



*Chartered Insurance  
Institute of Nigeria*

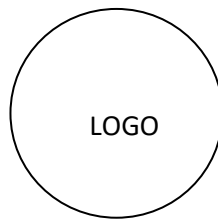
*Chief Examiners' Report*

*October 2019 Examination*

*Diploma in Insurance (D01 – D19)*

## GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	<b>Concentrate all your time and effort on Part 1 @ the detriments of Parts B &amp; C (Diploma &amp; Advanced)</b>
Start each question on a fresh page	<b>Write after invigilators have declared "time-up"</b>
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	<b>Write your name on any part of the answer scripts</b>
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.	<b>Nurture fear on any subject. There is no subject that distinction cannot be obtained.</b>
Attend the Annual Students' Forum	<b>Avoid the Annual Students' Forum</b>
CANDIDATES SHOULD VISIT & UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS ETC ON THE FOLLOWING SITES <a href="http://naicom.com">naicom.com</a> (NAICOM); <a href="http://nigeriainsurers.org">nigeriainsurers.org</a> (NIA); <a href="http://ncrib.net">ncrib.net</a> (NCRIB); <a href="http://nigeriailan.com">nigeriailan.com</a> (ILAN); <a href="http://ciinigeria.com">ciinigeria.com</a> (CIIN)	
<b>INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT.</b>	
<b>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</b>	



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D01  
INSURANCE PRACTICE AND REGULATION**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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

## D01 - INSURANCE PRACTICE AND REGULATION

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate:	82.35%
Highest Score:	69%
Lowest Score:	35%
Average Score:	55.82%

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

Majority of the candidates performed well and understood the principle to which the question intended to test, although a handful did not.

**Question 2**

The overall performance of candidates is very good. The question was well answered, and the principles and practice was well attempted.

**Question 3**

The candidate did very well in this question. Majority of the candidate mention the functions correctly. The overall performance is okay.

**Question 4**

The overall performance of the candidates is fairly okay. Most of the candidates got the answer correctly and gave the basic exclusion of cover correctly except few candidates.

**Question 5**

The overall performance is very good. Though the question is a true or false answer.

**Question 6**

All the candidates got the answer correctly.

**Question 7**

Almost all the candidates understood the practice/principle to which the question tested except few candidates. The overall performance is very good.

**Question 8**

The overall performance is excellent. All the candidates attempted the question.

**Question 9**

60% of the candidates got the answer correctly while 40% could not compare the cover from engineering and business interruption due to lack of understanding of the principle behind it.

**Question 10**

50% of the candidates understood the principles/practice to which the question intended to test, while others could not differentiate ordinary endowment from term assurance, due to lack of proper understanding of the concepts.

**Question 11**

The overall performance of candidates is fairly okay. Majority got the answer correctly, while few candidates did not understand the concepts/features of insurable interest.

**Question 12**

The overall performance is average. Few candidates got the answer correctly, while others did not attempt the question due to lack of understanding of the principle/practice.

**Question 13**

The question was answered by few candidates as majority lacked understanding of the tested principle.

**Question 14**

The question was attempted by almost all the candidates but few candidates got the answer correctly. The overall performance is below average.

**Question 15**

This question was well attempted by few candidates, while majority did not attempt the question. The overall performance of those who attempted the question was average.

**Question 16**

Few candidates attempted this question, while majority did not attempt the question. Those who attempted the question performed above average.

**Question 17**

50% of the candidates who attempted this question got the answer correctly and others mixed up the differences between moral and physical hazards due to lack of understanding.

**Question 18**

The question was answered by few candidates and the overall performance was average. Most of the candidates did not attempt this question.

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

The overall performance is 82% and this is very good. This indicate that majority of the candidates prepared well for the examination.

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

Candidates should keep up the impressive performance and strive to continually prepare in advance for the examination and keep themselves abreast of updates in the industry.

## Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. Mention the two (2) main classes and state any three (3) categories under the main classes of insurance as categorized in Section 2 of the Federal Republic of Nigeria Insurance Act 2003.

### Solution

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)

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 Suretyship Insurance Business
  - h. Miscellaneous Insurance Business

(1 mark each for correct categories. Maximum of 3 to be graded per class. Total: 6 marks)

2. State any two (2) most common policies where most business interruption policies' losses come from.

### Solution

These are:

- a. Fire and Special Perils
- b. Engineering Breakdown Risks
- c. Computer Damage and Breakdown Risks

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

3. Write short notes (i.e. only the full meaning and its main function) on the following abbreviations:
- i. NIA
  - ii. CIIN
  - iii. NCRIB
  - iv. ILAN
  - v. PENCOM

### **Solution**

- i) **NIA:** Nigeria Insurers Association....coordinates the affairs of the Insurance providers in the Nigeria Insurance market space.
- ii) **CIIN:** Chartered Insurance Institute of Nigeria ...to regulate the standards of skills and knowledge of insurance practitioners in Nigeria.
- iii) **NCRIB:** National Council of Registered Insurance Brokers...coordinates the affairs of the Insurance Brokers in the Nigeria Insurance market space.
- iv) **ILAN:** Institute of Loss Adjusters of Nigeria ...coordinates the affairs of the Insurance Loss Adjusters in the Nigeria Insurance market space.
- v) **PENCOM:** National Pension Commission ...coordinates the affairs of the Pension Solution providers in the Nigeria Pension market space.

(1 mark for correct meaning; 1 mark for correctly stated function/ Total: 10 marks)

- 4(a) Explain the main scope of cover under Fidelity Guarantee Insurance. (4 marks)
- (b) Mention the basic exclusions under fidelity guarantee policy. (6 marks)

### **Solution**

a) Fidelity Guarantee policy provide cover against the dishonesty or infidelity of an insured employee which resulted in financial loss or damage to the insured. The policy covers fraudulent act of the insured's employees and can be issued on blanket cover basis or named basis.

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

b) The basic exclusions under fidelity guarantee policy are:

- loss or damage as a result of connivance or error or commission
- loss or damage which are covered under a more specific insurance
- loss or damage which are specifically excluded from the policy conditions, or loss as a result of fortuitous event

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



**Answer True or False to the following questions (Q5-8).**

5. When the total sum insured on certain property is too large to be accepted by one primary insurer, or where it is the insured's/broker's wish to interest several insurers, a collective policy is issued. This is called reinsurance.
6. An advantage of a "scheme" to an insurer is that it provides a volume of business that is less likely to be lost at annual renewal.
7. These two (2) procedures under claim escalation by a client, litigation and arbitration, are voluntary and not-voluntary respectively.
8. Processing of data is limited to only electronic processing and does not necessarily cover other forms of structured data filing and organization.

**Solution (Q5-8).**

5) F

6) T

7) F

8) F

9. Briefly compare the scope of cover under engineering insurance and business interruption insurance.

**Solution**

**Engineering Insurance**

- provides compensation to the insured in the event of plant and machinery being damaged by some special perils or loss suffered by the Insured as a result of mechanical breakdown of plant and machinery
- scope of cover under this is damage to or breakdown of specific items of plant and machinery
- it also covers cost of repairs to damaged adjoining or surrounding property
- also covers legal liability for injury caused as a result of breakdown of plant and machinery
- covers legal liability for damage to adjoining property

## Business Interruption Insurance

- otherwise known as loss of profits insurance
- covers financial loss resulting from physical material damage to insured property
- also covers losses directly incurred during the repair of such property
- and losses incurred during the maintenance period of the damaged property.

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

10(a) Explain the major difference between ordinary endowment and term assurance. (6 marks)

(b) Mention any two (2) types of “term assurance”. (4 marks)

### Solution

**Ordinary Endowment Assurance** policy pay the sum insured in the event of death of the Life Assured during the term of the policy, or at maturity date – if the life assured survives the chosen term; while **Term Assurance** being the simplest and oldest form of assurance provides for payment of sum assured on death of the life assured, provided death occurs within the specified term. However, if the life assured survives the chosen term, nothing is payable (subject to policy terms and conditions). The policy is the cheapest form of cover and suitable for low income earners.

(3 marks under each sub-topic explanation. Sub-Total: 6 marks)

b) **Types of term assurance are:**

- ordinary term assurance
- increasing term assurance
- convertible term assurance
- family income benefit
- index link term assurance
- decreasing term assurance

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

11. Explain the main common features of insurable risks.

### Solution

The main common features of insurable risks are:

- the risk must be pure in nature
- the risk must be determinable

- the risk must be fortuitous in nature
- the risk must have insurable interest at inception
- the risk must be homogenous
- the risk must be independent of each other
- the risk must not be against public policy.

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

12. Mention the circumstances where Insured delegate authority to an intermediary.

**Solution**

The circumstance where insured delegate authority to an intermediary e.g. agent or brokers are:

- where the intermediary is acting as agent of the insured
- where the intermediary is a professional with sound knowledge and skill of insurance transaction
- where the intermediary has an express authority from the insured
- where the intermediary is both the agent of the insured and the insurer.

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

13. Mention any four (4) carriers of reinsurance risks.

**Solution**

The following may carry reinsurance risks:

- a) Reinsurance Companies
- b) Primary Insurers
- c) Captive Insurance Companies
- d) Pools
- e) Lloyd's Syndicates.

(2½ marks for each correct answer. Maximum of 4 to be graded. Total: 10 marks)

14. State any two (2) most common policies where most business interruption policies' losses come from.

**Solution**

These are:

- a. Fire and Special Perils
- b. Engineering Breakdown Risks

c. Computer Damage and Breakdown Risks

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

**Part II**

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

Each question carries 30 marks.

15. Briefly discuss the relative advantages and disadvantages of both direct and intermediated distribution channels.

**Solution**

**Direct Distribution Channel**

S/No	Advantages	Disadvantages
1	No commission payable	Requires a strong brand which cost a lot of money to build and maintain
2	Closer contact with the customer providing opportunities to cross-sell other covers	Requires a large volume of business for cost-effectiveness and this need considerable start-up capital
3	Exploits modern, efficient marketing and processing tools such as call centres, internet, e.t.c.	Limited to customers who want to buy direct
4	Potentially higher renewal rate at renewal	Most suitable only for simple products (where little or no advice is required)

**Intermediated Distribution Channel**

S/No	Advantages	Disadvantages
1	Access to a flow of potential customers acquired by another's efforts	Customer contact is mainly through the intermediary who is likely to regard those clients as their own customers and not the insurer's
2	Suitable for most types of insurance	Brokers may or may not re-market cases at renewal
3	Excellent for complex cases	Commission paid to the intermediary must be covered in the price charged
4	Intermediary may undertake some administrative authority and/or delegated authority	Potentially lower renewal rate at renewal

(2½ marks each for every correctly stated advantage and disadvantage. Maximum of 3 each should be graded under each section. Total of 12 points to be graded. Total: 30 marks)

- 16(a) How does the use of call centre to receive claim notification have a significant fraud detection and prevention role? (14 marks)
- (b) Justify with reasons (minimum of four (4) justifications should be justified) why we have State intervention with regulation, on insurance activities. (16 marks)

### **Solution**

a) The following are some of the ways by which the use of call centre to receive claim notification have a significant fraud detection and prevention role:

- where an insured is asked to complete a claim form over the phone, the chances of making an inflated claim is drastically reduced as it has been shown by psychologists that individuals find it more difficult to lie directly to another person, as opposed to in written form
- some insurers have introduced voice stress analysers to their call centres' phone systems. These are like lie detectors and they have a deterrent effect because the claimant is informed of their use before proceeding to give the claim details. It also has a detective effect in identifying potential fraud indicators in the claimant's voice pattern
- the computer system used will also commonly use software that looks for "indicators" of potential fraud as the data is captured, and can ask additional questions of the claimant or initiate other detective activities (e.g. assignment/appointment of loss adjuster or arrangement of a claims inspection visit)

(7 marks for each correctly stated/related point. Maximum of 2 full points to be graded. Total: 14 marks)

ii) The following are the justifiable reasons why we have state intervention with regulation, on insurance activities:

- a) **Maintain Solvency:** to ensure that insurance companies have a reasonable level of capital that support the business written and enable them to withstand "shocks" or unforeseen losses without going out of business
- b) **Equity:** to ensure that there is an element of fairness or reasonableness between companies and policyholders, the insurance contract is one of considerable complexity and it is essential that controls exist for the protection of policyholders.
- c) **Competence:** the fact that insurance products are intangible with a promise to provide indemnity or a payment at a future date implies that those who deal in such promises must be competent persons and able to fulfil their pledges when the need arises. Therefore, regulations are necessary for the management of insurance and investment business.

- d) **Insurable Interest:** government has found it necessary to introduce legislation in order to eradicate any element of gambling.
- e) **Provision of Certain Forms of Insurance:** this is applicable in cases where government made some insurances compulsory like Motor Insurance, employers liability, e.t.c.
- f) **National Insurance:** for some areas of social provision, government's intervention became necessary in order to ensure that there are basic medi-care for the masses, although this is becoming more and more increasingly excessive and unbearable for the government to continue with.

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

- 17(a) Enumerate with examples the main differences between moral hazards and physical hazards. (15 marks)
- (b) Mention the characteristics of physical hazards (10 marks)
- (c) State the five (5) common features of insurable risks. (5marks)

### **Solution**

a) Hazard is a factor that might likely alter the frequency or severity of an insured peril. However, the major differences between moral and physical hazards are enumerated below:

**Moral Hazards:** relates to attitude of the insured or proposer rather than the subject matter of insurance. The insured is the prime source of moral hazards e.g. the behaviour of the insured, whether the insured lack the duty of care or he is dishonest or he is a regular claimant.

**Physical Hazards:** relates to or attaches to physical characteristics of the subject matter of insurance e.g. property insurance – the nature/mode of construction of a building, whether there is fire extinguisher or water hose reel in the building, to reduce the effect of fire damage.

(5 marks for each correctly stated/related point. Maximum of 2 points to be graded. 5 marks for a correct example. Sub-Total: 15 marks)

### **b) Characteristics of Physical Hazards:**

- Mode of construction of the building – whether the building is built with concrete or blocks
- Mode of lightening
- Nature of operations
- Method of cleaning, housekeeping and disposal of waste, e.t.c

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

c) **Common Features of Insurable Risks:**

- the risk must be pure in nature
- the risk must be determinable
- the risk must be fortuitous in nature
- the risk must have insurable interest at inception
- the risk must be homogenous
- the risk must be independent of each other
- the risk must not be against public policy.

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

18. Explain the features of facultative and treaty reinsurance; and mention the importance of treaty retention limit.

**Solution**

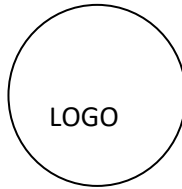
**Facultative Reinsurance:** this is a reinsurance arrangement that is placed after the consideration of the individual risk presented by the ceding office and the reinsurer has the option of either accepting or rejecting the offered business and also of stating the terms of acceptance on each and every of such offered risks.

**Treaty Reinsurance:** this is a reinsurance arrangement that the terms are pre-agreed by the ceding office and the reinsurer such that all businesses placed on the arrangement is automatically accepted by the reinsurer. It prevents anti-selection against the reinsurer and also enables the ceding office to protect its pool of risks by having maximum cover for all its placed businesses. It involves an agreement between the primary insurer and the reinsurer to the effect that all risks within certain parameters will be automatically ceded to the reinsurer and the reinsurer cannot decline any of such risks EXCEPT the business was not placed within the agreed parameters. This type of reinsurance can be of two types – proportional treaties e.g. quota share, or surplus treaty; and non-proportional treaties e.g. excess of loss or stop loss.

(5 marks each on all correctly stated points. Maximum of 5 points to be graded. Sub-Total: 25 marks)

**The importance of treaty retention limit** is to improve the capacity of the ceding company and also assist the ceding company in ensuring that it does not retain more than its capacity because the treaty retention limit is usually set, after considering a lot of factors, to ensure that the ceding company retains only the portion its financials can comfortably bear.

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



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D04  
BUSINESS PRACTICE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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

## D04 - BUSINESS PRACTICE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

You are strongly advised to attempt ALL the questions to score maximum possible marks.

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate:	58.02%
Highest Score:	85%
Lowest Score:	12%
Average Score:	50.11%

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

The question was well understood by the candidates as 80% of those who attempted it scored maximally.

**Question 2**

The performance level was about 90% pass rate as the question was well understood.

**Question 3**

The part (a) and (b) was well understood and performance was excellent but almost all of them failed part (c). This resulted in 70% pass rate.

**Question 4**

The question was direct and well attempted and there was a 100% pass rate here.

**Question 5**

The 'a' part was well attempted while most candidates guessed in the part "b". The overall performance was just average.

**Question 6**

The candidates showed a good understanding of the question with about 95% pass rate.

**Question 7**

The performance rate was below average. The poor performance may be done to poor preparation.

**Question 8**

Candidates performed was better. The question really tested the candidates understanding of the question.

**Question 9**

Performance was above average. The question was well understood

**Question 10**

Almost all the candidates scored high on this question, an indication that they understood what was being examined.

**Question 11**

The 'a' aspect on book-keeping was well answered as many obtained maximum marks allowed, but the 'b' part was badly answered. Overall performance was average.

**Question 12**

Many candidates scored below average in 'a' part as they found it difficult to apprehend but performance was good in 'b' overall, the performance was above average.

**Question 16**

Some candidates explained the assessment methods in addition to listing; candidates performed well in this question.

**Question 17**

Candidates had a mix up on existence intricate rewards. The performance was very impressive.

**Question 18**

The candidates gave brief explanation of collective bargaining and joint consultation. The performance was very good.

**Question 19**

The question was misunderstood by most candidates. This led to giving wrong answers and eventually the performance was poor.

**Question 20**

This is a technical question and not popular among candidates. Those candidates who attempted it performed above average.

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

The overall pass rate was 58.2%. This was a good result.

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

Candidates are advised to study the past questions and reports to improve performances.

## D04 - BUSINESS PRACTICE

1. According to Section 6, 6.1.0 - 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM:
  - a. Who is a “promoter”? (4 marks)
  - b. Mention any three (3) processes or action to be taken at the registration stage of the application. (6 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)

- b) The following are the processes or actions to be taken at the registration stage of the application:
- i) pre-registration interview
  - ii) publication of applicant to members of public
  - iii) notification of success or otherwise after 21 days of publication
  - iv) issuance of letter of success
  - v) evidence of payment of registration fee
  - vi) issuance of certificate of registration.

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

- 2(a) Mention the four (4) levels at which economics is of interest to business managers. (4 marks)
- (b) List any three (3) areas of the economy where businesses may operate. (6 marks)

### Solution

- (a) The levels of at which economics is of interest to business managers are:
- i. the global economy
  - ii. the domestic economy
  - iii. the economy of the market
  - iv. the economy of local business management

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

- (b) The following are areas of the economy where businesses may operate:
- i. manufacturing
  - ii. transport
  - iii. medicine

- iv. the media
- v. banking and financial services
- vi. retailing
- vii. law

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

3. List any two (2) types of interest/expectations each that the following stakeholders can have in a business:
- a) Government (3 marks)
  - b) Customers (3 marks)
  - c) Suppliers/Creditors. (4 marks)

**Solution**

The following are types of interest/expectations that the following stakeholders can have in a business:

- a) Government
  - Tax revenue
  - Openness
  - New job creation
  - Introduction and adoption of new technology

(1½ marks for each correctly stated interest. Maximum of 2 to be graded. Total: 3 marks)
- b. Customers
  - Quality products
  - Value for money prices
  - Warranties and guarantees
  - Rapid delivery service
  - After sales services

(1½ marks for each correctly stated interest. Maximum of 2 to be graded. Total: 3 marks)
- c. Suppliers/Creditors
  - Prompt Payment
  - Preserveable delivery expectations
  - Long-term company solvency

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

4(a) Give the full meaning of the following acronyms:

- i. WTO
- ii. GATT
- iii. IMF
- iv. EMU (4 marks)

- (b) Mention any three (3) functions of WTO. (6 marks)

**Solution**

- (a) WTO - World Trade Organisation  
GATT - General Agreement on Tariffs and Trade  
IMF - International Monitoring Fund  
EMU - European Money Union  
(1 mark for each correctly stated full meaning. Total: 4 marks)

- (b) Functions of WTO
- i. Establishes rules which govern trading behaviour between nation states
  - ii. Attempts to liberalize trade through tariff and quota reduction
  - iii. Offers a legal framework and a court for the settlement of disputes
  - iv. Monitors trade agreements and agreement policies, especially those that may contrive the WTO objective of further liberalization.
- (2 marks for each correctly stated interest. Maximum of 3 to be graded. Total: 6 marks)

- 5(a) Explain the term “Customer Relationship Management (CRM)”. (4 marks)  
(b) State any three (3) components of CRM. (6 marks)

**Solution**

- (a) Customer Relationship Manager (CRM) is largely about getting closer to the customer and moving into a proactive environment. It is about trying to build relationship with customers by understanding their needs and offering products and services that meet those needs.  
(2 marks for each correctly stated interest. Maximum of 2 to be graded. Total: 4 marks)
- b. The components of CRM are:
- i. offering relationship forms rather than enquiry forms.
  - ii. better understanding of buying patterns of customers to expand business relationships.
  - iii. moving to a proactive rather than a reactive environment
  - iv. adopting a total relationship management approach.
- (2 marks for each correctly stated interest. Maximum of 3 to be graded. Total: 6 marks)

6. State any five (5) principal functions of a business entity.

**Solution**

The principal functions of a business entity are:

- i. innovation
- ii. production
- iii. marketing

- iv. human resources management
- v. finance and accounting
- vi. compliance with regulations

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

7. Differentiate any two (2) of the paid below:
- (a) Income and Expenditure
  - (b) Assets and Liabilities
  - (c) Creditor and Debtor.

### Solution

(a) **Income** is all of the amounts of money earned by the organisation from any source sales, rentals e.t.c. whereas, **expenditure** is all the amount of money spent to pay for goods and services.

(b) **Assets** are physical properties or rights that has monetary value and is owned by an organisation. On the other hand, **liabilities** are debts owned by an organisation.

iii. **Creditor** is any individual or organisation to whom a debt is owned e.g a supplier, while a **debtor** is any organisation or person who owes a debt to any other organisation or person.

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

8. List the four (4) elements contained in a large company's account.

### Solution

The elements contained in a large company's account are:

- a profit and loss account
- a balance sheet signed by a director
- an auditor's report signed by the auditor
- a directors' report signed by a director or the company secretary

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

- 9(a) Business regulation is aimed at protecting the interest of three (3) main groups. Name the groups. (3 marks)
- (b) Define the term "Corporate Governance". (1 mark)

- (c) List the three (3) statutory functions of the Corporate Affairs Commission in any country. (6 marks)

**Solution**

- (a) The three (3) main groups that business regulation is aimed at protecting are:

- Consumers
- The State
- Business Enterprise

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

- (b) Corporate governance is the regulation of the way businesses govern themselves. (1 mark)

- (c) The three (3) statutory function of Corporate Affairs Commission in any country are to:

- incorporate companies
- dissolves companies
- examine and hold documents under the Companies and Allied Act and Related Regulations
- make this information available to the public

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

10. Differentiate between a memorandum of association and an article of association of a company.

**Solution**

A **memorandum of association** is a document (in a format specified by regulation) which sets out a limited company's name, objects and registered office. It also states that the liability of the members is limited and specifies the maximum amount of capital the company may raise and its division of shares of a fixed amount.

On the other hand, a company's **articles of association** comprise the regulations for the running of the company's affairs. They contain the main provisions governing the relationship between the shareholders and the company, as well as moderating the balance of power between shareholders themselves.

(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)



11. Explain the following terms:

a) Book-Keeping

(4 marks)

b) Financial Accounting.

(6 marks)

### Solution

(a) **Book-Keeping** is the actual record-keeping process of accounting. Accounting is a discipline involving the analysis and interpretation of information that affects the performance of the financial position of the business.

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

(b) **Financial Accounting** describes a general business discipline which consists of a series of techniques and procedures that are used to identify, measure, record and communicate financial information about an organisation to a range of people who may be interested in it. It has to be made available in the published accounts.

Accounts produced here for mainly for external use.

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

12. Discuss briefly on:

a) Zero-Based Budgeting

b) Rolling Budgets.

### Solution

(a) The **Zero-Based Budgeting (ZBB)** relies on managers to justify their expenditure from a fresh standpoint rather than looking at the amount of expenditure which was budgeted for an item in the previous budget period. ZBB requires managers to start from zero i.e. from a position of having nothing in their budget for the item in question. Any amount which the manager subsequently decides they need for that item must be justified and this justification must go through a formal challenge process.

(b) **Rolling Budgets** are budgets that constantly look forward. With a conventional twelve-month budget, monthly figures might be produced prior to a future budget period which runs from January to December. With a twelve-month rolling budget, as you come to the end of each month a new month is added at the far end of the whole twelve-month period. Managers are always looking twelve months ahead; make alterations to the future budget on a regular basis.

(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)

13. With the use of examples, distinguish between personal communication and impersonal communication methods in marketing.

**Solution**

**Personal communication methods** such as personal selling, servicing and monitoring are often directed at individuals, with the intention of selling or maintaining custom.

On the other hand, **impersonal communication methods** include advertising, direct marketing, special sales promotions and public relations. These methods are often intended to revise awareness of the product or service, or the profile of the provider to

the public at large as seen at important sporting events.

(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)

14. Outline five (5) examples each of:
- (a) strategic long-term plans
  - (b) business unit plans.

**Solution**

(a) Examples of strategic long-term plans are:

- i. mergers and acquisition
- ii. divestment
- iii. profit improvement
- iv. product range extension
- v. rationalization
- vi. entry into new markets

(b) Examples of business unit plans are:

- i. marketing
- ii. sales
- iii. production
- iv. research development
- v. technical development
- vi. financial
- vii. procurement
- viii. human resource

(1 mark for each correctly stated example. Maximum of 5 to be graded under each term. Total: 10 marks)

15. Explain the following terms:

- a) marketing
- b) segmentation.

## **Solution**

(a) **Marketing** is a series of management processes based on a person or organisations interaction with, and understanding of, existing and potential customers, so as to provide the customers with their needs and wants.

b. **Segmentation** is a putting into groups, people with relatively informed demands and needs compared with the rest of the market. Each segment contains people who are similar in their needs and wants, and in the products/benefits they seek. Each segment seeks a different set of benefits from the same products category and some segments may be broken down further into sub-segments.

(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)

16(a) Mention the five (5) stages of recruitment

(b) List five (5) assessment methods for recruiters.

## **Solution**

(a) The five (5) stages of recruitment are:

- i. job analyses
- ii. advertising the vacancy
- iii. preparing the short list
- iv. reviewing the assessment tools available
- v. deciding which assessment tools to use.

(b) The assessment methods for recruiters are:

- i. interviews
- ii. references
- iii. personality tests
- iv. intelligence tests
- v. simulations
- vi. assessment centres

(1 mark for each correctly stated stage/method. Maximum of 5 to be graded under each term. Total: 10 marks)

17(a) Distinguish by definition, the terms extrinsic and intrinsic rewards, with at least two (2) examples each. (8 marks)

(b) Under what circumstance is performance rewards most appropriate? (2 marks)

### Solution

(a) **Extrinsic rewards** are given to the employee by the organisation and do not emerge from doing the job/work itself. They include salary and wages, performance bonuses, overtime, holiday pay and pension contribution.

Whereas, **intrinsic rewards** are derived from the pleasure which the individual associates with doing the job itself. Examples are using personal skill to the full, dealing with problems, achieving targets and working with like-minded people.

(2 marks for correct explanation. 1 mark for each correctly stated example. Maximum of 2 examples to be graded per term. Sub-Total per term: 4 marks. Total: 8 marks)

(b) Performance rewards are most appropriate where performance is easy to measure, such as in sales positions and production lines. (2 marks)

18. Write short notes on the following industrial relations terms:

(a) Collective Bargaining (4 marks)

b) Joint Consultation. (6 marks)

### Solution

(a) **Collective Bargaining** involves management and union bodies in the negotiation of wages and conditions. The typical activities include research, assisting in policy formation and negotiation with representative employee groups.

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

(b) **Joint Consultation** is an important part of building rapport between managers and workers. It involves all staff in ideas and discussing proposed changes in procedure in advance with the people affected helps morale by making staff feel that they are participating in management decisions, and that they have some control over their own work environment, this kind of empowerment contributes towards a sense of worth, and demonstrates managers respect for other employees contributions to the business as a whole.

Joint consultation takes the form meetings between representatives of the managers and representatives of the non-managers. If communal benefits are stressed as the objectives of such meetings, consultations will tend to be constructive.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 6 marks)

19. Outline any four (4) characteristics of an organic culture.

### Solution

The characteristics of an organic culture are:

- i. It has a flat or otherwise non-hierarchical structure of control and communication.

- ii. It has informal, unwritten communications and instructions between staff.
- iii. It is not bound by precedent but by the continual redefinition of tasks.
- iv. It responds quickly to change
- v. It is more liberating for the individual worker.

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

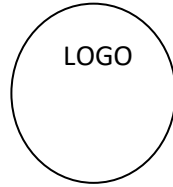
20. State the roles and responsibilities of the following non-managerial staff in an insurance company:
- (a) technical underwriters
  - (b) claims specialists
  - (c) training officers/managers
  - (d) recruitment officers.

### **Solution**

The roles and responsibilities of non-managerial staff in an insurance company are:

- (a) Technical underwriters
  - provide technical advice on product underwriting
  - rate technical risks
- (b) Claims Specialists
  - handle complex claims
  - create and maintain adequate reserves
- (c) Training Officers/Managers
  - Identify training needs
  - Design and deliver training
- (d) Recruitment Officers
  - Identify recruitment need
  - Conduct job analysis
  - Handle job advertising
  - Interview candidates
  - Obtain references.

(2½ marks for every correctly stated role/responsibility per term. Maximum of 1 point to be graded per term. Total: 10 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D05  
INSURANCE LAW**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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 of 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

## D05 - INSURANCE LAW

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## Summarized Report

Pass Rate:	40.70%
Highest Score:	75%
Lowest Score:	01%
Average Score:	40.14%

### **Breakdown Updates**

#### **Question 1**

Performance was poor; candidates failed to understand the import of the question. Obviously, candidates were not aware of the existence of the circular by NAICOM. Candidates are advised to get acquainted with the general role of NAICOM as the apex regulatory authority in the industry.

#### **Question 2**

Designed to test the candidates' knowledge of the concept. Performance was good-over 70% passed. This could be as a result of adequate preparation. Candidates are advised to prepare adequately for future examination.

#### **Question 3**

Designed to test candidates' understanding of basis of liability in the law of tort. Candidates understood the general principle but failed to demonstrate adequate understanding of the exceptions to the general principle. Tutorial session is recommended for candidates who may want to write future examination.

#### **Question 4**

Designed to test candidates' knowledge of roles of malice and motive as basis of liability in tort. Candidates performance was good although some showed some elements of confusion. Candidates for future examination should seek tutorial guidance.

#### **Question 5**

Designed to test candidates' understanding of the concept of privity of contract and its application. Candidates demonstrated a good understanding of the principle and endeavored to apply it to the scenario in the question adequately

#### **Question 6**

Performance was good. A familiar terrain for candidates' agency relationship as it relates after formation of contract. Candidates performed well because the question was a practitioner question.

#### **Question 7**

Performance was good. Question was popular with the candidates because it related to a popular concept in insurance i.e. insurable interest,



**Question 8**

This also related to a popular concept in insurance utmost good faith. Performance was good. More than 70% of the candidates scored above the average mark.

**Question 9**

Candidates' response was good. Question intended to test candidates' knowledge of the concepts of "warranty" in insurance and general contract and the differences between the two. Performance was good.

**Question 10**

Designed to test if candidates understood the basis of agency relationship- why the principle will be bound by his agent's action or omission when dealing with third parties both in general and insurance contracts. Candidates responded well and performance was good.

**Question 11**

Designed to ascertain the liability of the insurer in instances where two or more perils concurrently operated to bring about a loss. Majority of the candidates demonstrated a good understanding of the question although few also failed to and did not answer the question. Tutorial aid is recommended.

**Question 12**

A practitioner question designed to test knowledge of the conceive of indemnity. Performance was impressive and good.

**Question 13**

Tested the candidates understanding of circumstances that could lead to return or otherwise of premium paid. Candidates demonstrated a good understanding of the question heave the good performance.

**Question 14**

Designed to see if candidates could distinguish between the concepts of subrogation and abandonment. Performance was average as candidate did not show adequate understanding of the differences between the two. It was a textbook question. Candidates for future examination are to read and digested the coursebook.

**Question 15**

A compulsory question-intended to test if candidates understood the meaning of 'illegality' and 'mistake' and their effects on contracts. Candidates performance was poor although a few demonstrated some brilliance in their response. Candidates need to pay adequate attention to all the topics of the coursebook and seek tutorial guidance for future examination.

**Question 16**

Designed principally to see if candidates understood circumstances when insurance agents would be taken to be the insured's or insurer's agent. Many candidates understood the question and

performed well. Few mis-understood it to mean duties of agents vis-à-vis the principal. Adequate preparation recommended.

**Question 17**

Candidates were to demonstrate if they understood the meanings of conditions in insurance and general contract the classification of condition in insurance and the effect of breach of each classification. Performance was below average. Candidates did not pay adequate attention to this aspect of their coursebook. All round preparation is recommended.

**Question 18**

A textbook and direct question candidates were to shown their understanding of the concept of frustration, its causes and effects on a contractual relationship. Not many candidates attempted the question. The few who did failed to show or demonstrate adequate understanding of it. Adequate preparation and tutorial guidance needed for better future performance

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

An improvement is noticed in the performance this diet.

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

The Institute is urged to intensify the effort aimed at assisting the candidates in preparing for future examination.

## Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. 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 major focus contained in this circular.

### Solution

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 major focus in the circular are:

- delivery of policy document
- claims.

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

2. What does the concept of "rule of law" connote?

### Solution

The concept "rule of law" connotes any/all of the following:

- power exercised by government officials must be based on an authority given to them by law
- law should be reasonably certain and predictable and actions should not be according to whims and caprice of government officials
- equality of all before the law
- fair hearing to all so that no one is deprived of his life, property, status; unless so ordered by an impartial court or tribunal
- to have unrestricted access of all the courts of law.

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

3. In an action in tort, must a claimant suffer an injury or damage before he can succeed? Briefly justify your answer.

### Solution

Generally, where there is some form of injury, the victim would most likely succeed in an action in tort.

However, some torts are "*actionable per se*" i.e without proof of injury, the claimant may succeed. All he needs to prove is that the tort took place. This is because such torts are actionable in themselves; example is tort of trespass. **Therefore, it is not all the time that the claimant has to suffer some term of injury before he can succeed in action in tort.**

(5 marks for the correct answer bolded above. 2½ marks for each correctly stated additional point. Maximum of 2 of such points to be graded. Total: 10 marks)

4. Is motive or malice required for liability to occur in an action in tort? Briefly justify your answer.

### **Solution**

Motive or malice relates to the reason(s) why a particular action or tort is committed. However, the law of tort does not concern itself with the reason why a tort is committed.

The general principle is that if a particular action or omission is declared unlawful or wrongful in law, it does not matter if the action or omission is done with the best of intention. Similarly, if an act or omission is not unlawful or wrongful in law, it will not matter if it is done with the worst of motive.

**Therefore, motive or malice is not required for liability to occur in an action in tort;** however, in *Bradford Corporation v. Pickles*, exceptions the general rule are:

- where malice is an essential element of the tort e.g. malicious prosecution.
- certain defenses are not available in some torts e.g. defamation, if malice is involved
- in nuisance, some actions will be held unreasonable, where malice is involved.

(5 marks for the correct answer bolded above. 2½ marks for each correctly stated additional point. Maximum of 2 of such points to be graded. Total: 10 marks)

5. Mr. Ade, a car tyre dealer sold tyres to Mr. Bunmi on the condition that Mr. Bunmi should not sell tyres to anyone below a certain price threshold. Mr. Bunmi on that condition, sold tyres to Mr. Tunde.

Mr. Tunde broke the condition by selling tyres below the stipulated price. Mr. Bunmi intends to sue Mr. Tunde for breach of contract.

Using the privity of contract principle, discuss the issues involved and offer appropriate legal advice to Mr. Bunmi. (10 marks)

### **Solution**

Privity of contract is the principle behind the legal term used when the rights and duties under a contract to the persons was originally made it is restricted. (2 marks)

**By this principle, only parties to a contract are bound by its terms; i.e. only the parties can take benefits or suffer disadvantage of the contract. Such rights, duties, advantages and disadvantages cannot ordinarily be conferred on 'outsiders' - persons who are not parties to the contract.** (2 marks)

In this instance, only Mr. Ade and Mr. Bunmi are the original parties to the contract. Therefore, they alone are bound by its terms and only they can take an advantage under the contract and suffer any detriment also.

For example, in “Dunlop v. Selfridge”, tyres were sold to Dew & Co on the condition that Dew & Co will not resell to customers below a price threshold. Dew & Co sold to the defendant on that condition but the defendant sold below the threshold. The claimant sued the defendant on privity of contract. The court held that the claimant could not succeed because the defendant could not be sued on the principles of privity of contract since they were not parties to the initial contract between Dunlop & Dew & Co.

**Based on the foregoing principle (i.e. principle of privity of contract), Mr. Ade will not be able to sue Mr. Tunde because he was not a party to the agreement entered into by Ade and Tunde.**

(2 marks)

(2 marks for the definition of privity of contract principle. 2 marks each for the bolded statements above.

Sub=Total: 6 marks. 2 marks for each correctly stated additional point. Maximum of 2 of such points to be graded. Total: 10 marks)

- 6(a) Who is a “disclosed principal” in an agency relationship. (4 marks)
- (b) “When an authorized agent contracts on behalf of a disclosed principal, the agent simply drops out once the contract is made. The principal and the third party can enforce the contract against each other but the agent can neither sue nor be sued on it”. Enumerate any two (2) exceptions to this general rule. (6 marks)

### **Solution**

(a) A disclosed principal in an agency relationship is one whose existence is known to the third party at the time contract is made i.e. all concerned parties to the contract are aware of every other party involved in the contract. (4 marks)

- (b) The exceptions to the general rule stated above are:
- agents who sign a deed may be liable on it, even though they are known to be contracting as an agent
  - trade customs sometimes make an agent personally liable on a contract
  - agents who sign their name on a negotiable instrument (e.g cheque or bill of exchange) may be liable on it unless they indicate they are signing on behalf of a principles.

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

7(a) Why does the law require insurable interest on an insurance contract?(4 marks)

- (b) What is the effect of the absence of insurable interest on an insurance policy? (6 marks)

### Solution

- (a) The law requires insurable interest on an insurance contract in order to:

- To reduce moral hazard
- To discourage wagering

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

(b) **The effect of the absence of insurable interest on an insurance policy is that the contract, generally speaking, will be null and void and neither the insured nor the insurer will be able to enforce it.** This implies that premium paid by the insured and claims paid by the insurer would be recoverable under the void contract except for Life Insurance Policies governed by the Life Insurance Act 1774. Under the Act, Life Insurances Policies made without insurable interest would be illegal. If parties are equal in wrong doing, premium and claims made are not returnable.

(4 marks for the correct bolded effect stated above. 2 marks for any additional point justifying the response.

Total: 6 marks)

8. One of the duties imposed on parties by the doctrine of utmost good faith is the duty to disclose all material facts relating to their contracts. However, some things or facts need not be disclosed even if they are material. Enumerate any five (5) of those facts.

### Solution

The facts that need not be disclosed even if they are material are:

- matters of law
- factors which lessen the risk
- facts which the insurers ought to know
- facts known by the insurers
- information that is waived by the insurers.
- facts covered by the terms of the policy
- facts which the proposer does not know
- convictions that are spent

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

- 9(a) Define warranty in an insurance contract. (4 marks)  
(b) Distinguish warranty in insurance contract from warranty in general contract? (6 marks)

### Solution

(a) Warranty in an insurance contract is essentially, a promise made by the insured relating to facts or to something which the insured agrees to do. It may relate to past

or present facts; it may be a continuing warranty in which the insured promises that a state of affairs will continue to exist or he will continue to do something. (4 marks)

(b) **Warranty in insurance contract** is a promise by the insured to do something or refrain from doing something in order to preserve a particular state of affairs and by which the insurer is thereafter obliged to provide the cover for the risk involved in the contract. While, **warranty in the general contract** is a written guarantee (promise) issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period of time.

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

10(a) Explain what is meant by “imputed knowledge” in an agency relationship. (2 marks)

(b) Briefly explain the four (4) scenarios when an insured can be taken as the insurance agent’s principal? (8 marks)

### **Solution**

(a) Imputed knowledge in an agency relationship means that what is known by the agent is deemed to be known by the principal i.e. whatever information in possession of the agent is taken to be in possession of his principal and that whatever is done by the agent is deemed to have been done by the principal.

(2 marks)

(b) An insured be taken as the insurance agent’s principal in the following scenarios: i.e. when the “agent”:

- advises the insured about the sort of insurance he needs and recommends a general type of policy the insured should take
- has no authority given by the insurers and the only recognition the agent receive from the insurer is the payment of commission.
- Completes or alters or adds to the answer in the proposal form and the proposer knew or ought to have known of this
- completes a form on the contract which leads to a breach that entitles the aggrieved party to sue for damages. Breach of warranty in insurance may lead to the rescission of the contract.

(4 marks for each correctly stated position. Maximum of definition. Total: 8 marks)

11. Discuss the liability of the Insurer where

- a) two or more peril concurrently operated to bring about a loss.
- b) insured peril combined with excepted peril.

## Solution

The liability of the Insurer where

a) two or more peril concurrently operated to bring about a loss are in two possible scenarios:

- where the perils are independent – one did not lead to the other and either one would have caused some loss without the other. In this case, the insurer is simply liable for that part of the loss attributable to whichever peril is insured.
- where perils are not only independent (i.e. one did not lead to the other), but also interdependent – neither period could have caused damaged on its own. In this situation, it will be impossible to attribute part of the damage to one peril and the other part to the other. If this happens, the liability of the insurer will depend on whatever there is a combination of an insured peril and executed peril or a combination of an insured peril and uninsured peril.

(2½ marks for each correctly explained scenario. Total: 5 marks)

b. insured peril combined with an excepted peril, then the exception prevails and the insurer has no liability. (5 marks)

12(a) Define indemnity. (2 marks)

(b) Distinguish indemnity insurances from non-indemnity (or contingency) insurances. (8 marks)

## Solution

(a) Indemnity, literally, means to save from harm or loss. It means protection or security against damage or loss with respect to insurance; it implies that the object of insurance is to provide exact financial compensation for the insured and at the same time the insured should not be over-compensated or make profit from the loss.(2 marks)

(b) **Indemnity insurances** are policies in which the insurers agree to pay only when the insured suffers a loss of a particular type and only for the amount of the loss while **non-Indemnity (or contingency) insurances** are policies in which insurers agree to pay a specified sum when a particular event occurs. The insured does not have to prove that he has suffered a loss; it suffices to state that the event has taken place. Example is life insurance policy because it is impossible to place value on human life and it provides a means of saving for the future.

(4 marks for each correctly explained term. Total: 8 marks)

13. In insurance contract, the consideration furnished by the insured is the premium paid by him, while the one furnished by the insurer is the cover



provided. Discuss, with the aid of at least one (1) decided case, the circumstances when the premium paid by the insured is returnable to him by the insurer.

### **Solution**

The circumstances where the premium paid by the insured is returnable to him by the Insurer can be found in *Tyrie v Fletcher*, with the following laid down principles being followed:

- where the insurer has not been on risk at all, the insured is entitled to recover his premium. This will happen where there has been a failure of consideration that the insured has not got anything of value for the premium paid
- risk will fail to run if
  - the proposal is withdrawn after payment of premium
  - policy may be void for mistake or no *consensus ad idem*
  - policy may be void for lack of insurable interest.
  - policy avoided for mis-representation a non-disclosure.

(4 marks for correctly stated decided case. 3 marks for any correctly stated circumstance. Sub-Total: 6 marks. Total: 10 marks)

14. Abandonment and subrogation are often linked together but there are important differences. What are these four (4) differences?

### **Solution**

The four differences between subrogation and abandonment are:

- Subrogation gives the insurer the right to pursue a claim against a third party for the loss of the subject matter, while abandonment and salvage confer rights over the subject matter itself
- An action by way of subrogation cannot be brought in insurer's own name (with only one exception); whereas once an insurer accepts abandonment; he becomes the owner of the goods
- The insurer can take profit on the abandoned property while subrogation allows the insurer to recover no more than his own payment
- Subrogation operates automatically as a result of the principle of indemnity while abandoned property need not be accepted by the insurer.

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

## Part II

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

Each question carries 30 marks.

15. “Illegality” and “Mistake” are two factors that may destroy the validity of an otherwise sound contract. Fully discuss how these two (2) factors may destroy the validity of an otherwise sound contract.

### Solution

“Illegality” and “Mistake” are two factors that may destroy the validity of an otherwise sound contract. These two factors may destroy the validity of an otherwise sound contract as discussed:

**Illegality:** this is a vital factor that can destroy the validity of a contract or make the contract ineffective. The illegality may be in the following forms:

- contracts which are contrary to law e.g. committing a crime – forging of bank notes, contract to kill or injure people, e.t.c.
- contracts which are contrary to public policy e.g. contracts tending to sexual immorality, affecting the freedom of marriage, trade with an enemy country in wartime, contract to break the law of a friendly foreign state, contract to deceive public activities and contracts to corrupt public life or pervert course of justice, contracts in restraint of trade, amongst others.

(5 marks for each correctly stated form in which illegality could relate to. Maximum of any 2 to be graded. Sub-Total: 10 marks)

**Mistake:** this is another factor that can render a contract void or ineffective. Mistake is when a party or the parties to a contract enter into a contract under a mistaken belief as to the state of affairs regarding the contract.

(5 marks)

Mistake could relate to the:

- **Subject matter of the contract:** e.g. in *Coutourier v. Hastie* (1856), parties agreed on the sale of a cargo of wheat while unknown to them, the wheat was no longer in existence. The contract was declared void for mistake.
- **Identity of the other party:** in *Cindy v. Lindsay* (1878), a rogue called Blenkarn made an order for handkerchiefs from Lindsay and signed the order to make it look as if it was from Blenkiron & Co, a reputable firm. Lindsay sent the items to Blenkarn who in turn sold to Cindy who in turn did not pay for it. The court held the original contract void for mistake of identity of the other party.
- **Mistake in signing of written documents**
- **Mistake in recording agreements**

(5 marks for each correctly stated form in which illegality could relate to. Maximum of any 3 to be graded. Sub-Total: 15 marks) Grand Total: 30 marks

16. It is the peculiarity of insurance contract that the insurance agent acts for both the insurer and the insured at different stages in the life of the contract. Discuss any five (5) circumstances under which the insurance agent will be deemed and taken to be the agent of the insurer.

## Solution

An insurance agent will be deemed and taken to be the agent of the insurer in the following circumstances.

- when he has express authority from the insurer to receive and handle proposal forms
- when the agent handles the form according to a previous course of business with the insurers and within an implied authority that has arisen
- when the Agent is instructed by the insurers to ask questions and complete the answers on a proposal form. The agent will be taken to be the insurer's agent even if there is a contrary declaration
- when the agent surveys and describes the property on the insurer's behalf
- when the agent acts without express authority and the company either ratifies his action or has ratified such action in the past
- where the agent has express or implied authority to collect premium.

(3 marks for stating each circumstance, 2 marks for correct explanation of the stated circumstance and 1 mark for correct scenario example. Sub-Total: 6 marks per circumstance. Maximum of 5 circumstances to be graded. Grand Total: 30 marks)

- 17(a) Define "conditions" in an insurance contract. (2 marks)
- (b) How is a condition in insurance contract different from a condition in general contract? (2 marks)
- (c) Attempt a general classification of conditions in insurance contracts. (4 marks)
- (d) What is the effect of breach of:
- i. condition precedent to the contract (7 marks)
  - ii. condition precedent to liability (6 marks)
  - iii. collateral (or mere) condition (4 marks)
  - iv. a suspensive condition or "clause" describing the risk. (5 marks)

## Solution

- (a) Condition in an insurance contract are terms other than warranties that impose an obligation on the insured. (2 marks)
- (b) Condition in insurance contract is a term other than warranty that impose obligation on the insured, the breach of which will not lead to the end of the contract; while in a general contract, a condition is a fundamental term of the contract, the breach of which will lead to end of the contract. Condition in general contract is like warranty in insurance contract. (2 marks)
- c. Conditions in insurance may be generally classified as:
- Condition precedent to the contract (1 mark)

- Condition precedent to liability (1 mark)
  - Collateral conditions (or mere conditions) (1 mark)
  - Suspensive conditions or “clauses describing the risk”. (1 mark)
- d. The effect of breach of:
- i. Condition precedent to the contract
    - if not fulfilled, the contract is void abinitio (3½ marks)
    - if condition relates to a continuing obligation and it breached, cover and contract will terminate automatically (3½ marks)
  - ii. Condition precedent to liability
    - the insurer may avoid the particular claim (3 marks)
    - the policy as a whole is not avoided and remains in force (3 marks)
  - iii. Collateral (or mere) condition
    - the insurer may not avoid the policy or the claim, but may claim damages (4 marks)
  - iv. Suspensive condition or “clause describing the risk”
    - cover is suspended for as long as the insured fails to comply with the condition, but resumes if and when he starts to comply with it again (5 marks)
- 18(a) Explain “frustration” as related to discharge of a general contract. (4 marks)
- (b) How may “frustration” end a contract? (16 marks)
- (c) What effects can “frustration” have on a contract? (10 marks)

### Solution

- a. Frustration, as related to discharge of a general contract, is a situation which makes a contract incapable or impossible of performance for reasons of illegality, futility or some other unexpected turn of events after the contract was made. The effect of frustration is to release both parties from their obligation. (2 marks for each correctly stated explanation. Maximum of 2 points to be graded. Total: 4 marks)
- b. The doctrine of frustration terminates or ends a contract in the following ways:
- Change in law or by operation of law (e.g. *Belly v. De Crespigny*)
  - Destruction of a thing necessary for performance of the contract (e.g. *Taylor v. Caldwell*)
  - Non-occurrence of an event on the contract depends (e.g. *Krell v. Henry*)
  - Commercial purpose of the contract frustrated (e.g. *Metropolitan Water Board v. Dick Kerr & Co*)
  - Death or personal incapacity (e.g. *Condor v. the Borron Knights*)

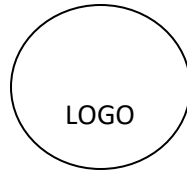
**(2 marks for each correctly stated manner. 2 marks for correct explanation of the stated manner, with/without example. Maximum of 4 manners to be graded. Sub-Total per manner - 4 marks.  
Total: 16 marks)**

c. The effects that frustration can have on a contract are:

- all sums paid before frustration can be recovered
- money payable before frustration is no longer payable
- a party may claim or keep from what he has already been paid a reasonable sum for any expenses he has incurred before frustration
- where a party has conferred a benefit, other than payment of money on the other party, he may recover a reasonable sum in compensation.

**(3 marks for each correctly stated effect. 2 marks for correct explanation of the stated effect, with/without example. Maximum of 2 effects to be graded. Sub-Total per manner -5 marks.**

**Total: 10 marks)**



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D10  
COMMERCIAL INSURANCE PRACTICE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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

## D10 - COMMERCIAL INSURANCE PRACTICE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate:	0%
Highest Score:	33%
Lowest Score:	33%
Average Score:	33%

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

The candidate was able to respond to the question correctly. 80% success was achieved.

**Question 2**

The candidate failed to list out general exceptions in motor insurance.

**Question 3**

The candidate managed to mention salary as basis for calculation of sum insured for key man insured therefore scoring low.

**Question 4**

It was difficult for the candidate to mention risk management service and claims handling process as additional services a broker renders to commercial insurance clients.

**Question 5**

The candidate was able to mention the benefits that loss of use extension gives to a commercial insurance industry.

**Question 6**

The candidate scored very low. He did not know the possible influences on the risk management of liability risk.

**Question 7**

The candidate struggled to earn 50% of the mark obtainable under this question.

**Question 8**

The question was not attempted.

**Question 9**

The candidate poorly attempted the question.

**Question 10**

The candidate scored high on this question.



**Question 11**

The candidate performed very high on this question.

**Question 12**

The candidate did perfectly well on this question by scoring 100%

**Question 13**

The candidate did not know basic features in a standard fire policy.

**Question 14**

The question was on circumstances that insurers will pay claim on a bond insurance. The candidate did well by scoring 70%.

**Question 15**

The question was not attempted by the candidate.

**Question 16**

The question was not attempted by the candidate.

**Question 17**

The question was not attempted by the candidate.

**Question 18**

The candidate did not understand the question and thus performed very woefully on it.

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

Performance was below average.

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

Candidates should give more attention to studying for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,
  - a. Who is a “promoter”? **(4 marks)**
  - b. Mention any three (3) documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application. **(6 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)**

b) 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)**

2. Motor insurance policy has general exceptions, enumerate any four (4) of these exceptions.

### Solution

The following are the general exemptions in Motor Insurance:

- claim procedures
- subrogation
- contribution
- roadworthy condition
- arbitration
- misrepresentation and non-disclosure
- cancellation
- insurers' right
- keeping vehicles in road worthy condition

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

3. On what basis is the sum insured for keyman insurance cover calculated?

### Solution

The sum assured for keyman insurance cover is calculated typically on a **multiple of profit, salary and possibly turnover**.

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

4. Mention two (2) additional services that insurance brokers often offer the commercial insurance client.

### Solution

The additional services that insurance brokers often offer the commercial insurance client are:

- i) risk management services (all types of risks)
- ii) claims handling process

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

5. Briefly explain the benefits of having loss of use extension in a commercial insurance policy.

### Solution

The benefits of having loss of use extension in a commercial insurance policy is that the extension extends the policy to cover some or all of the leasing or fire charges if the proposer is without the vehicle following additional damage, fire or theft.

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

6. Enumerate any four (4) possible influences on the risk management of liability risks in commercial insurance.

**Solution**

Four (4) possible influences on the risk management of liability risks in commercial Insurance are:

- i) workplace litigation
- ii) quality control
- iii) accreditations
- iv) claims experience
- v) surveys

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

7. Mention any four (4) section of cover likely to be offered under a banker's blanket bond?

**Solution**

The sections of cover likely to be offered under a banker's blanket bond are:

- i) infidelity/dishonesty of employees
- ii) valuable property transit risk
- iii) forged cheques
- iv) counterfeit currency
- v) damage to premises and contents

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

8. What are the two (2) rating basis for self-drive hire car policies?

**Solution**

The two rating basis for self-drive hire car policies are:

- i) an annual policy for the operator
- ii) a short period policy for hirer(s)

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

9. Under commercial vehicle insurance, there are physical hazards which will be considered by the underwriter before granting cover. Name any four (4) of these.

### **Solution**

The physical hazards which will be considered by the underwriter before granting cover under commercial vehicle insurance are:

- i) details of drivers
- ii) details of the vehicles
- iii) the use of the vehicle
- iv) the area of use
- v) the length of journeys

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

10. For insurance companies to allow a discount off the theft rates, there must be some favourable features. State any two (2) of these features.

### **Solution**

To allow a discount off the theft rates, there must be the following favourable features which are:

- i) intruder alarms
- ii) CCTV
- iii) strongrooms

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

11. Who are the three (3) main parties that interact in the commercial Insurance market? Mention their categorization and also what the categorization imply.

### **Solution**

The main parties that interact in Commercial Insurance Market are

- i) Buyers - Commercial Client (4 marks)
- ii) Sellers - Commercial Insurers (3 marks)
- iii) Brokers - The Intermediaries (3 marks)

12. What type of business interruption cover would you recommend for the following business?

- a. Solicitors
- b. Cardboard box manufacturer
- c. Leisure club with retail factices
- d. Commercial property owner

## Solution

Types of business interruption cover recommended for the different trade are

i) Solicitor	-	Gross fee	(2½ marks)
ii) Cardboard box manufacture	-	Gross profit	(2½ marks)
iii) Leisure club with retail facilities	-	Gross Revenue	(2½ marks)
iv) Commercial property owner	-	Gross Rentable	(2½ marks)

13. Enumerate four (4) basic features in a standard fire policy.

## Solution

The basic features in a standard fire policy document are

- i) Insurance identification
- ii) Operative clause
- iii) Schedule
- iv) Policy conditions
- v) Extension/clauses
- vi) Exclusions

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

14. Enumerate any two (2) type of circumstances that insurers are likely to pay a claim on a bond insurance issued by the insurer.

## Solution

The insurer will agree to pay a sum of money if the:

- i) bondholder fails to perform a specific duty
- ii) bondholder fails to perform a duty properly
- iii) subject of the dishonest i.e. the bond has similarities to fidelity guarantee covers

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

## Part II

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

Each question carries 30 marks.

15(a) Latent Defects Insurance was first introduced by French Insurers during the 1980s. As a professional underwriter, state and explain the four (4) situations that can lead to a loss if you are to underwrite a business placement on building in the course of erection. (20 marks)

- (b) State and explain any two (2) from the available latent defects cover for Houseowner Comprehensive Insurance policy. (10 marks)

### **Solution**

- (a) The four (4) situations that can lead to a loss if you are to underwrite a business placement on building in the course of erection under latent defects insurance are:

- i) poor reinforcement in floor slabs
- ii) roof membrane laid incorrectly
- iii) absence of wall tiles
- iv) lack of movement joint

(3 marks for each correctly stated situation. 2 marks for correct explanation. Total: 5 marks on each point. Sub-Total: 5 marks. Grand Total: 20 marks)

- (b) The available defects cover for Houseowner Comprehensive Insurance policy are:

- i) ingress of water
- ii) structural defects
- iii) subsidence, landslide or heave
- iv) threat of imminent collapse repairing immediate remedial works to prevent damage

(3 marks for each correctly stated situation. 2 marks for correct explanation. Total: 5 marks on each point. Sub-Total: 5 marks. Grand Total: 10 marks)

- 16(a) There are different methods of rating risks by insurance companies to arrive at an equitable premium that will be enough to compensate the insured in the event of a claim during the insurance year. Enumerate any two (2) methods on which each of the following risks can be rated:

- i. Goods-in-Transit Cover
- ii. Money Insurance Cover
- iii. Glass Insurance Cover

(18 marks)

- (b) Like ordinary insurance cover, reinsurance is an annual contract and insurance companies usually apply ahead for the renewal of their reinsurance covers, explain any two (2) underwriting factors that will guide a reinsurance company before the insurance company renewal request will be granted. (8 marks)

- (c) If the reinsurance company discovers that the business relationship with the insurance company in (b) above is not profitable enough, briefly mention any two (2) options available to the reinsurer. (6 marks)

## Solution

(a) Method on which the stated risks below can be rated are:

i) Goods-in-Transit Cover

- rate on the total value of goods-in-transit per annum
- rate on maximum value of a load per vehicle
- rate as flat premium per vehicle

ii) Money Insurance Cover

- rate on annual amount of cash in transit
- rate on money in safe
- rate on money in the custody of security companies

iii) Glass Insurance Cover

- rate on the contents sum insured
- rate on the specific measurements of different types of glasses
- rate based on the width of the shop front
- rate on the building sum insured

**(3 marks for each correctly stated method. Maximum of 2 points to be graded per cover type. Sub-Total: 6 marks. Total: 18 marks)**

(b) Some underwriting factors that will guide a reinsurance company before the insurance company renewal request will be granted are the insurance company's:

- performance during the last twelve months
- large claims experience
- quality of staff in the claims and underwriting departments

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

(c) Two options available to the reinsurer are

- reinsurer can refuse to renew the cover
- reinsurer can renew with reduced cover
- reinsurer can renew but increase insurance company's net retention

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

17 Olowolowo Company Limited recently built its head office at Ikorodu Road, Lagos, Nigeria at the cost of ₦75,000,000.00. The company then approached Adequate Insurance Company for a Fire and Special Perils Insurance Cover with a sum insured of ₦60,000,000.00 on the building for reasons not disclosed to the insurance company, who assumed risk without a pre-loss survey.

At renewal, Messrs. Adequate Insurance Company in its renewal notice advised Messrs. Olowolowo to renew the policy on current market value without also disclosing any reason to the insured. The insured instructed, in



their response that the policy should be renewed on existing basis and this was effected by the insurer.

During the renewal period of insurance, a claim occurred to the tune of ₦18,000,000.00.

As the claim handler,

- a. list four (4) areas of the policy document that you will check to ascertain Adequate Insurance Company's liability. (12 marks)
- b. calculate the expected liability of Adequate Insurance Company to Olowolowo Company Limited. (14 marks)
- c. what could be responsible for the disparity between the cost of claim reported and the actual cost of indemnified claim? (4 marks)

### Solution

- a) The areas of the policy document that I will check to ascertain Adequate Insurance Company's liability are:
  - i. evidence of premium received
  - ii. date of payment to check whether the claim had occurred before the payment of premium
  - iii. period of insurance to check that the claim falls within this time
  - iv. name of the insured to make sure that the building is owned by the insured that policy covers
  - v. address of the building to confirm that it was the same building covered by Adequate Insurance Company(3 marks for each correctly stated option. Maximum of 4 points to be graded. Total: 12 marks)
- b) The expected liability of Adequate Insurance Company to Olowolowo Company Limited is:

Actual Value	= N75m	(2 marks)
Sum Insured	= N60m	(2 marks)
Claim Reported	= N18m	(2 marks)
Claim Liable	= <u>N60m</u> * N18m	(4 marks)
	= N14,400,000.00	(4 marks)
	N75m	
- c) The issue that is responsible for the disparity between the cost of claim reported and the actual cost of indemnified claim is the fact that Messrs. Olowolowo Company Limited did not insure the subject matter of insurance (building) for the actual market/replacement value. Therefore, there was under-insurance at play, hence average had to be applied. (4 marks)

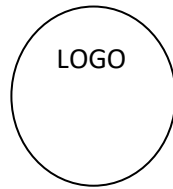
18. The main intent of the employers' liability cover is to insure the employers against the legal liability they have to their employees. However, employers' liability can be extended to cover the insured's workers who are not employees.
- a. Before this extension can be effective, the Insured must satisfy some conditions that make their workers qualify as employees. Enumerate any five (5) of these conditions.
  - b. Under Employer's Liability (Compulsory Insurance Act (1969), some person(s) are exempted to be an employee of the Insured? Who are these persons?

### **Solution**

- a. Employers' liability can be extended to cover the insured's workers who are not employees subject to the insured satisfying some of the conditions stated below:
  - anyone on voluntary works for the insured
  - persons hired or borrowed by the insured under an agreement by which the person is deemed to be employed by the insured
  - self-employed persons
  - persons employed under labour-only sub-contracts
  - labour masters and persons supplied by them
  - persons engaged on work experience or similar schemes

(3 marks for any correctly stated point. Maximum of five (5) points from the above.  
Total: 15 marks)
- b. Under Employer's Liability (Compulsory Insurance Act (1969), the following persons are exempted to be an employee of the Insured:
  - Employees who are insured's family members
  - Employees of nationalized industry
  - Employees of police authority
  - Employees of local authority

(5 marks for any correctly stated persons. Maximum of three (3) persons from the above. Total: 15 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D11  
PERSONAL INSURANCE PRACTICE**

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# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## D11 - PERSONAL INSURANCE PRACTICE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

### Chief Examiner's Summarized Statistics

Pass Rate:	53.19%
Highest Score:	76%
Lowest Score:	01%
Average Score:	45.40%

### Breakdown Updates

#### **Question 1**

About 47% of the candidates that attempted this question scored above average. Some candidate did not have the knowledge of the circular from the Commission. Candidates are encouraged to get themselves familiar with directives from the Regulator.

#### **Question 2**

Not up to 15% of the candidates scored above average. Candidates found it difficult to state the level of competition in the market objective of the company and the actuary's advice as factors that can reduce office premium. Major business objectives were poorly treated.

#### **Question 3**

A well attempted question; about 66% of the candidates scored above average. Candidates were able to list out and explain forces that influence insurance company in a macro environment.

#### **Question 4**

More than 72% of the candidates scored above average they defined marketing well and explained the six stages of marketing of insurance product.

#### **Question 5**

A poorly answered question; less than 33% of the candidates scored above average. Some candidates still could not state the fact of the cause in kings and queen granaries case despite its popularity.

#### **Question 6**

45% of the candidates scored above average though some candidates could not explain current cases.

#### **Question 7**

About 50% of the candidates performed well. Features of pre-loss surveyor's reports were not property explained.

#### **Question 8**

Mass failure was recorded in this question; not up to 10% of the candidates scored average mark. C

#### **Question 9**

About 20% of the candidates scored above average mark in a question that is supposed to be a bonus question. Candidate should be able to give historical background of travel insurance.

**Question 10**

Poorly attempted question; about 30% scored above average. Some candidates found it difficult to state important aspects of the definition of an accident in personal accident policy.

**Question 11**

More than 60% scored above average because of the simplicity and popularity of the question. It was not difficult for candidates to list contents of a cover note. Practical experience must have contributed to the good marks recorded

**Question 12**

Reinsurance question is getting good attention these days; about 60% of the candidates scored above average. Few candidates were confused on the difference between excess of loss and stop loss cover.

**Question 13**

Candidates were familiar with this question and about 75% of the candidates scored above average. Very few candidates could not state in full the insurers' right following a claim.

**Question 14**

About 68% of the candidates scored well; only few candidates stated the membership of CILA or ILAN in the definition of who a loss adjuster is.

**Question 15**

The question was to test the knowledge of candidates in the area of perils and exclusions of a building insurance. Only 35% scored above average.

**Question 16**

Cheap and popular question but surprisingly only 60% of the candidate scored above average. Majority of the candidates were able to state level of cover under third party fire and theft but did not know what will make socially excluded people purchase insurance.

**Question 17**

Only 10% of the candidates scored above average.

**Question 18**

Candidates did not attempt this question; only one candidate attempted it with a very woeful performance.

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

Candidates should be able to do better if they give more attention to their studies. Employers should lay more emphasis on CIIN certificates and reward employees that pass the examination, thereby encouraging them to study the more.

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

Tutorial will help candidates.

## Part I

**Answer ALL questions in Part I.**

**Each question carries 10 marks**

1. 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 on their websites as stated in the circular.

### Solution

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)

- 2(a) State any two (2) factors that can reduce an office premium. (4 marks)  
(b) Enumerate any three (3) major business objectives. (6 marks)

### Solution

a) The factors that can reduce an office premium are:

- the level of competition in the market place for a particular insurance
- the objectives of the company
- actuary's advice

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

b) The major business objectives are as stated and briefly explained below:

- Survival
- Maximum Current Portfolio
- Maximum Current Revenue
- Maximum Sales Growth
- Maximum Market Skimming
- Product Quality Leadership

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

3. What are the societal forces that influence insurance company in a macro environment? Briefly enumerate and explain any four (4) of these forces.

### Solution

The societal forces that influence insurance company in a macro environment are:

- **demographic:** the company must consider the overall population since the market is drawn from the population. The Company will be interested in the size of the population, age distribution, births, marriages, e.t.c.
- **economic:** insurance company must consider changes in purchasing power. Inflation must be considered too. The increase of debt among the population can affect the demand for debt-related insurance. In recession, a high level of debt can lead to increase in fraudulent claims.
- **physical:** changes in climate can affect the profitability of personal insurance in the recent years. Unusual rise in hot weather can lead to rise in subsidence claims.
- **technological:** there has been huge changes in transaction of personal insurance in the recent years. Today, quotations are done electronically. Technology has improved business effectiveness and efficiency.
- **socio-cultural:** changes in society can affect the demand for and supply of personal insurance. For example, an increase in car vandalism can increase demand for car insurance.
- **political/legal:** legislation which make insurance compulsory such as third party motor insurance, professional indemnity, e.t.c. create automatic demand for the specified type of insurance.

(1½ marks for any correctly stated factor. 1 mark for correct explanation. Maximum of 4 to be graded. Total: 10 marks)

- 4(a) Define the term “marketing” as it is can be generally defined. (4 marks)
- (b) Identify the six (6) stages of marketing of insurance products as suggested by A. Meidan. (6 marks)

### Solution

a) Marketing is the **management process** responsible for **identifying, anticipating and satisfying customer requirements efficiently and profitably.** (4 marks)

b) The six (6) stages of marketing of insurance products as suggested by A. Meidan are:

- identify the customer’s needs and wants
- develop appropriate products to meet the insurance needs
- determine the prices for the products developed



- advertise and promote the products to potential customers
- organize suitable distribution and selling channels
- forecast and research future market needs

(1 mark for any correctly stated stage. Total: 6 marks)

5. State the fact of the case in *King and Queen Ganaries Case* and the insurance principle behind it.

### Solution

The facts of the case in *King and Queen Ganaries Case* are:

- it is also known as the *North Mercantile v. Liverpool London and Globe (1877)* case
- Messrs. Rodocanache had stored grains at a granary owned by Barnett
- Messrs. Rodocanache had insured the grains as owners but the grains were also insured by Barnett, the granary keeper as he had a strict liability for it by the custom of his trade
- The grains were damaged by fire and the claim was settled by Barnett's insurer
- After settling the claim, Barnett's insurer sought to recover from Rodocaneche's insurer
- The court held that contribution should not apply as the interests were different – one as bailee and the other as owner.

(2½ marks for each correctly stated fact of the case. Maximum of 4 to be graded. Total: 8 marks)

The insurance principle behind the case is "contribution".

(2 marks)

(Grand Total: 10 marks)

6. What do you understand by "concurrent causes"?

### Solution

Concurrent causes are when two or more perils operate at the same time to bring about a loss. For example, a fire and a storm. In instances where the perils are independent and either one could have caused the liable, the insurers are liable for the part of the loss attributable to the insured perils.

In instances where the perils are interdependent, i.e. neither one could have caused damage on its own, the combination of the two could have led to a loss, then the insurers liability will depend on whether there is a combination of an insured peril and an excepted peril or a combination of both.

In a situation where one peril is an insured peril and the other is an excluded peril, the insurer has no liability; and in another situation where one of the perils is an

insured peril while the other one is uninsured, the insurer is liable to pay the whole claim.

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

7. State and briefly explain the four (4) features of a pre-loss surveyor's report.

### Solution

Four (4) features of a pre-loss surveyor's report are:

- **full description of the risk:** this will include the location, construction and occupation of the property, together with details of security measures that exist
- **overall assessment of the level of risk:** here, the surveyor will give an opinion as to whether the risk is good or bad
- **recommendations for risk improvements:** this will state the steps that the proposer will be asked to take to protect the risk and prevent future losses. This is very important where the survey is being carried out because of a poor loss history/ratio
- **view of the adequacy of the sum insured:** provides the opportunity for the insurer to identify any under-insurance.

(1½ marks for any correctly stated factor. 1 mark for correct explanation. Maximum of 4 to be graded. Total: 10 marks)

8. Mention, any two (2) - each, of extensions and exclusions to credit cards insurance.

### Solution

Extensions to Credit Cards Insurance are:

- **emergency cash:** a particular amount may be advanced interest free up to ten (10) days if the insured is away from home following loss of credit cards
- **card registration:** insurers will keep a record of all cards. In the event of loss, issuers will be notified and replacement cards will be arranged
- **change of address:** insurers will notify all card issuers of any change of address

(1½ marks for any correctly stated factor. 1 mark for correct explanation. Maximum of 2 to be graded.

Total: 5 marks)

Exclusions to Credit Cards Insurance are:

- unauthorized use of the credit card by one of the insured's household
- breach of the issuers terms and conditions of use
- loss where the insured's actions have contributed to the fraudulent use of the credit card

(1½ marks for any correctly stated factor. 1 mark for correct explanation. Maximum of 2 to be graded.

Total: 5 marks)

9. Explain briefly the historical background of travel insurance.

### **Solution**

Travel insurance was first provided for the benefit of businessmen on overseas trips. Originally, cover was limited to personal accident and loss of or damage to baggage. Following the worldwide expansion of air travel and the growth in popularity of holidays abroad, demand for insurance increased and the scope of cover was widened. The development of packaged holidays has further increased demand.

Most travel insurance was originally written by tour operators where they usually hold a master policy with a company, with set out terms of insurance in their brochures.

There is now a whole range of suppliers including traditional intermediaries, banks, motoring organizations, sports and professional associations as well as insurers selling directly to the public. Competition among the providers in the market has also led to various innovations in cover, so that most policies now include some extensions to the basic cover.

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

10(a) What are the important aspects of the definition of an accident used in a personal accident policy? (6 marks)

(b) Why is it necessary to impose exclusions in a personal accident policy? (4 marks)

### **Solution**

(a) The important aspects of the definition of an accident used in a personal accident policy are:

- external
- violent
- accidental from the insured's perspective.

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

(b) It is necessary to impose exclusions in a personal accident policy because not all risk of accident or sickness are insurable. Generally, exclusions relate to those occurrences that are not strictly accidental and are within the insured's control. Examples of such are willingly engaging in hazardous activities or those accidents/sicknesses that arise from fundamental risks such as war.

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

11. What are the contents of a cover note? Enumerate any five (5).

### Solution

The contents of a cover note are:

- a statement to the effect that the insured is held covered in the terms of the insurer's usual form of policy for the risk
- date and time of commencement of cover
- name and address of the insured
- period of validity – usually 30 days
- make, model, engine size, value and registration number of the vehicle
- use covered 'any special terms applicable
- reasons for issuing the cover note (new business, alteration, e.t.c.)
- details of the issuing intermediary
- certification wording contained in the permanent certificate.

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

12. What is non-proportional treaty? Explain the two types.

### Solution

Non-Proportional treaty is a method of reinsurance that is based on the losses rather than the sum insured where the reinsurer agrees to pay an amount over and above that which the ceding office agrees to pay as the initially stated amount. (2 marks)

There are two types which are:

- **excess of loss:** here the cedant pays the first stated amounts of losses arising from an insured event and the reinsurers pays the amount in excess of the first stated amounts e.g. N45,000,000.00 in excess of N5,000,000.00
- **stop loss:** this method differed from other categories of reinsurance in that it does not deal with individual risks or events, instead, it is aimed at preventing wild fluctuations in an insurer's loss ratio over a particular period of time, usually, an underwriting year. When the loss ratio exceeds the figure agreed in the treaty the reinsurer pays the amount in excess. However, to encourage careful underwriting by the ceding office, the cedant takes a certain percentage of the cover provided by the reinsurer (which is usually much lower than that taken by the reinsurer).

(2 marks for correctly stated type. 2 marks for any full and correct explanation. Sub-Total: 4 marks)

(Grand Total: 10 marks)

13. What are the insurer's right following a claim? State and briefly explain any four (4)

### Solution

The insurer's right following a claim are:

- **right to investigate the loss:** insurers must be allowed to investigate the circumstances of a loss to determine if the loss falls under the terms and conditions of the policy
- **conduct and control of claims:** insurer can take complete control of the defence or settlement of any claim
- **total loss and salvage:** where an insurer has settled a claim on total loss basis, the insurer has the right to take over the salvage
- **recovery of loss property:** if after settlement of a claim the subject matter is recovered, it becomes the property of the insurer
- **contribution:** in cases the insured has more than one insurer, the insurer under a contribution condition can pay a rateable proportion of the loss
- **subrogation:** an insurer having agreed to settle a claim can avail all the tight of the insured and enforce rights against the third party.

(1½ marks for any correctly stated right. 1 mark for correct explanation. Sub-Total per stated right = 2½ marks. Maximum of 4 to be graded. Total: 10 marks)

14. Who is a loss adjuster? and what are the advantages of employing a loss adjuster?

### Solution

A loss adjuster is an independent intermediary whose function is to assist in settling a valid claim quickly and fairly. There is a Chartered Institute of Loss Adjuster (CILA) in UK and an Institute of Loss Adjuster of Nigeria (ILAN) in Nigeria. The loss adjusters investigate claims on an insurer's behalf, for which they will be paid a fee by the insurer concerned.

(2 marks)

**Some of the advantages of employing a loss adjuster are:**

- they utilize their experience in handling claims professionally and with greater efficiency than the insurer's claims team would ordinarily have
- they have the advantage of current market practices at their disposal and use
- they utilize immediate steps in minimizing the loss or damage
- they have other required experts on their contact list/payroll such that they can have access to their expertise at more discounted costs than the insurer would ordinarily have

- policyholders often feel more comfortable dealing with an independent intermediary rather than an official of the insurer.

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

## Part II

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

Each question carries 30 marks.

15. Draw a table showing the standard perils and the exclusions of a building insurance.

### Solution

Perils	Exclusions
Fire, Lightening, Explosion and Earthquake	Any gradually operating clause
Riot and civil commotion, strikes, labour or political disturbances, malicious damage or vandalism	In respect of malicious damage when the property is unoccupied or unfurnished for a period of more than 30 days
Storm and flood	Losses caused by the insured or household members employees and paying guests/tenants
Falling trees or branches	Damage to gates, hedges or fences
Water or oil escaping from any fixed water or heating installation, washing machines and other domestic equipment	Damage caused by frost. Some insurers also exclude damage caused by subsidence or landslip
Theft or attempted theft	Damage to walls, gates and fences
Collision by aircraft or other aerial devices or anything dropped from them or vehicles or animals	Damage when the property is unoccupied or unfurnished for a period of more than 30 days
Subsidence, ground heave or landslips	Damage resulting from rusting, corrosion, or general wear and tear
Falling television or radio receiving aerials, aerial fittings and masts	Damage when the property is unoccupied or unfurnished for a period of more than 30 days
	Loss or damage caused by insects, vermin and pets
	Excess amount or loss caused by: - normal shrinkage or settlement - faulty workmanship design or material

	during demolition, structural alteration or repairs - coastal or riverbank erosion - movement of solid floor slabs unless the foundations are damaged at the same time - fixing oil tanks, septic tanks, swimming pools, tennis courts, gates, fences, terraces, patios, footpaths and drives unless the dwelling house is damaged at the same time
--	--

(3 marks for each correctly stated peril or exclusion. Maximum of 5 to be graded under each term. Sub-Total under each term = 15 marks. Grand Total: 30 marks)

- 16(a) Provide a useful summary of at least six (6) level of covers available in respect of a private motor insurance with third party fire and theft cover. (24 marks)
- (b) Give two (2) reasons why socially excluded people can be favourably disposed towards the purchase of insurance. (6 marks)

### Solution

- (a) A summary of the level of covers available in respect of a private motor insurance with third party fire and theft cover are:
- legal liability for death or bodily injury to third parties including passengers
  - damage to other vehicles and property belonging to others up to a pecified limit e.g. ₦1,000,000.00 in Nigeria
  - emergency treatment and hospital charges
  - claimants' costs and expenses of handling a claim
  - cover for vehicles anywhere in country/area of cover
  - indemnity for accidents which occur whilst the insured is driving a car that does not belong to the insured
  - indemnity to anyone who is driving or using the vehicle on the insured's order or with the insured's permission
  - indemnity to passengers, employers or business partners
  - legal costs incurred in the defence of a claim
  - limited cover for legal representation costs following prosecution for an offence which might give rise to a claim
  - damage caused to the vehicle as a result of fire, lightening or explosions and/or
  - loss or damage to the vehicle as a result of theft or attempted theft

(4 marks for each correctly stated and summarized level of cover. Maximum of 6 to be graded. Total: 24 marks)

(b) Socially excluded people can be favourably disposed towards the purchase of insurance because it is a:

- legal requirement as in the case of compulsory insurance
  - contractual requirement
- (3 marks for each correctly stated reason. Maximum of 2 to be graded. Total: 6 marks)

17. There are various policy extensions available to the insured as an adjunct to private car policy. State and fully explain any five (5) of the available extensions.

### Solution

The various policy extensions available to the insured as an adjunct to private car policy are:

- **young additional drivers:** insurers are always wary of young drivers who is shown as a member of the family and who is in fact the main driver of the insured vehicle. Insurers may therefore suggest that the driver takes out a policy in their own name and thus be able to earn an NCD (No Claim Discount) in his/her own name. A young driver, who indeed is an additional driver can come on the policy with payment of additional premium.
- **courtesy cars:** some insurers commit themselves in the policy to make available a courtesy car of a similar nature to the insured's own vehicle for a given period up to seven (7) days. It is usually available when the insured vehicle is under repairs. Courtesy cars are not available if the insured vehicle is stolen or if it is a total loss.
- **elections:** vehicles are usually used in connection with elections. Insurers will charge additional premium if the insured request that the policy should be extended to provide an indemnity to a candidate or an agent.
- **transport by sea and air:** if an insured hold a comprehensive cover extended for continental use, it will provide cover while the vehicle is on a car ferry. The policy can also be extended to cover transit by air.
- **racing, competitions, rallies and trials:** cover while a vehicle is being used for racing is provided by a few specialist insurers. Wide cover at little additional premium may be provided if a vehicle is driven in a rally with no special stages but cover will be restricted if rally is of international caliber with hazardous special stages.
- **breakdown cover:** it is increasingly becoming an additional benefit which motor insurers are offering in competition with the motoring organizations. Some insurers also provide telephone control centres at any time for



assistance. Insured pays for labour and parts used unless the breakdown is as a result of an accident covered by the policy.

- **joint policies:** insurers could be asked to issue policy in joint names and except additional premiums are paid, the following limitations will apply:
  - personal business will be confirmed to one person
  - drive other car extensions will be deleted except the policy covers at least the same numbers of the joint insured
  - personal accident benefit in comprehensive cover will be confined to one person or will be divided among members unless the policy covers at least the same numbers of the vehicles as there are joint insureds.

(3 marks for each correctly stated exclusion. 1½ marks for each correctly stated point under each exclusion. Maximum of 2 of such points to be graded per term. Sub-Total on correctly stated points per exclusion = 3. Maximum of 5 exclusions to be graded. Sub-Total per exclusion = 6. Grand Total: 30 marks)

18(a) In 2002, the ABI commissioned research to public attitude towards making fraudulent insurance claims. Give the two (2) revelations from this research work. (8 marks)

(b) What are the measures used by insurers in

- i. Nigeria to detect and prevent insurance fraud? (12 marks)
- ii. UK to detect and prevent insurance fraud? (10 marks)

## Solution

(a) The research revealed that:

- 7% admitted to having made a fraudulent insurance claim. This means that just over 3million people in the UK had committed insurance fraud
- Nearly half (48%) would not rule out making a fraudulent insurance claim in the future
- It also identified that it is possible to distinguish between two types of fraudsters – the premeditative fraudsters (i.e. those who take out policies with the specific intention of committing fraud, knowing that it is a crime) and the opportunistic fraudsters (those who are much more likely to be otherwise honest citizens, who do not really recognize that they are committing a criminal offence when inflating a claim that arises from a genuine event)

(4 marks for any correctly stated revelation. Maximum of 2 to be grade. Total: 8 marks)

(b) i. The method used by insurers in Nigeria to detect and prevent insurance fraud are:

- **Consult the Lead:** this is a platform created by the Nigeria Insurers Association (NIA) for members to inform the Association of claims reported to them. NIA will, upon receipt, circularize the information among the members and it is mostly used in motor insurance as at date.
- **National Insurance Industry Database:** this is a database created by the Nigeria Insurers Association (NIA) on Motor Insurance transactions, if the registration number of any vehicle is inputted into the database, it will show the names of the underwriters, this will enable the underwriter to discover if there is a multiple insurance cover on the vehicle.
- **Alternative Methods of Settlement:** insurers can choose to settle a claim in one of the following four (4) ways:
  - payment of money
  - payment for repairs
  - replacement
  - reinstatement

Insurers have found that where settlement is made other by payment of money to the insured, fraud is limited and costs are also kept down.

(3 marks for each correctly mentioned method. 1½ marks for each correct explanation under each method. Maximum of 2 points to be graded under each method. Sub-Total per method = 6. Maximum of 2 methods to be graded. Grand Total: 12 marks)

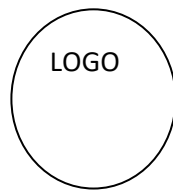
ii. **The method used by insurers in UK to detect and prevent insurance fraud are to deploy the use of:**

- **Claims and Underwriting Exchange (CUE):** any claim made under household and motor are recorded onto this database which is shared by all ABI members. It enables insurers to have access to review the claims history of an individual, Customers are made aware at the notification stage that such a check will be made, with the intention of discouraging fraudulent claim
- **Motor Insurance Anti Fraud and Theft Database (MIAFTR):** this was established in 1987. The purpose is to record all motor cars and motorcycles that have become a subject of total loss or have been stolen and not recovered. Here, insurers placing information on the register relating to a new claim will be advised if the vehicle/motorcycle, claimant or claimant's address have been recorded previously
- **Art Loss Register (ALR):** this was established in 1991 through collaboration between the insurance industry and the art world in response to increasing art theft. It is the world's largest private database of stolen and missing work of art. In the event of a claim, any insurer who is a member will record the loss on the register. The ALR team will then search auction house catalogues, and visit art galleries, dealers and museums.

- **Fraud Investigation Database (FIND):** with the help of the FSA and ABI, a new national online fraud investigation data base (FIND) has been developed by insurers. In addition, subscribing members of credit industry fraud avoidance scheme (CIFAS) are able to store and exchange information on suspect application, accounts or insurance claims.
- **Alternative Methods of Settlement:** insurers can choose to settle a claim in one of the following four (4) ways:
  - payment of money
  - payment for repairs
  - replacement
  - reinstatement

Insurers have found that where settlement is made other by payment of money to the insured, fraud is limited and costs are also kept down.

(2 marks for each correctly mentioned method. 1½ marks for each correct explanation under each method. Maximum of 2 points to be graded under each method. Sub-Total per method = 5. Maximum of 2 methods to be graded. Grand Total: 10 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D12  
LONG TERM BUSINESS**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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

## D12 - LONG TERM BUSINESS

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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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:	0%
Highest Score:	41%
Lowest Score:	41%
Average Score:	41%

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

The candidate did not understand the question; therefore, performance was very woeful.

**Question 2**

Candidate's knowledge of this question was shallow, hence performance was also woeful.

**Question 3**

Candidate's knowledge of this question was shallow, hence performance was also woeful.

**Question 4**

The question on presumption of death under the Pension Reform Act was meant to test the candidate's knowledge but the candidate performed woefully, which is an indication of lack diligent study.

**Question 5**

The candidate did not understand the question and did not do well on it.

**Question 6**

The candidate did above average because the question was understood.

**Question 7**

The different method of dealing with medium average lives eluded the candidate. Performance was poor.

**Question 8**

The candidate did not understand this question, hence performance was poor.

**Question 9**

The candidate understood the question and gave an excellent performance.

**Question 10**

Performance on this question was average indicating an understanding of the question.

**Question 11**

The candidate scored average on this question.

**Question 12**

No knowledge of life assurance premium tax relief hence performance was woeful.

**Question 13**

This was badly attempted/answered and it can be inferred that the candidate did not understand the question.

**Question 14**

This topic on reinsurance seems to be difficult for the candidate hence performance was poor.

**Question 15**

This question was badly answered and performance was poor.

**Question 16**

The candidate performed woefully on this question.

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

Performance was woeful.

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

We encourage candidates to devote more time to studying – more than to anything else. Studying the course materials/book is a must for success.

## **Part I**

**Answer ALL questions in Part I.**

**Each question carries 10 marks**

1. 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.

### **Solution**

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 major focus in the circular are:

- delivery of policy document
- claims.

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

- 2(a) Explain the conditions under which a mortgagee can successfully surrender a policy to the insurer for cash without the counter-signature of the mortgagor.
- (b) Explain how insurance companies treat surrender of reversionary bonus(es).

### **Solution**

2(a) The conditions under which a mortgagee can successfully surrender a policy to the insurer for cash without the counter-signature of the mortgagor are that if a policy is being surrendered by a mortgagee for cash, the counter signature will be required. However, the counter-signature will not be required if the mortgagee is surrendering the policy under its power of sale.

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

(b) Insurance companies treat surrender of reversionary bonus(es) by allowing a policyholder to surrender the whole or part of the reversionary bonus attaching to the policy for cash value which will be substantially lower than the declared reversionary value. The cash value will vary with age of the life assured (the value increasing with age) and the unexpired term of the policy (where appropriate). This is not a termination of policy and could be looked upon as an alteration since the policy will be endorsed to reflect the reduction.

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



- 3(a) Which three (3) types of life policy or extension in a life policy is incapacity possible? (6 marks)
- (b) State under which condition would make insurers waive the deferred period in incapacity claims. (4 marks)

### **Solution**

- 3(a) Incapacity claim is possible in a life policy or an extension under the following types of policy:
- income protection insurance
  - critical illness
  - waiver of premium extension
- (2 marks for each correctly stated policy. Maximum of 3 policies to be graded. Total: 6 marks)
- (b) The deferred period in incapacity claims would be waived by insurer if the policyholder, having received and recommenced work, becomes incapacitated again from the same cause that caused the initial incapacitation. (4 marks)
4. It sometimes happen that a life assured disappears and there is no evidence of death. The death is presumed after the passage of time.
- a. How has the Pension Reform Act 2004 as amended in July 2014 treated the issue of presumption of death of a life assured (employee) under a Group Life Policy?
- b. In the eye of the law, when is a person or life assured presumed dead?

### **Solution**

- a. The Pension Reform Act 2004 as amended in July 2014 treated the issue of presumption of death of a life assured (employee) under a Group Life Policy that a person or life assured is presumed dead after one year of disappearance from work. If a claim is then filed, the claim of the beneficiary on the presumed deceased employer should then be honoured?  
(3 marks for correctly stating the "one year" period; 2 marks for correct conclusion. Total: 5 marks)
- b. In the eye of the law, a person or life assured presumed dead after seven years if not being found (or disappearance) The claim filed by the beneficiary on the presumed deceased employer should then be honoured.  
(3 marks for correctly stating the "seven year" period; 2 marks for correct conclusion. Total: 5 marks)
5. When a life assurance policy is in arrears of premium payment and there is no surrender value, the policy lapses and the insurer comes off-risk. Explain the position of the policy if it has acquired surrender value though premiums are still in arrears.

## **Solution**

The position of the policy if it has acquired surrender value though premiums are still in arrears are that:

- the policy remains in force as long as the surrender value exceeds the total outstanding premiums and late payment charges
- the policy remains in force for one year and then the surrender value becomes payable with the death cover ceasing
- the policy is converted on the expiry of the days of grace (or after one year) to a paid-up policy for the appropriate reduced sum assured
- the policy continues in force until units are extinguished by mortality deductions and charges on a unit-linked policy.

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

6. Insurers underwrite group life schemes on a more lenient basis than individual policies. Evidence of health for example, is waived if the sum assured is less than the scheme's free cover limit. Cite any four (4) instances where evidence of health or other special treatment may be required in the underwriting of a group life scheme.

## **Solution**

Some instances where evidence of health or other special treatment might be required in the underwriting of a group life scheme are:

- group of advanced age
- groups engaged in hazardous occupation
- lives who were ill when the scheme started but who now desire to join
- all lives where the group is small
- lives for whom an exceptionally high sum assured is required (above the free cover limit)

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

7. List any five (5) different methods of dealing with under-average lives.

## **Solution**

The different methods of dealing with under-average lives are:

- granting limited covers
- applying exclusions
- charging monetary extra
- rating up
- applying debts

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

8. After assessing the risk presented by the proposer/life assured, the underwriter confirms satisfaction inherent in the risk by issuing a counter-offer called an acceptance letter. Enumerate the four (4) key features of the acceptance letter.

### Solution

If the underwriter decides to accept a risk, the underwriter may issue an acceptance letter. The key features of the acceptance letter will be:

- details of any special term
  - clarity that the office is not on risk until it has received the initial (first) deposit
  - explicitly state the period for which the offer is valid (say 14 or 30 days)
  - explicitly state the unique details of the life to be assured for easy identification
- (2½ marks for each correctly stated feature. Total: 10 marks)

9. (a) What is a proposal form? (2 marks)
- (b) Briefly discuss the common features of a proposal form for long term insurance businesses. (8 marks)

### Solution

a) A proposal form is a set of questions or questionnaire designed to elicit information from the proposer or life to the assured for the risk being proposed/presented for assurance. (2 marks)

b) The common features of a proposal form for long term insurance businesses are usually:

- section 1: identifies the life to be assured
- section 2: specifies the details of the contract
- section 3: gives details of the life risk.
- there is also a declaration portion which the proposer must sign asserting the truthfulness of the information provided
- it also contains a note on omission and misstatement of facts in compliance with long term insurance practice
- the declaration part is also required to be signed by the proposer; this gives the insurer permission to approach the proposer's attending physician for any further information
- the ownership of benefit section must also be completed if the policy is to be written on a "life of another" basis and a counter signature of the life assured is

required to ascertain that the person signing understands that the policy will be owned by the other, to whom all the benefits will be paid.

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

10. (a) Define "utmost good faith". (2 marks)  
(b) Define material fact. (2 marks)  
(c) State the facts that need no disclosure in a long term insurance contract. (4 marks)  
(d) What are the consequences of a breach of duty of disclosure? (2 marks)

### Solution

(a) Utmost Good Faith is defined as a positive duty to disclose, accurately and fully, all facts material to the risk being proposed, whether requested for or not. (2 marks)

b) Material Fact is defined in the Marine Insurance Act 1906 as every circumstance which would influence the judgement of a prudent insurer in fixing the premium or determining whether or not he will take the risk. (2 marks)

(c) The facts that need no disclosure in a long term insurance contract are:

- facts which the insurer already know or ought to know
- facts about which the insurer waives information
- facts which can be discovered where enough information has been given to provoke enquiry by the insurer
- facts which lessen the risk

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

(d) The consequences of a breach of duty of disclosure are:

- where the duty of disclosure is not observed, the insurer has the right to treat the contract as void provided the insurer can prove that a material fact was not disclosed and not for the insured to show that he has disclosed everything which is material
- the insurer's behavior is very crucial and it must not suggest that the insurer has lost interest or of given up its options of treating the contract as void

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

11. (a) Define Annuity. (2 marks)  
(b) List any four (4) different types of annuity. (8 marks)

## Solution

(a) Annuity is a contract to pay a set annual sum for an agreed period, often but not always during the lifetime of the annuitant in return for payment of a lump sum to the insurer. The sum payable is usually described as an annual amount but in practice, it may be paid as monthly, quarterly or half yearly payments. (2 marks)

(b) The different types of annuity are:

- immediate annuity
- deferred annuity
- temporary annuity
- annuity certain
- guaranteed annuity
- joint life and last survivor annuity
- increasing annuity
- capital protected annuity
- impaired life annuity

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

12. Life Assurance Premium Tax Relief for qualifying policies afford assureds opportunity to pay lower personal income tax. What condition must exist for a policy to qualify for premium tax relief?

## Solution

The condition that Life must exist for a policy to qualify for premium tax relief are:

- the policy must be on the life of the assured or spouse or civil partner
  - the premium must actually be paid by the assured or the spouse or civil partner
  - the tax payer must be resident in the country where the tax relief is being sought
  - the assured or spouse or civil partner must know that there is a limit on the total amount of premiums on which relief can be obtained in any one year
- (5 marks for each correctly stated condition. Maximum of 2 to be graded. Total: 10 marks)

13. The offer price of a unit trust is ₦1,000.00, while to sell before maturity is achieved at 5% off the offer price.

a. determine the bid price (2 marks)

b. calculate the surrender value of the unit trust of the trust has a total of 500,000 units (4 marks)

c. if the total units decreased to 50,000 and value now at ₦46,500,000.00, calculate the bid price. (4 marks)

## Solution

- a) Offer Price = ~~₦~~1,000.00  
Bid Price = ~~₦~~1,000.00 - ( 5% \* ~~₦~~1,000.00) (1 mark)  
= ~~₦~~950.00 (1 mark)
- b) Offer Price for total of 500,000 units to be surrendered = ~~₦~~1,000.00\*500,000  
= ~~₦~~500,000,000.00 (1 mark)  
Surrender Value = 0.95 \* ~~₦~~500,000.00 (2 marks)  
= ~~₦~~475,000.00 (1 mark)
- c) Total Units = 50,000  
Value = ~~₦~~46,500,000.00  
Bid Price =  $\frac{\del{₦}46,500,000.00}{50,000}$  (2 marks)  
= ~~₦~~930.00 (2 marks)

- 14(a) What are two(2) principal methods of reinsurance? (2 marks)  
(b) Enumerate the reasons for seeking reinsurance. (8 marks)

## Solution

- (a) Two principal methods of reinsurance are:  
• facultative reinsurance (1 mark)  
• treaty reinsurance (1 mark)
- (b) The reasons for seeking reinsurance are:  
• prevention of the effect of death strain on a portfolio  
• cushioning the effect of new business strain  
• building of retention capacity  
• ceding of excess capacity  
• maintenance of stability of the portfolio  
(2½ marks for each correctly stated reason. Maximum of 4 to be graded. Total: 8 marks)

## Part II

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

- 15(a) i. Explain what a proprietary company is. (5 marks)  
ii. How is profit shared in a proprietary company? (10 marks)
- (b) i. What is a mutual company? (5 marks)

ii. How is profit shared in a mutual company?

(10 marks)

### Solution

a) (i) A proprietary company is a limited liability company that is owned by its shareholders.

(2 marks for correct definition. 1½ marks for each correct explanation/scenario based example. Maximum of 2 to be graded here. Sub-Total: 3 marks. Grand Total: 5 marks)

(ii) In a proprietary company, profits are shared between shareholders (2½ marks) and with profit policy holders (2½ marks). In such instances, the shareholders receive what is called dividend (2½ marks), while the with-profit policyholder receives what is called bonus (2½ marks).

(Marks are as inserted above. Total: 10 marks)

b) (i) A mutual company is a company that is owned by the policyholders (2½ marks) and the profit or loss of the company is shared by only the with-profit policyholders (2½ marks).

(Marks are as inserted above. Total: 5 marks)

ii) In a mutual company, profits are shared by the with-profit policyholders (5 marks) through bonuses in line with the quantum of holdings each policyholder has/to the fortune of the Company. (5 marks)

(Marks are as inserted above. Total: 10 marks)

16. Write short notes on the following, as it relates to long term insurance business:

- |                          |           |
|--------------------------|-----------|
| a. Medical Factors       | (6 marks) |
| b. Medical Examination   | (8 marks) |
| c. Chief Medical Officer | (8 marks) |
| d. Medical Conditions    | (8 marks) |

### Solution

a. **Medical Factors:** these are medical information or consideration to be used in assessing the risk being proposed. There are two ways of obtaining medical factors in a long term insurance business. The first is through the general practitioner's report and the second is through medical examination. The underwriter can use either, or both, and the decision of which to use depend on the circumstance of each case. The underwriter depends on the proposal form, having obtained permission therefrom, then approaches any medical physician/doctor who has ever attended to the life to be assured for information regarding the health status if the life to be assured.

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

b. **Medical Examination:** The underwriter may decide that they need a medical examination of the life proposer in order to be able to assess the risk properly. It will then request that one of the retained medical doctors in the proposer's area to conduct the examination. The life proposer will be directed to contact the doctor and book an appointment for the examination. The doctor will conduct the examination and send the report directly to the underwriter. The underwriter/life office may ask the doctor in advance to pay particular attention to certain aspects of the proposer's health. For his efforts, the doctor is paid a fee based on the schedule of agreed fees for the examinations carried out.

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

c. **Chief Medical Officer:** this is usually a consultant physician of high professional standing retained by the life office, who can give expert medical advice to the underwriter and who may even conduct medical examination personally for particular important or unusual cases. As a result of the information gathered from the general practitioner's report or the medical examination, the underwriter should be in a position to assess the risk. If this require a further opinion especially where the sum assured is very high, they can discuss the case with the life office's chief medical officer. Even with the Chief Medial Officer's review, the underwriter may also approach its reassure for further reassessment, especially in difficult or complex cases.

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

d. **Medical Conditions:** when considering a life assurance proposal, the underwriters will look for medical factors affecting longevity. They will generally not be interested in "common colds, influenzas or any of the usual childhood illnesses". Accidental injuries which have fully healed will not also be usually investigated. The concerns that will receive attention is any condition that could reduce the expectation of life of the proposer. However, underwriting of income protection policies is somewhat different in that the concern here is with conditions that will cause the proposer to be off-work for a prolonged period of time rather than with those that are life deteriorating.

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

17(a) Describe "personal pension" fully.

(20 marks)

(b) What are the two (2) broad types of occupation pension schemes available? Briefly explain them.

(10 marks)

## **Solution**

(a) A personal pension is an investment contract under which 75% of the sum available at maturity must be used to purchase a pension. It is a contract effected by



an individual in order to make provision for his/her retirement. It is available for self-employed people and those in non-pensionable employment.

A personal pension can be effected in addition to being in an occupational scheme membership.

There are various types of personal pension that are available for proposers to seek to purchase. Some of these are:

- a with-profit policy of an insurance company or friendly society
- a unit-linked policy from an insurance company or friendly society
- a deposit account run by a bank or building society
- a combination of the contracts mentioned above

It should be noted that a personal pension may not be surrendered for cash prior to retirement but the contributions can be halted and reinstated at any time.

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

b) The two broad types of occupation pension schemes available are:

- defined benefits schemes
- defined contribution schemes

(2 marks for each correctly stated type. 1½ marks for each correct explanation/scenario based example. Maximum of 2 to be graded here. Sub-Total: 5 marks per type. Grand Total: 10 marks)

18. Mrs. Suara has been saving in your company through an endowment policy, every month without fail, for five years now. She is quite respected in your organization. Recently, precisely on the 8<sup>th</sup> of July 2019, she wrote to your office that she got an approval from a federal government agency to make supplies, which if she failed to, another contractor will be called to do the job. She is to make the supply latest on 1<sup>st</sup> October 2019. In her letter, she requested for the termination of her policy on the ground of the financial pressure confronting her. From what she stated in the letter you could deduce that her situation is a temporary one.

You are required to:

- a. advise her on an alternative (if any) (5 marks)
- b. how will you treat this alternative in such a way that it will bring peace of mind to Mrs. Suara? (25 marks)

### **Solution**

a) The alternative I would advise Mrs. Suara on is to take a policy loan instead of out rightly terminating the policy. (5 marks)

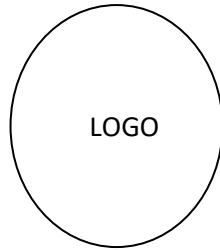
b) Most life offices are usually willing to grant policy loans for the security of their own life policies. On receipt of the loan application from the policyholder, the first task is to obtain the account position and loan account (if any). From the question, Mrs. Suara is up-to-date with her premium remittances and the policy has also acquired surrender value having been consistently paying her premiums for five years.

However, there is need to find out if there is any encumbrance on the policy, if the policy has been assigned, then there will be need to write the assignee requesting for the consent on further consideration of the loan application from Mrs. Suara, with Mrs. Suara being copied in the correspondence.

If there is no objection from the assignee, the maximum loan grantable will be calculated, which is usually 90% of the surrender value, then interest will be added to it and a loan agreement drawn up (there is also usually a standard template for this by most life office). The original policy document is then requested for, endorsed to reflect the loan transaction and kept in the office as collateral for the loan amount.

Then the loan will be given to Mrs. Suara and she will be advised to pay back in either a bulk sum (since the contract she wants to use it for will be paid for as a lump sum) or on an instalmental basis for a maximum period of one year.

**(5 marks for each correctly stated point. Maximum of 5 to be graded here. Grand Total: 25 marks)**



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D13  
MARINE AND AVIATION INSURANCE**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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

## D13 - MARINE AND AVIATION INSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

### Chief Examiner's Summarized Statistics

Pass Rate:	50%
Highest Score:	51%
Lowest Score:	18%
Average Score:	40.75%

### Breakdown Updates

#### **Question 1**

50% of the candidates scored 100% while the remaining 50% scored zero. This question was on circular recently issued to the industry practitioners by the commission. Insurance companies must publicize directives from NAICOM among staff and practitioners.

#### **Question 2**

40% pass rate was achieved.

#### **Question 3**

This question was poorly attempted. Only 25% of the candidates scored above average. The question should be a bonus question for all because of the simplicity but it was not so.

#### **Question 4**

This question is on factors to be considered in locating seaport and the candidates performed above average.

#### **Question 5**

50% of the candidates scored above average. A top candidate should be able to explain what liner vessels are and why they are popular among trading nations.

#### **Question 6**

This question was on how the wings of aircraft enable it to fly and achieve balance in flight. 50% scored above average. This question will enrich the knowledge of every passenger in aircraft. It is useful for all.

#### **Question 7**

Everybody that attempted this question had a pass in it although few of them did not explain that "a received for shipment" bill of lading is when the cargo has been moved and loaded aboard the ship.

#### **Question 8**

50% of the candidates could not give detailed distinction between a voyage charter party and a time charter party.

#### **Question 9**

25% of the candidate got above average mark.

**Question 10**

50% scored above average; surprisingly some candidate could not list out duties of Brokers at Lloyds.

**Question 11**

Only 25% scored above average. Some candidates did not know that sea worthiness and legality of the adventure are the two type of implied warranties in marine insurance.

**Question 12**

50% of the candidates did well. Some did not know what marine underwriters reinsure.

**Question 13**

25% scored above average. Some candidates erroneously stated that excess of loss is designed to protect portfolio.

**Question 14**

50% of the candidates scored above average. Some did not know that barratry of master officer is covered when the master on crew hold shares in the vessel.

**Question 15**

No candidate attempted this question.

**Question 16**

50% of the candidates attempted this question and scored very low marks. Candidates did not know how large risks placed in Aviation market and the benefits of loss adjusters, surveyors or solicitors to aviation insurers.

**Question 17**

50% of the candidates that attempted this question scored low. Others avoided it because of the option available. No sound knowledge of marine institute warranties

**Question 18**

All the candidates attempted this question but only 50% scored above average. Some candidates did not know facts that assured might not disclose to marine underwriter when placing marine risk.

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

Overall performance was not impressive. Candidates should attend tutorial lectures and engage in group discussions in order to achieve better results in future diets.

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

Knowledge of marine and aviation insurance is very critical to the success of the industry because of its international nature. CIIN can facilitate mid-day lectures on this, and any other related course.

## Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. 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 delivery of policy document stated in the circular.

### Solution

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)

2. What are the degrees of Latitude North or South where the following are located:
- a. Arctic Circle
  - b. Tropic of Cancer
  - c. Equator
  - d. Tropic of Capricorn
  - e. Antarctic Circle?

### Solution

- |    |                      |            |           |
|----|----------------------|------------|-----------|
| a. | Arctic Circle:       | 66.5°North | (2 marks) |
| b. | Tropic of Cancer:    | 23.5°North | (2 marks) |
| c. | Equator:             | 0°         | (2 marks) |
| d. | Tropic of Capricorn: | 23.5°South | (2 marks) |
| e. | Antarctic Circle:    | 66.5°South | (2 marks) |

- 3(a) What degree of Longitude is Greenwich Meridian and where in the world is Greenwich located? (4 marks)
- (b) i. What is the International Date Line (IDL)? (2 marks)

- ii. Explain the phenomenon of gaining or losing a day, when a vessel crosses the International Date Line. (4 marks)

### Solution

- (a) The degree of Longitude at Greenwich Meridian:  $0^{\circ}$  Longitude (2 marks)  
and the Greenwich is located in London. (2 marks)
- (b) i. The International Date Line (IDL) is the line drawn along  $180^{\circ}$  of longitude with minor deviations so as not to bisect land masses through which it passes (2 marks)
- ii. The phenomenon of gaining or losing a day, when a vessel crosses the International Date Line, is such that when the vessel crosses the IDL from the west to the east (2 marks), it gains a day and when it crosses from the east to the west, it loses a day. (2 marks)

(Marks are as inserted above. Total: 4 marks)

4. What are the five (5) basic factors to be considered in locating a seaport?

### Solution

The five (5) basic factors to be considered in locating a seaport are:

- the depth of water available and tidal range
- protection from weather or other hazards
- a good inland distribution network of road, rail, e.t.c.
- availability of space for docks, storage, e.t.c.
- availability of a good workforce.

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

5. What are "Liner Vessels" and why are they popular among trading nations?

### Solution

"Liner Vessels" are vessels that run fixed routes schedule between specified ports or range of ports. (4 marks)

The reasons they are popular among trading nations are that:

- the routes, schedules and cargo tariffs are advertised in advance
- they only deviate off the route specified when cargo at such port is irresistible
- owing to its dependability, many trading nations operate liner services from their countries to worldwide destinations and back home



- cargoes are mainly goods of high value in relation to weight, and several small parcels are booked for the vessel, requiring many of such parcels to fill the vessel, including those brought overland to the port for the schedule service.

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

6. How does the wing of an aircraft enable it to fly and how is balance achieved in flight?

### Solution

The wing of an aircraft enables it to fly and balance is achieved in flight by:

- the underside of the aircraft wing is relatively flat while the top is slightly curved
- as the wing passes through the air, the air divides to accommodate it
- the air passing above the wing has to accelerate in order to meet the air that flows through a shorter distance underneath
- in doing so, there is a drop in pressure which subsequently generates a lift
- in addition, the lift generated by the wing is accentuated by having the wing set at a positive angle about  $2^{\circ}$  to the direction of flight
- the centre of lift so generated is required to coincide with the centre of gravity of the aircraft and this is achieved by fitting the aircraft with a stabilizer at the rear of the aircraft
- the stabilizer ensures that the aircraft remains balanced about the centre of lift

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

- 7(a) What is a “received for shipment” bill of lading and how can it become a “shipped” bill of lading? (6 marks)

- (b) What is a “claused” bill of lading? (4 marks)

### Solution

a) A “received for shipment” bill of lading is the shipping document that confirms that the shipping company has the goods in custody for shipment. Exporters will then hand their goods at the factory in a container provided by the transport operator. (3 marks)

b) IT can become a “shipped” bill of lading by the issuance of endorsement by the carrier, when the goods moved by a “received for shipment” bill of lading have been moved to the ports and loaded aboard the ship. (3 marks)

8. Distinguish between a “Voyage Charter Party” and a “Time Charter Party”.

**Solution**

S/No	Voyage Charter Party	Time Charter Party
1	It is where the vessel is normally engaged to carry a particular cargo, often a bulk commodity from one or more loading ports to one or more discharge ports	It is where the owner places the vessel at the disposal of the charterer for an agreed rate of hire per day or for so much per ton per month
2	More appropriately referred to as voyage/commodity charter	The charterer has liberty to use the vessel for any type of cargo (within certain restrictions) and within certain geographical range
3		It is normally used when a liner company charters a vessel from a tramp owner or another liner company for inclusion to their own liner company’s fleet

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

9. What are the circumstances that will exempt a carrier from liability for loss, mis-delivery, damage or delay under the Carriage by Rail Conditions 1976 as amended in 1982?

**Solution**

The circumstances that will exempt a carrier from liability for loss, mis-delivery, damage or delay under the Carriage by Rail Conditions 1976 as amended in 1982 are those circumstances where the loss, mis-delivery, damage or delay has been caused by any of the following:

- an act of God
- as a result of war or civil unrest
- seizure under legal process
- act or omission of the trader
- bulk wastage
- inadequate packing
- inadequate labelling or addressing
- riot or strike
- the consignee not taking delivery in reasonable time

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

10. Which Brokers supply Marine Insurance business at Lloyds of London and what are the duties of such Brokers to their clients?

### Solution

**Only Lloyd's brokers can place insurance at Lloyd's of London.** Lloyd's underwriters do not have direct contact with those who insure with them, but rely entirely on Lloyd's brokers who supply the market with business. The Lloyd's brokers may also act on behalf of other non-Lloyd's brokers. (2 marks)

The duties of Lloyd's Brokers are:

- to select the best market for a risk, either Lloyds or company market
- provide claim service to their clients
- stand as agents of the assured and not of the underwriters
- must exercise care and skill in arranging insurance according to their client's instructions
- takes reasonable care in order to avoid liability for damages under the law of agency
- do not guarantee the solvency of underwriters at which they place the insurances

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

11(a) What are "implied warranties" in Marine Insurance? State the two (2) available. (6 marks)

(b) An insured ship, under a Time Policy sailed with insufficient crew, with the privity of the assured, struck an uncharted rock and foundered,

- i. why may the underwriters be liable for this loss? (2 marks)
- i. why may the underwriters not be liable for this loss if it had been under a voyage policy? (2 marks)

### Solution

a) "Implied Warranties" are those that do not appear in the policy, but by law are tacitly understood to be binding. (2 marks)

**The two types of "implied warranties" in marine insurance are:**

- seaworthiness of the vessel at the commencement of the voyage and (2 marks)
- legality of the adventure. (2 marks)

b) i) The underwriters may be liable because the loss was caused by an insured peril and not attributable to unseaworthiness. (2 marks)

ii) The underwriters may not be liable because the warranty of unseaworthiness is absolute under a voyage policy. (2 marks)

12. Why do Marine Underwriters reinsure?

### Solution

Marine underwriters reinsure because of the following reasons:

- protection or cover against exceptionally large individual losses
- avoiding undue fluctuations in underwriting results in order to secure balanced accounts and results each year
- obtaining an international spread of risks where the insurer is heavily committed in a country prone to national disaster
- increasing the capacity of the direct insurer where they have accepted more of a risk than they are able to keep
- obtaining technical advice for insurers from reinsurers like Lloyd's syndicate or companies specializing in reinsurance.

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

13(a) What are “non-proportional reinsurance treaties”? (4 marks)

(b) Describe an “excess of loss treaty”. (6 marks)

### Solution

- a) “Non-Proportional Reinsurance Treaties” are treaties based on losses rather than sums insured (2 marks) where the reinsurer agrees to pay an amount over and above, or in excess of an amount which the direct insurer agrees to pay or retain(2 marks).

(Marks are as inserted above. Total: 4 marks)

- b) “An Excess of loss Treaty” is a reinsurance arrangement that is arranged on the following basis:

- the direct insurers decide the amount that they are prepared to bear on each and every loss and arranges reinsurance to relieve them of any liability in excess of that amount, up to a certain limit
- this reinsurance provides protection against catastrophic losses resulting from accumulations of retentions, when it is called “Catastrophe” excess of loss
- the risk excess of loss, however, protects the reassured for a loss involving only one risk
- many layers of excess of loss may be arranged with each layer sitting on the top of the layer below

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

14(a) State any three (3) of the eight (8) perils under Section 6.1 of the Institute Time Clause (Hulls). (6 marks)

(b) Will the "barratry" of Master Officers Crew be covered where the Master Office or Crew hold shares in the vessel? Give reason(s) for your answer. (4 marks)

### **Solution**

a) The eight (8) perils under Section 6.1 of the Institute Time Clause (Hulls) are:

- perils of the seas, rivers, lakes or other navigable waters
  - fire, explosion
  - violent theft by persons from outside the vessel
  - jettison
  - piracy
  - contact with land conveyance, dock or harbor equipment or installation
  - earthquake, volcanic eruption or lightening
  - accidents in loading, discharging or shipping cargo or fuel
- (2 marks for any correctly stated peril. Maximum of 3 to be graded. Total: 6 marks)

b) The "barratry" of Master Officers Crew **will be covered** (2 marks) because they are not to be considered as owners, should they hold shares in the vessel (2 marks).

(Marks are as inserted above. Total: 4 marks)

### **Part II**

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

**Each question carries 30 marks.**

15(a) How does the Montreal Convention 1999 define "International Carriage"?

(10 marks)

(b) What documents are the carriers required to deliver in respect of carriage of passenger, baggage and cargo? (20 marks)

### **Solution**

a) Montreal Convention 1999 define "International Carriage" as any carriage in which, according to agreement between the parties, the place of departure and the place of destination, whether or not there is a break in the carriage or a transshipment, are situated either within the territories of a simple State Party, if there is an agreed stopping place within the territory of another State, even if that State is not a State Party. (5 marks) Carriage between two points within the territory of a single State Party without an agreed stopping place within the territory of another State is not an international carriage for the purposes of the convention (5 marks).

(Marks are as inserted above. Total: 10 marks)

b) The documents that carriers are required to deliver in respect of carriage of passenger, baggage and cargo are:

- an indication of the places of departure and destination
- if the places of departure and destination are within the territory of a single State Party, once or more agreed stopping places within the territory of another State, an indication of at least one such stopping place
- any other means which preserves the information indicated in (i) above, with the carrier offering to deliver to the passenger a written document of the information so preserved
- the carrier shall deliver to the passenger a baggage identification tag for each piece of checked baggage
- in respect of the carriage of cargo, an air waybill shall be delivered
- any other means which preserves a record of the carriage to be performed may be substituted for the delivery of waybill
- if such other means are used, the carrier shall, if so requested by the consigner, deliver to the consigner a cargo receipt permitting identification of the consignment and access to the information contained in the record preserved by such other means.

(4 marks for any correctly stated document. Maximum of 5 to be graded. Total: 20 marks)

16(a) How are large risks placed in Aviation market? (20 marks)

(b) Of what benefits are loss adjusters, surveyors and solicitors to Aviation Insurers in claim settlement? (10 marks)

### **Solution**

a) Large risks are placed in Aviation market as follows:

- shared with other insurers because of the hazard of total loss or catastrophic loss
- slip is offered to a lead underwriter who would be a specialist in that class of business, naming their rate and amount of risk they are prepared to take
- it is immaterial that the lead underwriter takes a small portion of the risk. His knowledge and reputation in that class of business would enable the risk to be completed fairly easily
- the second and subsequent underwriters would merely accept, naming the amount they wish to take or decline the business
- the Broker must use his skill to obtain the lowest possible rate at which the risk can be placed
- where necessary, the Broker may go outside aviation market and approach marine and non-marine underwriters who also transact some aviation businesses.

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

b) The benefits of loss adjusters, surveyors and solicitors to Aviation Insurers in claim settlement are:

- to get sound and technical advice on liability sections of the claims (for Loss Adjusters) (3 marks)
- to properly and adequately assess the risks being carried so as to be able to determine appropriate premium, terms and conditions (for surveyors) (3 marks)  
Both adjusters and surveyors could be employed from the same organization; this can make the assignments faster, easier and more cohesive. It is also possible for an individual to be both an adjuster and a surveyor (1 mark)
- to assist with negotiating and correctly discharging substantial liabilities in aviation law (for solicitors) (3 marks)

17(a) How does the Marine Underwriter use the “Institute Warranties” in reducing the risk exposure of ocean going vessels, small coastal vessels and yachts?

(20 marks)

(b) What are container ships? Explain in details.

(10 marks)

### **Solution**

a) Marine Underwriter use the “Institute Warranties” in reducing the risk exposure of ocean going vessels, small coastal vessels and yachts as stated below:

- to restrict the area of the world which a vessel can navigate at a particular time because severe weathers are experienced at different times in different areas in the world which makes navigation vulnerable to ice damage, storms, e.t.c.
- to allow vessels trade as should be traded because it is sometimes necessary for vessels to trade beyond the limitations of the warranties therefore the ship-owner and/or charterer can negotiate with the insurers to break the Institute Warranty and an extra premium would be paid for this
- enables the underwriters to reduce maritime losses through bad weather
- in cases of small coastal vessels and yachts, warranties might be such that allow coastal voyages only
- wider warranties could only be given if the owner/crew/vessel are assessed to be capable of managing with larger distances

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

b) Container ships are:

- specialist vessels designed to carry containerized cargoes
- could be fully containerized or multipurpose which carry general cargo as well as containers

- they have ports that have been developed by major container terminals to ensure quick turn-around for the ships
- they are split into vertical cells, the containers shipping into position in each cell down the guide rails
- are generally standardized in 20ft or 40ft lengths, 8ft high and 8ft wide, with a fully containerized vessel capable of carrying up to 6000 20ft standard containers.

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

18(a) What is a Constructive Total Loss and how may such claim be concluded?

(20 marks)

(b) What circumstances may an assured not disclose to the underwriter when placing a Marine Insurance in the absence of inquiry related to such circumstances by the underwriter?

(10 marks)

### **Solution**

a) A constructive total loss, subject to any express provision in the policy, is such that

- the subject-matter insured is reasonably abandoned on the account of its actual total loss appearing to be unavoidable(4 marks), or because it could not be preserved from actual loss without an expenditure which would exceed its value when the expenditure had been incurred(4 marks). The assured may either treat the loss as a partial loss, or abandon the subject-matter insured to the insurer and treat the loss as if it were a total loss (2 marks).

(Marks are as inserted above. Sub-Total: 10 marks)

The insurer, on receipt of notification of a constructive total loss, would assess the claim (2 marks) and:

- if the assessment confirms the loss as a total loss, settle the loss for a constructive total loss (4 marks).
- if however the assessment does not confirm the loss as a total loss, the claim would be settled as a partial loss. (4 marks)

(Marks are as inserted above. Sub-Total: 10 marks)

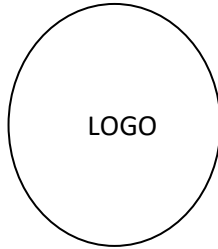
**Grand Total: 20 marks)**

b)An assured may not disclose to the underwriter when placing a Marine Insurance in the absence of inquiry related to such circumstances by the underwriter in the following circumstances:

- any circumstance which diminishes the risk
- any circumstance which is known or presumed to be known to the insurer
- any circumstance as to which information is waived by the insurer
- any circumstance which is superfluous to disclose by reason of any express or implied warranty

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





**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D17  
OPERATIONAL MANAGEMENT**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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

## D17 - OPERATIONAL MANAGEMENT

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate:	100%
Highest Score:	80%
Lowest Score:	56%
Average Score:	67%

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

100% pass rate. Question is familiar and well attempted.

**Question 2**

33% pass rate. Question is familiar but poorly attempted. Improved study can improve performance.

**Question 3**

Question is friendly. 100% pass rate.

**Question 4**

100% pass rate.

**Question 5**

Good attempted. 100% pass rate.

**Question 6**

100% pass rate. Attempt was very fair.

**Question 7**

50% pass rate. Extreme pass for those who understood the question. Extreme failure for poor attempts.

**Question 8**

100% pass rate.

**Question 9**

Fair attempt. Average performance for majority of candidates.

**Question 10**

67% pass rate. Question technical but fair.

**Question 11**

67% pass rate. Question is technical but practical.

**Question 12**

Well attempted. Only 17% of candidates failed the question.

**Question 13**

67% of candidates passed the question. Question is friendly for residual knowledge.

**Question 14**

Question is popular and well attempted.

**Question 15**

Question on Job Analysis is expected to be familiar to candidates. Only 2 of the 6 candidates attempted. Pass rate is 100%.

**Question 16**

Question on strategic change was not attempted by any of the candidates.

**Question 17**

Question on Team Management is popular to candidates. 100% attempt and 100% pass rate.

**Question 18**

Well attempted by 67% of the candidates. Pass rate is 100%

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

100% pass rate for all candidates is welcoming. However, candidates need to study harder for Leadership questions like strategy and Job Analysis

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

None

## **Part I**

**Answer ALL questions in Part I.**

**Each question carries 10 marks.**

1. What is the full meaning of NIA? Enumerate any four (4) of roles of the body.

### **Solution**

Nigeria 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)**

2. Procrastinating techniques affect decision making. Mention five (5) examples of procrastinating techniques.

### **Solution**

Examples of procrastinating techniques are:

- I need more time to think this one over
- You cannot rush into anything like this overnight
- We ought to sit on this idea for a while
- This is not a suitable time to go ahead
- We have done it this way before
- We have always form it this way in the past.

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

3. Mention five (5) aims of a particular communication activity.

### **Solution**

The aims of communication activity are:

- to exchange views

- to achieve action
- to obtain understanding
- to bring about change
- to attain personal acceptance
- to achieve commitment

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

4. The following are generally seen as motivation factors: achievement, supervision, working conditions, work itself, salary, writing conditions, advancement, recognition, responsibility and company policy/administration. Classify these factors under “motivation factors” and “hygiene factors”.

### Solution

Motivation Factors	Hygiene Factors
Achievement	Supervision
Advancement	Working Conditions
Responsibility	Salary
Work Itself	Writing Conditions
Recognition	Company Policy and Administration

(1 mark for each correct classification. Total: 10 marks)

- 5(a) Who is an entrepreneur compared to an intrapreneur? (4 marks)
- (b) Mention three (3) things organizations can do to stimulate an intrapreneural culture in the organization. (6 marks)

### Solution

- a) Entrepreneurs are leaders who create wealth by assuming risk. While intrapreneurs are employees who exhibit entrepreneurial characteristics and behaviours.

(2 marks each for correctly defining the terms. Total: 4 marks)

- b) Three (3) things that organizations can do to stimulate an intrapreneural culture in the organization are:
- Create an idea champion competition
  - Sponsor ideas
  - Have a robust and monitored mentoring program

(2 marks for each correct answer. Total: 6 marks)

6. Mention one advantage and one disadvantage of:
- Full-time fixed hours contract type
  - Part time fixed hours contract type.

**Solution**

<b>Full-time fixed hours contract type</b>	
<b>Advantages</b>	<b>Disadvantages</b>
Easy to administer	Inflexible for extended hours
Staff have fixed working hours	Overtime normally payable
<b>Full-time fixed hours contract type</b>	
<b>Advantages</b>	<b>Disadvantages</b>
Easy to administer	Can be inflexible for changing workflow needs
Hours can be extended without payment of overtime	

(2½ marks for each correctly stated answer. Maximum of 1 point to be graded under each subheading. Total: 10 marks)

7. The acronym SUCCESS suggests seven (7) steps in motivation. State the full phrase on any five (5) of the acronym.

**Solution**

**S**-upport the team by sharing knowledge  
**U**-nderstand the people's needs and limitations  
**C**-ollate and analyse data  
**C**-ommunicate clearly and effectively  
**E**-ncourage enthusiasm and ideas from the team  
**S**-set specific targets for individuals and team  
**S**-upport colleagues in achieving team goals.

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

8. Automatic Cell Distributor (ACD) is a computerized telephone technology programmed to deal with the calls it receives. Mention five (5) benefits that ACD offers customers.

**Solution**

The benefits that Automatic Cell Distributor (ACD) offers customers are:

- route calls automatically to the person best placed to handle the,
- service to customers is quicker (no switchboard)
- customers get a more professional service
- customers get calls answered through queuing
- helps companies meet customers' needs
- can be linked to computers and other automated services

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

9. "Management of Objectives" (MBO) is the process of target and objective setting within an organization. Mention five (5) essential features of the MBO process.

**Solution**

The essential features of "Management of Objectives" (MBO) process are:

- clarification with each manager of the key results and performance standards to be achieved
- agreement with each manager, a job improvement plan
- provision of conditions which will help managers to achieve their key results and job improvement plans
- systematic performance review of each manager's results
- regular potential reviews so as to identify potentials for advancement
- development of management training plans to improve management skills
- motivation of managers.

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

10. Key Performance Indicators (KPI) can be results-oriented or efforts-oriented. Give two (2) examples of each.

**Solution**

Result Oriented	Performance Oriented
Sales volume and/or revenues	No of potential customers contacted
Ratio of return on turnover	No of companies handled
Market share	Extent of relationship with customers
Asset growth	Efforts at improving staff relations
	Staff turnover and absence rates
	Active pursuing of debtors

(2½ marks for each correctly stated answer. Maximum of 2 from each column should be graded. Total: 10 marks)

11. Mention four (4) Critical Success Factors (CSF) of a new branch office of an insurance company.

**Solution**

Four (4) Critical Success Factors (CSF) of a new branch office of an insurance company are:



- internet presence
- quality staff
- visible office location
- mobility in terms of vehicles

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

12. There are five (5) styles or methods of handling conflict. Each style is a set of beliefs about conflict and its effects. Name any four (4) of the five (5) styles.

### **Solution**

The five (5) styles or methods of handling conflict are:

- accommodation
- power
- avoidance
- negotiation
- integration

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

13. Understanding your “prime time of the day” is an important technique for personal time management. Explain briefly, in two (2) different ways correct interpretation of “prime time of the day”.

### **Solution**

“Prime time of the day” can be said to be:

- the time of the day one is at one’s best. For example, do one work better in the mornings or in the afternoons? **OR**
- the time to handle creative, complex or planning activities **OR**
- the time when one’s brain is at its peak in solving problems most/more quickly.

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

14. 360-degree appraisal is a method which gives individuals an all-round view of their performance at work. Mention four (4) areas opinions are collected for this type of appraisal method.

### **Solution**

The areas where opinions are collected for a 360-degree appraisal are from the:

- person being appraised
- people that work with the person being appraised

- peers of the person being appraised
- the manager of the person being appraised
- customers.

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

## Part II

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

Each question carries 30 marks.

- 15(a) Job analysis is carried out to identify seven (7) key areas of the job. Identify any six (6) of these key areas. (18 marks)
- (b) Identify the four (4) main sources of information for carrying out job analysis. (12 marks)

## Solution

- a) Job analysis is carried out to identify the following key areas of the job:
- the skills needed for the job e.g. knowledge of ICT, ability to manage a team, ability to work under pressure, e.t.c.
  - the knowledge requirement of the job e.g. customer-service experience, office management experience, e.t.c
  - the competencies required for the job e.g. leadership, problem solving, change management, e.t.c.
  - attributes of the successful candidates e.g. how patient, positive, tactful, helpful, assertive, e.t.c.
  - requirements for retaining information e.g. customer information, password system, product knowledge, e.t.c
  - procedures within the job e.g. health and safety, data protection, management reports, e.t.c.
  - task areas within the job e.g. people management, customer management and liaison, financial aspects, e.t.c.

(3 marks for each correctly stated area. Maximum of 6 areas to be graded. Total: 18 marks)

- b) The four main sources of information for carrying out job analysis are:
- written materials:** existing written job descriptions for all positions, manuals, organizational charts, e.t.c.
  - employees' reports:** employees may be asked to give a description of their main tasks and how they carry them out
  - colleagues' reports:** obtaining data from subordinates, peers, and superiors. Comparison provides basis for reliability

- iv. **direct observation:** some direct observation of the job being carried out is invariably helpful.

(3 marks for each correctly stated/explained source. Maximum of 4 areas to be graded. Total: 12 marks)

- 16(a) Identify seven (7) critical action programme to bring about and manage strategic change. (14 marks)
- (b) Identify eight (8) key steps in managing operational change. (16 marks)

### Solution

- a) Seven (7) critical action programme to bring about and manage strategic change are:

- i. Formulation and clear communication of mission statement
- ii. Development and communication of clear statements of business objectives flowing from the strategic vision
- iii. Development of policy statements showing how the mission will be transferred into practice
- iv. Formulation of action plans to implement policies
- v. Identification and implementation of an appropriate organization structure
- vi. Cascading development of agreed managerial objectives and action plans flowing from overall business objectives
- vii. Establishment of mechanisms to monitor managerial performance and provide feedback

(2 marks for each correctly stated point. Maximum of 7 points to be graded. Total: 14 marks)

- b) Eight (8) key steps in managing operational change are:

- i. accept that dealing with continually changing situations is a normal part of the job
- ii. control routine work and create time to consider the innovative aspects of the job
- iii. maintain a well-informed knowledge of development in the Industry
- iv. monitor the environment for signals and trends
- v. regularly discuss new ideas and stimulate positive attitude to work
- vi. encourage staff to raise issues affecting their work
- vii. watch out for signs that accepted practice is inappropriate
- viii. discuss future plans and issues with staff
- ix. communicate internal changes to staff
- x. be experimental and flexible in dealing with other people's ideas
- xi. try out new techniques and ideas whenever appropriate

- xii. create a working atmosphere in which ideas and issues are carefully attended to  
(2 marks for each correctly stated point. Maximum of 8 points to be graded. Total: 16 marks)

- 17(a) One decision style that takes staff involvement into consideration has been labelled "the 5Cs of decision taking". Identify these five (5) "C"s. (10 marks)
- (b) On his part, TY Arroba identified six (6) decision making styles. State and briefly explain the six (6) decision making styles. (18 marks)
- (c) In one sentence, how is decision making and problem solving related? (2 marks)

### Solution

- (a) "The 5Cs of decision taking" are:
- Consider:** the preparation stage at which problem is considered
  - Consult:** the stage at which initiatives are taken to involve those affected
  - Crunch:** the need to ensure that something is done
  - Communicate:** the stage at which what has been decided and why such was decided is explained to staff members
  - Check:** the need to go back and monitor the results of the decision.
- (1 mark for each correctly stated stage. 1 mark for correct explanation of the stated point. Sub-Total: 2 marks per point. Total: 10 marks)
- (b) TY Arroba identified six (6) decision making styles are:
- No thought:** the decision is taken on a whim and without reason
  - Compliant:** the decision takes others' expectations into account
  - Logical:** the decision follows a careful, objective evaluation of the alternatives
  - Emotional:** the decision is made on the basis of individual wants and likes
  - Intuitive:** the decision is made according to "gut", "feelings" or "intuition"
  - Hesitant:** the decision is made slowly, without any sense of commitment.
- (2 marks for each correctly stated style. 1 mark for correct explanation of the stated style. Sub-Total: 3 marks per style. Total: 18 marks)
- (c) The relationship between decision making and problem solving is that a decision is needed to be taken in order to solve a problem. (2 marks)

- 18(a) Eight (8) team roles have been identified by Dr. Meredith Belbin. State these roles and explain what it means with less than five words on each. (24 marks)

- (b) Group the eight (8) roles stated in (a) above under two (2) categories, namely: “outward looking” and “inward looking”. (6 marks)

**Solution**

(a) Eight (8) team roles identified by Dr. Meredith Belbin are:

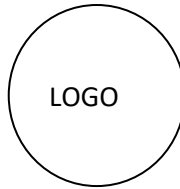
- i. **The Coordinator:** the presiding affair
- ii. **The Shaper:** the trash leader
- iii. **The Plant:** the idea person
- iv. **Monitor Evaluator:** dispassionate analyst
- v. **The Implementer:** practical organizer
- vi. **The Resource Investigator:** the diplomat
- vii. **The Team Worker:** the active internal communicator
- viii. **The Completer:** fulfiller of schedules.

(2 marks for each correctly stated role. 1 mark for correct explanation of the stated role. Sub-Total: 3 marks per role. Total: 24 marks)

(b)

<b>Outward Looking</b>	<b>Inward Looking</b>
Coordinator	Implementer
Plant	Monitor Evaluator
Resource Investigator	Team Worker
Shaper	Completer

(3/4 marks for each correctly grouped role. Total: 6 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D18  
PROPERTY CLAIMS HANDLING**

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

- ✚ Three hours are allowed for this paper.
- ✚ Fill in the information requested on the answer booklet and on form B.
- ✚ Handle the answer 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

## D18 - PROPERTY CLAIMS HANDLING

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

**Chief Examiner's Summarized Statistics**

Pass Rate:	46.87%
Highest Score:	71%
Lowest Score:	08%
Average Score:	42%

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

Majority of the candidates attempted the question and they had a good knowledge of the topic.

**Question 2**

I observed that only few candidates passed and most of them do not understand the basic points required by the examiner.

**Question 3**

Most candidates answered the question well but few knew that the subject-matter of insurance must be identified.

**Question 4**

Many of the candidates understood the question and answered it well while few were just mentioning the contents of the standard fire policy.

**Question 5**

Almost of the students that attempted the question knew the parts for duty of disclosure they displayed good understanding of the topic. However, only few candidates could explain how the proposal form limits an insured's liability for non-disclosure.

**Question 6**

Most of the candidates attempted the question and displayed a brilliant performance.

**Question 7**

The test was on policy condition and majority of candidates scored well in the question.

**Question 8**

Except for few candidates, most candidates understood the question and answered adequately and correctly.

**Question 9**

The candidates that took this question were many about 65% of them scored 100% of the total marks allocated. 10% scored average and about 5% could not comprehend what the question is all about. In all, the question was well answered.



**Question 10**

The amended common law position requested in this question was somehow strange to many hence they wrote the old provision of the law consequently, pass mark was low.

**Question 11**

It was well attempted but performance was average because only one point was presented by majority of those who attempted the question.

**Question 12**

This was avoided by many candidates. The few that did it performed woefully, an indication of lack of understanding of the question.

**Question 13**

The question was well attempted and the pass rate was above average. The challenge of some candidates is that they find it difficult to express their ideas.

**Question 14**

Question 14 was well answered and performance was excellent.

**Question 15**

Candidates who attempted this question understood it but delivery was average. Only a handful scored excellently.

**Question 16**

Most of the candidates performed averagely well on their question.

**Question 17**

The candidates that took the question understood it and it was well answered. Performance was good.

**Question 18**

Almost all the candidates did not perform well on this question. They did not display a clear understanding of the question at all.

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

Overall, performance was below average. It is expected that candidates will study harder in future diets in order to achieve better outputs.

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

Candidates should be enjoined to embrace/study harder the course materials with commitment and with a sense of mission so as to achieve better grades in future diets.

## Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. 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 claims.

### Solution

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)

- 2(a) Explain the phrase "rateable proportion". (4 marks)
- (b) State how the principle of contribution was reinforced by the case of *Scottish Amicable Heritage Securities Association Limited v. Northern Assurance Co. Limited* (1883). (6 marks)

### Solution

a) The phrase "rateable proportion" is used to refer to the three methods of effecting contribution (apportionment) (2 marks). The methods are sums insured, independent liability and mean method (1 mark). The method to be adopted for apportionment will depend on the type of policy(1 mark).

(Marks are as inserted above. Total: 4 marks)

b) Under property insurance, the policyholder may not recover more than indemnity. Whenever there is more than one policy covering a property, insurers will wish to share the claim payment. This is known as contribution.

This principle was reinforced in the case of *Scottish Amicable Heritage Securities Association Limited v. Northern Assurance Co. Limited* (1883) where the judge said that "that the principle (contribution) or rather the rule of practice depends on the doctrine – one

*not of law only but of common reason – that a man who insures his interest in property against a loss of fire, whether that interest be that of a proprietor or creditor, cannot recover from the insurer a greater amount than he has lost by this contingency insured against”. So in the case of double insurance of the same interest with different insurance companies, the insured will not be entitled to recover more than the full amount of the loss he has suffered”.*

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

3. Mention the four (4) implied conditions that apply to all property insurance contracts.

**Solution**

The four (4) implied conditions that apply to all property insurance contracts are as follows:

- the insured must have insurable interest in the subject matter insured
- the parties to the contract must have observed the utmost good faith in the negotiation leading to the contract
- the subject matter of insurance must be in existence
- the subject of insurance must be identifiable.

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

4. Why is it that in Fire Insurance, some insurers usually do away with the standard proposal form for large risks?

**Solution**

Standard Proposal Forms contain sets of questions designed to elicit information from the proposer that is presenting a risk for insurance coverage. **(2½ marks)**

For large risks, some insurers do away with standard proposal forms because:

- of insufficient space to be used to describe all the property details of what is being proposed for insurance
- there is usually a survey report which the Insurance company would carry out on the insured risk at the insurer’s expense
- the Broker’s input on the risk is very important and there is usually no space for their input on the standard proposal form
- most times, the proposed cover is not within the standard fire terms and as such the contents of the proposal does not tie with current realities with the client

**2½ marks for each correctly stated point. Maximum of 3 such points are to be graded. Sub-Total: 7½ marks.  
Grand Total: 10 marks)**

5(a) When does the duty of disclosure arise?

(4 marks)

(b) How does proposal form limit insurers' liability to plead for non-disclosure?

(6 marks)

### **Solution**

a) The duty of disclosure arises at:

- Proposal Stage/Inception
- Renewal
- Alteration (whenever it is requested to be made)
- Claims Period (when a claim is reported/processed)

(1 mark for each correct point. Total 4 marks)

b) The proposal form limit insurers' liability to plead for non-disclosure in the following ways:

- The claim handler is duty bound to review the underwriting file to establish whether there has been any non-disclosure.
- This is necessary because the proposal form do limit an insurer's liability to plead non-disclosure therefore Insurers must be careful when designing the proposal form to ensure all required questions are captured.
- If questions are asked and there is no final question asking if any other material information should be disclosed, insurers may be deemed to have waived their right to repudiate the claim for non-disclosure or misrepresentation of anything later considered material.
- In the event of possible non-disclosure or misrepresentation, the proposal form must be carefully examined. Care must be taken as questions in proposal form can require a wider disclosure than would be the case in common law.
- Proposal forms may require disclosure of information relating to other policies and of information relating to other business including previous enterprise undertaken by the proposer in the current enterprise.

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

6. An insured lodged a claim under his fire policy after his factory was blown down by a windstorm. The wall was weakened by a fire that occurred in his neighbour's factory 60 days before the windstorm. However, his claim was denied. Another insured had a similar experience but his own incidence occurred two (2) days after the fire ravaged the neighbour's factory and the claim was accepted, adjusted and indemnified upon. Explain what is responsible for the insurer's decisions.

### **Solution**

**The issue that is responsible for the insurer's decisions is the time/timing.** The difference is because of the time that had passed and the lack of opportunity for the policyholder to have taken steps to secure the wall.

In the case of the first insured, he had the opportunity to secure the wall but did nothing before the wall eventually came down after 60 days. On the other hand, the second insured had no time to secure the wall because it came down after two days and as such, liability was engaged on his claim.

**(4 marks for the bolded point. 2 marks for every correctly stated point thereafter. Maximum of 3 points to be graded. Total: 10 marks)**

7. Reinstatement Memorandum is usually incorporated in a property policy at the request of the insured. State, and briefly explain, two (2) important points mentioned in the special provision 1 under this memorandum.

### **Solution**

Special Provision 1 contain two important points. The first gives the policyholder liberty to reinstate wherever and in whatever manner they choose, subject to the liability of the insurers and the policy terms and conditions. The new geographical location does not have to be in the same country.

The second one requires the reinstatement to be commenced and carried out without unreasonable delay. No guidance is offered as to what constitute unreasonable delay – this will depend on individual circumstances. There may be need to comply with local authority requirements and other perfectly acceptable reasons for delay. However, avoidable delay may create challenges. Insurers will have to take a reasonably practical approach to the challenge and if there has been identifiable avoidable delay, will simply eliminate any cost arising as a result of the delay.

**(2½ marks for any correctly stated point. 2 points per provision should be graded. Maximum of 4 points to be graded in all i.e. 2 per "provision". Total: 10 marks)**

8. List any five (5) principal players in the property insurance market.

### **Solution**

The principal players in the property market insurance market:

- The policyholder

- The Broker/Intermediary
- The Insurer
- The Reinsurer
- The Third Party Claims Administrator
- The Assessors
- Trade and Market Associations

(2 marks each. Maximum of 5 to be graded. Total: 10 Marks)

9. Claims handlers need an enquiry attitude. All enquiries must be objective and must be based on certain guidelines. As a claims handler, what are those guidelines to follow when conducting a fraud investigation? Mention any five (5) of these guidelines.

### **Solution**

The guidelines to follow when conducting a fraud investigation are:

- Investigate quickly and thoroughly
- Always be professional and objective
- Keep an open mind
- Ensure that the fine contains only factual information
- Do not deface any document/letter, e.t.c.
- Remember that the claimant is obliged to prove their loss, both cause and quantum
- Give the claimant opportunity to prove that the claim is genuine
- Avoid the use of insurance or legal jargons
- Do not promise that the investigation will be completed within a certain time
- Never imply that the claim will be settled before the investigation is completed
- Never imply the likely outcome of the investigation

(2 marks each on any of the above. Maximum of 5 to be graded. Total: 10 marks)

10. The common law position of subrogation is amended by the policy wording. State any two (2) of the issues addressed by such amendments.

### **Solution**

The issues addressed by such amendments are:

- any cost incurred by pursuing recoveries are borne by the insurer
- the policyholder must assist the insurer

- subrogation rights accrue to the insurers before the policyholder has been indemnified as well as after.

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

11. Mr. WeAre has a duplex in the highbrow area of Lagos State (Lekki Penninsula). In 2012 and 2013, the property which was built with bricks experienced regular burst of pipes and cracks on the wall due to the salty nature of the environment. In September 2015, Mr. WeAre took out a fire policy which included such perils as subsidence, heave and burst of water pipes. He travelled out of the country in January 2016 owing to, according to him, recession and political divisions in the land, leaving the property unoccupied up till July 2016, when he returned. On his return, he discovered that there were cracks on the wall and that the property has been badly damaged due to escape of water. He made a claim for subsidence! Explain whether or not the insurers are liable for the claim.

### Solution

**The damage is not covered** and the insurers are not liable. The reason is that there had been in operation what was later an insured peril but occurring prior to the inception of the policy. The event did not occur within the period of insurance even though the damage did occur within the period of insurance. This was a court decided case in Kelly v, Norwich Union (1984). Only once these issues have been considered can a claim handler begin to explore how the policyholder should be indemnified.

(bolded point = 4 mark. Other correct statements attract 2 marks each. Maximum of 3 of such should be graded. Sub-Total: 6 marks. Grand Total: 10 marks)

12. Write short notes, as it relates to property claims handling, on
- Mortice Lock
  - Latch
  - Flush Bolt
  - Huge Bolt
  - Espagneolette.

### Solution

- Mortice Lock:** a mortice lock is what is fitted into a hole cut at the edge of the door. The bolt of the lock shoots into a corresponding hole cut into the locking post reinforced with a metal plate.

- ii) **Latch:** a latch requires the position of a spring and is usually opened by turning a handle or key. It engages in the staple/locks and keep the door automatically shut when released. A significant defect of this type of lock is that it becomes more easily worn out.
- iii) **Flush Bolt:** this is a bolt rebated into the surface of the door so that the top surface of the bolt is flushed with the door.
- iv) **Huge Bolt:** this bolt improves the security n doors opening outside or outwards. They are fixed metal bolts installed on the hinge side of the door, fitting rebates in the door frame when the door is opened.
- v) **Espagneolette:** this comprise of one bolt shooting up into the lintel and the other down into the door sill, such that both engages simultaneously by twisting a control handle.

(1 mark for every correctly stated point. Maximum of 2 points to be graded under each term. Sub-Total: 2 marks. Total: 10 marks)

- 13(a) What is strict liability? (3 marks)
- (b) Define negligence. (3 marks)
- (c) Outline two (2) kinds of alternative to dispute resolution. (4 marks)

### Solution

a) Strict Liability holds when a person is strictly liable for damages caused to other people as a result of escape of something (say fire or water) resulting from non-natural use of the land. It arises if a person brings onto their land something that is likely to cause damage to other people if such escape. Any damage done will result in the owner of the land being strictly liable for such damages.

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

b) Negligence is defined as the omission to do something a reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs would do or doing something which a prudent and reasonable man would not do.

d(3 marks)

c) Alternatives to dispute resolution are:

- i) Mediation
- ii) Expert Appraisal

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



14(a) List the four (4) kinds of average that can be found in commercial property insurance policy. (8 marks)

(b) Define "Fire" as it relates to Fire Insurance. (2 marks)

**Solution**

a) The kinds of average found in commercial property policy are:

- i. pro-rata average
  - ii. reinstatement average
  - iii. day one average
  - iv. public authorities' clause average
- (2 marks each. Total: 8 marks)

b) Fire is the ignition of something which ought not to be on fire. (2 marks)

**Part II**

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

**Each question carries 30 marks.**

15. Mrs. Great has her beautiful property at a strategic location often called "cornerpiece", along an ever busy road in Lagos, Nigeria, which she insured to the tune of ₦100,000,000.00 for a period of one year with effect from 1<sup>st</sup> January 2018 under a property insurance policy with XYZ Insurance Company.

On 30<sup>th</sup> December 2018, she went on a visit to her insured property in order to see how her tenants are handling the building. Midway into her familiarization tour, a car suddenly veered off the road, missed Mrs. Great's RAV 4 and came straight to where Mrs. Great was standing with her back to the road.

With speed and fury, together with heavy screeching of brakes, the car cleared the goods and wares on display in the shop in front of the house and rammed into the building causing extensive damage to the property. However, Mrs. Great and her tenants escaped death by the whiskers.

Mrs. Great filed a ₦4,500,000.00 claim on the damaged property to her insurer and the claim was professionally adjusted to ₦2,500,000.00. After receiving her payment from XYZ Insurance Company, she went after the negligent motorist and successfully got ₦3,000,000.00 in compensation.

As the claim handler,

- a. Explain what Mrs. Great is entitled to under her property insurance policy. (5 marks)
- b. Explain how you will, on behalf of your company, handle the information regarding the ₦3,000,000.00 that Mrs. Great obtained from the negligent motorist, viz-a-viz the indemnification she already got from your company. (15 marks)
- c. Assuming there was another property insurance on the property with another insurance company to the tune of ₦150,000,000.00, how much will XYZ Insurance Company pay Mrs. Great on this claim? (10 marks)

### Solution

- a) Since the property was insured and there is no information as to any form of under-insurance or co-insurance on same, Mrs. Great is entitled to being fully indemnified to the tune of the professionally adjusted sum of ₦2,500,000.00

(2 marks for correctly stating the first point or any point relevant to the question. 3 marks for correctly stating the ₦2.5m value. Total: 5 marks)

- b) A policyholder cannot recover more than his/her loss indemnity. On this occasion and for the following reasons, since the insurer have paid her the professionally adjusted sum of ₦2,500,000.00, the insurer shall ask for a refund of this paid amount from her and insist she refund the money to the insurer. (7 marks)

The remaining ₦500,000.00 is of no concern to the insurer since the insurer did not pay her more than the adjusted sum of ₦2,500,000.00 and also for the following reasons: (2 marks)

- there is a right of recovery from the third party, accrued to the insurer as the insurer, from the third party
- she however, cannot and should not recover from both, as she is not permitted, by law, to make a profit, out of an insurance transaction
- therefore, it is the insurer, that has subrogation rights under the policy and not Mrs. Great and so she cannot recover on the insurer's behalf
- the insurer, needed not to have waited till the claim was settled before pursuing its subrogation rights, although the insurer has the rights to initiate the subrogation right before the payment has been made or even afterwards

(2 marks for each correctly stated point above. Maximum of 3 points to be graded. Sub-Total: 6 marks) Grand Total: 15 marks.



- v. the proposer is not required to disclose facts which (s)he has put the insurer on lead, but which the insurer did not follow the lead or make further inquiries

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

17. An insured has two policies that satisfies the conditions relating to the principle of contribution. There was a loss with the following details:

Sum Insured of Policy A: NGN3,300,000.00

Sum Insured of Policy B: NGN2,200,000.00

Value at Risk: NGN4,000,000.00

Adjusted Loss/Loss Agreed: NGN525,000.00

As the claims handler, you are required to:

- a. use the sums insured method to determine what each policy should pay. (10 marks)
- b. use the independent liability method to determine what each policy should pay. (20 marks)

**Solution**

a) Policy A Sum Insured (S.I)	=	NGN3,300,000.00	
Policy B Sum Insured (S.I)	=	<u>NGN2,200,000.00</u>	
Total Sum Insured (T.S.I)	=	NGN5,500,000.00	(2 marks)
Agreed Loss (L.A.)	=	NGN525,000.00	
Therefore,			
Policy A Pays	=	$\frac{S.I}{T.S.I} * A.L$	(4 marks)
	=	$\frac{3,300,000}{5,500,000} * 525,000$	(1 mark)
	=	NGN315,000.00	(1 mark)
Policy B Pays	=	$\frac{2,200,000}{5,500,000} * 525,000$	(1 mark)
	=	NGN210,000.00	(1 mark)
		(Total: 10 marks)	

- b) Using the Independent Liability Method = Sum Insured \* Agreed Loss

		Value at Risk	(4 marks)
Independent Liability (I.L) of Insurer A =	$\frac{3,300,000}{4,000,000} * 525,000$		(2 marks)
	=	NGN433,125.00	(1 mark)

Independent Liability (I.L) of Insurer B=	$\frac{2,200,000}{4,000,000} * 525,000$	(2 marks)
	= NGN288,710.00	(1 mark)
Total Independent Liability (T.I.L)	= NGN(433,125.00 + 288,750.00)	(1 mark)
	= NGN721,875.00	(1 mark)
Therefore,		
Policy A Pays	= $\frac{\text{I.L}}{\text{T.I.L}} * \text{A.L}$	(4 marks)
	= $\frac{433,125}{721.875} * 525,000$	(1 mark)
	= NGN315,000.00	(1 mark)
Policy B Pays	= $\frac{288,750}{721.875} * 525,000$	(1 mark)
	= NGN210,000.00	(1 mark)

(Total: 20 marks)

18. Subrogation is the right of insurers to stand in the policyholders' place and pursue their right of recovery. However, recovering is a complex matter. Explain insurers right (as it relates to subrogation) under the following scenarios:
- a. Ex-gratia Payment (8 marks)
  - b. Partial Recoveries (8 marks)
  - c. Strict Liability (8 marks)
  - d. *Mark Rowlands Limited V. Bemi Inns Limited (1985)* (6 marks)

### Solution

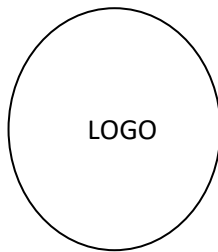
- i. **Ex-gratia Payment:** if there is no liability attaching to insurers, they have no subrogation rights. If a claim is paid ex-gratia, without admission of liability, there is no right of recovery unless the policyholder assigns their right to insurers in writing.  
(4 marks for each correctly stated point. Maximum of 2 points to be graded. Total: 8 marks)
- ii. **Partial Recoveries:** problems can arise in the event of partial recovery which must be apportioned between the insured and uninsured losses, the insurers can only recover the amount or portions that represent the insured part whilst the uninsured amount belongs to the insured.  
(3½ marks for each correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)
- iii. **Strict Liability:** this liability was established in the case of Rylands v. Fletcher (1968). The case itself relates to the water in a reservoir. There has to be an escape and the use of the land has to be non-natural. It was

held that there can be a strict liability for the escape of a deliberately lit fire. Insurers have the right of recovery for losses arising from the escape of water due to the non-natural use of the land. However, if the escape is due to natural and reasonable use of the land, e.g. storage of domestic heating oil, there is no liability and therefore no right of recovery.

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

- iv. **Mark Rowlands Ltd. V. Bemi Inns Limited (1985):** Mark Rowlands (landlord) insured the building occupied by Bemi Inn Limited. Bemi Inn paid the rent and the insurance premium. The premium paid by Bemi Inn means that the insured (landlord) has recovered the premium earlier paid. There was a loss following a fire incident; the landlord insurer indemnified the landlord and attempted to recover from the tenant, but it was held that the tenant was co-insured since it paid the premium and therefore that the landlord's insurer has no right of recovery.

(3½ marks for each correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA  
DIPLOMA**

**OCTOBER 2019 EXAMINATION PAPER**

**SUBJECT D19  
SUBSIDENCE CLAIMS HANDLING**

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- ✚ 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

## D19 - SUBSIDENCE CLAIMS HANDLING

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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



**Chief Examiner's Summarized Statistics**

Pass Rate:	Not Applicable
Highest Score:	Not Applicable
Lowest Score:	Not Applicable
Average Score:	Not Applicable