when an insurable interest may exist in life assurance include:

- A man has a very good insurable interest in his life to any amount
- A man also has a good insurable interest in the life of his wife
- A creditor on the life of his debtor(s) to the extent of the loan amount plus any interest agreed
- A trustee in respect of the trust property.

(3 marks for correctly stating the principle. 2 marks for any correctly explanation. Maximum of 2 points to be graded. 2 marks for any correctly stated example. Grand Total: 9 marks)

(iii) **Proximate Cause:** This is defined in the case of **Pawsey Vs. Scottish Union and National (1907)** as an active, efficient cause that sets in motion a train of events which brings about a result without the intervention of any force started and working from a new and independent source.

Proximate cause is the legal principle of insurance that governs the events or contingencies which are covered under the life assurance policy.

(3 marks for correctly stating the principle. 2 marks for any correctly explanation. Maximum of 2 points to be graded. 2 marks for any correctly stated example. Grand Total: 9 marks)



LOGO

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A745**

**PRINCIPLES OF PROPERTY 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 form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A745 - PRINCIPLE OF PROPERTY INSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 62.93%

Highest Score: 81%

Lowest Score: 14%

Average Score: 64%

**Breakdown Updates****Question 1**

Text broke/practice question on exclusions (theft). The candidates' performances were encouraging.

**Question 2**

Textbook question on "Material Damage" proviso; about 60% of candidates got it right.

**Question 3**

Being a textbook question, it was poorly attempted by candidates. Performance was below average.

**Question 4**

This is a popular question but not well attempted. Performance was above average.

**Question 5**

The question was massively attempted by candidates. Most candidates misunderstood the question.

**Question 6**

Textbook question/practice. Performance was above average.

**Question 7**

Performance was above average.

**Question 8**

A textbook question, yet majority of the candidates could not get it right. Performance was below average.

**Question 9**

A compulsory question. Part 'A' showed that candidates were not abreast of the regulator activities (NAICOM). Part 'B' Performance was not too good. Candidates that knew the principle performed very well, while those who did not know it, performed woefully.

**Question 10**

The question is to test candidates understanding of CP model; candidates are expected to pay attention on this aspect of the book (course).

**Question 11**

The question was based on Loss Adjusters' process. It was well attempted by the candidates; performance was above average.

**Question 12**

The question was attempted by all candidate and was well answered by them. The performance was okay.

**Question 13**

A very popular and interesting question. Performance of candidates was encouraging.

**Question 14**

This question was not well understood notwithstanding the fact that it was a textbook question. Performance was not encouraging.

**Chief Examiner's Comments on Overall Performance:**

The overall performance was okay; with over 60% pass rate.

**Chief Examiner's Suggestions on Improvement:**

The candidates need to be well prepared for the examination.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. State three (3) of the main exclusions universally found in theft policies.

### **Solution**

The main exclusions universally found in theft policies are:

- excess
- unexplained disappearance or shortage and omissions revealed during stock taking
- theft involving collusion
- explosion

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

2. What is “material damage proviso” in relation to Business Interruption Insurance”.

### **Solution**

The material damage proviso” in relation to Business Interruption Insurance” is that before the BI insurer would pay any claim, the material damage insurer must have:

- admitted liability
- paid the claim or
- would have paid the claim if not for a policy condition e.g. monetary excess

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

3. In addition to the standard cover, list three (3) automatic extension cover that you would expect to see in a computer policy.

### **Solution**

In addition to the standard cover, the following are some automatic extension cover that one would expect to see in a computer policy:

- debris removal
- temporary repairs and/or expediting costs
- consultant engineering fees and claims investigation costs
- incompatibility of computer record
- cost of protecting undamaged parts against further loss until repair or replacement has been completed
- discharge of gas
- reinstatement of data
- increased cost of working

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

4. Describe the major differences in cover between a “contractors all risk policy (CAR)” and a “machinery erection all risks policy”.

**Solution**

Contractors-all-Risk	Machinery Erection all Risks Policy
Major subject matter is the civil engineering structure - nothing to do with the testing (cold/hot) and commissioning	Major subject matter is the machinery risk that need to undergo testing (cold/hot) and commissioning

(3 marks each. Total: 6 marks)

5. What cover is actually provided during the maintenance period in a property insurance policy?

**Solution**

The cover provided during the maintenance period in a property insurance policy is liability of the contractor during the maintenance period for damage to the works whilst carrying out remedial work. (6 marks)

6. Briefly explain how the subject matter of an “inventory and valuation clause” is calculated.

**Solution**

The subject matter of an “inventory and valuation clause” is calculated by considering the value of the subject matter of insurance at the time of loss and place of loss. The value here means its real or instructive value, with no addition being made for any sentimental value and no allowances may be made for loss of prospective profit or other consequential loss.

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

7. What is the risk insured in business interruption insurance (BI) if an insured event should occur?

**Solution**

The risk insured in business interruption insurance (BI) if an insured event should occur is that of the damage making it impossible for the business to operate at all (or to severely restrict its ability to operate) as a result of essential part of the activities being no longer available. (6 marks)

8. In fire portfolio, enumerate any three (3) factors that are considered when determining the cost price of insurance (i.e. premium)?

**Solution**

The factors that are considered when determining the cost price of insurance (i.e. premium) in fire portfolio are:

- commission to intermediaries
  - insurer's costs to set up policies, mid-term adjustments and renewals
  - other administration costs
  - claims paid or payable
  - margin for catastrophe claims for the future
  - insurer's profit
- (2 marks for any correctly stated factor. Maximum of 3 factors to be graded. Total: 6 marks)

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9(a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers. Mention any two (2) requirements for insurers as it relates to claims. (10 marks)

(b)

Item	Description	Sum Insured (NGN)	Basis of Cover
1	Building	11,250,000.00 (declared value)	Reinstatement Day One (15%)
2	Machinery, Plant, Fixtures & Fittings	5,625,000.00 (declared value)	Reinstatement Day One (15%)
3	Stocks and Materials in Trade	4,500,000.00	Indemnity

The above table shows the sum insured stated on the insurance policy schedule.

NGN10,000.00 excess applies to the policy. There was a claim and the insurer admits liability under the policy terms although it was discovered during the processing of the claim that some of the items on the policy schedule are under-insured.

The under-insured items are as follows:

- ✚ Machinery, Plant, Fixtures and Fittings NGN6,000,000.00
- ✚ Stock and Material in Trade NGN6,750,000.00

The insured submitted a claim with the following values:

- ✚ Building-Repairs NGN2,625,000.00

✚ Machinery, Plants, Fixtures & Fittings	NGN375,000.00
✚ Stock and Material in Trade	NGN1,800,000.00

Outline what you would expect the adjusted loss estimate to be under the standard policy terms and conditions. (15 marks)

(c) Based upon the figures below, calculate the loss payable, showing all your calculations. What loss settlement would you propose?

✚ Cover is written on sum insured basis and a 12-month indemnity period	
✚ Sum Insured	NGN680,000.00
✚ Additional Increase in Cost of Working Item	NGN200,000.00
✚ Turnover in Last Financial Year prior to Loss	NGN160,000.00
✚ Gross Profit in the Last Financial Year prior to Loss	NGN695,000.00
✚ Standard Turnover	NGN1,680,000.00
✚ Turnover Achieved during the Indemnity Period	NGN1,200,000.00
✚ Additional Costs Incurred during the Indemnity Period which avails a <del>N</del> 400,000.00 reduction in turnover	NGN200,000.00
✚ Savings made during the Indemnity Period	NGN40,000.00.

(25 marks)

### Solution

a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers. The two requirements for insurers as it relates to claims are:

- insurance institutions are required to acknowledge all reported claims not later than 48hours from the date of notification
- insurance institutions are required to regularly update their websites (not later than every three (3) months) with some information as it relates to claims.

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

b) (i) The **building** is not under insured and cover insured on a reinstatement basis and so provided there is no betterment, the repair cost of N2,625,000.00 should be paid in full. (3 marks)

(ii) **Machinery, Plants, Fixtures and Fittings:** there is under insurance here so pro-rata average condition is applicable and the loss estimate amount is:

$$\begin{aligned}
 & \text{(1 mark)} \\
 = & \frac{5,625,000.00}{6,000,000.00} \times \frac{375,000.00}{1} && \text{(2 marks)} \\
 = & \text{N}351,562.00 && \text{(1 mark)}
 \end{aligned}$$



(iii) **Stock:** there is under insurance here so pro-rata average condition is applicable and the loss amount estimate amount is: (1 mark)

$$= \frac{4,500,000.00}{6,750,000.00} \times \frac{1,800,000.00}{1} \quad (2 \text{ marks})$$

$$= \text{N}1,200,000.00 \quad (1 \text{ mark})$$

Total Loss Paid:	N	
Building:	2,625,000.00	
Contents	351,562.00	
Stock	1,200,000.00	
	4,176,562.50	(1 mark)
Less Excess	10,000.00	(1 mark)
Loss Estimate Amount Payable is:	4,166,562.50	(2 mark)

(Grand Total: 15 marks)

c) (i) Calculation of Gross Profit

$$= \frac{\text{Gross Profit}}{\text{Turnover}} \times \frac{100}{1} \quad (2 \text{ marks})$$

$$= \frac{695,000}{160,000} \times \frac{100}{1} \quad (1 \text{ mark})$$

$$= 434.38\% \quad (1 \text{ mark})$$

(ii) Reduction in Turnover

$$= \text{Standard Turnover} - \text{Turnover Achieved} \quad (2 \text{ marks})$$

$$= \text{N}1,680,000.00 - \text{N}1,200,000.00 \quad (1 \text{ mark})$$

$$= \text{N}480,000.00 \quad (1 \text{ mark})$$

(iii) Applying Rate of Gross Profit to the Reduction in Turnover (1 mark)

$$= 480,000 \times 434.38\% \quad (1 \text{ mark})$$

$$= \text{N}2,085,024.00 \quad (1 \text{ mark})$$

(iv) Increase in Cost of Working

N200,000.00 increase cost which avoided a reduction in turnover of N400,000.00

Apply rate of Gross Profit to reduction in turnover avoided

$$= \text{N}400,000.00 \times 434.38\% \quad (1 \text{ mark})$$

$$\text{Economic Limit} = \text{N}1,737,520.00 \quad (1 \text{ mark})$$

(v) Adjusted Loss before the application of average:

$$\text{N}2,085,024.00 + \text{N}1,737,520.00 = \text{N}3,822,544.00 \quad (1 \text{ mark})$$

$$\text{Less Savings} = \underline{\text{N} 40,000.00} \quad (1 \text{ mark})$$

$$= \underline{\text{N}3,782,544.00} \quad (1 \text{ mark})$$

(vi) Application of Average:

$$\begin{aligned}
 &= \frac{\text{Sum Insured}}{\text{Rate of Gross Profit} * \text{Annual Turnover}} * \text{the Loss} && (2 \text{ marks}) \\
 &= \frac{680,000.00}{434.38\% * 160,000.00} * \frac{N3,782,544.00}{1} && (1 \text{ mark}) \\
 &= N3,700,863.77 && (1 \text{ mark})
 \end{aligned}$$

Application of the additional increase in cost working item.

Cost Incurred:	N500,000.00	(1	mark)
Amount Covered under Gross Profit Item:	N1,737,520.00	(1	mark)
	N200,000.00 - N1,737,520.00 = -(N1,537,520.00)	(1	mark)
Total Adjustment:	N3,700,863.77 + -(N1,537,520.00))	(1	mark)
	= N2,162,918.00	(1	mark)
	(Grand Total: 25 marks)		

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) A company is seeking to hire some plants

- i. advise them as to what their responsibilities may be under the "construction plant hire association model conditions" (19 marks)
- ii. what insurance covers may be available? (5 marks)

(b) Under the CPA conditions for liftings and movement of goods by crane operation, what is the significance of any degree of negligence on the part of the client? (10 marks)

### Solution

(a) (i) Responsibility of Hirer:

- the hirer shall make good to the owner all loss of and damage to the plant, except for wear and tear
- the hirer shall indemnify the owner for claims by any person for injury to person or property arising from the use of the plant including associated costs
- in the event of loss or damage to the plant, hire charges shall be continued at idle time rates until settlement had been effected

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

However, the responsibilities of the hirer may not include damage, loss or injury arising (1 mark for this point):

- in transit to the site by the owner or his agent
- during erection at the site where the owner or his agent are in control
- during dismantling of plant under the exclusive control of the owner/agent
- in return transit to the owner after the plant has been removed from the site as arranged by the owner
- while the plant is travelling to and from the site under its own power and with a driver supplied by the owner

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

**Grand Total: 19 marks)**

(ii) Insurance Cover

- loss or damage to the plant itself whilst in the insured's custody
- liability for injury or loss or damage to other property
- liability for continued hire charges

(2½ marks for each correctly stated cover. Maximum of 2 covers to be graded. Grand Total: 5 marks)

- (b) The contractor will be relieved of all liability if there is any degree of negligence on the part of the client. There will be no arguments over appointment of liability due to contributory negligence.

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

- 11(a) Loss Adjusters are independent and qualified professionals. Briefly discuss the process for loss adjusting on receipt of instruction from an insurer on any particular claim. (20 marks)

- (b) Highlight the Headings usually contained in a Loss Adjuster's Preliminary Report. (14 marks)

**Solution**

- (a) The process for loss adjusting on receipt of instruction from an insurer on any particular claim by a loss adjuster upon receipt of instruction to adjust a claim, after being given the name and address of the policy holder by the insurer are that the loss adjuster calls at:

- the premises
- takes photographs of the loss and other necessary ones
- survey the damage
- begins an investigation as to cause of the loss
- check whether property damaged is covered by the policy
- check for warranties/conditions
- check for salvage (if any) and the preservation of the salvage

- prepare an overall estimate of the possible cost of the claim
- check if there is possible recovery from a third party who may be responsible for the loss
- prepares a preliminary report – if necessary
- an interim payment report can be made
- after concluding the investigation, a final report will be made.

(Candidates are required to completely state the process. This could be in prose form or point-by-point statement. Whichever method is used; the candidate should be allotted marks for each complete process stated. Maximum of 20 marks to be allotted. For example, visiting (4 marks); investigation (4 marks); salvage update (4 marks); recovery (4 marks), reports – interim/and/or final (4 marks; (Grand Total: 20 marks)).

(b) The Headings usually contained in a Loss Adjuster's Preliminary Report are:

- claim number
- policy number
- classification
- name and address of the insured
- address or situation of the loss/damage
- trade/occupation
- usage of the premises
- time, day and date of loss
- cause of damage/loss
- reserve for insurance (Estimate of loss)

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

12. As the underwriting manager of your Company, you have been invited by the Actuarial Science and Insurance Association to deliver a paper on combined policies. As the main highlight of your paper,

- (a) briefly explain what a combined policy is (12 marks)
- (b) explicitly state any three (3) insurances that can be combined (6 marks)
- (c) enumerate four of its benefits to the
  - i. insured (8 marks)
  - ii. insurer. (8 marks)

### **Solution**

a) Combined Policies were introduced to cater for business risks where more than one type of insurance is required such as fire, business interruption, theft, class, liability, money, e.t.c. It has evolved as a single contract policy using one proposal form, where previously insurers may have required different proposal forms for each separate class. Whilst it is written as one contract, each section or class of insurance is underwritten and rated separately and will contain its own conditions,

terms, exclusions and warranties. This means in effect that the contract comprises of a number of single policies written under one “umbrella” policy.

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

b) Some insurances that can be combined are fire, business interruption, theft, class, liability, money, e.t.c.

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

c) i) Benefits to the insured:

- one proposal form to be completed
- single policy document will be issued
- common renewal date for all the covers
- easier reference for day-to-day dealing with insurers/intermediaries
- reduced premium levels (upon agreement with and at the option of the insurer)

(2 marks for each correctly stated type. Maximum of 4 to be graded. Total: 8 marks)

ii) Benefits to the insurer:

- easier handling as it relates to allocation of staff resources
- multi-disciplined expertise is developed in the staff members
- reduced administration costs
- only one renewal exercise will be conducted
- ease of review for insurer/intermediary

(2 marks for each correctly stated type. Maximum of 4 to be graded. Total: 8 marks)

13(a) Describe the extensions in cover which can be provided in “contractors all risk, CAR” cover. (17 marks)

(b) Describe the major difference in cover between a “construction work insurance” and a “machinery erection risk insurance”. (17 marks)

## Solution

a) The extensions in cover that can be provided in “contractors all risk” cover are:

- **maintenance:** includes damage to the permanent works occurring during any maintenance defects liability period
- **offsite storage:** the cover provided is extended to include damage occurring whilst such property is temporarily held in a secured store away from the contract site
- **professional fees:** including consulting engineers, architects, surveyors’ fees or other professional fees necessarily incurred in the reinstatement of the property

- **debris removal:** including disposal, dismantling or demolition, shoving up or propping, cleaning and repairing drains and services on site
- **principal's clause:** insurance extends to indemnify any employer or principal
- **public authority's requirement**
- **escalator clause**
- **constructional plants, tools and equipment**
- **employees' tools and personal effects**
- **cover for damage to hired property in the event of an insured loss,**the insured is covered for the value of the property destroyed and continuing hiring charges

(4¼ marks for each correctly stated extension. Maximum of 4 to be graded. Total: 17 marks)

b) The major difference in cover between a "construction work insurance" and a "machinery erection risk insurance" is the testing and commissioning items in an EAR policy. (7 marks)

The subject matter of construction work is the civil engineering aspect, whereas an EAR policy deals with machinery roles which will need to undergo testing and commissioning.

The risk of breakdown need a specific consideration at the commissioning stage in view of the interaction of parts with one another.

Testing and commissioning works will include:

- testing of various kinds - hydraulic, electrical, mechanical, e.t.c.
- commission of the initial operation
- maintenance - rectification of any defects manifested during the maintenance period
- staff training
- cooperation of the completed works - work may be undertaken during the construction phase and also during phase handovers
- testing usually ceases when commercial operation begins.

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

(Grand Total: 17 marks)

14(a) The Fire Prevention (Metropolis) Act 1774 made an important landmark in the principle and practice of insurance. State any five (5) features of the Act? (20 marks)

(b) i. what constitutes a "constructive total loss" in property insurance?

(5 marks)

- ii. what repair and maintenance costs are excluded from an insurance for breakdown of, and accidental damage to an item, of mobile plant such as a mobile crane? (9 marks)

**Solution**

a) The features of the Fire Prevention (Metropolis) Act 1774 are:

- the right to reinstatement does not arise until a distinct request to reinstate the property has been made to the insurer
- the request must be made before payment of the loss
- the insurers are not themselves obliged to carry out the reinstatement
- the insurer cannot be compelled to spend more than the amount of the insurance
- the insured must be entitled to maintain a claim and the policy
- the Act is applicable to England and Wales
- the Act does not apply to policies subscribed by the Lloyd's underwriter

(5 marks for every correctly stated feature. Maximum of 4 features to be graded. Total: 20 marks)

b) (i) Constructive Total Loss occurs where the estimated cost of repairs exceeds the value of the damaged item. (5 marks)

(ii) The following are excluded from the repair and maintenance costs of insurance for breakdown of, and accidental damage to an item, of mobile plant such as a mobile crane:

- replacement of items which wear or break in the normal service and are reusable as normal maintenance procedures such as
  - tyres
  - bulbs
  - fuses
  - spark plugs
  - lifting ropes
  - cables
  - hydraulic scales
  - motor bearing
  - electric motor brushes
  - brake shoes
  - lining
  - blades
  - driver belts
  - clutching lining, e.t.c.

(3 marks for every correctly stated exclusion. Maximum of 3 exclusions to be graded. Total: 9 marks)

LOGO

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A755**

**LIABILITY 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 form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A755 - LIABILITY INSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 58%  
Highest Score: 82%  
Lowest Score: 22%  
Average Score: 55.6%

**Breakdown Updates****Question 1**

Largely, the candidates performed very well.

**Question 2**

Except for few candidates who did not answer this question, it was well answered.

**Question 3**

It was obvious that the candidates lacked understanding of what disclaimer is. The performance was poor.

**Question 4**

The candidates' overall performance was very good. Few candidates failed to understand who 'a third party' is.

**Question 5**

Candidates' performance was above average.

**Question 6**

Candidates' performance was very impressive.

**Question 7**

Fair performance.

**Question 8**

Average performance.

**Question 9**

This is compulsory question. Generally, the performance was good. Some candidates did not understand the concept of nuisance. Also, few candidates misunderstood the liability of employers to their employees.

**Question 10**

The candidates performed averagely on this question.

**Question 11**

The candidates' performance is both a rise and fall. While some candidates answered it satisfactorily while some did not show a good understanding.

**Question 12**

Candidates performance was above average.

**Question 13**

Few candidates answered this question and the performance was poor.

**Question 14**

Attempted only by few candidates. Fair performance

**Chief Examiner's Comments on Overall Performance:**

The overall performance indicates an above average performance.

**Chief Examiner's Suggestions on Improvement:**

More commitment and dedication to studies will no doubt improve candidates' performance.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. Explain what you understand by the term “defamation”.

### **Solution**

Defamation is a law that is designed to protect a person’s reputation. For a statement to be defamatory, it must subject the plaintiff to hatred and public ridicule. Both libel and slander are torts of defamation. Libel is a defamation in permanent form such as writing or published article while slander is not in permanent form – it is oral i.e. words spoken.

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

2. What is the purpose of Employers’ Liability (Compulsory Insurance) Act 1969.

### **Solution**

The purpose of Employers’ Liability (Compulsory Insurance) Act 1969 is to provide security for employees if they meet with an accident or incur an illness in the course of their employment and their employer is responsible. (6 marks)

3. What is “disclaimer liability”?

### **Solution**

Disclaimer liability refers to those forms and conditions of a contract which attempts to limit in some ways either the performance of that contract or liability in tort. For example, a building contract may require the contractor to indemnify the principal for third party liability arising from the execution of the contract or when it is stated that “vehicles are parked at owner’s risks”

(4 marks for complete and correct definition. 2 marks for example. Total: 6 marks)

4. (a) List any four (4) liability insurance policies you are familiar with.

(4 marks)

(b) Most liability insurance policies referred to “Third Party” in the operative clause. Who is the “third party”?

(2 marks)

### **Solution**

a) Some examples of liability insurance policies are:

- Employers’ Liability
- Public Liability
- Product Liability
- Professional Indemnity
- Motor Insurance (Third Party)
- Directors’ and Officers’ Liability Insurance

- Personal Liability Insurance  
(1 mark for each correctly stated example. Maximum of 4 to be graded. Total: 4 marks)

b) A third party in most liability insurance policies is any member of the public who is not a party to the insurance contract. Such a person could be a victim of the negligent act of the insured – directly or indirectly. (2 marks)

5. List three (3) claim supporting document for a third party bodily injury.

**Solution**

The claim supporting document for a third party bodily injury claim are:

- Completed claim form
- Medical examination report
- Medical bill
- Excuse duty certificate
- Discharge certificate
- Employee pay slip.

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

6. a) What is “tort”? (2 marks)  
b) List four (4) forms of tortious liability. (4 marks)

**Solution**

- a) Tort is a civil wrong. (2 marks)  
b) The various forms of tortious liability are:

- negligence
- nuisance
- breach of statutory duty
- rule of Ryland v. Fletcher (1808)
- defamation: libel and slander
- other strict liabilities

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

7. Briefly explain the significance of “The Limitation Act 1980”.

**Solution**

The significance of this Act is that it imposes a time limit which a plaintiff must bring his/her action. This is to avoid the court having to deal with stale claims where the parties’ memory of events is vague and witness are unreliable. It is to safeguard the defendant from challenges associated with defending a claim based on an incident that would have occurred a long time prior to the time of action.

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

8. (a) Explain the maxim “res ipsa loquitur”.  
(b) List any three (3) components of general damages.

**Solution**

a) In an action for negligence, it is necessary for the plaintiff to prove the fact upon which the claim is based. The main principle is that he who asserts must prove. However, there are situations where adequate information is not in the plaintiff possession to discharge their burden of proof, the plaintiff will have to rely on the maxim “res ipsa loquitur” which means that “the thing speaks for itself”. This will shift the burden of proof to the defendant.

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

b) The components of general damages consist of the following:

- pain and suffering
- loss of amenities
- future loss of earnings
- loss of earning capacity
- additional future expenditure

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

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9(a) As part of NAICOM’s role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on “fair trade practice and fair treatment to customers”. Mention any two requirements for insurers as it relates to delivery of policy document stated in the circular. (10 marks)

- (b) i. Civil law has its roots in three (3) main sources. Explain these sources. (9 marks)
- ii. Explain the concept of “nuisance”. (6 marks)
- iii. Explain with examples the two (2) general types of nuisance in existence. (10 marks)
- iv. Enumerate any three (3) roles of the “Loss Control Auditor”. (3 marks)
- v. List six (6) sources of liability of an Employer to an employee. (12 marks)

**Solution**

a) As part of NAICOM’s role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on “fair trade

practice and fair treatment to customers. The two requirements for insurers as it relates to delivery of policy document stated in the circular are:

- insurance institutions are required to adequately document evidence of the delivery of the insurance policy document to the insured
- insurance institutions shall obtain an appended signature of the insured or his/her representative evidencing his/her concurrence with the content of the policy document

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

b) i. The sources of civil law are:

- **Custom:** this is the law that has its root from the custom of people as well as their trade custom. This law is used to settle or resolve mercantile disputes, the principle being that the law would follow the custom of a particular trade. This law can still be of importance in modern law if custom can give business efficacy to an agreement.
- **Common Law:** this is the most important source of civil law. It is based upon the doctrine of binding precedent in which decisions of past courts bind present courts. Court decisions are recorded in various published law reports and most common law is found by reference to law reports.
- **Legislation:** this is the law made by the Parliament and it is the most potent source of law. Many law reform statutes have been passed by the Parliament in order to deal with the perceived anomalies in common law. Some statutes directly change a particular area of law while others attempt to place limitations on the action of parties especially in contracts. Parliament is the highest form of law and it overrides the other two sources. It has become the most important source when amendments in the law are quickly required.

(2 marks for mentioning the source. 1 mark for any correct explanation. Maximum of 2 explanations to be graded. Sub-Total: 9 marks)

ii. "Nuisance" is about "unlawful interference". Nuisance has been defined as "a wrong done to a man by unlawfully disturbing him in the enjoyment of his property (a private nuisance) or in some cases in the exercise of a common right (public nuisance). There are two types of nuisance: Public Nuisance and Private Nuisance. In both nuisance, test of reasonability applies. Nuisance also concentrates on the protection of right or interest associated with land.

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

- iii. The two (2) general types of nuisance in existence are:
- **Private Nuisance:** this is interference with the use or enjoyment of a person's property. Example are wrongful disturbance of right attaching to land, right to light and air, wrongful causing or allowing the escape of noxious things such as smoke, smell, noise, gas, vibration, encroachments i.e. tree roots, blocked drains and culverts. These nuisances will interfere with a person's health, comfort, convenience or enjoyment of his property. If these states of affairs exists and continues which threatens actual damage, the aggressive person may seek court injunction requiring the tortfeasor to desist from their actions.
  - **Public Nuisance:** this is a crime. It is a nuisance against the community as a whole or at least sufficiently large number to constitute a class. Examples of public nuisance are running a brothel, selling food unfit for public consumption and obstructing a high way. An action for damages based on the commission of a public nuisance is only available if the plaintiff can show that they have suffered damage over and above that of the general populace.  
(2 marks for each correctly stated type. 1½ marks for any correct explanation of each type. 1½ marks for any correct example on each type. Sub-Total on each type: 5 marks. Grand Total: 10 marks)
- iv. The roles of the "Loss Control Auditor" are to:
- keep up to date with statutory and technological development
  - be up to date on trade processes and labour relations with particular reference to safety
  - be fully conversant with policy cover and underwriting issues
  - be knowledgeable in features which are likely to cause accident
  - pay attention to all aspects of risks e.g. housekeeping, condition of stairways, lightening, guarding of machinery, e.t.c.
  - visualise how accidents can happen and suggest ways of avoiding them
  - liaise closely with the insured's own safety personnel, educating them about risk improvement methods and ensuring that their recommendations for risk improvement are implemented.  
(1 mark for each correctly stated role. Maximum of 3 roles to be graded. Total: 3 marks)
- v. The sources of liability of an Employer to an employee are:
- personal negligence of the employer
  - failure to select competent employees
  - failure to provide safe place of work
  - failure to provide safe and suitable plants (tools)
  - failure to provide safe system of work



- vicarious liability for the negligence of fellow employees
  - breach of statutory duties
- (3 marks for each correctly stated source. Maximum of 4 to be graded. Total: 12 marks)

### Part III

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

Each question carries **34** marks.

- 10(a) A person can incur legal liability for the “Escape of Fire”. Explain with a relevant case law. (15 marks)
- (b) Discuss the liability of an Hotel Proprietor. (5marks)
- (c) Mention and briefly explain four (4) defences to the rule of Ryland v. Fletcher 1868. (10 marks)
- (d) Distinguish between contract and tort. (4 marks)

### Solution

- (a) Liability for the escape of fire **is a strict liability** based on the rule of *Rylands v. Fletcher 1868*. A person will incur legal liability for escape of fire although people do not often bring and store fire on their land and allow it escape, however, they do bring inflammable materials onto their land, which if badly stored can catch fire and escape i.e. spread to third party property.

In *Mason v. Levy Auto Parts of England Limited (1967)*, the defendants used a yard for the storage of combustible materials, including petrol, grease and oil. A fire broke out in the defendants yard and spread to neighbouring premises. The court found the defendant guilty under the rule of *Ryland v. Fletcher*.

(3 marks for stating the 1<sup>st</sup> bolded point. 3 marks for phrase to *Ryland v. Fletcher*. 5 marks for correctly stating the case law (if not explicitly stated but correctly explained, the candidate gets the full 5 marks. 2 marks for any other complete and correctly stated point. Maximum of 2 points to be graded Sub Total: 4 marks. Grand Total: 15 marks)

- (b) At common law, an hotel proprietor **has a strict liability for the safety of his guests and their personal effects**. This is **contained in the Hotel Proprietor Act 1956**. The **Act imposes a monetary limit** of GBP50.00 for any one article of a guest up to an aggregate amount of GBP100.00. This limit can **only be relied upon if the hotelier displays a statutory notice providing details of the Act on a conspicuous place** on their premises.

(2 1/2 marks on any of the bolded points above. Maximum of 2 of such points to be graded. Total: 5 marks)

- (c) The following are the defences to the rule of *Ryland v. Fletcher 1868*:
- **Statutory Authority**: if a dangerous thing is accumulated under statutory authority, the rule does not apply

- **Consent:** if there is consent between the two parties on the issue i.e. the plaintiff and the defendant. The consent must be and not coerced
- **Common Benefit:** if the accumulation of the danger is for the common benefit of the plaintiff and the defendant e.g. for a case of piped water in a block of waters – an escape of water from one flat to another will not be actionable under the rule
- **Contributory Negligence:** this defence will be available if it can be shown that the plaintiff carelessness also contributed to the loss
- **Act of Stranger:** this will be a defence as long as the defendant had no control over the stranger and cannot really have fore seen or prevented the loss
- **Act of God:** this is a full defence if the defendant can show that it was an act from God and not within his control or influence.

(1 mark for correct defence mentioned. 1 mark for correct explanation. Sub-Total per defence: 5 marks. Grand Total: 10 marks)

(c) A contract is an agreement between two or more people giving rise to obligations which are enforceable or recognised by law. Entering into a contract is voluntary and when there is violation of agreement, only the parties to the contract are involved. A contract will give rise to an action for liquidated damages.

While a tort is a civil wrong. Tort always implies some breach of duty which lies on everyone to take care that injury or damages is not caused to other people. Tort is a more frequently cause of action because it involves the general public. A tort will give rise to an action for unliquidated damages.

(1 mark for any correctly stated point. Maximum of 2 points to be graded per “term”. Sub Total per term: 2 marks. Grand Total: 4 marks)

11. Write short notes on each of the following:

- |      |                                  |           |
|------|----------------------------------|-----------|
| i.   | Accrual of Action                | (6 marks) |
| ii.  | Custody or Control of Property   | (7 marks) |
| iii. | Liability of an Insurance Broker | (7 marks) |
| iv.  | Product Recall                   | (7 marks) |
| v.   | Utmost Good Faith.               | (7 marks) |

### Solution

i. **Accrual of Action:** is the date when the plaintiff has a valid cause of action and is the provision of limitation of actions e.g. the date of accrual of action in a contract is the date of the breach and in tort, it is the date that the injury or damage occurred.

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

ii. **Custody or Control of Property:** this is one of the underwriting factors that will be considered for accepting a public liability risk. The insured may have property to third parties in his custody and control. Public liability policy will indemnify the insured for loss or damage to third party property through their negligence. It is therefore important to ascertain the nature of the property in the insured's control and custody.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

iii. **Liability of an Insurance Broker:** insurance brokers are professionals who undertake to give advice on matters involving insurance profession. They must exhibit reasonable degree of skill and knowledge as experts in insurance profession. They owe a duty of care to their clients and if they are found wanting, they are open to a charge of professional negligence. They must arrange adequate insurance cover for their clients' properties and must carry out their clients' instructions and give them proper advice.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

iv. **Product Recall:** standard product liability policy will not cover expenses incurred by a supplier or manufacturer in recalling defective product from the market. After the product has been put on to the market, it may be discovered that it has dangerous faults. This may make it necessary to withdraw the product completely and replace it or recall it to have the fault corrected. Insurance for product recall covers the expenses incurred in recalling the product or arranging its destruction.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

v. **Utmost Good Faith:** this is one of the fundamental principle of insurance practice. Utmost Good Faith (uberrima fides) applies to insurance of liability and it involves voluntary disclosure of material facts by the proposer to the insurer as regards the subject matter of insurance. Material facts are facts which will enable the insurer to decide whether to accept the risk proposed and also assist in determining the premium (price) payable for accepting the risk.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

12(a) A manufacturing company is exposed to various liability risks in the course of their operation and they may incur legal liability if any of such risks occurs. Mention and explain any three (3) of such risks. (15 marks)

(b) What is the importance of early notification of claim in liability insurance claim process? (10 marks)

(c) Explain briefly what you understand by the following as it relates to liability insurance:

- i. Minor
- ii. Unborn Children
- iii. Persons of Unsound Mind.

(9 marks)

### Solution

(a) The liability risks that a manufacturing company is exposed to in the course of their operation and from which they may incur legal liability if any of such risks occurs are:

- **Risk of Legal Liability to their Employees in the Course of their Employment:** the management of the company through their negligence may incur legal liability to their employees for bodily injury, death, disease or illness in the course of their employment. This risk is common where there is Employer/Employee relationship. The employer is expected to provide a safe place of work, safe tools and equipment, safe system of work, comply with statutory provisions, employ competent employees, e.t.c. If the employer is found wanting in any of these responsibilities, the employer will be exposed to risk of legal liability from this shortcoming to their employees.
- **Risk of Legal Liability to Members of the Public:** this may arise through the negligence of their employees in the course of carrying out the business operations which may result in bodily injury, death and damage to property of any member of the public. This could be whether or not the manufacturing company is operating in an environment within their business premises and elsewhere (work away) where their business activities are being carried out. The management of the company is vicariously liable for the negligence of their employees which may result to bodily injury or death to any member of the public.
- **Risk of Product Liability Arising from Defect in their Products to Members of the Public:** it has been established that a product manufacturer is liable to the ultimate consumer of the product. Hence, the company may incur legal liability for third party bodily injury, death or disease arising from the defect in their products manufactured, distributed or supplied.
- **Liability Risk of Professional Negligence:** i.e. error, omission, mistake, e.t.c. from professional advice given to their client. A professional owe duty of care to the client and must exercise due care and skill as expert in their profession. When a client relies on the professional advice coming from the company and consequently suffer a financial loss, the company will be guilty of professional negligence.

- **Risk of Legal Liability to third Parties for Bodily Injury, Death and Damage to Property:** through the operation of the company's motor vehicles in the course of business.

(3 marks for any correctly stated type of liability. 2 marks for any correct explanation. Sub-Total per liability: 5 marks. Maximum of 3 types of liability to be graded. Total: 15 marks)

(b) The importance of early notification of claim in liability insurance claim process are:

- to comply with the notification condition of the policy. All liability policies contain a condition which requires a claimant to notify the insurer within a stipulated time
- it assists the insurer to conduct investigation when the matter is fresh and when eye witness account will be readily available
- it helps the insurer to reserve adequately for the claim
- it helps the insurer to notify their reinsurers or co-insurers accordingly
- it enables quick processing and settlement of the claim

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

(c)i. **Minor:** a minor is somebody under 18 years of age, a minor can sue or be sued only through their friend i.e. their parent or legal guardian. The law will not allow a minor to be sued in tort if the action is tantamount to the child being sued in contract.

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

ii. **Unborn Children:** it has been argued that a foetus was not a legal person. The Congenital Disabilities (Civil Liability) Act 1976 now recognises the right of an unborn child. The Act states that a child injured whilst still in the womb may still bring an action after birth if a duty of care would have been owed to the parent.

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

iii. **Persons of Unsound Mind:** this liability of persons of unsound mind will depend on the degree of insanity. If the insanity is so serious that the defendant is reduced to an automation, there should be a complete defence, if they are aware of the nature and quality of their act, they will be liable. The test is whether or not the defendant has the state of mind to commit the tort in question.

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

(Grand Total: 9 marks)

13(a) Explain what you understand by the following terms as it relates to liability insurance:

- i. Future Loss of Earnings
  - ii. Special Damages
  - iii. Latency
  - iv. Loss Control Audit. (20 marks)
- (b) What is your understanding of the effect(s) of the “Insolvency Act 1986” on a Company’s Director? (6 marks)
- (c) Mention any four (4) of the other factors, apart from the limit of indemnity, taken into consideration when rating a Directors’ and Officers’ Liability Insurance. (8 marks)

### Solution

(a) i) **Future Loss of Earnings:** is one of the components of general damages in personal injury action. Claims involving personal injury are perhaps the largest single source of litigation. A claim for future loss of earnings presupposes some form of permanent disability or a disability which will last some time into the future. Future losses may be total or partial. A plaintiff may not be able to work at all because of their disability or they may not be able to work for such long hours or work overtime. They may have to take a less strenuous job for less money.

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

ii) **Special Damages:** constitute losses which are capable of evaluation and are sustained from the date of the accident to the date of the trial. They will include loss or damage to clothing, the cost of pharmaceuticals and medical treatments. The most common head of special damage is loss of income. The calculation of loss of wages is straightforward i.e. an average weekly wage loss is calculated and multiplied by the number of weeks off work.

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

iii) **Latency:** seeks to identify the gap in time between the start of a chain of events and its result. For example, the time an employee catches a disease through the hazard of place of work and the manifestation of the disease may be very difficult to predict with accuracy. Some occupational diseases develop gradually (latent) and its manifestation may take some time.

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

iv) **Loss Control Audit:** is a critical examination of an industrial operation in its entirety to identify potential hazards and level of risk. Audits are often undertaken by multidisciplinary teams. Individual members should have a good knowledge of legal requirements and industry practice. In many companies, this expertise is

readily available and so in some cases, audits tend to be undertaken by external specialists such as consulting engineers acting independently or employed by insurance companies.

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

(Grand Total: 20 marks)

(b) The “Insolvency Act 1986” on a Company’s Director is a major source of claims against directors of a company. Section 214 state that when a director indulges in wrongful trading that may result in liquidation, the liquidator is permitted to seek a personal contribution of director to salvage the company. The extent of the contribution required from a director is a matter for the court’s discretion in the light of all the circumstances. The contribution from the director was the amount by which the company’s assets were considered by the court to have depleted as a result of their continuing to trade after they should have recognised the company’s inability to do so.

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

(c) The factors, apart from the limit of indemnity, taken into consideration when rating a Directors’ and Officers’ Liability Insurance are:

- turnover and gross assets
- company activity and organisational structure
- financial position of the company
- geographical areas of the company operation
- number of directors and officers
- millennium compliance strategy.

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

14(a) Enumerate, with a very brief explanation, three (3) rating basis for a public liability insurance. (15 marks)

(b) Explain how the premium charged on Employers’ Liability Insurance is determined. (9 marks)

(c) Explain how the premium charged on Professional Indemnity is determined. (10 marks)

### **Solution**

(a) The following rating basis are considered as appropriate to arrive at premium payable on a public liability insurance, while noting that the premium arrived at may be subject to declaration and annual adjustment:

- **turnover:** a rate is applied on the company’s turnover to provide the premium

- **wage roll:** the total estimated wage roll of all the employees will produce a base
  - **number of beds:** this will be relevant for hospital, nursing homes and hotels
  - **number of student:** this is appropriate for education establishment
  - **seating capacity:** this is appropriate for stadia and event centre.
- (3 marks for any correctly stated basis. 2 marks for the brief explanation. Sub-Total per factor: 5 marks per factor. Maximum of 3 points to be graded. Grand Total: 15 marks)

(b) The premium charged on Employers' Liability Insurance is based on the total estimated annual earnings of all employees engaged in the business and the types of business or trade involved. A rate (based on the insured occupation) is applied on the estimated annual earnings of all employees to produce the initial premium known as deposit premium. The deposit premium is subject to declaration and adjustment.

(3 marks for any correctly stated point. Maximum of 3 points to be graded. Total: 9 marks)

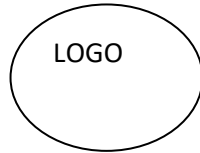
(c) The premium charged on Professional Indemnity is usually determined by applying a rate either to the total gross fees or to the amount of indemnity plus a per capita average for each person employed in the business.

The premium arrived at may be loaded in consideration of the following:

- **more than one office:** where there is more than one office, the risk may be increased because of the problem of control, monitoring and communication
- **claims experience:** past claims experience may influence the premium payable
- **age of partners:** an increased premium may be charged where the partners are young or where the business is only recently established
- **ratio of partners to staff:** there must be an acceptable ratio between "supervisory" and "other staff". If the ratio will not guarantee good supervision and control, the basic premium may be loaded or attract a loading.

(3 marks for any correctly stated consideration. 2 marks for the explanation. Sub-Total per consideration: 5 marks. Maximum of 2 considerations to be graded. Grand Total: 10 marks)





**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A765**  
**MOTOR INSURANCE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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 instructions 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.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A765 - MOTOR INSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I	8 Compulsory Questions	48 marks
Part II	1 Compulsory Question	50 marks
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You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score maximum possible marks.

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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: 34.63%  
Highest Score: 69%  
Lowest Score: 30%  
Average Score: 49.70%

**Breakdown Updates**

**Question 1**

To test candidates' knowledge of motorcycle cover particularly the third party liability section; performance was far above average.

**Question 2**

Motor insurance contract documentation performance is not quite impressive.

**Question 3**

Motor trade policy rating. Candidates performed exceptionally well.

**Question 4**

Wordings of a motor policy with particular reference to exception. Performance was below average. Candidates need to improve in this area.

**Question 5**

Factors to consider in motor insurance renewal. Performance was fair.

**Question 6**

Thrust of the law reform (Husband and Wife) Act 1962. Performance was average.

**Question 7**

Renewal procedures – Performance was fair.

**Question 8**

Rating factors re: private car and public hire cars – Performance was fair.

**Question 9**

To test candidates' knowledge of the Insurance Act 2003, policy exceptions, policy excess etc. Candidates did exceptionally well.

**Question 10**

Third party personal injury claim, invalid carriers and ABI statement of general insurance- candidates exhibited very low knowledge of the question as their performance was very poor. This is a testimony that candidates did not prepare well for the examinations.

**Question 11**

Automatic renewal options considered here - Performance was not encouraging. Candidates need to work harder by studying more rigorously to ensure better results in future examinations.

**Question 12**

Motor legislation considered here, so all car modification and hired vehicles. Performance was bad.

**Question 13**

Third party sharing agreement (TSA), motor trade. Cover and P/CAR/c/v policies considered. Performance was very poor. Candidates need to improve and take their studies more seriously.

**Question 14**

Geographical area of use and/or garaging in p/car rating, motor trade rating etc. Performance was below average.

**Chief Examiner's Comments on Overall Performance:**

Candidates' performance was below average and the results are very disappointing. Candidates need to be more serious with their studies and should prepare better for future examinations.

**Chief Examiner's Suggestions on Improvement:**

Candidates should not only read on their own but attend lectures and also ensure lecturers who would impart so many knowledge in them. Answers given by candidates show that they do not have a good grip, knowledge and understanding of the course.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. Enumerate the cover provided by the Third Party Liability Section of a Motor Cycle Policy.

### **Solution**

The third party liability section of a motorcycle policy will provide indemnity for any accident where the policyholder is riding their motorcycle resulting in:

- death or injury to any person including passers-by or sidecar passengers
- damage to other people's property
- legal costs incurred with the insurer's consent in connection with such a claim

**N.B.:** Legal costs, emergency treatment and use abroad are dealt with in the same way as for private car insurance.

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

2. State three (3) of the essential documents required in a Motor Insurance contract.

### **Solution**

The essential documents required in a Motor Insurance contract are the:

- proposal form
- certificate of insurance
- policy document
- schedule

(2 marks for any correctly stated document. Maximum of 2 documents to be graded. Total: 6 marks)

3. Identify any three (3) principal elements used for a point basis motor trade risk.

### **Solution**

The principal elements used for a point basis motor trade risk are:

- hire vehicles
- motorcycles
- other vehicles
- trade plates
- drivers.

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

4. State a standard sample wording of a motor policy exception.

**Solution**

A standard sample wording of a motor policy exception is **“this policy does not apply when any vehicle covered by it is being”**:

- driven by or is in the charge of any person not permitted to do so by your certificate of motor insurance
- used other than for the purposes specified in your certificate of motor insurance.

(3 marks for the opening preamble quoted and bolded above. 3 marks for any correctly stated exclusion. Total: 6 marks)

5. What other two (2) factors (other than price) may be relevant when an insured considers renewing a commercial vehicle policy?

**Solution**

The other relevant factors, aside from price, to be considered when an insured considers renewing a commercial vehicle policy are:

- the relationship with the insurer
- experience of the way that claims have been handled in the past; and
- possible relevance of other commercial insurance businesses.

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

6. What is the main purpose of the Law Reform (Husband and Wife) Act 1962?

**Solution**

The main purpose of the Law Reform (Husband and Wife) Act 1962 was that the amendments allowed husband and wife to be able to sue each other in tort. Prior to this reform, husband and wife were treated as one, and therefore, it was not possible for one partner to sue the other.

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

7. Why do insurers place a great deal of importance upon renewal of policies?

**Solution**

Insurers place a great deal of importance upon renewal of policies because:

- it is considerably more cost effective to renew a policy than to take up a new one
- in addition, there is a comfort in having known the risk for a year or two
- the percentage of cases renewed rather than lapsed is a very important measure of success of an account.

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

8. Mention any three (3) principal rating factors applicable to private and public hire cars.

## **Solution**

The principal rating factors applicable to private and public hire cars are:

- type of vehicle
- user of the vehicle
- area/district where vehicle will usually be situate
- policy cover
- details of drivers.

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

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

- 9(a) According to the Federal Republic of Nigeria Insurance Act 2003, Section 2 stated the main classes of insurance as two. Mention these two (2) main classes and state the any three (3) categories under each class. (10 marks)
- (b) Define policy exceptions. (2 marks)
- (c) Give four (4) examples of exceptions on each of the following policy types.
- i. Standard Private Car Policy (4 marks)
  - ii. Personal Accident Section of the Private Motor Policy (4 marks)
- (d) i. What is compulsory excess? (2 marks)
- ii. Mention four (4) other excesses, apart from the compulsory excess, applicable in Motor Insurance. (8 marks)
- (e) Write short notes on the following terms:
- i. Admission of Liability
  - ii. Negligence
  - iii. Moral Hazard
  - iv. Repair Invoice
  - v. Total Loss. (20 marks)

## **Solution**

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

- i) Life Insurance Business and
- ii) General Insurance Business.

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

The categories are:

- i) Life Insurance Business:**
  - a. Individual Life Insurance Business
  - b. Group Life Insurance and Pension Business
  - c. Health Insurance Business
- ii) General Insurance Business:**
  - a. Fire Insurance Business
  - b. General Accident Insurance Business
  - c. Motor Vehicle Insurance Business
  - d. Marine and Aviation Insurance Business
  - e. Oil & Gas Insurance Business
  - f. Engineering Insurance business
  - g. Bonds Credit Guarantee and Surety ship Insurance Business
  - h. Miscellaneous Insurance Business

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

(Grand Total: 10 Marks)

- (b) Policy Exceptions are risks that are not covered by the Motor Policy. In other words, these are risks that are not insured under the Motor Policy and consequently claims arising from these (excepted) risks or perils would neither be admitted nor processed by the insurers. (2 marks)
- (c) Some examples of exceptions on each of the following policy types are: .
  - i. **Standard Private Car Policy:**
    - any "excess" amount(s) as stated in the schedule
    - loss of use, depreciation, wear and tear
    - damage to tyres from braking, e.t.c.
    - loss, destruction or damage caused directly by pressure waves resulting from aircraft, e.t.c.
    - any reduction in the market value of the insured car, following any repair, e.t.c.
    - loss of or damage to telephone or communication equipment of any kind
    - loss of or damage as a result of a deliberate act by the insured person
    - loss of the insured car from deception by someone who claims to be a buyer or a selling agent

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



ii. **Personal Accident Section of the Private Motor Policy:**

- the benefit will not be payable if the bodily injury is the result of suicide or attempted suicide
- the benefit will not be payable if the injured person has reached the age of 65 years
- if the insured and his wife or husband hold any other motor insurance policy with the insurer, then the benefit will be paid under one policy only
- death, loss of eye(s) or limbs arising more than three (3) months after the event leading to the condition
- the benefit will not be payable if the injured person was at the time of the injury, under the influence of alcohol or drugs

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

(d) i. **Compulsory Excess** is the first part or a certain percentage of the claim amount that the insured must bear in the event of a claim – on each and every admitted claim during the policy term. (2 marks)

ii. Some other types of excesses, apart from the compulsory excess, applicable in Motor Insurance are:

- voluntary excess
- compulsory accidental damage excess
- fire and theft excess
- young and inexperienced drivers' excess

(4 marks for any correctly stated type. Maximum of 2 types to be graded. Total: 8 marks)

(e) i. **Admission of Liability:** should the policyholder or driver admit blame to a third party claimant, then the position of the insurer may be prejudiced. The policy calls for no such admission to be made, but as long as the outcome of any civil litigation is not affected by any small admission, say in a case where the policyholder or driver is in any event liable – then the insurer is not likely to take any action.

ii. **Negligence:** is defined as an omission to do what a prudent man would do under normal circumstances. This is a situation where the insured is the cause of an accident to the insured vehicle. Such accident should have been avoided, if reasonable care and caution are

exercised, but the accident was as a result of his carelessness, thus resulting in a claim.

- iii. **Moral Hazard:** this has to do with human nature or character of the insured. It could be good or bad e.g. a bad moral hazard is an insured who stage-manages a loss so as to claim from the insurer.
  
- iv. **Repair Invoice:** once repairs are completed, the insured will be asked to sign a form. Traditionally, this form has been termed a “satisfaction note” but lately, it has been renamed a “collection note”. The aim is to obtain the insured’s acceptance that the vehicle has been returned in a satisfactory state and that it has been checked and confirmed to have been properly repaired. Upon collection of the vehicle, the insured will be required to pay any agreed contributions which could be from excess, to VAT, to cost of carrying out any private work (that was not as a result of the insured event) on the vehicle and any contribution for betterment.
  
- v. **Total Loss:** occurs when a vehicle has been damaged beyond economic repairs, i.e. when the estimated cost of repairing the damage is equivalent to or more (or sometimes not much less) than the market value of the vehicle. It may be difficult to determine the true market values of the vehicle at the time of the total loss but effort should be made to do so if the principle of indemnity is to be applied.

(2½marks for any correctly and complete stated point. Maximum of 2 points to be graded per term. Sub-Total per term: 5 marks. Maximum of 4 terms to be graded. Grand Total: 20 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

- 10(a) What is the attitude of insurers to third party personal injury claims? (21 marks)
- (b) Define “invalid carriage” under a motorcycle policy. How do underwriters generally go about the insurance of invalid carriages? (8 marks)
- (c) What reasons could be deduced for developing the ABI Statement of General Insurance Practice? (5 marks)

### Solution

- (a) The attitude of insurers to third party personal injury claims are as explained below:

- Usually, third party personal injury claims are less numerous than other types of motor claims. However, they are, on the average, more complex to settle as they account for a substantial proportion of insurers' total claims outlay.
- Once the degree of negligence has been established, the next stage is to ascertain the extent of the injury, the prognosis and the number of dependants
- Minor injuries, with little likelihood of causing further problems, can be settled comparatively easily.
- More severe injuries might take a longer time to settle because of the natural reluctance of legal advisers of injured plaintiffs to agree to settlement terms until the full consequence of the injuries is well established.
- Thereafter, the respective awards for damages might be high; awards of several thousands of Naira to a single person suffering severe injuries in a road accident are relatively common.

(7 marks for any complete and correctly stated point. Maximum of 3 points to be graded. Total: 21 marks)

- (b) "Invalid Carriage" under a motorcycle policy is defined by Section 143(4) of the RTA 1988 as "a mechanical propelled vehicle the weight of which does not exceed the approved weight and which is specifically designed and constructed and not merely adopted for the use of a person, suffering from some physical defects or disability and used solely by such persons". (4 marks)

Underwriters generally go about the insurance of invalid carriages as follows:

- if a motorcycle policy is to be used to insure an invalid carriage, then all references to the RTA should be deleted
- driving will also be restricted to the insured alone, therefore, the driving other extension will be deleted
- the insured vehicle can only be used as an invalid carriage all through the period of insurance

(4 marks for any complete and correctly stated point under the reasons. Only one point should be graded. Sub-Total: 4 marks. Grand Total: 8 marks)

- (c) The reasons to be deduced for developing the ABI Statement of General Insurance Practice are to put into practice a set of guidelines for insurers in the conduct of their business, following the philosophy embraced by the "Unfair Contract Terms Act" and to ensure it is complied with. (5 marks)

- 11(a) Insurers do renew existing Motor Policies in order to ensure retention of such accounts, However, there are occasions that they may not be willing to renew on automatic basis. Enumerate and explain two (2) of such circumstances. (8 marks)
- (b) What are the underwriting considerations of insurers for the following mobile plants:
- i. Ready-Mixed Concrete Carriers
  - ii. Tippers and other Types of Road Construction Vehicles
  - iii. Tankers
  - iv. Factory Trolleys and Fork Lifts Trucks. (20 marks)
- (c) What are the two (2) principal requirements that warranted the introduction of "Motor Legislation"? (6 marks)

### Solution

- (a) Insurers do renew existing Motor Policies in order to ensure retention of such accounts, However, there are occasions that they may not be willing to renew on automatic basis. Two of such circumstances are:
- when if a risk was originally proposed, there was a history of motoring convictions notwithstanding the fact that these were unconnected with claims incidences. However, the underwriters felt at renewal to impose a substantial own damage excess and a modest premium loading. Two years have now passed without any claim incidents and no further convictions.
  - when a very large third party personal injury claim has occurred under the policy three months before renewal and the claim is still outstanding
  - when the frequency (and/or severity) of the policyholder's reported claim is above the average and not within acceptable limits of the underwriter.
- (4 marks for any fully explained point. Maximum of 2 to be graded. Total: 8 marks)
- (b) The underwriting considerations of insurers for the following mobile plants are:
- i. **Ready-Mixed Concrete Carriers:** with this type of plants, the loss and damage cover will invariably exclude the risk of the concrete load and associated claims. Such damage will often render the machine inoperable. At the very least, the drum may need replacing and this sort of problem will invariably be covered under an engineering policy.
  - ii. **Tippers and other Types of Road Construction Vehicles:** this will often be insured under fleet policies although in a specialised area of the motor insurance market. The terms imposed are usually specific to each type of tipper insured and the insured's risk profile, along with

past claim history is highly reviewed before coming up with acceptance terms.

- iii. **Tankers:** tankers used to transport hazardous goods will normally be covered under a flat type of policy, when they are carrying the operators own goods. The risk becomes greater when the goods are hazardous and/or the policyholder is a haulage contractor. With the carriage of flammable or dangerous loads, insurers may impose a third party property damage limit. However, the insured may wish for the limit to be waived or at the very least, extended.
- iv. **Factory Trolleys and Fork Lifts Trucks:** these type of plants, while not constructed for road use will not normally be covered under a motor policy, unless there is the likelihood of RTA use. Certainly, non-motor commercial policies would be extended to cover the third party working risk while the vehicle is used as a tool of trade.

(2½ marks for each correctly stated point. Maximum of 2 points to be graded under each plant. Sub-Total: 5 marks. Grand Total: 20 marks)

(c) The two principal requirements that warranted the introduction of “Motor Legislation” are:

- the protection and assistance of those who are the victims of negligent drivers
- the need to ensure that a policyholder who has arranged insurance cover will be guaranteed the appropriate protection.

(3 marks for each corrected stated requirement. Total: 6 marks)

12(a) i. Enumerate the two (2) types of car modifications that exist and what effects do such modifications have on Motor Insurance? (8 marks)

ii. What is the underwriting approach to such modifications? (4 marks)

(b) State and briefly explain the four (4) sub-categories of hired vehicles/cars? (12 marks)

(c) How is the rehabilitation period determined under the Rehabilitation of Offenders Act 1974? (10 marks)

### **Solution**

(a) i. The two types of car modifications that exist are:

- body changes or enhancements and (3 marks)
- mechanical changes. (3 marks)

The effect of these two types of changes in Motor insurance is that the risk is not accepted using the standard motor insurance policy rating, terms and conditions,

but rather, the vehicle will be specifically underwritten and the terms to be imposed will be uniquely “germaine” to the risk. (2 marks)

ii. The underwriting approach to such body changes or enhancements modifications are that invariable the modification that enhances or increases a vehicle performance will generate a change in the rating and it often will result in an increased premium or even a refusal to cover the particular alteration. The extent of any specifications is normally the subject of specific questions on the proposal form as insurers need to know the details.

If the changes are mechanical in nature, the insurer may put the risk using engineering insurance terms/consideration especially if the modification has not been carried out by a professional motor engineer.

(2 marks for each correctly stated point under each of the two types. Maximum of one point to be graded under each term. Total: 4 marks)

(b) The four sub-categories of hired vehicles/cars are:

- **public hire vehicles:** i.e. vehicles that can ply for hire, which means a taxi or hackney carriage
- **private hire vehicles:** these are not licenced and cannot therefore ply for hire, but may be booked through the operator’s office or agency. This can also include limousines
- **self-drive hire vehicles:** these are vehicles (either private or smaller commercial type used for passenger carrying) that are hired out to the public without a driver
- **hearses and funeral cars:** these are vehicles that are used to carry corpses and also used during funeral ceremonies only.

(2 marks for correctly stating the sub-category. 1 mark for correct explanation. Sub-Total: 3 marks for each sub-category. Grand Total: 12 marks)

(c) The rehabilitation period determined under the Rehabilitation of Offenders Act 1974 is determined as follows:

- it commences with the date of conviction rather than the date of the offence and this differs depending on the severity of the penalty imposed.
- convictions resulting in penalty of imprisonment below 30 months are rehabilitated with very stringiest underwriting terms and closer than usual monitoring
- convictions resulting in penalty of imprisonment exceeding 30 months are never said to be rehabilitated.

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

- 13(a) What three (3) crucial features must be present at the time of an accident for the Third Party Sharing Agreement (TSA) to operate? (12 marks)
- (b) What is the wide scope of cover provided under the “Material Damage Section” of “Combined Road and Garage Policies”? (12 marks)
- (c) What are the differences in cover between a “Comprehensive Private Car” policy and a “Comprehensive Commercial Vehicle” policy? (10 marks)

### **Solution**

- (a) The three crucial features that must be present at the time of an accident for the Third Party Sharing Agreement (TSA) to operate are:
- there must be actual collision between two or more vehicles. “Attempt to avoid a collision” are not included under such agreement.
  - The vehicles involved must be insured against liabilities to third parties.
  - Injury must be sustained by a third party to damage done to their property, provided the third party is not one of the drivers involved in the accident.
- (4 marks for correctly stated point. Total: 12 marks)
- (b) The wide scope of cover provided under the “Material Damage Section” of “Combined Road and Garage Policies” is that this will provide cover for loss or damage to property (normally defined in the schedule) but including property
- (i) belonging to the insured
  - (ii) in the insured’s custody or control; or
  - (iii) for which the insured may be responsible – whether under a lease, hire, rental or similar contractual agreement.

The policy will clearly provide cover in respect of theft of vehicles from the insured’s own premises, excluding theft by employee, partners, directors, e.t.c. i.e. dishonesty.

The policy may provide cover on all risks basis and it includes comprehensive cover on vehicles in the insured’s capacity or control which are garaged away from the insured’s normal business premises.

(4 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)

- (c) The differences in cover between a “Comprehensive Private Car” policy and a “Comprehensive Commercial Vehicle” policy are that for private cars, there will be the following in place, which will not be for commercial vehicles:
- cover for accessories and spare parts unless attached to the vehicle
  - personal effects cover; and

- personal accident benefits

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

- 14(a) What are the various relevancies of “Geographical Area of use and/or Garaging” in Private Car Insurance Rating? (12 marks)
- (b) How is the premium of the Comprehensive Road and Garage Policy under the Motor Trade Insurance determined? (12 marks)
- (c) What are the four (4) key features of direct motor underwriting companies? (10 marks)

### **Solution**

- (a) The various relevancies of “Geographical Area of use and/or Garaging” in Private Car Insurance Rating are as follows:
- the area in which the vehicle is used makes a difference to the risk. In heavily populated areas, there is more likelihood of collision even when the policyholder is not at fault e.g. a hit whilst parked by a hit-and-run driver. On the other hand, there is less chance of collision where there are fewer cars on the road.
  - The theft risk also differs from location to location with larger cities being top on the list.
  - The area of use of the vehicle is one indicator of the theft risk but perhaps more importantly is the place where the vehicle is kept overnight.
  - The theft risk can also be reduced if the vehicle is kept in a locked garage and reductions in premiums can be obtained.
- (4 marks for any correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)
- (b) In view of the breadth of cover that can be required under such a policy, the various premium sub-totals for both the commercial property and motor aspects must be added together to produce a final total.

One of the simplest methods is to add together the premiums payable under a “third party and damage” road risks policy (rated on appoints basis) and a “third party and damage” internal risk policy, plus a surcharge for the additional cover provided for those other core provisions of the standard policy.

If the policyholder then seeks further optional benefits, these will generate additional premium.

It may also be that the vehicle based policies will be subject to a no claim discount.



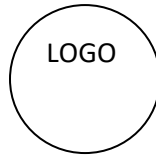
However, one alternative and simpler method is to calculate the premium solely on the capacity of the premises. One particular contract in the global insurance market adopts this approach and this obviates the necessity for fixing sums insured.

**(4 marks for any correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)**

(c) The four key features of direct motor underwriting companies are:

- no intermediaries are involved
- a call centre is set up to ensure rapid response to enquiries
- a highly sophisticated component system is used
- expense ratios are kept to a minimum

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



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A770**

**PRINCIPLES OF MARINE INSURANCE**

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## A770 -PRINCIPLES OF MARINE INSURANCE

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**Chief Examiner's Summarized Statistics**

Pass Rate: 50%

Highest Score: 56%

Lowest Score: 41%

Average Score: 48.5%

**Breakdown Updates****Question 1**

This question tested the candidates' knowledge on a special total loss only underwriter. The two candidates' attempted the question very well.

**Question 2**

This question tested the knowledge of the candidates on "full premium if lost". One of the candidates answered it very well, while the other candidate did not do well in it.

**Question 3**

The two candidates scored 67% in this question.

**Question 4**

This question was on the primary documents required in CIF overseas trade transacted and was well answered by the candidates.

**Question 5**

The performances of the candidates in this question were not encouraging.

**Question 6**

This question was on potential advantages of container usage in cargo transportation. Only one candidate did very well.

**Question 7**

The performances of the candidates in this question were not encouraging.

**Question 8**

The question was reinsurance and occurrence basis. Only one of the candidates did very well.

**Question 9**

Only one of the candidates scored above the average in the question. This is a compulsory question and it partly tested the market conduct and business practice guidelines as issued by NAICOM, while other parts of the question were on reinsurance and subrogation.

**Question 10**

This question was on Institute of cargo and collision incidence. The performances of the candidates were not encouraging.

**Question 11**

This question was not well answered by the candidates.

**Question 12**

None of the candidates got up to the average mark for the question.

**Question 13**

None of the candidate attempted this question.

**Question 14**

None of the candidates attempted this question.

**Chief Examiner's Comments on Overall Performance:**

The overall performance was poor. The candidates are advised to study more before writing the examination on the course.

**Chief Examiner's Suggestions on Improvement:**

The candidates are strongly advised to study more for the course.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. Mention any three (3) factors that a 'specialist total loss only underwriter' will consider in determining the rate to be charged on a vessel.

### **Solution**

The factors that a specialist total loss only underwriter will consider in determining the rate to be charged on a vessel are:

- type of vessel
- tonnage
- age of vessel
- value of vessel
- trade
- management and/or ownership
- the Experience of the underwriter

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

2. What is the implication of the term "full premium if lost - FPIL" in hull underwriting?

### **Solution**

The implication of the term "full premium if lost - FPIL" in hull underwriting is that:

- most hull insurances are placed for a period of twelve (12) months on an annual premium basis
- where an insurance is placed for a short term period (or broken period), it is customary for the rate to be qualified with the term "full premium if lost" to ensure that in the event of a total loss, the balance of the twelve months premium will be paid
- this is to avoid the practice of insuring for short periods which produces an advantage over those insuring for twelve months.

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

3. Mention three (3) main materials of which vessels are often constructed.

### **Solution**

The main materials of which vessels are often constructed are:

- steel
- wood
- aluminium
- glass fibre

- moulding resins
- concrete, mainly for fishing vessels
- stainless steel.

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

4. What are the three (3) primary documents required in CIF overseas trade transaction?

**Solution**

The three (3) primary documents required in CIF Overseas trade transaction are:

- the invoice
- marine policy or certificate of marine insurance
- a full set of bills of lading.

(2 marks for any correctly stated document. Total: 6 marks)

5. What are the three (3) uncertainties faced by the seller under FOB/CFR (Free on Board/Cost and Freight) terms of contract?

**Solution**

The three (3) uncertainties faced by the seller under FOB/CFR (Free on Board/Cost and Freight) terms of contract are:

- deferred payment of the contract price, a standard contractual provision usually set beyond the expected date of delivery of goods, which may be further delayed by local central bank in control over foreign exchange
- non-acceptance by buyer, through faulty documentation, failure to meet contract specification or delivery timetable, or unsatisfactory condition of the goods on arrival
- non-payment for any other reason, e.g. insolvency or collapse of the buyer's anticipated market outlets.

(2 marks for any correctly stated point. Total: 6 marks)

6. State any three (3) potential advantages of container usage in cargo transportation.

**Solution**

The potential advantages of container usage in cargo transportation are:

- quick and efficient carriage of cargo by custom-built container vessels between custom-built container terminals
- elimination of multiple handling for full container loads
- improvements in handling techniques in other cases other than full container loads
- reduction in pilferage hazards
- economies in individual packaging of contents

- protection against external contact damage
- protection against sea and/or freshwater damage
- improved defence against fire damage or water damage during extinguishing operations
- reduced risk of mis-delivery

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

7. State any six (6) stages/process of monitoring cargo transits for loss prevention purpose.

**Solution**

The stages/process of monitoring cargo transits for loss prevention purpose are:

- preparation and packing at the outlet
- loading
- land transport (and groupage) – where applicable
- unloading, port storage, handling/export clearance
- loading on the carrying vessel or aircraft
- carriage
- transshipment – when applicable
- unloading, storage and handling import clearance
- loading on the next and final stages of transport, and
- arrival at destination, unloading and checking.

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

- 8 (a) Who is a lead reinsurer?  
 (b) What is “occurrence basis”?

**Solution**

a) A lead reinsurer is the one who negotiates the terms, conditions and premium rates and first signs onto the slip. Reinsurers who subsequently sign on the slip under those terms and conditions are considered to be the following reinsurers.

(1½ marks for any correctly stated point/definition. Maximum of 2 points to be graded. Total: 3 marks)

b) Occurrence Basis is a form of reinsurance under which the date of the loss event is deemed to be the date of the occurrence, regardless of when reported. (3 marks)

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

- 9(a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,  
 i. who is a “promoter”?

(4 marks)



- ii. mention any three (3) documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application. (6 marks)
- (b) Describe a ship yard. (10 marks)
- (c) i. What are hull trading warranties? (10 marks)  
 ii. State the full form of AGWI? (5 marks)
- (d) State five (5) of the main types of non-proportional reinsurance treaties commonly used in the marine markets. (10 marks)
- (e) State briefly how subrogation may arise in marine hull insurance. (5 marks)

### Solution

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

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

ii) The following are the documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application:

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

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

(b) A ship yard range from a small area of ground where a private pleasure craft may be built and fitted out, to a highly sophisticated yard capable of building very large tankers or specialist vessels

- The majority of ship yards will possess fabrication and machine shops, slipways, fitting-out berths, dry docks, e.t.c.

- a modern yard can have an extensive covered area, providing constant working condition, obviating delays through weather variations

- fabrication of a whole section, such as bow or stern, can take place under cover and can be moved with large gantry cranes from main hull section, thus speeding up the building process

- the demand for larger tonnage has necessitated the extension of construction facilities, over larger cranes and bigger dry docks.

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

(c) i. **Hull Trading Warranties** are express warranties, generally referring to the geographical limits within which a vessel may trade in accordance with the terms of the insurance. An example of this type of warranty in use in the coastal and short sea trade is “warranted trading” between ports in the United Kingdom and/or continents of Europe between Bordeaux and Hamburg, both inclusive.

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

ii. The full form of AGWI is Atlantic Gulf West Indies. (5 marks)

(d) The main types of non-proportional reinsurance treaties commonly used in the marine markets are:

- working (exposed) excess of loss
- catastrophe excess of loss
- aggregate excess of loss
- stop loss
- backup contracts

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

(e) Subrogation may arise in marine hull insurance in the following two instances:

- after the insurer has paid a total loss, they are entitled to take over what remains of the subject matter insured and all proprietary rights incidental thereto.
- after the insurer has paid for a partial loss, they are entitled to all rights and remedies of the assured in respect of the subject-matter insured, as

from the time of the casualty causing the loss, to the extent of the amount paid.

(2½ marks for each correctly stated point. Total: 5 marks)

### Part III

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

Each question carries **34** marks.

10(a) The Institute Cargo Clause (A) is said to cover all risks of loss or damage. What are the limitations to the “all risks” cover? (20 marks)

(b) How may a cargo owner obtain his claim in a “both to blame” collision incidence? (14 marks)

### Solution

(a) The Institute Cargo Clause (A) is said to cover all risks of loss or damage. The limitations to the “all risks” cover are:

- loss or damage must have occurred fortuitously
- inherent vice, mere wear and tear or British Capture is not covered
- where the insured brought about the loss or damage by his own act
- all the statutory defences contained in the General Exclusions Clause
- unseaworthiness and unfitness exclusion clause, war exclusion clause and strike exclusion clause

(5 marks for any correctly stated limitations. Maximum of 4 marks to graded. Total: 20 marks)

(b) A cargo owner may obtain his claim in a “both to blame” collision incidence in the following manner:

- the assured is at liberty to recover its full loss from the non-carrying vessel
- the non-carrying vessel would then put up their claim for the proportion of the carrying vessel, making them to indirectly pay part of the claim they are exempted from
- where the collision clause in charter parties require the cargo owner to indemnify the ship owner for that proportion of the cargo losses, the amount refunded by the cargo owner to the ship owner may then be recovered by the cargo owners from their underwriters under the “both to blame collision clause” in the Institute Cargo Clauses
- the underwriters then reserve the right, at their own cost and expense, to defend the assured against any claim made by the ship owners.

(3½ marks for each correctly stated point. Total: 14 marks)

11(a) What are the special characteristics of reinsurance that distinguish it from direct insurance? (24 marks)

- (b) Name five (5) other types of risks that a marine hull reinsurance account will normally include. (10 marks)

**Solution**

- (a) The special characteristics of reinsurance that distinguish it from direct insurance:

- both parties to reinsurance contracts are insurers and reinsurers
- the insurable interest of the entity insured is always the insurance liability
- reinsurance confers an immediate financial benefit upon the reinsured party
- reinsurance does not generate fresh premiums but relies on the adequacy of the original premium
- reinsurers do not adjust claims
- within all legal and regulatory requirements, the ceding company may reduce its unearned premium reserve on account of the portion of premium paid over, for applicable reinsurance

(6 marks for each correctly and fully stated point. Maximum of 4 to be graded. Total: 24 marks)

- (b) Five (5) other types of risks that a marine hull reinsurance account will normally include are:

- building risks (of vessels)
- fishing vessels
- coasters
- river hulls and barges; and
- yachts

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

- 12(a) What are the classification societies and their importance in hull insurance? (24 marks)

- (b) State whether loss or damage is recoverable in the following circumstances:

- i. two or more causes result in loss or damage and they are all perils insured against (4 marks)
- ii. one of the causes is not mentioned in the policy but the other(s) are mentioned. (3 marks)
- iii. one of the causes is specifically excluded by the policy and the assured cannot separate the loss or damage between the various causes. (3 marks)

**Solution**

- (a) Classification Societies are organisations which supervise the construction of vessels or survey constructed vessels, meant to be classed with them, to ensure that they meet the criteria laid down in the societies' rules for vessels carrying their classification notation. (6 marks)

Their importance in hull insurance are:

- appointment of surveyors because to maintain a vessel in any particular society, parts of the hull and machinery must be surveyed by surveyors
- frequently appointed to carry out surveys for damage, on behalf of underwriters
- produce reports to guide the underwriters and the “salvage association: in order to make an informed decision
- assist underwriters in placing the required importance on classed vessels since the underwriters can then insure them, knowing that a high standard of maintenance will be achieved

(6 marks for any correct and complete importance stated. Maximum of 3 points to be graded.

Sub-Total: 18 marks)

(Grand Total: 24 marks)

- (b) State whether loss or damage is recoverable in the following circumstances:
- i. the loss or damage is recoverable as the assured may choose one of the causes to claim upon. (4 marks)
  - ii. the loss or damage is not recoverable. (3 marks)
  - iii. the loss or damage is not recoverable. (3 marks)

13(a) What is pipeline insurance and what are any five (5) factors to be considered in its underwriting? (19 marks)

(b) How are the claims of mobile unit/rig/barge similar to marine hull claims? Justify your answer with at least three (3) points . (15 marks)

### Solution

(a) Pipeline insurance are the insurance cover often used for construction risks and also for operating risks after construction. It is a high risk feature of the oil and gas operations with a specialised market and each class is usually examined individually. The proposal form is called a pipeline insurance proposal form and has its own special wordings.

(3½ marks for any correct and complete point stated. Maximum of 2 points to be graded.

Sub-Total: 7 marks)

The factors to be considered in its underwriting are:

- size of pipe
- type of pipe
- coating of pipe
- method of laying, location and weather conditions
- depth of water and type of seabed

- whether the line is buried and how deeply it is buried
  - the experience of the contractor and type of equipment to be used
  - determination of the deductible (usually high values)
- (3 marks for any correctly stated factor. Maximum of 4 to be graded. Sub-Total: 12 marks)  
(Grand Total: 19 marks)

- (b) The claims of mobile unit/rig/barge are similar to marine hull claims in the following manner:
- they are both insured using the “London Standard Offshore Drilling Barge Form” or an amended version of the Institute Hull Clauses in the marine market,
  - damage and collision claims for both follow on the same lines
  - supplies on board such as mud and drill stems would be specifically covered as it is done in marine hull
  - damage to the hull insured and the hull of third party vessels and fixed objects such as docks or legs of platforms are also handled in the same manner
- (5 marks for any correctly stated point. Maximum of 3 to be graded. Total: 15 marks)

- 14(a) Trace the development of York-Antwerp Rules from its beginning to its culmination into York-Antwerp Rules 1994. (20 marks)
- (b) What is jettison of cargo? (14 marks)

### **Solution**

- (a) The development of York-Antwerp Rules from its beginning to its culmination into York-Antwerp Rules 1994 is as enumerated below:
- the development of commerce in the 19<sup>th</sup> century brought about the need to establish a basis for international uniformity in the adjustment of general average
  - to this end, various meetings between members of the maritime community were held in Glasgow, London, York, Antwerp, Liverpool and Genoa between 1860 and 1890 when York-Antwerp code was named after the venues of two important conferences were published
  - York-Antwerp Rules are a voluntary code designed to maintain worldwide uniformity in the treatment of general average
  - due to the non-existence of an international body to resolve disputes on the interpretation of the wording, individual nations interpreted the “rules” according to their own laws, bringing about difficulties and divergences

- it became necessary to revise the “rules” from time to time, in order to maintain the intended uniformity

(10 marks for any complete and correctly stated point. Maximum of 2 of such points to be graded.

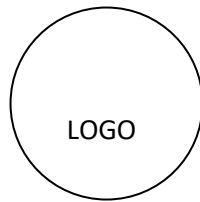
Total: 20 marks)

(b) **Jettison of cargo** in marine insurance means the intentional throwing overboard of part of the cargo or some piece of the ship in order to save the ship or its cargo. (7 marks)

Virtually all ocean marine policies cover the peril of jettison, subject to the following conditions:

- no jettison of cargo shall be made on goods as general average unless such cargo is carried in accordance with the recognised custom of trade
- cargo that is improperly carried on deck (when its rightful place should have been under deck) is excluded
- any cargo that have been jettison for the common safety of all would be allowed in general average, subject to conformity to the provisions of “rule 1”.

(7 marks for the definition in the 1<sup>st</sup> paragraph above. 7 marks for any other complete and correctly stated point. Total: 14 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A780**  
**AVIATION INSURANCE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A780 -AVIATION INSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate:	0%
Highest Score:	43%
Lowest Score:	39.5%
Average Score:	36%

**Breakdown Updates****Question 1**

A popular question that tested understanding of the candidates'. It is much of a textbook question.

**Question 2**

A textbook question locally adapted to test candidates understand. It was attempted by all but with a poor performance.

**Question 3**

Question is purely textbook based but mis-conceived by the candidates. All the candidates missed the question.

**Question 4**

Policy document based question but half of the candidates did not understand it.

**Question 5**

Well attempted and understood question. It's a practical industry practice based question.

**Question 6**

Reinsurance question needs to be understood by every serious insurance candidate; it was both a textbook and practical underwriting question.

**Question 7**

Averagely attempted.

**Question 8**

Candidates could not remember or recall this textbook based question.

**Question 9**

Poor result by candidates; may largely be due to lack of diligence in study.

**Question 10**

This is purely to test the provisions of the applicable aviation conventions which required diligence to pass; it was poorly attempted.

**Question 11**

Well attempted question.

**Question 12**

Not attempted by candidates. To test practical application.

**Question 13**

Question to test logic and understanding; it was also poorly attempted.

**Question 14**

Question tested aviation terminology and practical application. It was poorly attempted.

**Chief Examiner's Comments on Overall Performance:**

Performance is below average. Hopefully tutorial classes will remedy the gaps.

**Chief Examiner's Suggestions on Improvement:**

The questions are quite standard and straight forward; so I suggest that tutorial lessons will assist candidates in performing better in future diets.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. List three (3) of the main types of reinsurance that a direct underwriter might consider in Aviation Insurance.

### Solution

The main types of reinsurance that a direct underwriter might consider in Aviation Insurance are:

- facultative reinsurance
- quota share reinsurance
- excess of loss reinsurance
- stop loss reinsurance.

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

2. Explain in brief three (3) offices within the Nigeria Civil Aviation Authority (NCAA) or the Federal Aviation Authority (FAA).

### Solution

The three offices within the Nigeria Civil Aviation Authority (NCAA) or the Federal Aviation Authority (FAA) are:

- **flight standard:** have oversight of commercial air carrier, maintenance and training, flight procedures, general aviation, pilot testing, safety education and accident investigation
- **civil aviation security:** have oversight of airport and aircraft security and hazardous materials shipments
- **airports:** have oversight of the funding of public airports and the oversight of airport fire services and emergency preparedness
- **airways facilities:** have oversight on the installation and maintenance of radar navigation, aids and associated computer equipment
- **aircraft certification:** have oversight of aircraft design, flight test and production

(1 mark for correctly stated office. 1 mark for correct explanation. Sub-Total: 2 marks. Maximum of 3 to be graded. Grand Total: 6 marks)

3. What is the basic cover provided by Sections 1, 2 and 3 of Ariel Airport Owners' and Operators' Liability Policy?

### Solution

The basic cover provided by Sections 1, 2 and 3 of Ariel Airport Owners' and Operators' Liability Policy are:

- Section 1: loss of or damage to aircraft
- Section 2: legal liability to third parties (other than passengers)

- Section 3: legal liabilities to passengers  
(2 marks for each correct answer. Total: 6 marks)

4. Mention three (3) other sub-insurance-classes under Aviation Insurance.

**Solution**

Three other sub-insurance-classes under Aviation Insurance are:

- Section 1: Premises Liability
- Section 2: Hangar keepers' Liability
- Section 3: Product Liability.

(2 marks for each correct answer. Total: 6 marks)

5. List the three (3) types of discounts that may be given on renewal of an aircraft insurance.

**Solution**

The three types of discounts that may be given on renewal of an aircraft insurance are:

- no claim bonus
- profit commission
- good experience return

(2 marks for each correct answer. Total: 6 marks)

6. Explain briefly three (3) reasons why a direct aviation insurer may choose to buy excess of loss reinsurance.

**Solution**

Some reasons why a direct aviation insurer may choose to buy excess of loss reinsurance are:

- to create a spread of risk throughout the portfolio
- to allow increased capacity
- to protect the book against a major loss which could result in potential accumulation
- to enter new classes or to expand within an existing class

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

7. State three (3) defences open to the carrier in the event of loss of or damage to goods carried by air.

**Solution**

The defences open to the carrier in the event of loss of or damage to goods carried by air are:

- all necessary measures to avoid the loss were taken
- contributory negligence

- loss was caused by negligence of the aircraft crew
- act of God  
(2 marks for each correctly stated defence. Maximum of 3 to be graded. Total: 6 marks)

8. Mention three (3) of the circumstances in which the state of registration of an aircraft is able to take action in respect of offences committed under the Tokyo Convention 1963.

### **Solution**

The circumstances in which the state of registration of an aircraft is able to take action in respect of offences committed under the Tokyo Convention 1963 are:

- the offence has effect on the territory of such State including against its security
- the offence has been committed by or against a national or permanent resident of such State
- the offence consists of a breach of any rules or regulations relating to the flight or manoeuvre of aircraft in force in such State
- the exercise of jurisdiction is necessary to ensure the observance of any obligation of such State under a multilateral international agreement  
(2 marks for each correctly stated circumstance. Maximum of 3 to be graded. Total: 6 marks)

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

- 9(a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,
- who is a “promoter”? (4 marks)
  - mention any three (3) process or action to be taken at the registration stage of the application. (6 marks)
- (b) A light aircraft crashes during a local pleasure flight killing John, a 34 year old pilot, his 10 year old son. Also in the aircraft is Miranda, 29, a family friend, who is a mother of two and a successful actress. Miranda suffered severe injuries including loss of a leg and complete loss of sight.

On investigation, it becomes clear that the plane had been overloaded.

- Discuss the possible awards of damages which may be made by the courts if the accident occurred in the United Kingdom. (30 marks)
- Briefly discuss the liability of the insurers of the aircraft operator. (10 marks)

## Solution

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

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

ii) The following are the processes or actions to be taken at the registration stage of the application:

- a) pre-registration interview
- b) publication of applicant to members of public
- c) notification of success or otherwise after 21 days of publication
- d) issuance of letter of success
- e) evidence of payment of registration fee
- f) issuance of certificate of registration.

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

(b) (i) The first thing to bear in mind is that claim will be dealt with on its own merits. As in this case, it was a local pleasure flight, the doctrine of common law and proof of negligence will apply. Assuming negligence was proved to the court satisfactorily, the liability to the plaintiffs would be unlimited and claims may be made for death or for bodily injury.

Death claims would be made under two headings, which could be economic loss or non-economic loss.

Economic Loss would include the following:

- life expectancy of the deceased
- deceased’s expected gross salary
- value of any other benefits or shareholdings or partnerships he may have had in any business
- funeral expenses
- any estate or death duties payable by the heirs

Non-economic loss would include:

- loss of care, affection and companionship

- protection to his wife and children from the time of the death to when they cease to be minors.

Claims for injury could come in under the following headings:

- compensation for pain and suffering (both present and future) including “mental anguish”. No damages are recoverable under this head if the plaintiff is permanently unconscious
- loss of amenities of life
- loss of expectation of life
- loss of future earnings (where expectation of life has been reduced, so will payment under this heading be reduced)
- medical and other expenses reasonably incurred as a result of the injuries.

(5 marks each for any complete and correctly stated point. Maximum of 6 points to be graded. Total: 30 marks)

ii. The liability of the insurers of the aircraft operator may be such that the insurers may be in a position to decline the claim because the plane was overweight and thus in breach of its airworthiness certificate. This will depend to a degree on who knew about the breach and the exact wording of the policy documentation. The court place different onuses on employees, named insured and directors of a company in these situations.

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

### **Part III**

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

**Each question carries 34 marks.**

10 You are the Insurance Manager for PFA Airlines. One of their aircraft whilst on a flight between countries within the EU, was hijacked and flown to a country outside the EU. On landing, the aircraft sustained damage and several passengers were injured.

The aircraft was insured on a London Aircraft Insurance Policy – AVN 1C with geographical limits of EU only. Coverage was also purchased for hull and liability war perils.

Discuss the:

a. cover potentially available under the policies. (20 marks)

b. information that the appointed surveyor will need to investigate.

(14 marks)



## Solution

a) The London Aircraft Insurance Policy – AVN-1C contains a war exclusion (Exclusion 10) but this is often deleted and replaced by war, hijacking and other perils exclusion clause (Aviation only).

Taking liability coverage first, as an EU carrier, PFA Airline air carriers including war liability coverage. To operate within the EU therefore, the aircraft operator must have this coverage. We would therefore be confident that the operator has sufficient liability coverage.

In this scenario, the aircraft has been hijacked and has suffered a loss with the hijacking probably being the proximate cause. We can be fairly confident that cover exists in respect of hijacking risks so any hull and liability losses attributed to that are covered.

The geographical limits are stated as EU only but the aircraft has crashed outside the EU, have they therefore, breached this condition? We have to examine Section IV of the London Aircraft Insurance Policy – AVN 1C policy headed: “General Exclusions Applicable to All Sections: Exclusion 2 states that coverage does not exist if the aircraft is outside the stated geographical limits unless due to force majeure. **In this instance, hijacking would be included within the definition of force majeure, so this will be covered.**

(5 marks for the bolded statement above. 3 marks each for any complete and correctly stated point.

Maximum of 3 of such points to be graded. Sub-Total: 15 marks. Grand Total: 20 marks)

b) The appointed surveyor will need to investigate all aspects of the loss and the circumstances leading up to it to ensure that you receive the correct information to allow you to decide whether to pay the loss or not. These are that the surveyor will:

- obtain and check policy details
- check details of the insured to ensure that coverage was correctly in place at the time of the accident
- look at the cause of the loss to ensure that this was correctly insured, hence the importance of looking at the geographical limits and hijacking coverage
- work with the local authority to look at the loss, the background and the causes
- recommend whether this should be paid as a total loss
- whether aircraft is repairable and if there is any salvage to take into account

(3½ marks each for any complete and correctly stated point. Maximum of 4 of such points to be graded.

Total: 14 marks)

- 11 Enumerate, on each below, any three (3) key factors affecting the setting of a premium rate for hull insurances for:
- |                     |            |
|---------------------|------------|
| a. Large Operator   | (8 marks)  |
| b. Smaller Operator | (8 marks)  |
| c. Industrial Aid   | (8 marks)  |
| d. Flying Clubs.    | (10 marks) |

### **Solution**

When setting a rate for hull insurances, an insurer should give consideration to the following factors as it relates to the following sub-sets of insureds:

- a. **Large Operator:**
- type and value of aircraft
  - training infrastructure or organisation which will be providing training
  - loss record
  - if a regional operator, account would need to be taken of particular hazards and ease of retrieval of aircraft to suitable repair site
- (4 marks for each correctly stated factor. Maximum of 2 to be graded. Sub-Total: 8 marks)
- b. **Smaller Operator:**
- type and value of aircraft
  - training infrastructure or organisation which will be providing training
  - loss record
  - if a regional operator, account would need to be taken of particular hazards and ease of retrieval of aircraft to suitable repair site
  - how many different types of aircraft are utilised?
  - Will pilots switch between types flown?
  - Airfields used?
- (4 marks for each correctly stated factor. Maximum of 2 to be graded. Sub-Total: 8 marks)
- c. **Industrial Aid:**
- type of aircraft
  - pilot experience
  - value of the aircraft
  - loss record
- (4 marks for each correctly stated factor. Maximum of 2 to be graded. Sub-Total: 8 marks)
- d. **Flying Clubs:**
- Type and value of aircraft
  - Pilot experience
  - Number of members
  - Claim record of club

- Geographical location
- Facilities
- Utilisation
- Experience of Chief Instructor
- Maintenance provider

(2½ marks for each correctly stated factor. Maximum of 4 to be graded. Sub-Total: 10 marks)  
(Grand Total: 34 marks)

12. AZL is forming an airline in UK operating charter flights to European destinations with 170 seat airliners.

They have initially leased two aircrafts from a New York based lessor whose leased agreements require that AZL carry liability insurance with a minimum combined single limit (CSL) of USD250,000,000.00.

As Insurance Broker to AZL, discuss

- whether you feel that the minimum limit specified in the lease will be sufficient. (12 marks)
- if there will be any jurisdiction issues to take into account having a US lessor. (12 marks)
- how the airline liability policy will include the leasing agreement provisions Industrial Aid. (10 marks)

### **Solution**

a) AZL as an EU resident airline flying to EU destinations will be subject to Regulation 785/2004 implemented in the UK by the Civil Aviation (Insurance) Regulations 2005. The flight will also be subject to the Montreal Convention 1999 as enacted in the EU Regulation 889/2002.

These regulations have set minimum liability limits for any carrier operating to/from/over the EU. For EU carriers, the calculation of limits includes passenger liability of 250,000 Special Drawing Rights (SDRs) per passenger and third party liability on a sliding scale based on maximum take-off mass of the aircraft.

Based on the current rate of exchange SDR/USD, the USD 250,000,000.00 will not be sufficient but is, in any case, stated as a minimum limit not a required limit and the airline should be advised to buy a substantially higher limit to satisfy the regulations.

(4 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)

b) The fact that the aircraft are leased from a US company should not give immediate cause for concern over jurisdiction. Lawyers for the injured would look for parties to draw into a legal action and may well note that with aircraft leased from a US company, it would give them enough ammunition to establish that the US courts have jurisdiction. The US courts being known as a more beneficial jurisdiction than the EU.

In a major loss, lawyers will seek to bring any action not only the carrier but also manufacturers, lessors, servicing agents, banks and any other who might have deep pockets and a possible interest.

There is therefore, a possibility that the use of a lessor may have an effect on actions in the event of a loss however, it is by no means a certainty.

**(4 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)**

c) An aircraft lease agreement will normally include a statement saying that the insured's policy must include the Airline Finance or the Airline Lease Contract Endorsement AVN C7B or C7C.

This clause on the liability has the effect of including the requirements of the lessor as normally contained in the insurance and indemnity paragraphs of the lease and is the standard way of ensuring that the contractual provisions are catered for in an insurance policy.

This clause forms a separate contract within the policy and subject to all terms and conditions of the policy. In view of this, a nominal additional premium is stated as if received by insurers.

Additionally, lease agreements may require the inclusion of the Finance/Lease Continuing Liability Endorsements/AVN 99 which requires that the lessee maintains third party liability coverage as required by the lease beyond the expiry of the operating lease.

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

13. An airline belonging to Mekowa, a UK Company operating a flight from London to Paris has a landing accident involving fatalities.

a. Explain the compensation that will be payable in the event of passenger death or injury and the applicable legislation.

**(12 marks)**

- b. In respect of the damaged aircraft, list at least eleven (11) major heading which must be in surveyor's final submitted report and recommendations. (22 marks)

### **Solution**

a) The primary piece of legislation affecting passenger liability is the Montreal Convention 1999 as enacted in the EU Regulation 889/2002.

The regulations state the carrier is obliged to make an advance payment of at least 16,000 Special Drawing Rights (SDRs) in the event of death to meet immediate economic needs on a basis proportional to the hardship suffered. This payment must be made not later than 15 days from the identification of the natural person entitled to the compensation.

After the hardship payment has been taken into account, liability is governed by the Montreal Convention 1999. Under this convention, the carrier is strictly liable in the event of death or passenger bodily injury for death up to 113,100 SDRs.

Above 113,000 SDRs, the carrier bears unlimited liability and it is presumed to be at fault unless it can prove that the death/injury was not due to the carrier's negligence/omission/wrongful act or was solely due to the negligence/wrongful act/omission of a third party.

(4 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)

- b) The final report submitted by the surveyor should ultimately contain all of the following details:
- i. identification of the aircraft involved in the accident
  - ii. time, date and place of the accident
  - iii. name, age and address of the pilots, their total flying experience with details of all the aircraft that they have flown
  - iv. full details of crew members
  - v. full details of the airframe together with its date of manufacture
  - vi. total flying time since overhaul and total permitted time between overhauls
  - vii. full details of the engines
  - viii. full details of accident and written and signed statements from the members of the crew
  - ix. weather and other factors affecting the accident
  - x. details of the damage sustained by the aircraft with aircraft photograph and surrounding country side
  - xi. possible cause of accident and possibility of subrogation

- xii. recommendations concerning the time to repair, requirement for stage payment
- xiii. any breach of regulations and the result of any investigations carried out by a regulatory authority
- xiv. copies of any agreements likely to affect the repair of the aircraft or possible subrogation
- xv. details of ownership, including leases, lines or encumbrances

(2 marks for each correctly stated detail. Maximum of 11 points to be graded. Total: 22 marks)

14. a) Write a short note on the coverage that is provided for physical loss, damage or failure under a satellite launch and in orbit policy. (10 marks)
- b) Explain what is meant by an airline code share agreement. (10 marks)
- c) What should an underwriter consider if an insured request for increase or decrease in the agreed value of an insured aircraft at renewal of the insurance? (10 marks)
- d. Give two (2) major reasons why a pilot would buy loss of licence insurance. (4 marks)

### **Solution**

a) Launch and in-orbit coverage attaches at the moment of international ignition and continuous until one year afterwards. Coverage on the satellite will cover against all risks of loss, damage or failure.

The launch and in-orbit insurance coverage is broad and few exclusions apply other than the standard war risks, insurrection and civil commotion, confiscation and terrorism, nuclear and electromagnetic exclusions. The electrical and mechanical failure will also include loss of a function.

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

b) An airline code share agreement allows a passenger to travel on two or more airlines but hold a single ticket specifying one airline's designator code and flight number. The agreement will make provision for the contractual rights if passengers in the event of injury.

Both the Warsaw Convention 1929 and the Montreal Convention 1999 provide that single legs of a passenger's journey operated by different airlines are deemed together to be one undivided carriage, provided that the following conditions are met:

- more than one carrier must be involved in performing different legs of the journey

- the different legs of the journey must be agreed to be performed in successive manner
- both parties must regard the whole carriage as a single operation

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

c) Generally, the values of aircraft as with most manufactured goods will depreciate over time. It should be a matter of concern to insurers if they receive a request to increase a value. The normal response is to ask for justification for the aircraft value. Underwriters will need to satisfy themselves that the revised value is in line with market price for that model.

The primary concern for an insurer is of moral hazard. Why does the insured want to increase the value? The aviation world is a fairly “tightknit” community and it is incumbent on a broker (and/or the insurer) to know the clients that they are taking on: does the insured have a “reputation”? has the insured had a poor claims history or there are financial problems?

Reduction in agreed value may be of equal concern especially if they lead to under-insurance. This will be of special concern in the event of a partial loss as under circumstances the claim may be settled on a total loss with no deductible applicable.

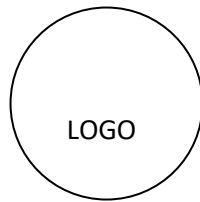
In the case of reductions in agreed value, the main reason is generally to save premium. Again, the insurer will need to satisfy themselves that the revised value is in line with fair market value and may increase the rate usually in line with the market 70/30 formula.

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

d) Two reasons why a pilot would buy loss of licence insurance are because:

- aircrew and air traffic controllers must hold a valid licence in order to carry out their duties, these licences require the aircrew to maintain a high medical standard which is reviewed regularly
- in the event that the pilot will be unable to work, the loss of licence insurance therefore will provide a cash benefit to assist the pilot during the period.

(2 marks for each correctly stated reason. Total: 4 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A785**

**PRINCIPLES OF REINSURANCE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A785 - PRINCIPLES OF REINSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 52.6%

Highest Score: 71%

Lowest Score: 15%

Average Score: 52%

**Breakdown Updates****Question 1**

The question tested candidates' knowledge of fixing retention limit. More than 50% of the candidates scored above average. The performance was average.

**Question 2**

A very simple but trickish question. It tested candidates' knowledge of non-proportional treaty provision premium and its principles. Majority of the candidate failed the question. Only about 10% scored full marks.

**Question 3**

The question tested candidates' knowledge of the principle guiding the follow the fortune clause. About 40% of the candidate scored above average while majority scored zero.

**Question 4**

A very straightforward question. The candidates performed very well especially on the meaning of facultative obligatory reinsurance.

**Question 5**

The question intended to test the information required in rating an excess of loss cover. The performance was average as most of the candidates could not give well convincing factors.

**Question 6**

The question tested candidates' knowledge of ADR and ARI. The performance was very good; more than 60% of the candidates scored above average mark.

**Question 7**

A very simple and direct question. The performance was very good. Over 40% of the candidate scored full marks while more than 60% of the candidate scored above average mark.

**Question 8**

The question intended to test the difference between a slip and a cover note. The performance was very good. Over 70% of the candidate scored above average mark.

**Question 9**

Majority of the candidates were able to state the stages involved in the regulator of insurance and reinsurance companies and scored full mark. Majority of the candidates was also able to give clear definitions of reinsurance as well as the sliding scale commission. However, there were very poor performances in question 9d and 9c. Most of the candidates was able to calculate the adjusted commission rate but could not compute the actual commission applicable based on the sliding scale table.

**Question 10**

The question tested candidates' knowledge of captive insurance. About 50% of the candidates attempted the question and 70% scored above average. The candidates demonstrated good understanding of the subject matter.

**Question 11**

The question is an applied question which intended to test candidates' knowledge of information required in negotiating a reinsurance programme in some selected classes. About 36% scored above average.

**Question 12**

The question tested candidates' knowledge of surplus treaty arrangement and the practical application. The performance was very good as most of the candidates attempted the question and scored above average. Most of the candidates got question 12d correctly.

**Question 13**

The question tested the candidates' knowledge of non-proportional treaty premium, burning cost as well as differences between non-proportional treaty and proportional treaty. Majority of the candidate could not describe the main parts of the excess of loss premium which carries 15 marks.

**Question 14**

The question is a direct question which require candidates to write short note on EML, MPL and exposure rating. All of the candidate that attempted the question scored below average mark. The performance was very poor.

**Chief Examiner's Comments on Overall Performance:**

The overall performance was a little above average. About 53% of the candidates scored above pass mark.

**Chief Examiner's Suggestions on Improvement:**

The candidates need to pay attention to the course book and get familiar with relevant regulating provisions. Candidates need to be detailed when attempting the questions especially part III. Also candidates are encouraged to pay attention to the practical aspect of reinsurance principles.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Outline three (3) factors taken into consideration when fixing the surplus reinsurance retention limit.

### Solution

The factors taken into consideration when fixing the surplus reinsurance retention limit are:

- i) Assets, capital and free reserves
- ii) Size of the portfolio
- iii) types and spread of risks
- iv) size and frequency of losses (if any)
- v) reinsurance type and cost
- vi) corporate strategy
- vii) experience of the chief underwriter

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

- 2(a) If on an M & D Account, the deposit premium is ~~N~~30,000.00, minimum premium is ~~N~~25,000.00 and adjusted premium is ~~N~~24,000.00. What is the return premium due? (4 marks)
- (b) If the actual adjusted premium is ~~N~~30,000.00, minimum and deposit premium is ~~N~~35,000.00, what is the return premium due? (2 marks)

### Solution

- a) N30,000.00 minus N25,000.00 = N5,000 (4 marks)
- b) Zero (2 marks)

3. What principal tests are applied by the use of a “follow the settlements” clause?

### Solution

The principal tests applied by the use of a “follow the settlements” clause are that:

- the claim falls within the terms and conditions of the contract
- the claim was adjusted in a proper and business-like manner
- there is an absence of fraud in the claim.

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

- 4(a) What is a facultative obligatory reinsurance?
- (b) What is the main disadvantage of a facultative obligatory to the reinsurer?

### Solution

a) Facultative obligatory reinsurance is a reinsurance contract which combines some of the features or principles of both the treaty and facultative reinsurances. It

is the insurer that decides whether or not it would operate. Once the insurer cedes, the reinsurer must accept the risk ceded.

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

b) The main disadvantage of a facultative obligatory reinsurance arrangement to the reinsurer is that it is basically needed to provide for additional capacity for the ceding office.

(2 marks)

5. Mention three (3) information which the reinsurance companies usually require in order to rate an excess of loss cover.

### **Solution**

Information which the reinsurance companies usually require in order to rate an excess of loss cover are:

i) annual premium income over the past few years and estimated income for the coming financial period

ii) the structure of the proportional and non-proportional reinsurance programmes, and in particular retention limits

iii) the historical loss experience of the insurance company

iv) the structure of the portfolio to be protected

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

6(a) What is Alternative Dispute Resolution?

(b) What is Alternative Risk Transfer?

### **Solution**

a) Alternative Dispute Resolution (ADR) is a variety of methods of resolving disputes that may fall somewhere between simple negotiation between parties and resolution through litigation and arbitration. ADR will usually take place against the background of litigation or arbitration, either before the commencement of an action or after the commencement of an action.

(1½ marks for every correctly stated point. Maximum of 2 points to be graded. Total: 3 marks)

b) Alternative Risk Transfer (ART) is a non-traditional way of dealing with a risk transfer problem. It may equally be described as a set of risk -financing techniques.

(1½ marks for every correctly stated point. Maximum of 2 points to be graded. Total: 3 marks)

7. Mention any three (3) types of non-proportional reinsurance treaties which may be used for Marine and Aviation Risks.

### **Solution**

Three (3) types of non-proportional reinsurance treaties which may be used for Marine and Aviation Risks are:

i) Working excess of loss

ii) Catastrophe excess of loss

iii) Stop loss

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

8. Distinguish between a slip and a cover note.

**Solution**

**A slip:** is the document on which the basic outline of the reinsurance contract is summarized during the negotiation and on which the reinsurer confirms the amount of liability they are prepared to underwrite.

(1½ marks for every correctly stated point. Maximum of 2 points to be graded. Total: 3 marks)

**While a cover note:** is the document that is sent to the reinsured by the broker which is a summary of the terms and conditions of the reinsurance that has been placed and the details of the reinsurers that have accepted a part of the risk, also stating the amount of their participation.

(1½ marks for every correctly stated point. Maximum of 2 points to be graded. Total: 3 marks)

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9(a) Mention the four (4) stages involved in the registration for insurance and reinsurance companies in the Nigeria Industry Market space. (10 marks)

(b) Outline any two (2) definitions of reinsurance. (4 marks)

(c) Describe in detail what you understand by 'sliding scale commission'. (6 marks)

(d) You are given the following information as they relate to the sliding commission provisions of Gamma-Beta Insurance Corporation (GBIC):

✚ Provisional Commission: 35%

✚ Commission Scale: Minimum 30% for a 60% loss ratio  
Maximum 40% for a 40% loss ratio

✚ Premium earned during the year under consideration: ₦220 million

✚ Losses incurred during the year under consideration: ₦121 million

What is the applicable commission payable? (22 marks)

(e) Distinguish between premium portfolio transfer and loss portfolio transfer. (8 marks)

**Solution**

a) The four (4) stages involved in the registration for insurance and reinsurance companies in the Nigeria Industry Market space are:

- Preliminary Stage
- Application Stage
- Verification Stage
- Registration Stage

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

b) Reinsurance can be defined as:

- a process of insuring all or part of what has already been insured by the direct office
- the insurance of insurance
- a further spread of insurable risks
- the insurance of the risks borne by the insurers
- the business of insurance across the boundaries of two or more countries. In this case, reinsurance business is regarded as an international business

(1 mark for each correct definition. Maximum of 2 definitions to be graded. Total: 4 marks)

c) A sliding scale commission rewards or penalizes the quality of the portfolio protected by the reinsurance treaty. It consists of defining both a minimum and maximum commission for a loss ratio scale, such that:

- if the loss ratio is low, the commission which the reinsurer will pay to the cedant is higher
- if the loss ratio is high, the commission which the reinsurer will pay to the cedant is reduced
- therefore, with this commission system, the reinsurer will reward an adequate loss ratio with higher remuneration (i.e. a higher commission) and for an increased loss ratio, the cedant receives a lower commission.
- however, regardless of the actual loss ratio – whether very high or low, the eventual applicable commission may never be lower than the minimum or higher than the maximum commission that ought to have been paid using the usual commission scale.

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

c) Provisional Commission = 35%

Commission Scale= Minimum 30% for a 60% loss ratio

Maximum 40% for a 40% loss ratio

Premium earned during the year under consideration = ₦220 million

Losses incurred during the year under consideration = ₦121 million

Loss ratio incurred =  $\frac{\text{₦121 million}}{\text{₦220 million}} \times 100\%$  (3 marks)

= 55%

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

The applicable commission, say X =

Commission Minimum +  $\frac{(LR_{\max} - LR_{\text{actual}}) \times (\text{Commission Max} - \text{Commission Minimum})}{(LR_{\max} - LR_{\min})}$

(LR<sub>max</sub> - LR<sub>min</sub>)

(Sub-Total: 4 marks)

where:



- Commission Minimum = 30%;
- LRmax = 60%;
- LRactual = 55%';
- Commission Max = 40%;
- Commission Minimum = 30% and
- LRmin = 40%

(1 mark for each correctly stated item. Sub-Total: 6 marks)

$$\text{Therefore, } X = 30\% + \frac{((60\% - 55\%) \times (40\% - 30\%))}{(60\% - 40\%)} \quad (3 \text{ marks})$$

$$= 30\% + \frac{(5\%) \times (10\%)}{20\%} \quad (2 \text{ marks})$$

$$= 30\% + 2.5\% \quad (2 \text{ marks})$$

$$= 32.5\% \quad (1 \text{ mark}) \text{ (Sub-Total: 8 marks)}$$

(Grand Total: 22 marks)

d) **Premium Portfolio Transfer:** is the transfer of the share of the unearned premium reserve payable by the cedant and the reinsurers of year X, at that year's reinsurance conditions to the cedant and reinsurers of year X + 1, at the conditions of the new year's reinsurance treaty (4 marks), while the **loss portfolio transfer** is the transfer of the share of the outstanding loss reserve of the cedant and the reinsurers of year X, at that year's reinsurance conditions to the cedant and reinsurers of year X + 1, at the conditions of the new year's reinsurance treaty (4 marks).

(Sub Total: 8 marks)

(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

- 10(a) What do you understand by "captive insurance"? (6 marks)
- (b) Outline four (4) advantages of captive insurance. (10 marks)
- (c) Outline four (4) disadvantages of captive insurance. (10 marks)
- (d) Mention any four (4) forms of finite reinsurance. (8 marks)

### Solution

a) These are insurance companies which are founded by large industrial or commercial companies in order to obtain insurance cover for their own risks. In most captive arrangements, both the insured and insurer share the same or common company philosophy. However, some captives exist not only to insure the interests of their group of companies, but extend their activities to underwriting business from other companies.

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

- b) The advantages of captive insurance are:
- i) to reduce and/or stabilize insurance costs
  - ii) efficient claim settlements, wordings and coverage
  - iii) cash-flow from investment income on retained funds and favourable terms of trade from reinsurance companies
  - iv) capacity and leverage against insurance firms
  - v) insurance arrangement continuity
  - vi) risk management activities communicated

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

- c) The disadvantages of captive insurance are:
- i) investment funds are tied up in the captives
  - ii) captive management costs are usually higher compared to other forms of reinsurance
  - iii) traditional covers are often competitive on price
  - iv) tying up senior management time
  - v) it may be viewed as another form of capital flight

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

- d) Forms of finite reinsurance are:
- i) fully funded - one - off premium
  - ii) fully funded - one - off premium partially withheld by the reinsured
  - iii) fully funded - regular premium
  - iv) contingent capital structure (part funded)
  - v) partially funded - regular premium.

(2 marks for each correctly stated type. Maximum of 4 types to be graded. Total: 8 marks)

- 11(a) You have just been appointed as the head of technical underwriting at ABC Reinsurance Company. Briefly describe five (5) information each that you would require from an insurance company negotiating with your company regarding proportional reinsurance of the following classes of insurance business:

- i. Motor Insurance (10 marks)
- ii. Public liability (10 marks)
- iii. Contractors' All-Risks and Engineering. (10 marks)

- (b) What is a warranty? (4 marks)

**Solution**

- a) As the newly appointed head of technical underwriting at ABC Reinsurance Company, the following are the documents/information that I would require from

an insurance company negotiating with my company regarding proportional reinsurance on:

**i) Motor Insurance:**

- i) what are the limits being written by the reinsured in respect of the bodily injury and property damage?
- ii) what, if any, is the extent of 'brown card' exposure being written?
- iii) what is the extent of any exposure to loss from natural perils?
- iv) what is the attitude and management philosophy of the reinsured to high-risk vehicles such as sports cars and other specialized vehicles?
- v) what is the attitude and management philosophy of the reinsured to high-risk drivers such as young or inexperienced drivers or drivers with serious driving related convictions?
- vi) what is the reinsured's exclusion list? For example, would buses, coaches and petrol tankers usually be expected to be excluded?
- vii) does the cedant provide coverage for any fleets or other concentrations of vehicles at any one location?
- viii) detailed loss statistics would be required on a triangulation basis and it should be clear whether these loss figures contain any allowance for incurred but not reported losses

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

**ii) Public Liability:**

- i) what is the nature of the classes of business written by the reinsured, e.g commercial or industrial, large or small operations?
- ii) what are the limits written in respect of bodily injury and property damage?
- iii) what is the past loss history on a triangulation basis and do the loss statistics include an allowance for IBNR losses?
- iv) what is the basis by which losses are attaching to the coverage provided losses occurring or risks attaching?
- v) do the original policies allow for legal costs to be inclusive or in addition to policy limits and do they allow for the inclusion of awards for punitive damages?
- vi) is pollution coverage provided and is it restricted to sudden and accidental incidents only?
- vii) what is the length of time taken to settle the average claim?
- ix) what, if any, coverage is provided by the reinsured in respect of product liability?

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

iii) **Contractors' All-Risks and Engineering:**

- i) details of the type of risk that makes up the reinsured's portfolio, e.g. does it consist mainly of building risks, civil works, annually renewable covers or major projects?
- ii) which types of engineering risks are written by the reinsured and what proportion of the overall account they represent, e.g. boiler, machinery breakdown and cranes etc
- iii) are the policy limits issued on an EML basis and if so, what criteria do the reinsured use for assessment of its EML predictions?
- iv) to what extent is the portfolio of original risks exposed to natural perils and/or territorial concentrations of risk?
- v) what inspection and survey facilities does the reinsured have or usually employ?

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

b) **A warranty is** a contractual promise made by a reinsured either to an existing state of affairs or something the reinsured would do in the future. It may also be described as undertaking by the insured or reinsured that certain things shall be done or not be done or that somethings shall be put into place or not.

(4 marks for any correctly and fully stated definition)

12(a) What is a surplus treaty? (2 marks)

(b) Enumerate three (3) advantages of a surplus treaty. (9 marks)

(c) Explain four (4) disadvantages of a surplus treaty. (12 marks)

(d) ABC Insurance has arranged a five-line first and four-line second surplus treaties with Worldwide Reinsurance PLC. The net retention of ABC Insurance is ~~N~~500,000.00. Complete the table below using the given information above.

Risk	Sum Insured N	ABC Insurance Retention N	Cession to the First Surplus Treaty N	Cession to the Second Surplus Treaty N
A	1,000,000.00	???	???	???
B	3,000,000.00	???	???	???
C	5,500,000.00	???	???	???
D	750,000.00	???	???	Nil

(11 marks)

## Solution

a) **A Surplus Treaty** is a reinsurance arrangement where the insurer retains a fixed amount in net retention (which is represented by a line) and cedes the excess amount of the risk up to the surplus treaty capacity. It is a proportional reinsurance and both the premium and loss (if any) are shared in the proportion in which the risk was shared between the insurer and reinsurer(s).

(2 marks for any correctly and fully stated definition.)

b) **Advantages of a surplus treaty are:**

- i) it allows the insurer to vary its retention upon a particular risk
- ii) there is automatic capacity available upon a particular class and size of risk (provided that such cession falls within the treaty conditions)
- iii) the insurer is allowed to retain a greater or higher proportion of its income. This aspect would be diluted if the insurer chooses to effect any quota share reinsurance on all or selected parts of its accounts.
- iv) the insurer receives a ceding commission which is usually sufficient to pay the acquisition costs and expenses together with an additional contribution to reward underwriting profit.

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

c) **Disadvantages of a surplus treaty are:**

- i) the ceding commission is usually lower when compared to that of quota share. Furthermore, the second and third surplus treaties have lower ceding commissions than the first surplus treaty
- ii) the surplus treaty can result in both a widely fluctuating loss experience and less desirable business, especially in periods of intense completion
- iii) the insurer must cede all risks which fall within the treaty terms and thus, the insurer can alter the retention
- iv) where the risks do not fall within the surplus treaty terms, the insurer would have to look for a facultative reinsurance
- v) where the surplus treaty capacity is exhausted, the insurer must look for a facultative reinsurance to get protected.

(3 marks for each correctly stated point. Maximum of 4 points to be graded. Total: 12 marks)

d)

Risk	Sum Insured	ABC Insurance Retention	Cession to the First Surplus Treaty	Cession to the Second Surplus Treaty
A	1,000,000	500,000	500,000	Nil
B	3,000,000	500,000	2,500,000	Nil
C	5,500,000	500,000	2,500,000	2,000,000
D	750,000	500,000	250,000	Nil

(1 mark each for the bolded figures in the table above. Total: 11 marks)

N.B: Since there is no further arrangement, the N500,000.00 balance on Risk C, will be added to ABC Insurance retention. Otherwise, a facultative arrangement can be made to cover the balance.

- 13(a) Describe the five (5) main parts which the excess of loss premium must have. (15 marks)
- (b) Enumerate any three (3) features which differentiate non-proportional Treaties from the proportional treaties. (15 marks)
- (c) Explain how burning costs are calculated. (4 marks)

### Solution

- a) The five (5) main parts which the excess of loss premium must have are:
- i) The risk premium which must cover the expected average loss cost to the cover
  - ii) The fluctuation premium which is expected to cover the random deviations of the claims experience (i.e. fluctuations and catastrophes)
  - iii) A provision for the catastrophe loss that will occur sooner or later. These losses would be met from a fund created for that purpose and consideration for such events built into the rating process.
  - iv) A provision of the acquisition costs, intermediaries commission and management expenses.
  - v) A margin of premium which could be considered in the future as the reinsurer's profit.

(3 marks for each correctly stated part. Total: 15 marks)

- b) The features which differentiate non-proportional treaties from the proportional treaties are:
- i) the reinsurance premium is predetermined which enables the cedants to allow for the cost in its budget
  - ii) usually there is no profit commission provision
  - iii) administrative costs are substantially reduced
  - iv) the cost of reinsurance can vary considerably from one accounting period to the next depending on the development of the premium income, loss ratio and market practice
  - v) the size of cession is not determined on a case by case and thus this allows the cedant to do away with cession bordereaux and reinsurance register.

(5 marks for each correctly stated part. Maximum of 3 to be graded. Total: 15 marks)

- c) Burning costs are calculated by taking the aggregate of individual losses to the layer of reinsurance coverage under consideration, divided by the total rateable income on a per year basis.

i.e. Burning Cost =  $\frac{\text{Sum of Individual Losses to the Layer of Reinsurance Coverage Under Consideration}}{\text{Total Rateable Income on a Per Year Basis}}$

(4 marks)

- 14 Write short notes on the following
- i. Estimated Maximum Loss (12 marks)
  - ii. Maximum Probable Loss (12 marks)
  - iii. Exposure Rating. (10 marks)

### Solution

a) **Estimated Maximum Loss:** is an estimate of the monetary loss which could be sustained on a single risk as a result of a single fire or explosion which is considered by the underwriter to be within the realm of probability. Therefore, when an EML is used, it means that the insurer considers the possibility of the maximum loss being less than the sum insured. The concept thus allows the insurer to consider its expected exposure in relation to its theoretical one, and to adjust its acceptance retention accordingly. A major issue in arriving at retentions and for the calculation of EML in particular, is the definition of a single risk. As an example, a building standing on its own in isolation is clearly a single risk.

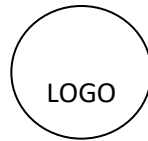
(3 marks for any correctly stated point. Maximum of 4 points to be graded. Total: 12 marks)

b) **Maximum Probable Loss:** is the maximum loss that an insurer would be expected to incur on a policy. It is mostly used in connection with insurance policies on property such as fire insurance. Therefore, it represents the worst case scenario for an insurer. It is equally used interchangeably with Possible Maximum Loss and Probable Maximum Loss

(4 marks for any correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)

c) **Exposure Rating:** is used where there is no past claims experience to the layer. The method is not appropriate to an unlimited class of business such as Motor Insurance. Exposure rating may be used for public liability, product liability and professional indemnity where policy limits apply.

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



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A825**

**APPLICATION OF REINSURANCE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A825 - APPLICATION OF REINSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 40%

Highest Score: 67%

Lowest Score: 11%

Average Score: 43%

**Breakdown Updates****Question 1**

The question intended to test the differences between conventional and modern reinsurance negotiate. Majority of the candidate misinterpreted the question to mean facultative and treaty reinsurance. About 40% of the candidates scored above average.

**Question 2**

A very straightforward question. The performance was good. Most of the candidates (about 90%) scored average and above.

**Question 3**

The question intended to test candidates' knowledge of scaling capital base of a company in its early years' of formation. About 40% of the candidate got it correctly and scored above average.

**Question 4**

The question tested candidates' knowledge of solvency, insolent and its implication. About 70% of the candidate interpreted it correctly and score above average. A very good performance.

**Question 5**

About 80% of the candidate scored above 4 marks. The candidates demonstrated good knowledge of how the profitability of a treaty can be expressed.

**Question 6**

The question intended to test candidates' knowledge of claim ladder method of claims reserving. A very poor performance as only three candidates scored above average.

**Question 7**

Above 60% of the candidates scored maximally in this question. The question is a very straight forward as the candidates were required to write short notes on some terms.

**Question 8**

Majority of the candidate misinterpreted this to mean the types of proportional treaty arrangement, hence failed woefully. About 40% of the candidates who interpreted the question correctly scored maximally, while others only managed to score a mark.

**Question 9**

A very poor performance. Only one candidate scored above average. Although the section 'a' was well attempted there was a very poor performance in the section B, which is a practical aspect of reinsurance. The section intended to test candidates' knowledge of non-proportional treaty premium computation as well as premium adjustment. Majority of the candidates could not calculate Actual Gross Net Premium income as well as the adjustment rate. Also, most of the candidates could not comment on the observation.

**Question 10**

The question tested candidates' knowledge of long tail and short tail businesses as well as components of adjusting claims reserves. About 10% of the candidate scored above average. The performance was very poor.

**Question 11**

The question is very straightforward. It tested candidates' knowledge of reciprocity. About 40% of the candidate attempted the question and only 25% scored above average. Majority of the candidates that attempted the question scored no mark in section C of the question.

**Question 12**

The question tested candidates' knowledge of retrocession. About 60% of the candidates attempted the question and about 33% scored above average. Majority of the candidates could not list and explain the ways in which a retrocession programme can be arranged.

**Question 13**

The question tested candidates' knowledge of another practical aspect of reinsurance i.e. proportional reinsurance accounts. About 70% of the candidate

attempted the question and about 71% of the candidates scored above average. The performance is very good.

#### **Question 14**

The question intended to test candidate knowledge of surplus treaty quarterly accounts and postings but as simple as the question appears, only two candidates out of those that attempted the question scored above average.

#### **Chief Examiner's Comments on Overall Performance:**

Only 4% of the candidate scored above pass mark. Candidates are advised to pay attention to the practical aspect of reinsurance which is the object of this course. Candidates should read the course book as well as relevant regulations.

#### **Chief Examiner's Suggestions on Improvement:**

Candidates needs to be detailed in the reading and take note of the technical words expected from a reinsurance professional.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Differentiate between conventional reinsurance negotiation and modern/alternative reinsurance negotiation.

### Solution

Reinsurance negotiation is conventionally conducted directly by the ceding company or through brokers who negotiate with underwriters and carry out various ancillary tasks on behalf of their clients.

This involves building up of a good working relationship and often face-to-face negotiation with the reinsurer. Negotiations can be conducted by means of correspondence, but often will involve visits by the broker or the reinsurer in a particular part of the world.

Reinsurance trading and placement in recent years has witnessed the arrival of various forms of electronic trading. Electronic trading is the conduct of reinsurance business by means of computer-based facilities, networks or the internet, as an alternative to conventional face-to-face discussions. Examples include E-commerce, (the internet) via systems such as Wise ( Worldwide Insurance e-commerce) for the offer of business and the settlement of accounts and, CLASS( claims Loss Advice and Settlement System) for the notification, settlement and payment of claims.

(4 marks for clear differentiation, 1 mark each for example. Sub-Total: 4 marks. Grand Total: 6 marks)

2. Why is it important to evaluate a reinsurer's security, and why might a rating agency evaluation of a reinsurance company's claims-paying ability be worth consulting in making such an evaluation?

### Solution

One of the main reasons of reinsurance is **to transfer risk**. This purpose is negated if the reinsurer is unable to fulfill its obligations if that reinsurer becomes insolvent.

An independent rating **agency will not only have access to the reinsurance company's published information**, but also meets with the management of that reinsurer and **has access to non-published corporate material**. In providing a rating of claims paying ability, **rating agency also gives a comparative perspective from its analysis of many similar companies operating in a particular market place**. Hence, they have access to variety of information and are able to assess the company and give their professional advice.

(2 marks for each of the bolded statements. Maximum of 3 points to be graded. 6 marks in all).

3. Why might a new insurance company put its entire capital base at risk in the first year(s) of operation?

**Solution**

A new insurance company might put its entire capital base at risk in its first years of operation because **commercial pressures** may require it to offer a larger capacity than normal, or to apply **competitive premium levels**; although **lack of reserves and high expenses offer no financial cushion**'.

(3 marks for each of the bolded points. Maximum of 2 points to be graded. Total: 6 marks).

4. What happens if an insurer has liabilities greater than its assets?

**Solution**

One of the main purposes of regulation is to prevent insolvency. Nevertheless, insurance companies do become insolvent, even though regulations have required the establishment of substantial assets. A company whose **liabilities is more than its assets is insolvent, must cease trading** and is **liable to be wound up**. The regulators and appropriate authority can petition for the winding up of an insurance company if it is unable to meet its liabilities. The regulator can also withdraw authorization to underwrite new business.

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

5. How can the profitability of a treaty be expressed?

**Solution**

The profitability of a treaty can be expressed in the following terms:

- Ratio of net (or gross) claims incurred to earned premium.
- Ratio of commission and other costs to ceded or written premiums.
- Ratio of gross ceded premium to net ceded or written premium.

(3 marks for each of the above stated points. Maximum of 2 points to be graded. Total: 6 marks).

6. Explain the chain ladder methods for estimating claims reserve.

**Solution**

The chain ladder method **uses development ratio** that are weighted by the **cumulative claims values from which they arise**. It applies to the **development of unadjusted paid claims** using an **accident year cohort**.

(2 marks for each of the bolded points. 6 marks in total).

7. Write short note on the following:

- Cash loss limit
- Letter of Credit.
- Commutation.

**Solution**

a) A **cash loss limit** is a pre-defined loss limit over which losses must be paid by the reinsurer in advance of the settlement of the usual technical account.

b) A **letter of credit (LOC)** is a means by which a bank promises to pay a named beneficiary on demand an amount up to an agreed credit limit.

c) **Commutation:** is a form of final settlement by compromise between an insurer and its reinsurer or between a reinsurer and its retrocessionaire in order to settle an outstanding claim.

(2 marks for each correct answer. 6 marks in total).

8) The cover provided by a proportional treaty should be defined in what terms?

### **Solution**

The cover provided by a proportional treaty should be defined in the following areas:

- Various classes of business which may be ceded under the treaty
- Perils covered under the treaty
- Territorial scope of the treaty
- Specific Exclusions

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

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

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

- who is a “promoter”? (4 marks)
- mention any three (3) documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application. (6 marks)

(b) An insurance Company purchased a risk excess of loss cover to protect its motor insurance portfolio for the period 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018 as follows:

- Deductible: ₦10,000,000.00
- 1<sup>st</sup> layer Cover: ₦10,000,000.00 Xs ~~₦10,000,000.00~~
- 2<sup>nd</sup> Layer Cover: ₦10,000,000.00 Xs ₦20,000,000.00
- Premium Rate: 1<sup>st</sup> layer: 4% Min and 20% Maximum  
2<sup>nd</sup> Layer: 3% flat

### Information:

- Estimated Gross Net Premium Income @ 1/1/2018 ₦500,000,000.00
- Gross Premium Income as at 31/12/2018: ₦700,000,000.00
- Facultative Outward in 2018: ₦120,000,000.00
- Facultative Inward in 2018: ₦150,000,000.00
- Losses paid/ recovered from January 2018 to 31<sup>st</sup> December 2018:  
₦70,000,000.00(1<sup>st</sup> layer ₦50,000,000.00 and 2<sup>nd</sup> layer ₦20,000,000.00)
- Outstanding losses as at 31<sup>st</sup> December 2018 for 1<sup>st</sup> layer = ₦20,000,000.00
- Outstanding losses on 2<sup>nd</sup> layer = Nil

### Required:

- Calculate the Minimum & Deposit Premium payable by January 2018. (5 marks)
- Compute the Actual Gross Net Premium Income as at 31/12/2018. (10 marks)
- Using the burning cost method with a loading factor of 100/70, prepare the premium adjustment statement and compute the actual rate, the actual premium due at the end of 31/12/2018 on both 1<sup>st</sup> and 2<sup>nd</sup> layer. (10marks)
- Determine the additional premium payable (if any) on both the first layer and the second layer. (10 marks)
- Comment on your observation. (5 marks)

### Solution

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

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

ii) The following are the documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application:

- letter of intent
- profile of directors
- current CV of the proposed CEO
- sworn declaration of non-disqualification of the proposed directors
- proposed company name
- draft memorandum of association of the proposed company
- draft articles of association of the proposed company



- h) evidence of financial soundness of the shareholders supported by sworn affidavit confirming such
- i) evidence of confirmation (clean bill of health) from the primary regulator and approval by the regulator (where necessary)
- j) holding company structure and funding – where applicable
- k) class of insurance to be transacted (whether general, life or reinsurance)  
(2 marks for each correctly stated document. Maximum of 3 to be graded. Total: 6 marks)

b)i) To calculate the M&DP payable in January on 1<sup>st</sup> Layer, we multiply the minimum rate by the estimated gross net premium income

$$(i.e N500,000,000 \times 4\%) = N20,000,000. \quad (2 \text{ Marks})$$

$$\text{The M\&DP payable in January on 2}^{nd} \text{ layer} = N500,000,000 \times 3\% = N15,000,000. \quad (2 \text{ Marks})$$

$$\text{Hence, total M\&DP payable in January for 1}^{st} \text{ and 2}^{nd} \text{ layer} = N20,000,000 + N15,000,000.00 = N35,000,000.00. \quad (1 \text{ Mark})$$

(Sub Total: 5 marks)

- ii) Actual Gross Net Premium Income as at 31/12/2018 =  
Gross written premium or Gross premium income + Facultative Inwards  
– Facultative outwards. (5 Marks)  
(2 Marks) Therefore, AGNPI = N700,000,000 + N150,000,000 – N120,000,000 =  
N730,000,000 (4 Marks)  
AGNPI as at 31/12/2018 = N730,000,000.00. (1 mark) Grand Total: (10 Marks)

iii. To compute the Premium adjustment for 1<sup>st</sup> layer using the burning cost method

$$\text{Actual Rate} = \frac{\text{Incurred Loss} / \text{Earned premium}}{\text{Outstanding}} \quad (i.e. \text{Losses paid} + \text{Losses Outstanding})$$

$$\text{AGNPI} \times \frac{100}{70} \times 100 = \frac{N50,000,000 + N20,000,000}{N730,000,000} \times \frac{100}{70} \times 100 = 13.699\% \quad (2\frac{1}{2} \text{ marks})$$

- Burning cost rate for 1<sup>st</sup> layer = 13.699%
- Hence, the actual rate is 13.699%

- Actual premium for the 1<sup>st</sup> layer: Actual Gross Net Premium income X 13.699% = N730,000,000 X 13.699% (2½ marks)
- Actual Premium for 1<sup>st</sup> layer = N100,002,700.00 (2½ marks)
- Actual Premium for 2<sup>nd</sup> layer = 3% (flat) X N730,000,000 = N21,900,000.00 (2½ marks)

(Sub Total: 10 marks)

iv. To determine the additional premium due = Actual premium - Provisional premium or M&DP (4 Marks)

$$1^{\text{st}} \text{ layer} = \text{N}100,002,700.00 - \text{N}20,000,000.00 = \text{N}80,002,700.00 \quad (2 \text{ Marks})$$

$$2^{\text{nd}} \text{ Layer} = \text{N}21,900,000 - \text{N}15,000,000.00 = \text{N}6,900,000.00 \quad (2 \text{ Marks})$$

The total additional premium due (1<sup>st</sup> and 2<sup>nd</sup> layer) is N80,902,700.00 + N6,900,000 = N86,902,700.00. (2 Marks)

(Sub Total: 10 marks)

v) **Observation:** It is observed that the **Estimated Gross Net premium income is understated**. Again, **the loss experience on the 1<sup>st</sup> layer was bad**. A total of about N70M. **The loading factor of 100/70 which is about 142%** increase in the burning cost equally added to the high adjustment rate and subsequently the high actual premium.

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

### Part III

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

Each question carries **34** marks.

10(a) Explain with examples the difference between a 'short tail' and 'long tail' business. (14 marks)

(b) The outstanding claims reserves may be given as a total figure. Alternatively, it may be split into anything up to four (4) separate components. List and explain these components. (20 marks)

### Solution

a) **Short tail means** that claims are generally reported quickly and settled quickly by the reinsured, such as property insurance. **Long tail means** that a sizeable proportion of total claim payments that arise from the class which take a long time to come to light and, therefore, for the reinsured to settle, such as asbestos, pollution claims and mostly liability class of business.

(5 marks each for clear definition of each of the terms and 2 marks each for correct examples. 14 marks in all).

b) The components of splitting outstanding claims reserves are:

i. **Reserve for outstanding reported claims:** this is the estimated reserve needed to settle the claims that the company knows about at the accounting date.

ii. **Reserve for IBNR claims:** The IBNR reserve is needed to cover the claim payments for incidents, which have happened, but have not been reported to the reinsured

iii. **Reserve for re-opened claims or for under reserved claims:** this is an additional reserve which may be explicitly shown to allow for claims that the reinsured treats as being fully settled, but which might one day require further payment or claim for which the reinsurer considers that the reinsured has not made adequate provision.

iv. **Reserves for claims handling expenses:** in settling the above claims, the reinsured may incur some additional expenses (such as legal fees). Sometimes these have not been factored into any reserves held and so must be considered by the reinsurer in any estimate of future potential as these can amount to significant exposure.

(3 marks for each correctly stated component. 2 marks for correct explanation. Sub-Total per component: 5 marks.  
Total: 20 marks)

11(a) What is Reciprocity?

(4 marks)

(b) Explain the principal objectives of Reciprocity.

(10 marks)

(c) List and explain five (5) factors to be considered in reciprocity arrangement.

(20 marks)

### Solution

a). Reciprocity is the exchange of business between two reinsurers; that is, **the exchange of reinsurance ceded for inwards reinsurance business**) and develops the placing of treaties into **a two-way trading relationship**.

(4 marks in all. The bolded points attract 2 full marks each)

b). **The two principal objectives of reciprocity are:**

- To replace the premium ceded to a reinsurer by the acceptance of a comparable volume of reinsurance premiums from them, thus increasing the retained premium income of the insurer. It is also hoped that this would replace the profit produced by the business ceded, by the profit received on the reinsurance accepted.
- To increase the geographical spread of an insurer's net retained business through the acceptance of business from countries in which it does not write insurance business itself.

(5 marks for each well explained objectives. 10 marks in total).

c). **Factors to be considered in reciprocity arrangements includes:**

- **Careful selection of companies for reciprocity arrangement:** The companies with which it is proposed to exchange business should be selected carefully, paying regards to the standard of management, financial standing, type and geographical distribution of the business underwritten and past underwriting results.
- **The business to be exchanged:** this should be of a fairly simple type that ought to yield relatively stable results, such as well-balanced quota share and first surplus treaties. The treaties should not be exposed to catastrophe risks.
- **Type of insurance covered by the treaty:** The types of insurance covered by the treaties to be exchanged and the treaty terms and conditions should be matched in regard to such matters as commission rates, deductions from premiums e.t.c.
- **The share of the treaty must be large enough to justify the administration costs involved in servicing both the inwards and outwards accounts.**
- **Liabilities should not be accepted on inwards reinsurance business greater than those normally written on a direct basis.**
- **The premium size of each exchange should be kept to a level that obviates the possibilities of excessive or unbalanced involvement in any one area.**

(4 marks for each well explained factor, Maximum of 5 points to be scored. Total marks are 20).

12(a) What is Retrocession?

(7 marks)

(b) What are the principal objectives of a retrocession programme?

(9 marks)

(c) List and explain the ways in which a retrocession programme can be arranged.

(18 marks)

**Solution**

a) A reinsurer needs cover to protect its portfolio of reinsurance business the same way an insurer needs a reinsurance cover/facilities **to protect its own insurance business written**. This form of cover is known as retrocession. **It is the reinsurance cover bought by a reinsurance company to cover its exposure.**

(7 Marks).

b). The principal objectives for a reinsurer when constructing a retrocession programme includes:

- increase acceptance capacity
- limit the exposure to loss
- give greater stability to the results.

(4½ marks for any correctly stated objective. Maximum of 2 to be graded. Total: 9 marks)

- c). **The retrocession programme will usually be arranged on the following lines:**
- **Facultative Business:** given that full details of each risk accepted are available., protection is arranged either on a pro rata basis (quota share or surplus) or by an excess of loss per risk cover.
  - **Treaty Business:** a retrocession pool may be established and consist of fixed or variable shares of each inwards acceptance. This pool will be used to reduce exposure on each treaty to an acceptable level. It may also be used to satisfy requests for reciprocity. Separate retrocession programme may be arranged for pro rata and non-proportional business and for each of the main classes of insurance business;
  - **Whole Account Protection:** once the reinsurer has arranged separate protection for each part of its portfolio, the reinsurer may decide to take additional excess of loss cover to protect against accumulation of losses from different types of business arising from a single event. For example, an earthquake could trigger losses from various classes of the insurance portfolio. All these classes can be accepted on a pro-rata or excess of loss basis.

(5 marks for each correctly stated program. 4 marks for correct explanation of the stated program.  
Maximum of 2 programs to be graded. Sub-Total: 9 marks. Grand Total: 18 marks)

- 13(a) A proportional treaty reinsurance account usually has two sides - 'credit side' and 'debit side'. Describe the credit and debit sides of the account. (4 marks)
- (b) List and explain five (5) items each usually found on the debit side and credit side of a typical proportional treaty accounts. (30 marks)

### **Solution**

a). **Credit side is on the right –hand side of the account.** They are accounting items that are due to the reinsurers. Many are simply the reverse of the entries on the left –hand side of the accounts. (2 marks)

**Debit side is on the left hand side of the account.** They are accounting items, which are due from the reinsurer to the insurer or reinsured. (2 Marks)

b). **Items on Credit side includes:**

- **Premium:** the reinsurer receives a proportion of the premium received by the cedant for the risk.
- **Return Commission:** This represents amounts, which were originally paid by the insurers to their intermediaries or agents to secure the business. However, due to some contingencies such as policy cancellation, the commission is refunded to the reinsurers.

- **Return brokerage:** this is a repayment of the brokerage from the reinsured to the reinsurers
- **Interest:** as a compensation for loss of investment income, the reinsurers could have earned on premium and loss reserve retained amounts held by the reinsured, it is customary for the reinsured to pay the reinsurers interest at a nominal rate on the amount retained.
- **Premium Reserve Released:** this are usually retained by the reinsured in one account and released in the next account or the corresponding account of the following year.
- **Loss Reserve Released:** this is the corollary of the debit entry. Loss reserves are usually retained by the reinsured in one account and released in the next account or the corresponding account of he following year.
- **Recoveries:** where the reinsured has paid a loss under the terms of the insurance policy but is subsequently able to recover all, or part , of that loss from another source, the reinsured will pass on the predetermined proportion of the recovery under the terms of proportional treaty arrangement to the reinsurers.
- **Cash Loss Refunds:** The cash loss amount recovered from reinsurers is included within the losses paid item in the quarterly account. Effectively, it is paid twice by the reinsurers. To offset this double counting of the cash loss amount, it is refunded to reinsurers under the heading cash loss refunds. This is to ensure that all claims including cash losses are recorded under losses paid.
- **Loss Portfolio:** whereas the old reinsurer is debited with either 90% or 100% of losses outstanding at the end of the treaty year, and the new reinsurer is credited with the same amount.
- **Miscellaneous:** Situations will occasionally arise which involve the accounting of unusual items. This facility allows for the inclusion of such novel entries.

(3 marks for correctly mentioned item. 1 mark for correct explanation. Sub-Total: 3 marks for each correct item. Maximum of 5 items to be graded, Grand Total: 15 marks)

#### **Items on the Debit side includes:**

- **Return premium:** This can be viewed as the reverse of premium. It represents premium amount, which have already been paid to reinsurers, which, due to various reasons, now require to be paid back to the insurance company.
- **Commission:** The commission agreed by the reinsurer reflects the costs incurred by the reinsured in obtaining the business that is protected by the

treaty. It covers acquisition costs paid by the reinsured to insurance intermediaries or agents.

- **Brokerage:** where a reinsurance broker is involved in the placing and accounting of a treaty, it is normal for the broker to be remunerated by a proportion of the premium due to the reinsurer. This rate is usually negotiated between the intermediary and the reinsurer and it is usually between 2.5% to 5% of the premium.
- **Tax:** Certain taxes can be deducted before the reinsurance premium payable reaches the reinsurers. These depend on the nature of tax regulation applicable in the location that the original risk is underwritten.
- **Premium Reserve retained:** the treaty may allow for premium reserve to be retained. Usually a fixed percentage (for example 35%) of the gross premium accounted by the cedant is withheld as a guarantee against non-payment by the reinsurers of its obligation.
- **Loss Reserve Retained:** the purpose of the loss reserve deposit is to provide the reinsured with further security for the due performance of the reinsurer's obligations in respect of claims which are outstanding at the end of the treaty year and which will probably be paid in the next few years. This is usually 100% or 90% of outstanding losses as at the end of the year.
- **Losses Paid:** these are reinsurers share of the losses paid on risks that have been ceded to the reinsurer. The reinsured recovers same from the reinsurers.
- **Cash Losses:** this is a predefined loss limit over which losses must be paid by the reinsurer on demand in advance of the settlement of the normal periodic account. It represents a very large loss paid by the insurance company, which requires immediate reimbursements by the reinsurers.
- **Premium Portfolio:** the main reason for using this is to transfer unexpired liability under a treaty from one reinsurer to another. Thus, if one reinsurer is to be relieved of liability under a treaty at the end of the treaty year, in the last account of the year, it will be debited with a percentage of the premium received in that year.
- **Loss Portfolio:** a reinsurer may be relieved of losses outstanding at the end of the treaty year. The reinsurer is debited with either 90% or 100% of losses outstanding at the end of the treaty year. The effect is to release the old reinsurer from any liability in respect of claims which occurred in the preceding year, but which will be paid in the current year.

(3 marks for correctly mentioned item. 1 mark for correct explanation. Sub-Total: 3 marks for each correct item. Maximum of 5 items to be graded, Grand Total: 15 marks)

14. Below is an extract from 4<sup>th</sup> Quarter 2018 Fire Surplus Treaty Account of Okon Insurance Company Limited.

Gross premium ceded:	₦50,000,000
Ceding commission @	35%
Reinsurance tax @	2.5%
Paid claims:	₦15,000,000
Premium reserve retained @	35%
Premium reserve released (3 <sup>rd</sup> qtr 2018):	₦20,000,000.
Interest on premium reserve released:	₦200,000.00
Outstanding loss as at 31/12/2018:	₦10,000,000.00
Loss portfolio @	90%
Loss reserve retained 3 <sup>rd</sup> Qtr 2018:	₦8,000,000.00

Akpan Re has the following security on her 2018 Fire Treaty	
Abuja Reinsurance Plc @	50%
Calabar Reinsurance Limited @	25%
Lagos Reinsurance Company Plc @	25%.

**Required:**

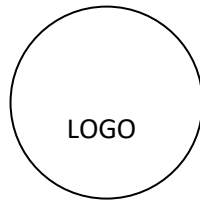
Prepare the Fire Surplus 4<sup>th</sup> Quarter 2018 Statement of Okon Insurance Company Limited. Showing clearly how the balances (if any) would be apportioned. (34 marks)

**Solution**

Title: Treaty Quarterly Statement of Okon Insurance Co. Ltd	(1Mark)
Year: U/W Year 2018:	(1Mark)
Quarter/ Period: 4 <sup>th</sup> quarter 2018 (01/10/2018 – 31/12/2018)	(1Mark)
Class: Fire Surplus Treaty	(1Mark)



<b>QUARTERLY STATEMENT</b>	<b>DEBIT (N)</b>	<b>CREDIT (N)</b>	
PREMIUMS: CEDED		50,000,000	2 marks
COMMISSION @ 30%	17,500,000		2 marks
REINSURANCE TAX @ 2.5%	1,250,000		2 marks
PAID CLAIMS	15,000,000		2 marks
PREMIUM RESERVE RETAINED @ 35%	17,500,000		2 marks
PREMIUM RESERVE RELEASED (PREV Q)		20,000,000	2 marks
INTEREST ON PR RELEASED		200,000.00	2 marks
LOSS RESERVED @ 90%	9,000,000.00		2 marks
LOSS RESERVED RELEASED		8,000,000.00	2 marks
BALANCE	17,950,000		2 marks
TOTAL	78,200,000	78,200,000	2 marks
BALANCE BROUGHT FORWARD	17,950,000		
	<b>%</b>	<b>Net payable</b>	
ABUJA REINSURANCE PLC	50.00%	8,975,000	2 marks
CALABAR REINSURANCE	25%	4,487,500	2 marks
LAGOS REINSURANCE	25.00%	4,487,500	2 marks
TOTAL	100.00%	17,950,000	2 marks



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A930**  
**INSURANCE BROKING**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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 instructions 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.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A930 - INSURANCE BROKING

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 34.61%  
Highest Score: 65%  
Lowest Score: 21%  
Average Score: 44.88%

**Breakdown Updates****Question 1**

The candidates' performance was too encouraging. This is a direct question that demanded that candidates should recall on what a small firm is. 53.84% passed the question.

**Question 2**

53.84% of candidates passed the question and the principle tested was on regulation.

**Question 3**

15.37% of the candidates passed the question which was on data collection. It seems that the candidates did not understand the concept involved.

**Question 4**

Over 80% of the candidates that attempted the question passed it and it is a direct question.

**Question 5**

This is another direct question which had a very good performance over 80% of the candidates passed it.

**Question 6**

This question has slightly above average performance and it is a practice question on insurance broking.

**Question 7**

A direct question on practice based on the principle for selecting insurance brokers with all the candidates passing the question.

**Question 8**

46.15% of the candidate passed the question which was on the UK regulation.

**Question 9**

A compulsory question with 50% with only 16.15% of the candidate passing it. The question consisted of regulation, practice and IT, practice and marketing.

**Question 10**

Attempted by all the candidates with less than 10% passing the question. The question is on Risk Management.

**Question 11**

Only 16 of 26 candidates that answered the question and the pass rate was below average. The question was on IT.

**Question 12**

This is not a popular question with only 8 of the candidates attempting them and with above average pass. It is on regulation and practice.

**Question 13**

73.07% of the candidates attempted the question with below average performance. The question is on money laundering.

**Question 14**

Not a popular question with only 7 of the candidates attempting the question with 80% of the candidates passing the question.

**Chief Examiner's Comments on Overall Performance:**

The performance is below average.

**Chief Examiner's Suggestions on Improvement:**

The students should avail themselves with tutorial classes, review past chief examiners reports/questions and more importantly, study the course book deeply.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1(a) What is a “smaller firm”? (2 marks)

(b) Enumerate any two (2) standard structure of smaller firms. (4 marks)

### Solution

a) A “smaller firm” is one with less than 25 principals/partners/directors and employees. (2 marks)

b) The standard structure of smaller firms is that the firms should consist of:

- partners/directors with specific tasks
- a separate broking team
- account servicing divided between staff members
- survey department

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

2. Enumerate any three (3) things that employees engaged in regulated activity should identify in relation to their jobs.

### Solution

The things that employees engaged in regulated activity should identify in relation to their jobs are:

- their roles
- the key competencies required often divided between the general requirements of the job grade and the specific requirements applicable
- the objectives and results expected
- development and training needs and agreed training and education that reflects the employees current and expected skills and knowledge
- the measurement process

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

3. What three (3) factors will the term “appropriate information” depend on?

### Solution

The term “appropriate information” will depend on

- the knowledge, experience and ability of a typical customer in that sector
- the policy terms, including the main benefits, exclusions, limitations, conditions and its duration
- whether the policy is bought in connection with other goods and services
- distance communication requirements
- whether the same information has already been provided to the customer and when.

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

4. Explain “implied duties” under the law of agency.

**Solution**

Creating an agency agreement confers rights and imposes obligations on both the principal and their agents, irrespective of whether the agreement is in writing or not. These implied obligations are enforceable as long as they do not contradict any expressed terms laid down in any formal contract. The duties created by such relationships can be termed to be “implied duties” under the law of agency.

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

5. Enumerate any three (3) benefits of self-insured programmes?

**Solution**

The benefits of self-insured programmes are:

- cash flow savings since the initial premium is likely to be far less than for a conventional insurance programme
- depending upon the structure, the insurance premium tax will be much lower
- these programmes respond quickly to investments in loss prevention as reduced claims directly equal reduced costs
- control of claims is possible as most insurers are unwilling to cede claims handling, particularly in liability covers under conventional programs

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

6. Mention any two (2) crucial “must have” that a Broker need in order to work successfully in a global arena.

**Solution**

To successfully work in a global arena, a Broker “must have”:

- access to appropriate insurers
- effective worldwide network in order to give them knowledge of, or access to, the rules and local conditions in each territory
- experience in the operation of global programs and
- understanding of the operation of global programs.

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

7. Enumerate six (6) factors that a Broker should consider in selecting an insurer.

**Solution**

The factors that a Broker should consider in selecting an insurer are:

- quality of service
- breadth of cover
- flexibility

- innovation
- credit facilities
- capacity
- geographical spread
- claim service
- support and sales literature
- technical advice and specialist expertise
- access to decision makers
- price
- survey and risk control
- continuity
- reputation and experience
- brokerage
- financial security i.e. “claims paying ability” of the insurer.

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

8. In line with FSA guideline, mention any three (3) keys to ensuring contract certainty.

### **Solution**

The keys to ensuring contract certainty lies in:

- standardisation of process delivered by technology
- standardisation of behaviour delivered by management measurement and incentives
- a record and audit trail of disclosures by insureds
- customers acting as drivers of change.

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

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

- 9(a) As part of NAICOM’s role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on “fair trade practice and fair treatment to customers”. Enumerate the stated minimum information that insurance institutions are required to update their websites as stated in the circular. (10 marks)
- (b) The disadvantages of electronic trading might now best be described as “challenges”. This is because this is use in its various guises is ubiquitous and inevitable. Mention six (6) of such challenges. (18 marks)
- (c) Briefly describe the roles of Brokers in product development. (10 marks)



(d) Mention six (6) typical functions of “public relations” in any organization.

(12 marks)

### **Solution**

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

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

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

(b) The challenges of electronic trading are:

- maximum efficiency requires all partners in the process to work to similar standards and protocols
- the use of email has exploded in a somewhat unstructured fashion which has led to concerns over the security of messages and the fact that data, often private if not sensitive, can be transmitted anywhere in the world instantly
- general security threats caused by viruses and hackers, organised crime and other malicious people gaining access to systems to steal or corrupt information or close systems down
- the cost of investment in systems, particularly websites to make them more responsive and effective
- the creation of an “internet is free” mentality especially amongst younger people, typified by illegal downloading of documents
- the insurance market moving faster to adopt EDI (i.e. Electronic Data Interchange) than its commercial customers
- regulatory conflict between the worldwide nature of internet and local laws
- legal uncertainty over electronic documents
- increased exposure to litigation as a result of somewhat uncontrolled nature of blogs

(3 marks for any correctly stated challenge. Maximum of 6 to be graded. Total: 18 marks)

(c) The roles of Brokers in product development is mixed. In some cases, for example, in computer residual value, brokers were the driving forces. In others, brokers would certainly have been involved in the research and development and subsequent distribution of the products.

However, where brokers have been particularly effective in product development is in applying existing products and adapting them to meet niche markets. Brokers have used this to proffer effective solutions to handling many “difficult” risks.

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

- (d) The typical functions of “public relations” in any organization are:
- planning, developing and implementing PR strategies
  - managing corporate social responsibility and the PR aspects of environmental policy
  - gaining the organisation exposure to its target audiences without direct payment, through credible third party outlets
  - liaising with colleagues and key spokespeople
  - working closely with the marketing function
  - liaising with and answering enquiries for media, individuals and other organisations
  - researching, writing and distributing press releases to targeted media
  - collating and analysing media coverage
  - writing and editing in-house publications
  - supervising and preparing the production of publicity brochures
  - devising and co-ordinating photo opportunities
  - organising events
  - organising “mystery shopper” surveys
  - contributing to the design and functionality of and maintaining and updating information on the organisation’s website
  - sourcing and managing speaking and sponsorship opportunities
  - fostering community relations
  - managing the PR aspect of a potential crisis

(2 marks for any correctly stated function. Maximum of 6 to be graded. Total: 12 marks)

### **Part III**

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

**Each question carries 34 marks.**

- 10(a) Define the term “risk management”? (2 marks)
- (b) Both large and small Brokers are involved in the handling of their clients’ risk management procedures. List eight (8) services that can be offered by the Broker or demanded by the client as it relates to the client’s risk management needs. (32 marks)

### **Solution**

a) Risk Management is the identification and evaluation of risk, its control or elimination and its financing or transfer to another party. (2 marks)

b) The services that can be offered by the Broker or demanded by the client as it relates to the client's risk management needs are:

- risk identification surveys and subsequent discussions
- property loss prevention and control
- business interruption analysis
- product liability hazard analysis
- employee safety
- fire engineering design and consultancy
- loss analysis and projection
- assessments of maximum possible and probable loss values
- self-insured fund and captive management
- contingency planning
- programme design
- programme monitoring
- crisis management
- post-loss surveys and
- innovative risk-transfer programme design.

(4 marks for each correctly stated service type. Maximum of 8 to be graded. Total: 32 marks)

11(a) The use of email by Brokers continue to increase exponentially, with both benefits and risks. On balance, the benefits currently exceed the risks. Enumerate any three (3) simple procedures that can make the use of email manageable/of benefit in different brokerage services rendered. (15 marks)

(b) Discuss the purpose of transaction record (10 marks)

(c) Enumerate any three (3) tasks that an effective diary system will essentially assist a Broker to perform as it relates to insurance broking. (9 marks)

### **Solution**

a) The simple procedures that can make the use of email manageable/of benefit in different brokerage services rendered are:

- setting the email system to send acknowledgement of receipt
- for important messages., checking by phone to ensure the message has been received
- for any messages concerning cover, printing emails for placing in the physical files

- before sending important emails to a new addressee, send a text message to confirm the address.

(5 marks for any correctly stated procedure. Maximum of 3 to be graded. Total: 15 marks)

b) Many errors occur because documentation has been done haphazardly. The traction record is attached to the file and it lists in sufficient detail all the transactions connected with that file. This means that anyone can pick up the file and quickly obtain a clear understanding of all that has happened in the past. This reduces the sort of errors that can be made by people who, only having read the top few pages of correspondence, misunderstand the situation and take inappropriate action.

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

c) The tasks that an effective diary system will essentially assist a Broker to perform as it relates to insurance broking are:

- to alert the broker that renewal is due
- to ensure the task is properly handled as at when it should and duly passed to another party – if required
- to ensure that premiums are collected from clients and paid to the market within agreed timescale
- to ensure that warranties applied to contract are handled prior to their requirement dates
- to send our renewal notices to clients and effectively follow up
- to monitor clients claims with underwriters

(3 marks for any correctly stated task. Maximum of 3 to be graded. Total: 9marks)

12(a) How does regulation benefit insurance Brokers?

(4 marks)

(b) Describe any five (5) factors that affect the operations of insurance Brokers.

(15 marks)

(c) What is the full meaning of the acronym “IMD”. Enumerate any three (3) main implications of IMD for Brokers and Insurers?

(15 marks)

### **Solution**

a) Regulation benefit insurance brokers as it restricts the placement of business to registered intermediaries only, stipulates commission to be paid and helps to provide standards for their practice.

(4 marks)

b) Some factors that affect the operations of insurance brokers are:

- intense competitive market

- market cycles that results in volatility of income and upset clients
- challenges presented by new regulation
- client exerted pressure
- competition exerted pressure
- rising expenses that are not commensurate to rising business patronage
- competition from new sources such as banks, internet-only insurers, e.t.c.
- greater risk retention by larger clients
- demographic changes in clients' businesses.

(3 marks for any correctly stated factor. Maximum of 5 to be graded. Total: 15 marks)

c) IMD means Insurance Mediation Directives. (3 marks)

The main implications of IMD are:

- it is now a criminal offence to carry on regulated activities without authorization unless an exemption applies
- regulated firms must establish that the insurers operate on a level playing field for the various sectors of the industry especially as it relates to all their sales activities
- regulated firms must adhere to the principles and rules of the regulations and devise and implement appropriate management systems and control
- the broking firm and individual approved persons who breach the rules and principles may be subject to FSA enforcement action, such as fines.

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

(Grand Total: 15 marks)

13(a) Enumerate any two (2) rules under the Money Laundering Regulations 2007 as it relates to "knowing your customer - KYC" (4 marks)

(b) Insurance fraud is a great issue in insurance business and it has grave implications for all parties, including the insurance Broker. Mention and briefly discuss any five (5) of the implications of fraud for the insurance Broker. (30 marks)

### Solution

a) The rules under the Money Laundering Regulations 2007 as it relates to "knowing your customer - KYC" are:

- ensure to know the customers (including conducting customer identification and verification and also undertaking to monitor where applicable)
- keep record of identity
- train the staff members on the requirements of the regulation

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

- (b) Some implications of insurance fraud for the insurance Broker are:
- the direct loss of money or property
  - the indirect costs of compliance as more rigorous controls are implemented – going forward
  - an impact on the firm's reputation especially if the loss becomes public knowledge
  - a direct impact on the firm's relationship with the insurer
  - a direct impact on the firm's relationship with the FSA/NAICOM
  - the potential loss of clients if the clients are directly or indirectly involved
  - an adverse effect on innocent employees who are placed under suspicion and subsequent impact on their morale

(4 marks for any correctly stated implication. 2 marks for brief explanation of the implication. Sub-Total: 6 marks per implication. Maximum of 5 implications to be graded. Grand Total: 30 marks)

- 14(a) At times, short tail (e.g. property) claims are mixed with long term (e.g. liability) claims. What is this mixture called under "programme design and global insurance programmes". (2½ marks)
- (b) State three (3) advantages and six (6) disadvantages of cross-class retentions. (3½ marks)

### **Solution**

a) The mixture of short tail (e.g. property) claims with long term (e.g. liability) claims under "programme design and global insurance programmes" is called cross-class retention. (2½ marks)

### **b) Advantages of cross-class retentions are that:**

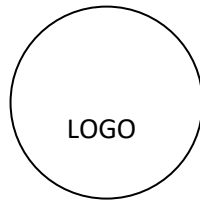
- the insured only has to worry about two numbers i.e. the retention of each loss and the aggregate as opposed to different amounts under different policies
  - the cross-class aggregate retention will be less than the sum of individual aggregates
  - it has wider cover
  - it can facilitate higher retentions than would be feasible under monoline programmes thus generating further savings
  - it gives economy of scale in the cover premium
  - it may facilitate retention by a funding vehicle such as a captive
- (3½ marks for any correctly stated advantage. Maximum of 3 to be graded. Sub-Total:10½ marks)

**Disadvantages of cross-class retentions are that:**

- mixing long and short tail claims can be problematic
- individual policy limits are replaced by one overall aggregate
- as with self-insured programmes, an even greater tail is transferred to the insured
- they can be inflexible in response to significant changes in client's company structure
- they can be difficult to unwind if there is a change in the business or management attitude
- most insurers have different capacities and treaties for long and short tail businesses and are reluctant to combine same
- monoline excess insurers will often not drop down below their attachment points and as a result, "class" exposures arise where a single event results in claims under more than one class
- the market available to write these programmes is narrower than for conventional and monoline self-insured programmes thus reducing competition.

**(3½ marks for any correctly stated disadvantage. Maximum of 6 to be graded. Sub-Total: 21 marks)**

**(Grand Total: 31½ marks)**



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A935**

**MANAGEMENT**

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

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- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A935 - MANAGEMENT

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate: 61.2%

Highest Score: 73%

Lowest Score: 25%

Average Score: 55%

**Breakdown Updates****Question 1**

Poorly attempted question with a very dismal 35% pass rate.

**Question 2**

Poorly attempted question with a very dismal 19% pass rate.

**Question 3**

77% pass rate. Fairly attempted question.

**Question 4**

15% pass rate. Poorly attempted technical but friendly question.

**Question 5**

38% pass rate.

**Question 6**

96% pass rate. Good attempt.

**Question 7**

88% pass rate.

**Question 8**

96% pass rate.

**Question 9**

Compulsory question. 58% pass rate. Fair attempt.

**Question 10**

10% of the candidates attempted the question with only few scoring above average (20% pass rate).

**Question 11**

50% pass rate.

**Question 12**

96% pass rate.

**Question 13**

1% pass rate.

**Question 14**

68% pass rate.

**Chief Examiner's Comments on Overall Performance:**

Overall, there was a 61% pass rate and this can be adjudged to be a relatively fair attempt by the candidates.

**Chief Examiner's Suggestions on Improvement:**

Candidates should be more studious of their course books and not rely on "experience" to excel at this course.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. The most important general function of marketing is planning. Mention two (2) things you can do to keep meetings short.

### **Solution**

The things that can be done to keep meeting short are:

- hold frequent short meetings rather than infrequent long ones
- set a time limit for the meeting and allocate time to each agenda item accordingly
- appoint someone as time keeper

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

2. Leadership styles should be selected to fit the situation. State three (3) factors that can be used for selecting a suitable style.

### **Solution**

Factors that can be used for selecting a suitable leadership style are:

- leader/member relations
- task structure
- position power

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

3. Mention three (3) uses of a balance sheet.

### **Solution**

Three uses of a balance sheet are to:

- assess the financial position of the business at a particular moment
- reveal the organization's wealth at a glance
- reveal the form of wealth by setting out assets and liabilities

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

4. Enumerate two (2) out of the three (3) uses of the GANTT Chart.

### **Solution**

The three uses of the GANTT Chart are to:

- show all activities of a plan along a single time axis
- show that the activities are distributed over time
- control the completion of tasks against stated deadlines

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

5. If Management by Objective (MBO) must succeed, certain threats will have to be taken care of. Identify three (3) of such threats to MBO.

### **Solution**

The threats to be taken care of if Management by Objective (MBO) must succeed are:

- lack of top management support
  - no consistency between MBO and the organisation's technology and services
  - lack of staff training to support achievement of objectives
  - inflexibility regarding the changing of objectives
- (3 marks to each correctly stated use. Maximum of 2 to be graded. Total: 6 marks)

6. What do these acronyms mean under strategic analysis: ETOP and SWOT.

### **Solution**

ETOP: Environmental Threat and Opportunity Profile

SWOT: Strengths, Weaknesses, Opportunities and Threats

(3 marks to each correctly stated meaning. Total: 6 marks)

7. Define "stakeholders" in a business and give three (3) examples.

### **Solution**

Stakeholders are those people or organisations that have an interest in the success of an organisation, whether or not they actually have a financial shareholding in it. E.g. shareholders, employees, government, general public, employers, e.t.c.

(4 marks to correct definition. 2 marks for any correctly cited example. Total: 6 marks)

8. Mention six (6) recruitment sources used to find appropriate staff for an organization.

### **Solution**

The recruitment sources used to find appropriate staff for an organisation are:

- graduate recruitment
- advertising
- recruitment agencies
- selection agencies
- search agencies
- personal recommendations
- internal promotion

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

## Part II

### Compulsory Question.

This question carries 50 marks.

- 9(a) What is the full meaning of NIA? Enumerate any four (4) roles of the body. (10 marks)
- (b) Mention four (4) obstacles to Global Trade. (10 marks)
- (c) State Intervention is often meant to protect local industries by restricting global trade. Briefly discuss five (5) ways by which this is done. (10 marks)
- (d) State four (4) types of financial disincentives that can also protect local industries. (10 marks)
- (e) Identify and briefly state the use of any four (4) communication infrastructures that have improved global communication. (10 marks)

### Solution

- (a) Nigerian Insurers Association. (2 marks)

Some of the roles are:

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

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

- (b) The obstacles to Global Trade are:

- State intervention that is deliberately aimed at restricting international trade
- poor transport services
- poor communications
- non-standardisation of business practices, laws, tariffs and taxes
- lack of respect for the rule of law
- currency and exchange rate risks

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

- (c) State Intervention in protecting local industries by restricting global trade can be done by:
- protecting new domestic industries from competition in their early years
  - enabling old industries to decline gradually and with minimum disruption to workers
  - enforcing embargo on entering of new foreign players in the market
  - encouraging social policies such as support for farmers
  - maintaining full employment at home
  - enforcing non employment of foreigners EXCEPT where and when indigenes cannot suitably fill the role
- (2½ marks for any correctly explained manner. Maximum of 4 to be graded. Total: 10 marks)
- (d) Types of financial disincentives that can protect local industries are:
- import tariffs
  - customs and other duties
  - restrictions on the quantity of goods imported each year
  - foreign exchange control
  - subsidies to local industries
- (2½ marks for any correctly stated disincentive. Maximum of 4 to be graded. Total: 10 marks)
- (e) The use of communication infrastructures that have improved global communication are:
- **ISDN (Integrated Services Digital Network):** allows video conferencing
  - **Mobile Telephony and GSM:** allows communication anywhere via satellites
  - **Email:** allows messages and documents to be sent quickly and cheaply using existing networks
  - **Video Conferencing:** allows telephone calls to be conducted not just by voice but with pictures of callers
  - **WAP (Wireless Application Protocol):** provides services to digital mobile telephones and other wireless terminals.
- (1½ marks for each correctly stated infrastructure; 1 mark each for correct explanation. Sub-Total: 2 ½ marks on each correct point. Total: 10 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

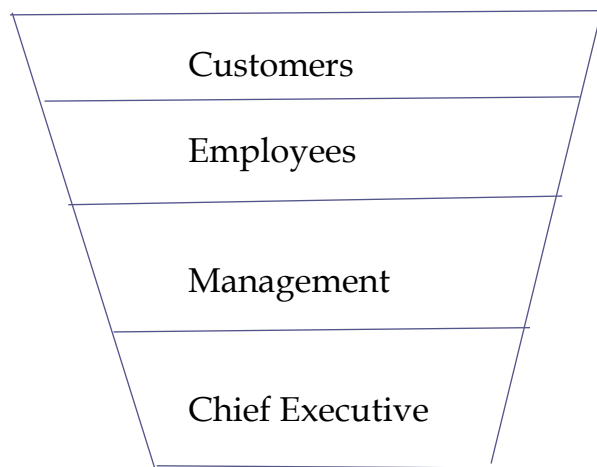
10. Traditional structure of hierarchy is being challenged. Recent thinking now has inverted pyramid.
- a. With the aid of a diagram, show and label the inverted pyramid.

(16 marks)

- b. Mention two (2) reasons for this new thinking. (8 marks)
- c. Mention five (5) components you will consider in choosing the right structure for an organization. (10 marks)

### Solution

a)



(4 marks for correct diagram. 3 marks each correctly labelled section – sub-total: 12 marks. Grand Total: 16 marks)

b) The reasons for this new thinking are to:

- shift the focus of decision making closer to the customer
- place the customer at the job so that the CEO and management could support employees to have direct contacts with customers
- ensure that every part of the organization have interface with the customer and work towards meeting the customers needs

(4 marks for each correctly stated reason. Maximum of 2 to be graded. Total: 8 marks)

c) The components to be considered in choosing the right structure for an organization are:

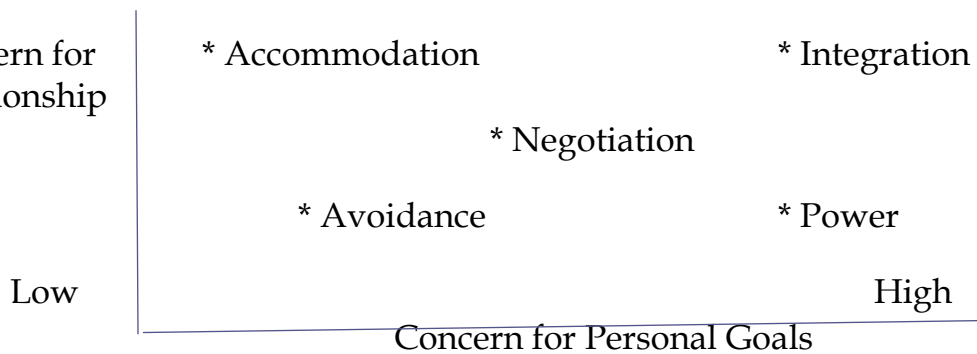
- ease of internal communication
- individual freedom to make decisions
- promotion of innovations
- degree of staff specialization
- ability to grow
- flexibility in the face of change

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



11

Concern for  
Relationship



- a) Discuss the five (5) basic styles or methods of handling conflicts as shown in the diagram above. (25 marks)
- b) What are the three (3) main diagnostic questions that can become the basis for intervening in conflicts in order to bring about resolution. (9 marks)

### **Solution**

#### **a) Accommodation:**

- high on concern for relationship but low on concern for personal goals
- means neglecting your concerns to let the other party achieve their needs
- usually leads to smoothing or false cooperativeness

#### **Integration:**

- high on concern for relationship and high on concern for personal goals
- mutual problem-solving with each party accepting the best for both
- usually involve confrontation where the underlying issues to a conflict are identified
- at the end, both parties are committed to a solution approach

#### **Negotiation**

- mid-point between concern for personal goals and concern for relationship
- involves settling for "half a loaf" rather than risking an all-out struggle

#### **Avoidance**

- low on concern for personal goals and low on concern for relationship
- characterized by a high hopelessness in being able to achieve resolution

#### **Power:**

- high on concern for personal goals but low on concern for relationship
- means trying to overpower the needs of others
- a win-lose dynamic is initiated

(2½ marks for any correctly stated point under each term. Maximum of two points to be graded under each term. Sub-Total under each term: 5 marks. Grand Total: 25 marks)

b) The three main diagnostics questions that can become the basis for intervening in conflicts in order to bring about resolution are:

- what is the nature of the difference between the conflicting parties?
- what are the reasons for the difference?
- what is the behaviour of the parties?

(4½ marks for each correctly stated question. Maximum of 2 to be graded. Total: 9 marks)

12(a) Identify eight (8) users of Company's Financial Information showing the reasons they need the information. (24 marks)

(b) Mention any four (4) methods of budgeting. (10 marks)

### Solution

(a) The users of Company's Financial Information showing the reasons they need the information are:

User	Reasons
Directors and Managers	i) whether the organization has been making the best use of its resources ii) whether there is money for business expansion iii) whether some parts of the business are more successful than others iv) whether the company has behaved in the most ethical way
Employees	i) to know how secured their jobs are ii) to gauge how well the organization has been performing iii) to take informed view whether the organization will be able to pay their wages/salaries
General Public	i) potential investors or shareholders take informed opinion on future investment in the company ii) people considering applying to work for the organization will be well guided
Tax Authorities	i) to determine how much tax to be paid by the organization
Financial Analysts	i) to be able to function efficiently as independent

	advisers who may want to advise shareholders whether to sell or buy more shares
Creditors and Lenders	i) to know whether to press to recover their debts quickly in case of insolvency or ii) whether they can be more relaxed
Competitors	i) to help understand the strength and weakness of the organization
Shareholders	i) to know how their investment is performing and take an informed decision
Regulators	i) to authorize and supervise the organization as appropriate

(2 marks for correctly stated user. 2 marks for any correctly stated reason. Sub-Total: 4 marks. Maximum of 4 users to be graded. Grand Total: 24 marks)

(b) The methods of budgeting are:

- fixed budgeting
- flexible budgeting
- top-down budgeting
- bottom-up budgeting
- zero-based budgeting

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

13. For a long time, the search for the “right” individual has been difficult, if not impossible, hence team working is becoming increasingly recognized.

- a. Identify ten (10) features of an effective team. (20 marks)
- b. List seven (7) barriers to effective communication. (14 marks)

### Solution

a) Features of an effective team are that the team:

- is persistent in its pursuit of goals and objectives
- mutually confront and overcome obstacles to goal achievement
- is flexible in the approach to working
- share a commitment to quality in their performance
- members all have a clear understanding of their purpose and direction
- strive for, and are driven by, success
- focuses on action and results
- is committed to the success of company as a whole
- carries out its work without the need to develop detailed rules and procedures

- is responsive to the requirements of the organization and its customers
  - is able to distinguish between urgent and important tasks
  - leaders fight for the resources and support needed to achieve goals
  - is creative, innovative and willing to take risks in its approach to problem solving
  - members are valued for their contribution and competence and not for their status
  - establishes and maintains effective formal and informal communications
- (2 marks for each correctly stated feature. Maximum of 10 to be graded. Total:20 marks)

b. Barriers to effective communication are:

- problem of size
- reservation/fear/lack of confidence
- lack of knowledge, which is power
- language problem
- problem of time
- training
- grapevine
- failure to recognize the need to tell
- inability to listen

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

14(a) Itemise ten (10) purposes of performance appraisal system. (20 marks)

(b) Mention seven (7) examples each of financial rewards and fringe benefits.

(14 marks)

### **Solution**

(a) The purposes of performance appraisal system are to:

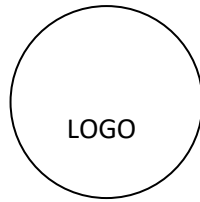
- establish whether a job holder is achieving the results expected
- examine why there may be a shortfall in performance and consequently establish training or other needs
- establish whether the job holder has more to contribute
- provide information in connection with career development and manpower planning
- provide input to a salary system that is geared to the reward of achievement and endeavours
- evaluate training and selection procedures
- improve individual motivation

- encourage managers to recognize the importance of performance counselling and training; and to participate in the process
  - encourage constructive dialogue about performance and training between managers and subordinates
  - input to a promotion system based on objective achievements
  - communicate the company's concern for its staff and its positive desire to encourage individual development.
- (2½ marks for each correctly stated purpose. Maximum of 8 to be graded. Total: 20 marks)

(b)

<b>Financial Rewards</b>	<b>Fringe Benefits</b>
Salary	Holiday Entitlement
Bonuses	Non-Contributory Pensions
Overtime Payments	Medical Insurance Schemes
Allowances (Transport, Housing, Leave, e.t.c.)	Company Cars
Productivity Payments	Subsidised Loans
Profit Sharing	Co-ownership Schemes
Share Option Schemes	Catering, Welfare and Recreation Facilities
Gain Sharing	Good Working Conditions

(1 mark for each correctly stated example. Maximum of 7 to be graded under each term. Total: 14 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A940**

**FINANCE AND ACCOUNTING**

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# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A940 - FINANCE AND ACCOUNTING

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

## **Summarized Report**

Pass Rate:	57.14%
Highest Score:	63%
Lowest Score:	35%
Average Score:	52%

## **Breakdown Updates**

### **Question 1**

The question tested the candidates' understanding of Financial Accounts and cash book. It was well attempted by all the candidates. The pass rate is above 80%. This indicates candidate's understanding of the terms tested.

### **Question 2**

The examiner tested the candidates' knowledge of the commonly found items in Balance Sheet (statement of financial position). It was attempted by all candidates. Only few candidates obtained the full marks available, the overall pass rate is about 65%. Candidates need to study more in this area of syllabus for better performance.

### **Question 3**

The questions tested candidates' knowledge on consolidated accounts of group of companies. The performance was very poor as majority of the candidates could not obtain a single mark. The overall pass rate was about 15%. Candidates are advised to study harder and take every aspect of the syllabus very seriously.

### **Question 4**

The question tested candidates' understanding of parts/division of company act 1989 (UK). The performance was very poor as none of the candidates could score a single mark. The overall performance is zero percent. This indicates that candidates did not cover this aspect of the syllabus in the studies. This is a very direct question that would have been a bonus to a serious candidate. Candidates are advised to study harder.

### **Question 5**

This question tested candidates' understanding of rules that guide the distribution of profit by public liability companies. The performance was not encouraging as majority of the candidates scored zero. The overall performance was less than 15%. There is no short cut for candidates to pass this type of course other than covering every aspect of the syllabus.

### **Question 6**

The examiner tested candidates' understanding of types of costing methods in management accounting. Candidates displayed good understanding of this topic as the overall pass rate is above 90%. Many candidates obtained full marks available.



**Question 7**

The question tested the objectives of budget. Candidates displayed good understanding of the topic as many of them obtained the full marks available. The overall performance was about 95%. This is a very good development compared to previous examinations.

**Question 8**

The question tested candidates' knowledge of different forms of approach that the issue of insurance regulation/supervision. The question though simple was not well attempted by the candidates. The performance was not encouraging. The pass rate was about 50%. Candidates are advised to take issue of regulation/supervision serious.

**Question 9**

This is a compulsory question with the higher mark of 50. The first part tested provision of No Premium No Cover and its effect on the industry. The performance as not encouraging as the pass rate was less than 30%. The second part of the question testes sales forecast. This was poorly attempted as the overall performance was below 25%. Success in this examination requires good knowledge of this topic.

**Question 10**

The question was in 3 parts. Circumstances under which intervention may be carried out by regulators, circumstance in which a cart can order a company to windup and paver of intervention by secretary of state. The performance was not encouraging as the overall pass rate was less than 30%. This is a popular question and well-articulated in the course book. Candidates are advised not to neglect any part of the syllabus as they need to cover all part of the syllabus for better performance.

**Question 11**

The examiner testes candidates' knowledge of budget constrictor reasons for budgeting and stages of planning process. The pass rate is about 55%. Candidates are advised to study harder in this area of the syllabus to enhance their future performance.

**Question 12**

The examiner tested candidates' knowledge of types of costing and responsibility accounting. Some candidates did not attempt this simple and direct question. Those candidates that attempted the question could not perform as expected. The overall performance was about 55%.

**Question 13**

The question tested candidates' knowledge about principles of insurance funds management and different types of funds. The overall performance was about 55%. Candidates are advised to study this aspect of the course very hard to enhance their future performance.

**Question 14**

The question tested candidates' knowledge of the measurement of managerial/performance as well as interested party of financial statements. Candidates displayed good understanding of the topics and the performance was encouraging. The overall performance was above 60%.

**Chief Examiner's Comments on Overall Performance:**

The overall performance on this course this diet is quite encouraging and the pass rate is commendable. Also more candidates are now interested in the course. Candidates are advised to keep it up. However, there are still more rooms for improvement in this very important course. Insurance professional should be equipped with good knowledge of accounting and be able to read, understand and interpret financial statements.

**Chief Examiner's Suggestions on Improvement:**

- i. Candidates should pay particular attention to final account (Income Statement and Statement of Financial Position). The computation aspect of the course should not be avoided.
- ii. Candidates should endeavor to cover every aspect of the syllabus to enhance their performance in the future.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Briefly explain the following accounting terms:
  - a. Profit and Loss Account (Income Statement):
  - b. Balance Sheet (Statement of Financial Position)
  - c. Cash Book.

### Solution

- a. **Profit and Loss Account (Income Statement):** this is a financial statement showing a company's net profit or loss in a given period.
- b. **Balance Sheet (Statement of Financial Position):** this is a statement of assets, liabilities and capital of a business or other organisations at a particular point in time, detailing the balance of income and expenditure over the preceding period.
- c. **Cash Book:** this is a book in which receipts and payments of money are recorded.

(2 marks for each correct explanation. Total: 6 marks)

2. Outline six (6) items that are commonly found in balance sheets (also known as statement of financial position).

### Solution

Items that are commonly found in balance sheets (also known as statement of financial position) are:

- subscribed capital/equity
- intangible assets
- investment in affiliated undertaking(s)
- current assets
- non-current assets
- net asset
- current liabilities
- long term liabilities
- reserves
- prepayment and accrual income
- provisions

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

3. The Company Act required that all subsidiaries should be included in a consolidation except for certain reasons. Outline any three (3) of such reasons.

## **Solution**

Some of the reasons are if:

- inclusion is not material for giving a true and fair view
  - severe long term restrictions substantially hinder the parent company's rights over assets or managements of the subsidiary
  - necessary information cannot be obtained without disproportional expense or undue delay
  - the interest of the parent company is held exclusively for resale and the subsidiary has not previously been consolidated
  - the activity of the subsidiary is so different from those of other group undertakings as to make inclusion incompatible with the true and fair view
- (2 marks for each correct explanation. Maximum of 3 to be graded. Total: 6 marks)

4. List any six (6) out of the ten (10) parts in which the Company Act 1989 (UK) are divided.

## **Solution**

The ten parts in which the Company Act 1989 (UK) are divided are:

- Part I: relates to company accounts
- Part II: relates to company auditors
- Part III: covers investigations and power to obtain information by government inspectors
- Part IV: deals with the registration of company chargers
- Part V: contains various other amendments to company law
- Part VI: is concerned with mergers and related matters
- Part VII: covers financial market and insolvency
- Part VIII: amends the FSA 1986
- Part IX: covers the transfer of securities
- Part X: is the usual "miscellaneous and general provisions".

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

5. What two (2) rules guide the distribution of profits by a public liability company distribute and what additional restriction is on such public liability company as it relates to unrealized profits?

## **Solution**

The rules that guide the distribution of profits by a public liability company distribute and the additional restriction on such public liability company as it relates to unrealized profits are respectively that:

- a company shall not make a distribution except out of profit available for the purpose

- a company's profits available for distribution are its accumulated realised profits
- a company shall not apply an unrealised profit in paying up debentures  
(2 marks for each correctly stated rule. Total: 6 marks)

6. Mention three (3) types of costing method in management accounting.

**Solution**

The types of costing method in management accounting are:

- product costing
- absorption
- activity-based-costing
- variable or marginal costing

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

7. Identify three (3) objectives that budgets enable managers to achieve.

**Solution**

The objectives that budgets enable managers to achieve are to:

- plan
- coordinate
- communicate
- control and
- evaluate.

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

8. Outline six (6) forms that the insurance regulator may approach the issue of supervision/regulation of industry practitioners.

**Solution**

The forms that insurance regulator may approach the issue of supervision or regulation of industry practitioners are to:

- set up requirements for compulsory insurance
- authorization of insurers
- control of managers
- regulation of premium rates
- regulation of policy conditions
- limitation of expense charges
- financial requirements - deposits, minimum capital, solvency
- requirement for annual (or more frequent) returns
- power of direction and other intervention
- controls on advertising and marketing

- control on intermediaries, commission payments, e.t.c.
- nationalization and prohibition of overseas competition
- compulsory compensation schemes for affected policyholders and claimants

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

## Part II

### Compulsory Question.

This question carries 50 marks.

9(a) What is the provision of Section 50 (1) of the Insurance Act 2003 and its effect on the Nigerian Insurance Industry? (10 marks)

(b) Suppose XYZ Limited has an initial ~~₦~~2,000.00 in cash, with sales forecast at ~~₦~~10,000.00 per month for the next six (6) months of sales. Other relevant information are as follows:

- Commission is given at 5% of sales value in the month of sale
- Goods purchased are paid for after taking one month's credit (i.e. on the 1<sup>st</sup> day if the month following the sale)
- Purchases are forecast to be 45% of sales value
- Wages and salaries are forecast at ~~₦~~3,5000.00 per month with other expenses of ~~₦~~500.00 per month
- In addition to these, a quarterly bill of ~~₦~~3,000.00 is expected for rents/rates; the first payment being due during month three
- XYZ Limited will receive a ~~₦~~1,000.00 grant during the first month for the sales of this product but debtors are forecast to comprise 90% of the sales, with one third of debtors taking one month's credit and the remaining debtors, taking two months' credit  
Cash sales are thus 10% i.e. ~~₦~~1,000.00 per month
- Capital expenditure of ~~₦~~2,000.00 is forecast in the sixth month.

### Required:

- Compute the receipts and payments forecast for the six months to 30<sup>th</sup> June 2019
- With this forecast, assuming a simple start position of ~~₦~~2,000.00 cash and ~~₦~~2,000.00 reserves, prepare the income statement and statement of financial position of XYZ Limited for the scenarioed period.

(40 marks)

### Solution

a) Section 50 (1) of the Insurance Act 2003 provides that the receipt of an insurance premium shall be a condition precedent to a valid contract of insurance and there shall be no cover in respect of an insurance risk, unless the premium is paid in advance. (6 marks)

The effect of this provision of the Act has been positive on the Industry by way of improved liquidity. (4 marks)

b)

i) NEW ERA INSURANCE COMPANY LIMITED PROFIT & LOSS ACCOUNT TO 30<sup>TH</sup> JUNE 2019

	N	N
Unearned Premium	30,000.00	
Premium Written	<u>90,000.00</u>	120,000.00
Less: Commission Paid	12,000.00	
Expenses Paid	10,000.00	
Claims Paid	60,000.00	
Agents Commission Paid	18,000.00	
Provision	<u>2,100.00</u>	<u>102,100.00</u>
Profit		<u>17,900.00</u>

i) NEW ERA INSURANCE COMPANY LIMITED BALANCE SHEET AS AT 31<sup>ST</sup> DECEMBER 2018

#### CURRENT ASSESTS

Unearned Premium	30,000.00	
Less Provision	<u>12,000.00</u>	18,000.00
Unearned Commission	9,000.00	
Cash & Bank	<u>3,000.00</u>	
	<u>112,000.00</u>	

	<del>N</del>	<del>N</del>
<b>NON-CURRENT ASSETS</b>		
Land and Building		7,000.00
Investment		<u>75,000.00</u>
		<u>82,000.00</u>
<b>CURRENT ASSESTS</b>		
Unearned Premium	30,000.00	
Less Provision	12,000.00	18,000.00
Unearned Commission		9,000.00
Cash & Bank		<u>3,000.00</u>
		<u>112,000.00</u>
<b>EQUITIES &amp; LIABILITIES</b>		
<b>EQUITIES</b>		
Share Capital		20,000.00
Reserves		12,000.00
Net Profit		17,900.00
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Creditors	7,000.00	
Accrued Expenses	100.00	
Outstanding Claims b/d	25,000.00	
Outstanding Claims as at 31/1	<u>30,000.00</u>	<u>62,100.00</u>
		<u>112,000.00</u>

### Part III

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

Each question carries **34** marks.

- 10(a) Insurance Industry Regulator has the power to intervene in the affairs of an insurance company. List and explain five (5) circumstances under which intervention may be carried out. (15 marks)
- (b) The court may order the winding up of an insurance company for exactly the same reasons as it may order the winding up of any other company. Enumerate four (4) reasons for which this can occur. (10 marks)
- (c) The Secretary of State (or Minister of Finance) can petition for the winding up of an insurance company on various grounds. Mention three (3) of such grounds. (9 marks)



## Solution

(a) Some circumstances under which intervention may be carried out by Insurance Industry Regulator are:

- if it is considered desirable for protecting policyholder or potential policyholders against the risk that the company may not be able to meet its liabilities or, in case of long term business, fulfil the reasonable expectation of policyholders or potential policyholders
- if it appears that the company (or a parent or subordinate company) has failed to meet a statutory obligation
- if it appears that the company has furnished misleading or inaccurate information
- if the regulator is not satisfied with the adequacy of reinsurance arrangement
- if it appears that there has been a substantial departure from any plan or forecast submitted to the regulator
- if the company has ceased to be authorized (wholly or in certain classes of contracts)

**(3 marks for correct listing of the circumstance. 2 marks for explaining the listed circumstance. Maximum of 3 circumstances to be graded. Sub-Total: 5 marks. Grand Total: 15 marks)**

(b) The court may order the winding up of an insurance company for exactly the same reasons as it may order the winding up of any other company for any of the following reasons:

- if the company so resolves by special resolution
- if the company does not commence business within a year of incorporation
- if the number of members is reduced below two
- if the company is unable to pay its debts (where a creditor applies)
- if the court is of the opinion that it is just and equitable that the company should be wound up.

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

c. The Secretary of State (or Minister of Finance) can petition for the winding up of an insurance company on various grounds. Some of these grounds are:

- if the company is unable to pay its debt (a company shall be deemed to be unable to pay its debts if its most recently filed accounts, balance sheet or statements show it to be insolvent unless the contrary is proved)
- if the company has failed to satisfy an obligation imposed by any of the Insurance Companies Act

- if the company has failed to keep or to produce proper accounting record and is unable to ascertain its financial position
- if it is expedient in public interest that the company should be wound up  
(4½ marks for each correctly stated point. Maximum of 2 points to be graded. Total: 9 marks)

- 11(a) Mention and explain the five (5) stages necessary in the construction and agreement of budgets. (10 marks)
- (b) List and explain any five (5) reasons why budgeting is necessary? (10 marks)
- (c) Outline in the correct order the seven (7) main stages of a planning process. (14 marks)

### Solution

- (a) The five stages necessary in the construction and agreement of budgets are:
- **Initial Preparation:** here the managers who are responsible for meeting the budgeted performance should prepare the budget for those areas for which they are responsible. A top-down/bottom-up approach could be used. When constructing budget, it should be noted that the changes in future conditions both internal and external should be considered.
  - **Negotiation:** at each stage, the budget will be negotiated between all concerned parties and eventually agreed by all such parties.
  - **Co-Ordination and Review:** goal congruence must be achieved and group resources should be deployed with maximum efficiency when constructing a budget.
  - **Final Acceptance:** after the master budget has been approved, it will be communicated to the original responsibility centre and should be accepted and owned by that centre.
  - **Budget Review:** periodically, actual results should be compared with the original budgets so that amendments could be made when and where necessary during the course of executing the budget.
- (1 mark for correctly stating the step. 1 mark for correct explanation. Sub-Total per step: 2 marks.  
Grand Total: 10 marks)

- (b) Five reasons why budgeting is necessary are:
- **to plan:** the annual budgeting process refines long-term plans. The process of planning will make the achievement of objectives all the more likely as both problems and opportunities are considered.
  - **to coordinate:** for a company to succeed, it needs to adhere to principles of goal congruence i.e. have common objectives. Conflict between departments should be addressed.

- **to communicate:** top management communicate their future expectations to staff via the budgeting process and equally as important, staff should be able to influence and direct management as to the best way of realizing such expectations.
- **to motivate:** the budget is a useful device for influencing managerial behaviour and motivating managers to perform.
- **to control:** by comparing actual results to pre-set standards, managers can decide which areas do not confirm to the original plan and thus give such areas the required attention.
- **to evaluate:** the performance of a manager is often evaluated by measuring the success in meeting budgeted targets.

(1 mark for correctly stating the step. 1 mark for correct explanation. Sub-Total per step: 2 marks. Grand Total: 10 marks)

(c) The seven main stages of a planning process in the correct order are:

- identify objectives
- search for alternatives course of action
- gather data about alternatives
- select alternative courses of action
- implement Long-term plan in the form of the annual budget
- monitor annual results
- respond to divergences for plan.

(2 marks for correctly stating the ordered stages. Total: 14 marks)

12(a) Write short notes on the following terms:

- i. Absorption Cost (4 marks)
- ii. Activity Based Costing (4 marks)
- ii. Variable or Marginal Costing (4 marks)

(b) Define "responsibility accounting". List and explain the three (3) types of responsibility accounting. (12 marks)

(c) Establish, from the following illustration, the total budgeted cost for 3000 activities/policies.

Policy Preparation	NGN	
Direct Labour	2.00	(15minutes @ NGN8/hr)
Terminal Input	0.50	(use of 5 input screen @ N0.10/screen;
Checking by Supervisor	0.40	
<u>Postage Cost to Client</u>	<u>0.20</u>	
<u>Total Standard Cost</u>	<u>3.10</u>	(10 marks)

## Solution

a)i) **Absorption Cost:** this is the least amount that a cost can be directly related to the products or service; the more indirect the cost becomes, the more it becomes absorbed as opposed to “costed”. (4 marks)

ii) **Activity Based Costing:** the idea behind “activity based costing” is to challenge the view propounded by absorption costing. This method recognizes that not all cost units processed by the company will attract cost in equal measure; it seeks to apportion cost to the level of activity. (4 marks)

iii) **Variable or Marginal Costing:** these are costs that are not directly related to the product or service are identified, but are still expended during the course of producing the product or service. (4 marks)

(b) **Responsibility Accounting** is based on the recognition of individual areas of responsibility as specified in the organizational structure of a firm. The area of responsibility identified is known as responsibility centers. (3 marks)

The three types of “responsibility accounting” are:

- **cost centre:** where managers are accountable for the expenses which are under their control
- **profit centre:** where managers are accountable for sales revenue and expenses
- **investment centre:** where managers are normally accountable for sales revenue and expenses plus capital investment decision.

(2 marks for correctly mentioned type. 1 mark for correct explanation. Sub-Total per type: 3 marks: Grand Total: 9 marks)

(c) By application of estimated workload activities e.g. estimating the numbers of new policies to be obtained in the stated budget, the total budgeted cost can be established i.e.

$$\begin{aligned} \text{Budgeted Cost} &= \text{Volume of Activity} * \text{Standard Cost} && (4 \text{ marks}) \\ &= 3000 \text{ policies} \times \text{N}3.10 && (3 \text{ marks}) \\ &= \text{N}9,300.00 && (3 \text{ marks}) \end{aligned}$$

13(a) Outline and discuss in detail six (6) general principles of insurance funds management. (18 marks)

(b) Write short notes on the following types of funds:

- Long-Term Insurance Fund – Life (4 marks)
- Long-Term Insurance Fund – Unit Linked Business (4 marks)
- General Insurance Fund (4 marks)
- Shareholders’ Fund. (4 marks)

## Solution

The six general principles of insurance funds management are:

- **legal:** all types of funds will be managed with the same type of requirements an appropriate balance of security and income, either of which may incorporate the concept of maintenance of real values but bearing in mind the relevant need for liquidity
- **yield:** it should be the aim of the insurance fund investment policy to invest its fund to earn the maximum expected yield there on
- **spread-** investments should be spread over the widest possible range in order to secure the advantages of favourable political trends and minimize the disadvantage of unfavourable political trends
- **future trends:** the fund managers should vary investment portfolio and select new investment in accordance with their view of probable future trends
- **social and economic factors-** the fund managers should endeavor to orientate their investment policy to socially and economically desirable ends.
- **sundries:** the principles above can provide the most general of guidelines, so each insurer will need to take a number of other factors into consideration, as such factors are peculiar to its own circumstance Some of those factors are the risks profile, overseas business liabilities, liquidity, taxation, e.t.c.

(2 marks for each correctly stated principle. 1 mark for correct explanation. Sub-Total for each principle: 3 marks. Grand Total: 18 marks).

### (b) i) Long-Term Insurance Fund-Life:

- the contracts are long terms ones. Outgo can be estimated reasonably accurately both to timing and amount
- the catastrophe risk is unlikely to be significant
- premium takes into consideration that income to be earned over the period of the policy.

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

### ii) Long-term Insurance - Unit Link

- one of the fastest growths under this are in life assurance
- benefits are rarely guaranteed
- the preponderance of investments will often be dictated by the nature of the fund.

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

### iii) General Insurance Funds

- these are the non-life funds available for investment – significantly they are provisions for unearned premiums and outstanding claims
- contract are short-termed

- investment income has, in recent years, become significant.  
(2 marks for any correctly stated point. Maximum of 2 points to be graded. Total: 4 marks)

#### iv) Shareholders Fund

- this will form the basis for the solvency margin which insurers are obliged to maintain
- is expected to grow in line with the growth in business and investment
- it is expected that it will provide basis for the dividends payable to shareholders  
(2 marks for any correctly stated point. Maximum of 2 points to be graded. Total: 4 marks)

- 14(a) While measuring managerial performance, every effort should be made to concentrate on a measure that is free of all cost elements that are beyond the control of the manager. What do you understand by controllable, partially controllable and non-controllable costs? Give an example of each. (18 marks)
- (b) What is the difference between a profit centre and a cost centre? (4 marks)
- (c) Identify and explain six (6) groups of people that would be interested in the audited financial statement of an insurance company. (12 marks)

### Solution Page

(a) **Controllable Cost:** are those costs that can be altered in the short term. More specifically, a cost is considered to be controllable if the decision to incur it resides with one person or the manager. For example, where a division is free to shop around for a service, an outside printing agency might be used for production of renewal notices/policy cover, marketing budgets, labour costs, e.t.c

**Partially Controllable Cost:** are those costs that are not fully within the control of the manager but on which the manager can still influence it's the cost outcome to an extent. For example, where a division is not free to use an outside source of supply but can decide on the quantity used. This might be the case with centralized computer facilities.

**Non-Controllable Cost** - are those costs that a company cannot change or does not have control over i.e. the costs that cannot be influenced by the decision(s) or action(s) of the manager or where a division is unable to decide over either source of supply or volume. An example of this may be appointment of financial accounting cost incurred in the production of statutory amounts, depreciation cost, allocated advertising cost from head-office, e.t.c.

(3 marks for correct explanation per term. 2 marks for correct example per term. Sub-Total per term: 6 marks. Grand Total: 18 marks)

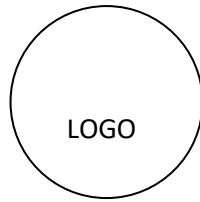
(b) **profit centre and cost centre:** a profit centre is a subunit of a company which is responsible for revenues, profits and costs while a cost centre is a subunit of a company that takes care of on the costs of that unit.

(2 marks for correct explanation of each term. Total: 4 marks)

(c) Some groups of people that would be interested in the audited financial statement of an insurance company are:

- shareholders
- policyholders
- investment analyst and commentators
- reinsurance security adviser
- other insurers
- internal management
- staff or employees

(3 marks for any correctly stated group. Maximum of 4 to be graded. Total: 12 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT A945**

**MARKETING**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer form with care do not write notes on it.
- ✚ 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. Failure to do this may result in your paper not being assessed and marked.
- ✚ Insert your candidates 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.**



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A945 - MARKETING

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Summarized Report**

Pass Rate: 60%

Highest Score: 85%

Lowest Score: 23%

Average Score: 55%

## **Breakdown Updates**

### **Question 1**

This question was well attempted by majority of the candidates with overall performance of above 80%. The examiner tested candidates understanding of one area of fundamental aspect of marketing.

### **Question 2**

The question tested candidates understating of common classification of goods. Candidates showed a very good understanding of the question as most of them obtained more than average marks. The overall performance is about 65%.

### **Question 3**

Most of the candidates could not attempt this question but those who did, obtained above average marks. The overall performance was less than average.

### **Question 4**

This question tested candidates' understanding of the concept of marketing action plan. Many candidates did not understand this concept. Only few performed well in the question. Overall performance was about 35%.

### **Question 5**

This question tested the circumstance that can lead to distortion in data collection. It was poorly attempted. Candidates are advised to take this aspect more serious to enhance better future performances. The overall performance was about 48%.

### **Question 6**

This question tested candidates' understanding of direct marketing. The question was well attempted and the pass performance was above 60%.

**Question 7**

Candidates' performance was impressive. Almost all the candidates attempted this question. The overall pass performance was above 70%.

**Question 8**

The performance of candidates was not encouraging. Candidates are advised to study harder by covering every aspect of the syllabus to enhance their future performance. The overall pass performance was less than 50%.

**Question 9**

This is a compulsory question with a total mark of 50 marks. Examiner tested the provision of No Premium No Cover under the Insurance Act 2004. More than 50% of the candidates obtained maximum marks in this aspect of the question. The second part of the question tested candidates' knowledge of overseas marketing. The performance was good with overall pass performance of above 60%.

**Question 10**

The question tested the in-depth knowledge of the candidates on market and marketing research. Most of the candidates did not display a good understanding of the concepts. The overall pass performance was about 60%.

**Question 11**

Nearly 70% of the candidates attempted this question. The part 'A' and 'B' were well answered which indicated that candidates understood this aspect of the question, however the part 'C' was woefully answered. Candidates are advised to concentrate on the part in future examinations.

**Question 12**

This question was not attempted by many candidates as they settled for other options. Those candidates that attempted the question performed above average. Candidates are advised to cover all aspects of the syllabus to enhance their performance in the future examination.

**Question 13**

This question with sub-sections are direct questions on product life circle and marketing mix. The questions were well attempted and pass performance was above 50%.

**Question 14**

Overall, 95% of the examination candidates attempted this question. Over 90% candidates that attempted the question scored a pass mark in part 'A' but less than 50% that attempted the question were able to score pass mark in part 'B'.

**Chief Examiner's Comments on Overall Performance:**

The overall performance is good, with rooms for improvement as suggested below.

**Chief Examiner's Suggestions on Improvement:**

- i. Candidates should read and understand the question before attempting them to avoid mixed-up misinterpretation.
- ii. Candidates should work harder and cover every aspect of the syllabus. This will enhance their performance.

## Part I

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

1. The most important general function of marketing is that it provides an interactive link between the selling organization and the world outside it. That link involves the marketing department in a range of marketing activities. Outline any six (6) of such activities.

### **Solution**

Other general functions of marketing are:

- market research
- competitor research
- development of strategic marketing plans
- development of operational marketing plans
- advertising
- media relations
- corporate affairs and sponsorship
- product development
- product pricing
- branding and brand management
- customer service

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

2. Mention three (3) most common classification of goods.

### **Solution**

The three most common classification of goods are:

- fast moving consumer goods (FCMG)
- consumer durable goods
- industrial goods

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

3. The value of insurance is that the insured can sleep easy in the knowledge that should the insured event occur; the insured will be protected from its adverse effect. Evaluation of insurance services is therefore two fold. Clearly outline these two (2) folds.

### **Solution**

These two folds are:

- when disaster strikes, the service must meet or exceed customer's expectations

- if disaster never strike, the customer must feel pleased that they bought the insurance, even though all they have experienced is peace of mind.

**(3 marks for each correctly fold. Total: 6 marks)**

4. Enumerate any three (3) actions that should be included in a marketing action plan.

### **Solution**

A marketing action plan should include the following:

- the objectives of the plan
- the strategy for achieving those objectives
- the specific activities which will be undertaken
- allocation of specific responsibility for carrying out each activity
- the dates for starting and finishing each activity
- the specific estimated resource requirement for the period of implementation
- the expected cost of the activities
- the expected results on completion of activities

**(1½ marks for any correctly stated point. Maximum of 4 points to be graded. Total: 6 marks)**

5. Data collection can be done in a variety of ways and it is very essential in market research. However, it is also vulnerable to dangers which affect the accuracy of the research, which then leads to the resultant effect of a distorted data by certain circumstances. List any three (3) of those circumstances that can lead to distorted data.

### **Solution**

Some circumstances that can lead to distorted data are:

- interviewees who do not respond at all
- interviewees who do not respond accurately or honestly
- interviewers who ask incorrect or inaccurate questions
- interviewers who record incorrect or inaccurate answers

**(2 marks for each correctly circumstance. Total: 6 marks)**

6. Direct marketing is aimed at creating a two-way personal relationship between the organisation and its customers. Enumerate any three (3) of the different media that direct marketing encompasses.

### **Solution**

The different media that direct marketing encompasses are:

- direct mail
- direct response advertising
- telemarketing/telesales
- internet marketing

**(2 marks for any correctly stated medium. Maximum of 3 media to be graded. Total: 6 marks)**

7. Enumerate any three (3) main objectives behind the design of distribution channels.

**Solution**

The main objectives behind the design of distribution channels are to:

- make the product/service available to customers
- ensure that promotional effort is devoted to the product/service as close as possible to the customer
- provide the highest level of customer service
- gather feedback from customers and intermediaries about the market
- take advantage of economies of scale.

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

8. Organizations that sell directly to overseas buyers are continuously exposed to changes in trading conditions and as such those organizations have to be aware of certain factors. State three (3) of such factors that the organizations need to be aware of.

**Solution**

The factors that the organizations that sell directly to overseas buyers need to be aware of are:

- variable exchange rates
- differences in local and foreign inflation rates
- differences in the growth rates of different economies

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

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

- 9(a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers". Enumerate the stated minimum information that insurance institutions are required to update their websites as stated in the circular. (10 marks)
- (b) List, and explain, the six (6) aspects of each market that are likely to be examined when prioritising overseas markets. (18 marks)
- (c) Why is it difficult to standardise international marketing communications. Enumerate and explain clearly any four (4) of the reasons why. (16 marks)
- (d) List and briefly explain the three (3) ways in which insurance intermediaries can assist the efficiency of marketing for insurers. (6 marks)

## Solution

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

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

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

b) The six aspect of each market that are likely to be examined when prioritising overseas markets are the:

i) **physical and geographical environment:** it is very important to take into consideration and examine the geographical environment when considering overseas market. Issues like transportation and location, which can affect distribution should be fully considered.

ii) **legal environment:** it is critical to the survival of an entity in overseas market that issues of authorisation, regulation and the system of laws should not be undermined.

iii) **political environment:** political stability supports the success of business activities. In prioritising overseas markets, countries with stable government, peace and conducive business environment will enhance the success of the business.

iv) **cultural environment:** this is very fundamental to the success of the organisation, therefore understanding the culture is very important.

v) **competitive environment:** to succeed in overseas market, the organisation need to have a knowledge of the competition existing in the market.

vi) **local infrastructure:** the availability of local infrastructure should be considered when prioritising overseas market in order to ensure its continued success.

(2½ marks for mentioning the aspect. 2 marks for any correct explanation of the fact. Sub-Total: 4½ marks. Maximum of 4 aspects to be graded. Total: 18 marks)

(c) It is difficult to standardise international marketing communications because:

- **the level of product knowledge:** this is very crucial and each market has different level of product knowledge and therefore require different marketing communication method



- **expectations of the product or service benefits:** depending on the product knowledge, the marketing is difficult to standardize as the expectations will grossly differ from one place to another
- **buying motives:** since the motives for buying the products are different, then the marketing communication must also be different and targeted to specific buying motives so as to attract their patronage
- **language barrier:** where the message has been poorly communicated due to poor local translation skills
- **legal requirements/barrier:** for instance, some countries do not allow advertising targeted at children
- **local competition:** where indigenous industries has been established longer and is closer to the people
- **cultural barrier:** where the local culture does not understand, support or like the marketing message. For example, some traditional beliefs and contemporary behavioural patterns are not compatible and as such will not pass across the same marketing message
- **media sophistication:** while many of the same media types exist around the world, the extent to which prospective consumers are exposed to each type varies considerably, so the chosen media reach has to be compatible market with the targeted market.

(2 marks for correctly mentioned reason. 2 marks for correct explanation of the reason. Sub-Total: 4 marks. Maximum of 4 reasons to be graded. Grand Total: 16 marks)

(d) Insurance intermediaries can assist the efficiency of marketing for insurers in the following ways:

- **functional efficiency:** intermediaries can often perform one or more marketing activities more efficiently than manufacturers or their customers because of their specialization and greater economies of scale.
- **scale efficiency:** by purchasing large quantities of goods from manufacturers, storing them and then breaking them down into smaller quantities that their customers prefer to purchase, wholesalers and retailers enable manufacturers and their customers operate at their most efficient scale.
- **transactional efficiency:** by purchasing goods from a variety of suppliers and then storing, promoting and selling them, wholesalers and retailers make it possible for customers to acquire wide range of products from a single source.

(2 marks for each correctly stated way. 1 mark for correct explanation. Sub-Total per point: 3 marks. Maximum of 2 to be graded. Grand Total: 6 marks)

### Part III

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

Each question carries **34** marks.

- 10(a) What does market research deal with? (4 marks)
- (b) What are the six (6) steps involved in market research? Outline and explain them. (15 marks)
- (c) For analysis on a proposed product/service, there are three (3) main ways of collecting market information on more specific information. Mention and briefly explain these three (3) main ways. (15 marks)

### Solution

- (a) Market research deals with the **collection** and **analysis of information** about **existing, lapsed** and **potential customers** for an **organization's products and services**.

(1 mark for any correctly stated bolded point. It could be grouped or broken down as above. Maximum of 4 marks for a complete "definition". Total: 4 marks)

- (b) The six steps involved in market research are:
- i. **Identifying the Missing Information:** this step involve identifying the information required by the organization and the questions which the market research will provide answers to. Clear identification of the gaps between the information already held and the missing information will be of utmost importance
  - ii. **Determining Data Needs and Sources:** the researcher need to identify what kind of data is needed and the likely sources of such data e.g. are historical record required in order to show trends?
  - iii. **Research Design:** this is very important, especially if the research is based on the use of a questionnaire, where unambiguous questions need to be formulated.
  - iv. **Design of Sample Size and Characteristics:** the market researchers will need to identify a target group from when the information will be gathered.
  - v. **Data Collection:** this can take a variety of ways. It is vulnerable to dangers that may affect the accuracy of the research.
  - vi. **Tabulation, Analysis and Conclusion:** the raw data need to be tabulated to make it easier to draw inferences about trends.

(1½ marks for any correctly stated step. 1 mark for correct explanation. Sub-Total: 2½ marks per step. Grand Total: 15 marks)

(c) The three main ways of collecting market information on a proposed product/service are:

- **reactive method:** here, the interviewers are expected to provide market information after being prompted to do so. Questioning interviewers is one of the commonest forms of reactive market research
- **non-reactive method:** here, the method of data collection is based on the interpretation of behaviour, sales figures or other information which can be gathered without interaction with the interviewees. This is observation method such as the use of hidden camera.
- **focus group:** this consist of both reactive and non-reactive data gathering methods. It comprises of groups of around ten hand-picked consumers brought together to discuss a topic related to a given product or service.

(3 marks for any correctly stated way. 2 marks for correct explanation. Sub-Total: 5 marks per way. Grand Total: 15 marks)

11(a) List and explain the four (4) components of the Boston Consulting Group Matrix. (24 marks)

(b) What is a marketing objective? (2 marks)

(c) Outline four (4) of the marketing objectives on an insurance product line. (8 marks)

### Solution

(a) The four components of the Boston Consulting Group Matrix are:

- **question marks:** represents products or services that have a low market share in a market of high growth. The market offers clear potential but the firm invariably needs significant financial and other resources in order to take on the competition.
- **cash cows:** are products with market share whose market growth has stabilized. These provide the generation with its best return on investment.
- **dogs:** are products with the poorest profile in the matrix. These products tend to be a drain on resources and can be considered for dropping off entirely.
- **stars:** are those products that have achieved a high share of a still expanding market. The cost of maintaining such a strong competitive position may be high.

(4 marks each for the components. 2 marks for each correct explanation of the components. 6 marks sub-total for each component. Grand Total: 24 marks)

(b) A marketing objective is a precise statement that outlines what is to be accomplished by the organization in its marketing activities. (2 marks)

(c) Some of the marketing objectives on an insurance product line are:

- variations in premium
- variations in the scope of cover offered
- varying commission rates to intermediaries
- variations in the policyholders' participation in the risk
- no claims discounts and other incentives
- the speed of claims handling
- discretionary payment of claims that fall outside standard policy conditions

(2 marks for any correctly objective. Maximum of 4 to be graded. Total: 8 marks)

12(a) In risk management terms, list and explain two (2) main competitors to the insurance industry. (10 marks)

(b) List and briefly explain three (3) tangible and three (3) intangible clues to the quality and security of insurance. (12 marks)

(c) List and explain any three (3) methods that an insurer can use to maintain a high quality of customer/staff interaction. (12 marks)

### **Solution**

(a) In risk management terms, the two main competitors to the insurance industry are:

- **Self-Insurance:** a formal decision to put funds aside expressly to pay for possible claims, often set up by the organisation or individual directly
- **No-Insurance:** taking risks without making any provision for protection against them by organisations or individuals.

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

(b) **Tangible Clues:**

- Premises
- Brochures
- Catalogues and Annual Reports
- Advertising
- Promotional Items such as mugs, diaries, umbrellas, pens, e.t.c.
- Furnishings
- Uniforms
- Point of Sales Material

## Intangible Clues:

- Speed with which the insurance organization replies to communication
- Accuracy of record keeping and updating of client information
- Appropriateness of the qualifications and skills of staff members
- Attitude of staff when dealing with customers
- Organisation's association with other quality organization.

(1 mark each for correct listing. 1 mark each for correct explanation. Sub-Total per listing: 2 marks.  
Maximum of 3 items under each sub-group. Grand Total: 12 marks)

(c) The three methods that an insurer can use to maintain a high quality of customer/staff interaction are:

- rigorous selection of standards
- regular training and coaching
- motivation systems such as rewarding excellence
- quality management systems

(2 marks each for correctly stated method. 2 marks each for correct explanation. Sub-Total per listing: 4 marks. Maximum of 3 methods to be graded. Total: 12 marks)

13(a) What are the five (5) stages of product life cycle applicable to insurance product. Briefly explain these five (5) stages. (10 marks)

(b) List and explain the six (6) components of the marketing mix for insurance services. (18 marks)

(c) Define/explain the phrases:

- i. "a market segment according to Kotler". (3 marks)
- ii. "positioning" in marketing. (3 marks)

## Solution

(a) The five (5) stages of product life cycle applicable to insurance product are:

- **development stage:** here, money is expended on research, development and testing, which will mean that the organization does not make profit at this stage
- **introduction stage:** here, the product/service is introduced to the market. Sales revenue are generally low while both consumers and distributors become aware of the product
- **growth stage:** here, there is rapid acceptance of the product or service and a dramatic increase in revenue. This is sustained by improved distribution, product improvements and price reduction.

- **maturity stage:** at this stage, the product/service would have matured that it continues been patronized by all with minimal advertisement
- **decline stage:** this is marked by a falling off in sales and could be caused by technologically superior substitutes, alternatively priced competition or shift in consumer tastes, values and beliefs.

(1 mark each for correct listing, 1 mark each for correct explanation. Sub-Total per listing: 2 marks. Total: 10 marks)

(b) The six components of the marketing mix for insurance services are:

- **Product:** is a generic term that include services. An organization's products are the physical or actual items or services it is offering to the market. They may be modified, redesigned, repackaged or discontinued.
- **Price:** comprises of the recommended or actual price of the product or service in the market.
- **Promotion:** is the collective word covering all communication with existing and potential customers e.g. advertising, personal selling, public relations, e.t.c.
- **Place:** means the distribution channels for the products and/or service
- **People:** are essential to the delivery or sale of any product/service
- **Process:** applies to the marketing mix deployed. For services, it must not be cumbersome or unpleasant.

(3 marks for each correctly stated component. 1 mark for each brief explanation. Sub-Total per component: 3 marks. Grand Total: 18 marks)

(c) i) A market segment according to Kotler is "consumers who respond in a similar way to a given set of marketing stimuli" (3 marks)

ii. "Positioning" in marketing is the development and communication of a differential advantage that makes an organization's products or service to be superior to and distinctive from others, in the perception of the target customer.

(3 marks)

14(a) Outline seven (7) activities that would usually be carried out by a marketing department of an organization. (14 marks)

(b) Compare and contrast how marketing function operate in a functionally structured organization and a divisionally structured organization. (20 marks)

### Solution

(a) The activities that would usually be carried out by a marketing department of an organization are:

- market research
- competitor research

- customer profiling
- development of strategic marketing plans
- development of operational marketing plans
- advertising
- media relations
- corporate affairs and sponsorship
- product development
- product pricing
- branding and brand management
- sales management
- customer service

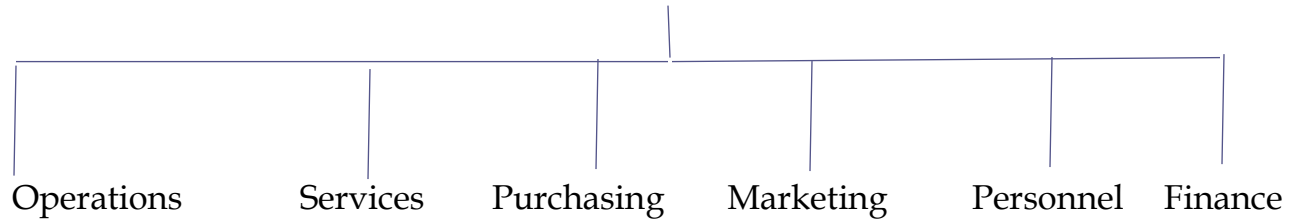
(2 marks for each correctly stated activity. Maximum of 7 to be graded. Total: 14 marks)

(b) Compare and contrast how marketing function operate in a functionally structured organization and a divisionally structured organization.

S/No	Functionality Structured Organization	Divisionally Structured Organization
1	Centralised marketing department is responsible for all marketing activities	There is no centralized marketing department. Each division is typically responsible for its own marketing activity
2	The marketing function is used as a support mechanism for all other departments	Each division uses its marketing function as a support mechanism for itself
3	The marketing organogram is distinctly into functions as below	The marketing organogram is distinctly into divisions as below

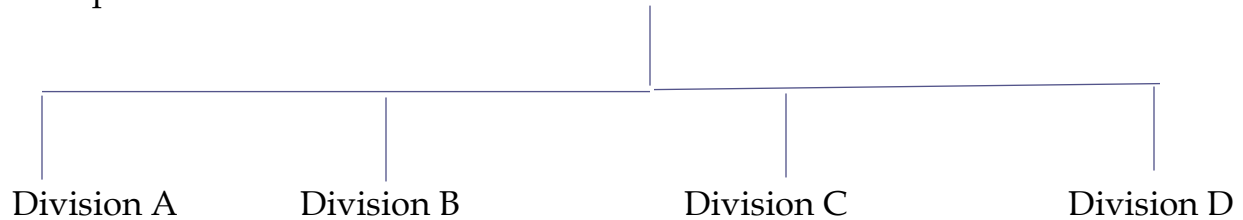
### Functional Business Structure

Chief Executive



### Divisional Business Structure

Group Head Office



(5 marks for any correctly explained difference. Maximum of 2 differences to be per term to be graded.  
Sub Total per term: 10 marks; Grand Total: 20 marks)