

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

ANTONY DO'S DIANTONY	DAOTO DON'TS DAOTO	
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Intermediate and Associateship Level)	
Start each question on a fresh page	Write after invigilators have declared "time-up	
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts	
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.	Nuture fear on any subject. There is no subject that distinction cannot be obfained.	
Attend the Annual Students' Forum	Avold the Annual Students' Forum	
ETC ON THE FOLLOWING SITES naicom.com (I	ENITS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS NAICOM), nigeriainsurers.og(NIA); ncrib.net(NCRIB); (1); ciinigeria.org (CIIN)	
	D LEAD TO STIFF SANCTIONS. DO NOT BE A CULPRIT. AN	

INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPRIT. AN Y CANDIDATE CAUGHT AND/OR FOUND TO BE CHEATING/HAVE CHEATED WILL BE BARRED FROM PARTICIPATING IN ANY OF THE INSTITUTE'S EXAMINATION ACTIVITY FOR TWO (2) YEARS, AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA POST AIIN - ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT PA02

LOSS ADJUSTING PRACTICE (ASSOCIATESHIP)

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

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

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

PA02 – LOSS ADJUSTING INSURANCE PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Ouestion 1

80% pass rate with scores of 66% and above. Candidates demonstrated a fair understanding of the difference between traditional indemnity valuation and reinstatement cover, with most providing accurate calculations and clear explanations. However, performance could be improved with more rigorous study and consistent practice in calculations.

Question 2

With an 80% pass rate, many candidates effectively addressed the distinction between traditional indemnity valuation and reinstatement cover. However, a deeper understanding and more practical application of these concepts are necessary to further enhance overall performance.

Question 3

100% pass rate with scores of 80% and above. This question focused on three key enquiries that differentiate the adjustment of theft and fire claims. Responses were excellent, likely reflecting the fact that a majority of candidates are practicing professionals familiar with such distinctions.

Question 4

100% pass rate with scores of 66% and above. In part (a), the material damage proviso was clearly understood and accurately explained. In part (b), candidates precisely outlined two reasons for including the proviso in business interruption policies. Students are encouraged to maintain this level of commitment and continue putting in the necessary effort.

Ouestion 5

80% pass rate with scores of 83% and above. In part (a), the definition of policy was excellently answered. In part (b), candidates were able to list two policy exclusions correctly. Those who performed poorly appeared to have been inadequately prepared and are advised to intensify their study efforts.

Question 6

100% pass rate with scores of 83% and above. Most candidates demonstrated a solid understanding by writing accurate short notes on negligence, nuisance and trespass. Only one candidate scored poorly, attributed to a lack of preparation. Continued discipline and hard work are essential.

Question 8

17% pass rate with one candidate scoring 100%. The majority of candidates showed no understanding of the six key elements required in a final report for a Public Liability (PL) claim adjustment. All candidates are strongly advised to fully cover the syllabus, even if they have not encountered such claims in practice.

Question 9

100% pass rate with scores of 50% and above. Part (a), which required candidates to identify four out of five NAICOM transformational focus areas, was excellently answered. Part (b), a case study, was also well-handled, demonstrating candidates' practical understanding of loss adjusting. Continued discipline is recommended.

Ouestion 10

100% pass rate with scores of 59% and above. In part (a)(i), candidates effectively described the loss notice and claims process. In part (a)(ii), they correctly enumerated seven key items found in the document.

Part (b), related to borescope inspection in machinery loss adjustment, was more challenging. Candidates are advised to strengthen their understanding of technical applications in such cases.

Question 11

This question was not attempted by any candidate, as it was optional.

Question 12

75% pass rate with scores of 65% and above. Part (a), focused on Hold-up extension, Larceny and Collusion, which was well attempted. Part (b) tested on salvage and its application in under-insurance was also adequately answered. Most candidates were able to explain debris removal under Industrial All Risks (IAR), though a few showed limited understanding. Continued focused study is encouraged.

Question 13

100% failure, with all candidates scoring below 35%. Part (a) dealt with subrogation rights under Fidelity Guarantee policies, which was poorly handled. (i) Candidates failed to correctly state two ways insurers pursue subrogation, and (ii) Two methods used by loss adjusters were inadequately explained.

Part (b), covering challenges and possible solutions, was poorly attempted while Part (c), involving three investigating enquiries, also showed a lack of knowledge. This poor performance reflects insufficient preparation and lack of familiarity with core course materials.

Question 14

100% pass rate with scores of 53% and above. Part (a), concerning the new provision of Section 55 of the Insurance Act 2023 and its influence on claims repudiation, was well addressed.

Part (b), examined adjusting a claim under a standard fire policy, which was moderately answered. Part (c), involving the single article limit, was excellently explained. Candidates are encouraged to combine theoretical study with practical insight.

Comments on Overall Performance:

An overall pass rate of 80% is commendable and reflects good effort from the majority of the candidates. However, there are still some areas that require significant improvement, especially in technical and lesser-practiced sections of the syllabus.

Suggestion(s) on Improvement (if any)

Candidates are advised to study rigorously and prepare thoroughly for examinations. Greater emphasis should be placed on technical application and practical understanding, as required in the profession.

Candidates should adopt a more analytical and disciplined approach to learning and engage more deeply with coursebooks and case studies.

In addition, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labeled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Explain the difference between the "traditional indemnity valuation" and the "reinstatement cover".

Solution:

Traditional Indemnity Valuation involves deducting depreciation from the purchase cost of materials to account for their prior usage, as well as the benefits gained by the insured from any repairs made.

In contrast, **Reinstatement Cover** refers to the expense of replacing a damaged item with a new one of similar type and quality.

With Reinstatement Cover, the insurers commit to calculating indemnity based on the cost of replacing the damaged items.

(6 marks for correctly stated differences)

2. State and briefly explain two (2) of the three (3) types of reports that the loss adjuster prepares for the insurer while handling a business interruption claim.

Solution

- (a) **Preliminary Reports:** a preliminary report is issued by the loss adjuster to insurers within a few days of starting the investigation. This will provide an estimated and provisional figure for insures to show as a liability in their accounts. The figure will usually err on the side of caution because loss adjusters prefer not to have to advise insurers of an increase in liability later in the negotiations.
- (b) **Interim Reports:** Interim reports usually follow, at intervals, so as to inform insurers of the progress of the adjustment and to request, where necessary, payments on account (to prevent the insured getting into cashflow difficulties and, also, to avoid a worsening of the loss because of a lack of finances).

It is essential that the loss adjusters work closely with the insured throughout the currency of the loss to avoid unnecessary delays in the resolution of the problem and also (very importantly) to secure the insured's confidence and cooperation. The interim reports should provide evidence of their success in these areas.

- (c) Final Reports: The final report is issued when a settlement has been agreed with the insured. It is to be hoped that the final figure is within the original, or amended, loss estimate.

 (3 marks each for each correctly stated report. Maximum of two to be graded. Total: 6 marks)
- 3. The process involved in adjusting theft claims is like that of fire claims up to a certain degree. The Loss Adjuster's attention would be focused on several enquiries emanating from the policy requirements. List any three (3) possible enquiries.

Solution

The possible enquiries emanating from the policy requirements are:

- i. Was there forcible entry or exit?
- ii. Was there collusion with the insured or any of his staff?
- iii. Were the properties/goods/stock etc. in existence prior to the loss?
- iv. What security measures were in existence prior to the incident?
- v. Were openings in the building structure adequately secured?

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

- 4. (a) What is the "Material Damage Proviso"? (2 marks)
 - (b) State two (2) reasons why (i) is usually included in a Business Interruption Insurance Policy. (4 marks)

Solution:

(a) Material Damage Proviso proviso is very important and must be complied with before a claim can be accepted under the business interruption policy, That is, the material damage insurers (who may or may not be the same) must have either paid a claim or accepted liability for the material damage under their policy.

(2 marks for correct explanation)

- (b) There are three main reasons for this proviso:
 - i. If a claim has been accepted under the material damage policy all the warranties and conditions of that policy must have been complied with. Without this proviso, it would be necessary for the business interruption insurers to include all the material damage warranties, etc. in their own cover and also, after loss, to see that they had been complied with.
 - ii. The material damage insurers will have satisfied themselves that there is a valid claim under their policy, and no further investigation needs to be made into the cause. (This will of course vary if the cover under the two policies is not identical, as may happen with certain perils.)
 - iii. If there is no material damage policy in force the insured may be considerably disorganized by a lack of finance, and in fact may not be able to replace his building, machinery or materials, and the period of interruption may be greatly extended as a result.

(2 marks each for each correctly stated reason. Maximum of two to be graded. Sub Total: 4 marks) (Grand Total: 6 marks)

- 5. (a) What is Machinery Breakdown Policy? (2 marks)
 - (b) List two (2) exclusions of the policy. (4 marks)

Solution

(a) Machinery Breakdown Policy is a policy that covers electrical and mechanical breakdown arising from any cause not excluded in the policy. Cover includes breakdown resulting from faults (of design, material, or workmanship) in the machine and errors by operating or maintenance personnel.

(2 marks for correct explanation)

- (b) The standard exclusions under the Machinery Breakdown policy are:
 - political and nuclear risks;
 - corrosion, erosion, wear and tear;
 - breakdown caused by testing or intentional overloading;
 - damage for which the manufacturer or supplier is responsible by law or contractual obligations;
 - hazards covered under other forms of insurance such as fire, explosion, earthquake, theft, burglary, etc. (except storm);
 - exchangeable and consumable items such as fuel, tools, belts, cutting edges, the brick lining of furnaces, and ovens.

(2 marks each for each correctly stated reason. Maximum of two to be graded. Sub Total: 4 marks) (Grand Total: 6 marks)

- 6. Write a short note on the following:
 - (a) negligence; (b) nuisance; (c) trespass.

Solution

- (a) **Negligence:** This is the omission of doing something which a reasonable person would do or doing something which a reasonable person would not do.
- (b) **Nuisance:** This is the wrong done to a person by unlawfully disturbing him in the enjoyment of his property or in the exercise of a common right. A public nuisance is when a person unreasonably interferes with a right that the general public shares in common. A private nuisance is when the plaintiff's use and enjoyment of her land are interfered with substantially and unreasonably through a thing or activity.
- (c) **Trespass:** This tort can give rise to criminal action. It is an unlawful act committed with force and violence on the person or property of another. The degree of violence is immaterial and even the slightest degree is sufficient.

(2 marks each for correct explanations) (Grand Total: 6 marks)

7. State any six (6) information that should be included in the final report for Public Liability Claim Adjustments.

Solution

The final report should include:

- a brief summary of what was said in the initial report;
- a summary of the settlement negotiations identifying the parties to the negotiations;
- offers and counter-offers made;
- a statement of the settlement;
- a statement of the steps taken by the adjuster to resolve the claim;
- the difference between the reserve and the actual settlement;
- the factual basis for the difference;
- the legal basis for the difference;
- advice provided by counsel; and
- instructions to close the file and take down all reserves

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

8. When adjusting a Public Liability Claim, the Insurer should provide detailed information under specific headings. State any six (6) information the headings should cover.

Solution

The headings should provide the following information

- * the territorial limits;

 * special limits of liability applicable to the loss;
- * the form numbers available; * details concerning other insurance, if applicable;
- * all persons who qualify as insureds;
- * any unusual conditions, limitations, exclusions or warranties.

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

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) The current Management of National Insurance Commission (NAICOM)

unveiled priorities to transform the insurance industry. The aim is the safety and soundness of the sectors. State any four (4) of these five transformational focus drives.

(b) You are a loss adjuster who has recently received instructions from AB Insurance Company Limited to handle a claim involving a fire at a textile manufacturing facility owned by Silky Soft Textiles. The incident reportedly occurred in the early hours of the morning. Silky Soft Textiles has submitted a preliminary claim for substantial damages to the building structure, machinery and stock. You are instructed to investigate the claim, establish the cause and extent of the damage, verify the policy's terms and conditions and provide recommendations to AB Insurance Company Limited on the claim's validity and potential settlement.

Upon receipt of your instructions, you acknowledged AB Insurance's letter, requested copies of the policy and any recent endorsements and arranged an initial site inspection. During the site inspection, you noticed significant damage to the main manufacturing area, with portions of the roof and walls destroyed. Some machinery appeared irreparably damaged, while other equipment were only partially affected. Stock and raw materials had also been heavily impacted by fire and water damage from firefighting efforts.

After gathering information on-site, you engaged in discussions with Silky Soft Textiles' Management to understand the incident timeline, the estimated loss and any existing security measures. The company provided initial documentation, including an inventory of damaged goods and a fire service report that attributed the fire to an electrical fault in one of the machines.

Your investigation included verifying the value of the damaged property and consulting with third-party professionals for an accurate valuation. As you analysed the policy details, you noted the presence of certain warranties and clauses that could affect the claim, such as a maintenance warranty on electrical equipment and an excess for fire claims. Your final task is to prepare a detailed report outlining the cause, extent and validity of the claim, as well as your recommendation for settlement.

- (i) Enumerate five (5) steps a loss adjuster should take upon receiving instructions from an insurer to investigate the claim.
- (ii) List five (5) standard documents that should be requested from the insured following such a loss.
- (iii) Enumerate five (5) purposes of the stated documents in (b) above.
- (iv) State any four (4) elements that should be included in the loss adjuster's final report to the insurer on the claim. (40 marks)

Solution

- (a) These five transformational focus drives are:
 - (i) safeguarding policyholders and restoring public confidence in the sector
 - (ii) strengthening supervisory and regulatory capabilities
 - (iii) improving the safety and soundness of the insurance industry
 - (iv) fostering innovation and sustainability, and increasing accessibility
 - (v) penetration of insurance products across the country.

(2½ marks each for each correctly stated drive. Maximum of four to be graded. Sub Total: 10 marks)

- (b) (i) Upon receiving instructions, the loss adjuster should:
 - Acknowledge receipt of the assignment promptly to confirm acceptance.
 - Establish Contact with Broker (if any) or Insured
 - Request the policy document, relevant endorsements, and claim form for review.
 - Arrange an initial site visit to assess the damage and taking of photographs.
 - Investigate the cause of the loss
 - Confirm the Extent of Damage.
 - Mitigate the Loss

(2 marks each for every correctly stated step. Maximum of five to be graded. Total: 10 marks)

- (ii) The standard documents to be requested from the insured following a fire loss
- * completed claim form with detailed statement of claim where not provided on the form
- * inventory (stock) record; * bill of quantities;
- * purchase invoices; * assets register;
- * fire brigade report; * internal investigation report;
- * eye witness statements; * photographs.

(2 marks each for every correctly stated document. Maximum of five to be graded. Sub Total: 10 marks)

- (iii) The primary reasons for documentation are to support:
 - quantum of loss;
 - to confirm the identification and existence of the subject matter of claim;
 - to confirm the date of loss;
 - a written account of the circumstances of loss;
 - to confirm the name and contact details of the insured:
 - to obtain the time, duration, cause and method of extinguishment of the fire;
 - to obtain firsthand information, particularly as regards the circumstances of the incident, subject to the loss adjuster's subsequent confirmation;
 - to provide photographic evidence of the loss prior to the site visit.

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

- (iv) The final report should include:
 - A detailed account of the incident, cause, and timeline of events.
 - The extent of damage to property, machinery, and stock, supported by evidence.
 - Verification of compliance with policy terms and warranties.
 - A recommendation on the claim's validity and settlement amount.

(2½ marks each for each correctly stated element. Maximum of four to be graded. Sub Total: 10 marks) (Grand Total: 50 marks)

Part III

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

- 10. (a) (i) Describe the "loss notice" in the claims process under public liability insurance. (3 marks)
 - (ii) Enumerate any seven (7) items that the document in (i) contains.

(14 marks)

(b) (i) Explain the role of borescope inspections in machinery loss adjustment.

(5 marks)

(ii) List three (3) typical applications for borescope inspections. (6 marks)

(iii) List three (3) components to inspect using a borescope.

Solution:

(a) (i) The Loss Notice is the first official document submitted by the insured to notify the insurer of an incident that might result in a claim. It is crucial because it starts the claims process and provides the adjuster with the basic facts needed to proceed.

(3 marks each for correct explanation)

- (ii) The document tells the adjuster:
 - when the loss occurred;

* the agent's name and address;

(6 marks)

- the type of coverage the insured purchased; * the location of the loss;
- the insured's name, address, and telephone number; * the type of loss;
- who to contact and how to contact him or her (this section will usually give the name, address, and telephone number of the insured, the claimant, and any independent witnesses known to the insured);
- identification of the claimant and the injuries to the person or property claimed; and
- whether there is anything that should be given special attention, such as if the claimant is hospitalised, or the adjuster needs an interpreter.

(2 marks each for every correctly stated item. Maximum of seven to be graded. Sub Total: 14 marks)

(b) (i) Borescope inspections are a type of visual inspection that can examine hard-to-reach or inaccessible components without taking them apart or damaging them. Borescopes are used for where the target area is inaccessible by other means, or where accessibility may require destructive, time consuming and/or expensive dismounting activities. Borescopes are mostly used in non destructive testing techniques for recognising defects or imperfections.

They are also used in the manufacturing of machined or cast parts to inspect critical interior surfaces for burrs, surface finish or complete through-holes. A borescope, is a viewing device wired to a camera at the end of rigid, flexible tubing. The camera is sent inside the machine via the tubing, allowing the viewer to inspect the machine parts and surfaces from outside the body (such as the case of a gearbox). These devices can be customised to fit the need of the application by changing the size of the camera, adding an articulating head to widen the viewing range, or even adding a light to the end for a better view.

(5 marks for any correct and complete explanation) (Grand Total: 34 marks)

- (ii) Typical applications for borescope inspections include:
 - Equipment with high criticality;
 - Equipment that cannot be easily repaired or replaced;
 - Equipment that, if a failure occurs, could result in severe harm or injury;
 - Machines where access is difficult, and inspection opportunities are limited.

(2 marks each for every correctly stated application. Maximum of three to be graded. Sub Total: 6 marks)

- (iii) Components to Inspect Using a Borescope:
 - Gears: Inspect teeth for cracks, fatigue, and wear.
 - Bearings: Check positioning, seals, and signs of pitting.
 - Sumps: Inspect walls for varnish and sludge at the bottom.
 - Seals: Confirm proper seating and check for damage or ingression.

(2 marks each for every correctly stated component. Maximum of three to be graded. Total: 6 marks)

(Grand Total: 34 marks)

- 11. (a) (i) How do the Institute Cargo Clauses (A, B, and C) differ in their Coverages? (15 marks)
 - (ii) What specific provisions in Clause C relate to General Average Acts?

(2 marks)

- (b) (i) State the two (2) methods of calculating a Gross Profit Sum Insured in Business Interruption Insurance. (3 marks)
 - (ii) A manufacturing company suffered an interruption in its operations and is evaluating its insurance claim for Business Interruption. Calculate the Gross Profit from:

Opening Stock as at January	₩500,000.00
Sales	₩15,000,000.00
Purchases	₩ 8,000,000.00
Closing stock as at December	N 1,675,000.00
Variable Charges	N 1,350,000.00
Fixed Charges	N 2,375,000.00
-	(14 marks)

(14 marks)

Solution:

Institute Cargo Clauses Coverage Comparison: (a)

Clause A (All Risks):

- Comprehensive coverage for all risks of loss or damage to goods, except exclusions specifically listed.
- Example: Covers unforeseen events like theft, storm damage, or accidental loss.

Clause B (Limited Risks):

- Covers specific perils, from:
 - Earthquakes.
 - Washing overboard.
 - Entering and entering water on board
 - Total loss of cargo during loading and unloading
 - Water ingress into the vessel.
 - Example: Cargo is damaged due to water entering the hold during a storm.

Clause C (Minimal Risks):

- Covers restricted perils such as:
 - Fire or explosion.
 - Vessel being stranded grounded sunk or capsized
 - Rollover or derailment of land transport
 - Collision or contact of a ship or other means of transport with an external object other than water,
 - Unloading the goods at a port of refuge.
 - The deliberate or forced dropping of goods at sea in the effort to rescue the ship and the rest of the cargo (Jettison)
- Example: A fire onboard damages goods in transit.

(15 marks for each correctly explained clause)

Relation to General Average under Clause C: (ii)

Clause C specifically includes coverage for losses arising from:

Jettison: Deliberate dropping of goods at sea to save the ship and remaining cargo.

• Unloading at a Port of Refuge: Costs incurred when cargo is unloaded to facilitate ship repairs or to avoid further risks.

(2 marks for correct specific provision) (Grand Sub Total: 17 marks)

- b (i) The two methods are
 - Additional Basis
 - Difference Basis (2 marks)

(1½ marks each for each correctly stated method. Total: 3 marks)

(ii) Using the Difference Basis

Less:

(Sub-Total 14 marks) (Grand Total: 34 marks)

- 12. (a) Write short notes on the following terms in relation to theft policy:
 - (i) Hold Up Extension;

(ii) Larceny;

(iii) Collusion

(b) (i) What is salvage?

(15 marks) (3 marks)

- (ii) How does salvage apply when there is under-insurance?
 - rance? (6 marks)
- (c) Explicitly explain "debris removal" in Contractors' All Risk Policy. (10 marks)

Solution

- (a) (i) **Hold Up Extension:** The Hold Up extension to the policy is a clause which considers where the burglars entered the premises by the threat of violence such as holding a person at gunpoint or with threat of physical harm, and forcing them to open access to the building or part of building where the theft is to be committed. Where this clause is endorsed on a burglary policy, the requirement for violent entry and/or exit is waived.
- (ii) Larceny: Larceny simply means theft, however, larceny cover in a burglary policy allows situations where the perpetrator of the theft enters a building without force or threat of force. This situation can arise for example in a supermarket or a building where access is not restricted. Where theft occurs in such a building and the policy incorporates the Larceny extension, then the requirement of force/violence is unnecessary.
- (iii) **Collusion**: Where the insured has been found complicit in the commission of the burglary, then the policy will not respond to the claim. It is a standard exclusion that collusion by the insured and/or his employees nullify a valid claim.

(5 marks each for every correct explanation. Sub Total: 15 marks)

(b) (i) **Salvage** refers to damaged property that still retains some economic value from which insurers can recoup part of their outlay. It must be remembered that potential salvage belongs to the insurer, however, where liability is not being admitted, insurers have no claim on the salvage.

(3 marks for correct explanation)

(ii) Where there is underinsurance and Average is applied to a loss, the salvage proceeds will be apportioned between the insurer and the insured proportionately. This is because when Average is applied, the insured is deemed to be his own insurer for the underinsurance and as such should also benefit from the proceeds of salvage.

(6 marks for correct explanation) (Grand Sub-Total: 9 marks) (Grand Total: 34 marks)

- (c) **Debris Removal**: Debris Removal is the Cost and Expenses incurred by the Insured with the consent of the Company in:
 - i. Removing and disposing of debris from or adjacent to the site of the Contract Works.
 - ii. Dismantling or demolishing.
 - iii Shoring up or propping
 - iv. Cleaning or clearing of drains main services, gullies manholes and the like within the site of the Contract Works Provided that the Company shall not be liable in respect of seepage pollution or contamination of any property not insured by the section.

(10 marks for correct explanation which includes the consent) (Grand Total: 34 marks)

- 13. By practice there is usually subrogation rights under a fidelity guarantee policy when a defaulter.
 - (a) (i) State and explain any two (2) ways through which the insurer pursues such identified subrogation rights. (4 marks)
 - (ii) State and explain any two (2) ways through which the loss adjuster pursues such identified subrogation rights. (5 marks)
 - (b) (i) Enumerate any two (2) challenges that might arise when such occurs.

(8 marks)

- (ii) Enumerate any (2) solutions that can be used to address the identified challenges in (b (i) above. (8 marks)
- (c) Explain any three (3) investigating eenquiries that should be made when handling a Fidelity Guarantee Claim. (9 marks)

Solution

- (a) (i) Role of the Insurer:
 - Securing Subrogation Rights:
 - The insurer acquires the right to pursue recovery from the defaulter after compensating the insured for their loss.
 - Encouraging Prosecution:
 - The insurer directs the insured to initiate legal action or support prosecution efforts against the defaulter. This deters fraud and aids recovery.
 - Reimbursing Authorized Expenses:
 - The insurer may reimburse reasonable legal expenses incurred by the insured to prosecute the defaulter.

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

- (ii) Role of the Loss Adjuster:
 - Facilitating Evidence Collection:
 - Gather proof of the dishonest act, including confessions, employment records, and witness statements, to support legal action.
 - Coordinating with Authorities:

- Assist in liaising with law enforcement or legal counsel to strengthen the case against the defaulter.
- Determining Recovery Potential:
 - o Investigate the financial standing of the defaulter and guarantor to assess the likelihood of successful recovery.

(2½ marks each for every correctly stated way. Maximum of two to be graded. Sub Total: 5 marks)

- (b) (i) Challenges in Subrogation:
 - Financial Insolvency:
 - o Many defaulters or guarantors may lack the means to repay stolen funds.
 - Absconding Defaulters:
 - o Defaulters may flee, complicating recovery efforts.
 - Lack of Interest in Prosecution:
 - o Insurers or insureds may neglect to pursue cases to a conclusion.

(4 marks each for every correctly stated challenge. Maximum of two to be graded. Sub Total: 8 marks)

- (ii) Addressing Challenges:
 - Collaborate with authorities like the EFCC to track absconding defaulters.
 - Leverage guarantor agreements to secure partial recovery where applicable.
 - Emphasize the deterrent effect of pursuing legal action to prevent future fraud

(4 marks each for every correctly stated challenge. Maximum of two to be graded. Sub Total: 8 marks)

- (b) Investigative Enquiries
 - The loss must happen during the currency of the policy while discovery may be outside the period of insurance.
 - The Adjuster should be able to probe into the "bona fides" of the insured. That is, the adjuster should confirm the following:
 - Employer's employment policy i.e. methods adopted when engaging new employees; background checks conducted on prospective employees and their guarantors.
 - The systems in place for checking account i.e. processes and procedures in place to initiate a transaction, approval levels and how frequently feedbacks (through deliberate monitoring and spot-checks) are received
 - General supervision of the entrusted employee who is responsible, what
 is required of him and how frequently does the supervisor report to
 management.
 - o Conditions of service of the employee covered relative to his responsibility and trust.
 - It is important to note that Fidelity Guarantee insurance covers a direct financial loss, not a consequential loss
 - Its observance ensures that only the pecuniary loss resulting from the dishonesty of the employee is Recoverable.
 - Check status of guarantors; Make enquiries as to recoveries, if any; check status of employee, check character references; check policy limits of liability; check if defalcator has been prosecuted;

(3 marks each for every correctly stated enquiry. Maximum of three to be graded. Sub Total: 9 marks) (Grand Total: 34 marks)

- 14. (a) Explain how the provision of Section 55 of the Insurance Act 2003 influenced decisions to repudiate claims under insurance policies. (14 marks)
 - (b) A cooking gas cylinder used in the staff canteen of an insured company explodes and causes fire and impact damage to the Company's complex, canteen and factory. As an appointed Loss Adjuster, how will you adjust the claims under a Standard Fire Policy? (10 marks)
 - (c) State the "single article limit" and explain what it means. (10 marks)

Solution

(a) By the Insurance Act 2003, the breach of a policy condition or warranty can no longer give rise to any right in favour of an insurer against an insured unless the term is material and relevant to the risk or loss insured against. To that extent an insurer is not entitled to repudiate liability on a policy or reject a claim on grounds of breach of condition or warranty unless the breach amount to a fraud or it is a breach of fundamental term of the policy. s

In section 55 (5) of the Act, the expression 'Fundamental term' is defined as a warranty, condition or other terms of an insurance policy which a prudent insurer will regard as material and relevant in accepting to under write a risk and in fixing the amount of premium.

The definition is not further expanded as the issue whether a term is fundamental is to be determined from the perspective of the insurer. Given to the definition, it is not likely that clauses such as notification of loss can be regarded as fundamental.

(14 marks for correct explanation)

(b) The cooking gas used in the staff canteen is classified for domestic purposes, and explosions arising from its domestic use are covered under a Standard Fire and Special Perils Policy.

While fire caused by an explosion is typically categorized as explosion damage and excluded under a Standard Fire Policy, the policy explicitly accepts liability for fire-related losses by stating "whether resulting from explosion or otherwise." This clause reflects the insurer's agreement to waive the rule of proximate cause.

An explosion caused by a cooking gas cylinder is not automatically covered under the Standard Fire Policy unless the explosion led to an actual fire and that fire caused the damage. As an adjuster, I would do the following:

- Confirm policy type and wording
- Investigate and establish proximate cause (i.e., was fire the actual cause of damage?)
- Request and review policy schedule and endorsements
- Confirm fire service intervention and obtain official fire reports
- Inspect and document the extent of physical damage to buildings and assets
- Obtain statements from eyewitnesses and staff present during the incident
- Request supporting claim documentation (e.g., invoices, photographs, repair estimates)
- Assess fire damage as distinct from explosion-only damage, if possible
- Evaluate compliance with fire safety and gas usage protocols
- Review policy exclusions and warranties for potential breaches
- Quantify the loss (buildings, machinery, stock, furniture, etc.)
- Apply depreciation, salvage value, and assess for underinsurance if applicable
- Determine the insurer's liability or consider grounds for repudiation
- Prepare and submit preliminary or final loss adjustment report

(10 marks for correct explanation)

(c) Single Article Limit

Most policies have an upper limit on the value you can insure each unspecified item. Single Article Limit is the maximum amount you can claim for any one unspecified item. For example, a single item limit of №10,000.00 will only pay that amount for any article stolen or damaged, regardless of its value. Sometimes the Single Article Limit is expressed as a percentage of the policy sum insured. It is found in most burglary/householders policies and the clause states as follows:

"It is understood and agreed that no any one article insured by this policy shall be deemed to exceed 5% of the total sum unless such article is specifically declared"

(10 marks for correct explanation.) (Grand Total: 34 marks)