



*Chartered Insurance  
Institute of Nigeria  
Chief Examiners' Report  
April 2026  
Post AIIN  
(Loss Adjusting Practice)  
PA02*

# GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 at the detriment of Parts B & C (Intermediate and Associateship Level)
Start each question on a fresh page	Write after the 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 the tips learnt before the exams and concentrating on questions that would fetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum.	Avoid the Annual Students' Forum.
<p><b>CANDIDATES SHOULD VISIT &amp; UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKING AGREEMENTS, ETC. ON THE FOLLOWING SITES: naicom.gov.ng (NAICOM), nigeriainsurers.org (NIA); ncrib.net (NCRIB); ilan.com.ng (ILAN); ciinigeria.org (CIIN)</b></p>	
<p><b>INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPRIT. ANY CANDIDATE CAUGHT AND OR FOUND TO BE CHEATING/HAVE CHEATED WILL FACE NECESSARY DISCIPLINARY ACTIONS AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).</b></p>	
<p><b>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</b></p>	



CHARTERED INSURANCE INSTITUTE OF NIGERIA

POST AIIN - ASSOCIATESHIP

APRIL 2026 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 or more parts, this instruction does not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026 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**

### **Question 1**

A 65% pass rate was recorded. Candidates fairly explained the primary dissatisfaction raised by the British companies and its effects. However, some candidates wrote on the reinstatement memorandum, which was not the intention or objective of the question.

### **Question 2**

A 50% failure rate was recorded. The major loss of marks was in Question 2(a), as candidates were unable to clearly distinguish the link between valued policies in general insurance and marine insurance.

### **Question 3**

Candidates demonstrated a shallow understanding of the application and non-application of depreciation under the Machinery Breakdown Policy, resulting in a 59% failure rate.

### **Question 4**

The question tested candidates' understanding of warranties and clauses under the Goods in Transit Policy. It was a direct and practical question, and candidates demonstrated good knowledge of the applicable clauses and warranties. A 75% pass rate was recorded.

### **Question 5**

Candidates were able to identify the various areas of law where legal liability may arise.

### **Question 6**

A 50% failure rate was recorded, as candidates were not familiar with the various vessels that a marine surveyor is required to inspect.

### **Question 7**

A 50% pass rate was recorded. Candidates understood the concept of General Average Condition; however, marks were lost due to poor understanding of the York-Antwerp Rules.

### **Question 8**

Candidates did not adequately address the current global practice for preparing professional fees for loss adjusters, particularly the use of hourly rates. Some candidates incorrectly stated that NAICOM or NIA regulatory scales should be applied.

### **Question 9**

A 67% pass rate was recorded. Candidates appeared to have limited knowledge of the significance of the discovery period in fidelity claims and the insurer's liability where some staff members are named while others are not.

### **Question 10**

None of the four (4) candidates who attempted the question passed it. Candidates demonstrated poor knowledge of Day One Cover, its effect on loss adjustment and its advantages.

### **Question 11**

Although the only candidate who attempted the question recorded a borderline pass, the overall pass rate was 100%. The candidate demonstrated poor understanding of Day One Cover, the eviction clause, its effects, and application.

**Question 12**

29% pass rate was recorded, with only 2 out of 7 candidates passing. Candidates showed limited understanding of Business Interruption Insurance. While they were comfortable with definitions, they lacked in-depth knowledge of basic loss calculations and the documentation required for such claims.

**Question 13**

42% pass rate was recorded, with 5 out of 12 candidates passing. Candidates demonstrated poor knowledge of the 50/50 Clause, restricted Goods in Transit cover, and the historical development of reinstatement cover.

**Question 14**

100% pass rate was recorded. All candidates attempted the question on Contractors' All Risks Insurance and demonstrated good knowledge of CAR conditions and requirements.

**Comments on Overall Performance:**

The questions were designed to require candidates to apply textbook knowledge to practical and simulated situations. Overall, the performance was satisfactory at 58.3%.

**Suggestion(s) on Improvement (if any)**

Candidates should be encouraged to study harder, particularly on topics relating to reinstatement and its associated clauses, such as Day One Cover and escalation clauses.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Briefly explain the primary dissatisfaction raised by British companies in the early 20th century that led to the development of Reinstatement Cover.

### Solution

The primary dissatisfaction raised by British companies in the early 20th century that led to the development of Reinstatement Cover was that the trading companies were dissatisfied because if normal materials damage claim settlement procedures were carried out (deductions made for wear and tear), they would not have enough money available to make up the difference between the traditional indemnity valuation and the cost of replacing machinery, thus facing financial difficulty.

(6 marks for a correct and completely stated explanation)

2. (a) In relation to the classification of insurance contracts, what is the essential effect of a Reinstatement Memorandum Cover on the policy.  
(b) Which type of marine insurance policy does it functionally resemble in its operation?

### Solution

- (a) The essential effect is that the reinstatement memorandum cover simply makes the policy a valued policy because it defines the basis of valuation for indemnity.

(3 marks for a correct and completely stated explanation)

- (b) It resembles the marine valued policies.

(3 marks for correctly stated policy. Sub Total: 3 marks)

(Grand Total: 6 marks)

3. Under a Machinery Breakdown policy, in which situation is:  
(a) depreciation applied? (b) depreciation not applied?

### Solution

- (i) Depreciation is applied in a total loss to ascertain the pre-loss market value (3 marks)  
(ii) Depreciation does not apply to partial repairs (3 marks)

(Grand Total: 6 marks)

4. State any six (6) warranties or clauses that a Loss Adjuster should be familiar with when handling a claim under a Goods-in-Transit (GIT) policy.

### Solution

Any six from:

- (i) Notification of loss clause  
(ii) Hired Vehicle Warranty.  
(iii) Goods-in-Transit Clause  
(iv) Documentary Evidence Warranty  
(v) After Accident Security Warranty  
(vi) Tarpaulin Warranty  
(vii) Pre-Transit Warranty  
(viii) Waybill Clause  
(ix) Damage by Rain Warranty

(1 mark for each correct and completely stated warranty or clause. Maximum of six (6) to be graded.

Total: 6 marks)

5. State three (3) areas of law under which legal liability may arise.

### **Solution**

The areas of law under which legal liability may arise are:

\* negligence; \* nuisance; \* trespass; \* strict liability.

**(2 marks for each correctly stated warranty or clause. Maximum of three (3) to be graded. Total: 6 marks)**

6. State any three (3) types of vessels that a Marine Surveyor may be required to inspect.

### **Solution**

The types of vessels that a marine surveyor may be required to inspect are:

\* negligence; \* pleasure craft; \* passenger vessels; \* tugboats, barges; \* dredges; \* oil rigs  
\* ferries; \* cargo vessels and warships

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

7. (a) Explain the principle of General Average. **(2 marks)**  
(b) State two (2) main characteristics as defined under Rule A of the York–Antwerp Rules. **(4 marks)**

### **Solution**

(a) General Average refers to any extraordinary, intentional, and reasonable act of sacrifice or expense made during a common maritime risk to safeguard and/or rescue the ship and cargo.

**(2 marks for correct explanation)**

(b) The main characteristics as defined under Rule A of the York–Antwerp Rules are:

- (i) the sacrifice or expense must be extraordinary or unusual.  
(ii) the action must be deliberate and intentional, not accidental or unavoidable.  
(iii) there must be a real risk, though not necessarily immediate.  
(iv) the act must be done for the joint salvation of both ship and cargo, not just one party's property.

**(2 marks for each correct and completely stated characteristic. Maximum of two (2) to be graded. Sub Total: 4 marks)**

**(Grand Total: 6 marks)**

8. (a) In relation to the Loss Adjuster's role, how is a law adjuster required to act, as it relates to negotiation, with a third party who is represented by a legal counsel?  
(b) State the current global practice for preparing Loss Adjusters professional fees.

### **Solution**

(a) An adjuster cannot negotiate with a third-party represented by an attorney if he has knowledge of the attorney.

**(3 marks for a correct and completely stated explanation)**

(b) The current global practice is that bills are prepared based on hourly rates.

**(3 marks for a correct and completely stated explanation)**

**(Grand Total: 6 marks)**

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

9. (a) (i) How is insurance business categorised under the Nigerian Insurance Industry Reform Act (NIIRA, 2025) in Section 3? **(4 marks)**  
(ii) State any three (3) groups under each of the division in (a) above. **(6 marks)**

### **Solution**

(a) (i) The Nigerian Insurance Industry Reform Act (NIIRA) 2025, in Section 3, categories insurance business into two main classes:

(i) Life Insurance Business **(2 marks)**

(ii) Non-Life Insurance Business. **(2 marks)**

**(Sub-Total: 4 marks)**

- (ii) (i) Life Insurance Business:  
 \* Individual Life Assurance Business; \* Group Life Assurance Business  
 \* Annuity \* Health Insurance Business.
- (ii) Non Life Insurance Business:  
 \* Fire Insurance Business; \* General Accident Insurance Business;  
 \* Motor Vehicle Insurance Business; \* Marine Insurance Business  
 \* Energy (Oil, Gas and Power) Insurance Business;  
 \* Engineering Insurance Business;  
 \* Bonds Credit Guarantee and Suretyship Insurance Business; and  
 \* Agricultural Insurance business other than schemes covered by the Nigerian Agricultural Insurance Corporation Act.

(1 mark for each correct and completely stated group. Maximum of 3 to be graded under each category.

Sub-Total per category: 3 marks. Grand Sub-Total: 6 marks)

(Grand Total: 10 marks)

- (b) ABC Merchants Limited is a medium-sized trading enterprise that maintains a Fidelity Guarantee Policy covering its staff on a **Named Persons Basis**. The policy indemnifies the company against direct pecuniary loss resulting from dishonest or fraudulent acts committed by any insured employee in the course of employment, provided such loss is discovered during the policy period or within six months after its expiry.

The following incident has been reported to you in your capacity as the appointed Loss Adjuster:

- Mr. Kalu, the Credit Control Manager and a named employee under the policy, is alleged to have misappropriated customers' cheque payments by diverting them into his personal bank account over an 18-month period.
- The total financial loss identified to date is ₦24 million.
- Initial findings indicate significant weaknesses in the company's internal control framework, particularly the absence of independent monthly reconciliations.
- Evidence suggests that two other employees in the Accounts Department may have aided the fraudulent activity; however, they are not listed in the policy schedule as insured persons.
- The insured has submitted a claim seeking full indemnity for the loss under the Fidelity Guarantee Policy.
- The policy has been renewed annually for the past three years without any break in cover.

As the Loss Adjuster, prepare a comprehensive report addressing the following issues:

- (i) Explain the scope of a Fidelity Guarantee Policy, with particular emphasis on its operation under a *Named Persons Basis*. (5 marks)
- (ii) State whether the reported loss falls within the scope of the operative clause. (5 marks)
- (iii) Explain the significance of the discovery period and the uninterrupted annual renewals in determining the insurer's liability. (5 marks)
- (iv) Briefly explain the recoverability of losses arising from fraudulent acts committed partly in earlier policy years. (5 marks)
- (v) Explain how the policy limit of indemnity applies to the reported loss. (5 marks)

- (vi) Explain the treatment of a series of fraudulent acts committed by a single employee under a Fidelity Guarantee Policy. (5 marks)
- (vii) State three (3) investigative steps required to verify the claim, including document review, staff interviews and engagement with auditors or law enforcement agencies. (6 marks)
- (viii) State two (2) recommendations regarding insurer liability and any potential rights of recovery or subrogation. (4 marks)

**Solution**

(a) (i) The Nigerian Insurance Industry Reform Act (NIIRA) 2025, in Section 3, categorises insurance business into two main classes:

- (iii) Life Insurance Business (2 marks)
- (iv) Non-Life Insurance Business. (2 marks)

(Sub-Total: 4 marks)

- (ii) (i) Life Insurance Business:
  - \* Individual Life Assurance Business; \* Group Life Assurance Business
  - \* Annuity \* Health Insurance Business.

- (ii) Non-Life Insurance Business:
  - \* Fire Insurance Business; \* General Accident Insurance Business;
  - \* Motor Vehicle Insurance Business; \* Marine Insurance Business
  - \* Energy (Oil, Gas and Power) Insurance Business;
  - \* Engineering Insurance Business;
  - \* Bonds Credit Guarantee and Suretyship Insurance Business; and
  - \* Agricultural Insurance business other than schemes covered by the Nigerian Agricultural Insurance Corporation Act.

(1 mark for each correct and completely stated group. Maximum of 3 to be graded under each category. Sub-Total per category: 3 marks. Grand Sub-Total: 6 marks)

(b) (i) A Fidelity Guarantee Policy indemnifies the insured employer against *direct financial loss* sustained through *fraudulent or dishonest acts* of employees during the course of their employment and discovered during the period of insurance or within a stated discovery period after termination.

*Under Named Persons Basis*, the policy lists specific employees covered. Only losses caused by those *specifically named* are recoverable. If a dishonest employee is not named, no indemnity applies.

(5 marks for a correct and completely stated explanation)

(ii) The analysis of whether the reported loss falls within the scope of the operative clauses are as follows:

- Mr. Kalu is a *named employee*, so *prima facie*, the policy can respond.
- His act (diverting company cheques to personal use) qualifies as *fraudulent and dishonest*.
- The loss is *direct financial loss* to the insured (no intermediary loss).

Thus, it falls within the operative clause, *subject to other conditions and exclusions*.

(5 marks for a correct and completely stated analysis)

(iii) The significance of the discovery period in determining the insurer's liability are:

- Claims must be discovered during the policy period or within the discovery period (e.g. 6 months) after expiry.
- Loss discovered within 6 months after expiry of the policy is recoverable.

The significance of the uninterrupted annual renewals in determining the insurer's liability are:

- Continuous renewal may extend cover, but losses must still be discovered during a valid policy period.
- Fraud that spans multiple years is typically allocated to the policy in force when discovered.

(5 marks for each correct and completely stated explanation)

(iv) Where a single employee commits continuous fraud across renewals, most policies treat the entire loss as *one claim* attaching to the period of discovery, subject to *one limit of indemnity*.

**(5 marks for each correct and completely stated explanation)**

(v) The policy limit of indemnity applies to the reported loss as follows:

- the insurer's liability is restricted to the sum insured stated against the employee's name in the policy schedule;
- example: If Kalu's limit is ₦10 million, even if the total loss = ₦24 million, the indemnity cannot exceed ₦10 million.

**(5 marks for each correct and completely stated explanation)**

(vi) Repeated frauds committed by a single employee under a Fidelity Guarantee Policy are treated as *one loss* (continuous dishonesty), not separate claims, unless the policy states otherwise.

Any additional employees (not named) are not covered. Losses caused by their collusion are excluded unless the policy includes a "group or blanket" extension.

**(5 marks for each correct and completely stated explanation)**

(vii) The investigative steps required to verify the claim are:

- **Verification of Policy:** Confirm policy in force, basis of cover (Named Persons), sum insured, and discovery period.
- **Fact-Finding:** Examine books, records, reconciliations, audit reports, and bank statements.
- **Employee Involvement:** Interview staff, especially those in Accounts, to establish the extent and method of fraud.
- **Quantum Determination:** Verify actual loss sustained amount misappropriated, less any recoveries.

**(2 marks for a correct and completely stated step. Maximum of three (3) to be graded. Sub Total: 6 marks)**

(viii) Recommendations:

- Advise indemnity limited to sum insured for Kalu only.
- Recommend recovery action (subrogation) against him and any accomplices.
- Suggest improvement of internal control systems.

**(2 marks for a correct and completely stated recommendation. Maximum of two (2) to be graded. Sub Total: 4 marks)**

**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. A manufacturing firm experiences a major fire loss, and reinstatement is expected to take approximately 18 months. The property is insured under a policy incorporating the Standard Reinstatement Memorandum. The Loss Adjuster informs the insurer that, due to volatile and escalating inflation, the Value at Risk at the time reinstatement is completed is projected to be ₦450million, whereas the current Sum Insured is ₦380million. The actual cost of repairs and rebuilding is ₦150million.

(a) Explain three (3) legal and practical challenges confronting the insurer in applying the Average clause and in seeking recovery of any overpayment, bearing in mind that reinstatement will span 18 months. **(9 marks)**

(b) State two (2) ways how the operation of the Reinstatement Memorandum (Day One Basis) would significantly change the outcome of the Average calculation for this claim, and why it is regarded as more appropriate in an inflationary environment. **(6 marks)**

- (c) Explain the following terms according to the rule of Rylands v Fletcher:
- (i) Negligence (3 marks) (ii) Strict Liability (4 marks)
- (d) State two (2) elements of proof required by the plaintiff on each of the two terms in (c) above. (12 marks)

### Solution

(a) The legal and practical challenges confronting the insurer in applying the Average clause and in seeking recovery of any overpayment are:

- The Value at Risk for Average is determined at the time reinstatement is completed (in 18 months).
- The Average clause will apply because the Sum Insured (₦380m) is less than 85% of the Value at Risk (₦450m x 85% = ₦382.5m).
- The payment is conditional on the cost being "actually incurred" (Special Condition 3(b)), complicating immediate final settlement.
- If the insurer makes a provisional payment and the final Value at Risk confirms underinsurance, the insurer faces the undesirable process of recovering the proportional overpayment from the insured.
- This makes claim management difficult and undesirable for the insurer.

(3 marks for correctly stated challenge. Maximum of three (3) to be graded. Sub Total: 9 marks)

(b) The ways in which the operation of the Reinstatement Memorandum (Day One Basis) would significantly change the outcome of the Average calculation for this claim are:

- The Day One Basis fundamentally alters the outcome by shifting the point of valuation for Average to the inception of the policy period (**Day One**).
- Average is only applied if the Declared Value at Day One is less than the actual cost of reinstatement at that same date (**Day One**).
- This protects the insured from inflation that occurs *after* the inception date (i.e., during the 18-month reinstatement period).
- It is superior because subsequent inflation will not trigger the Average penalty, provided the initial "Day One" declaration was adequate.

(3 marks for correctly stated fact. Maximum of two (2) to be graded. Sub Total: 6 marks)

(c) (i) Negligence is the omission to do what a reasonable man would do, or doing what a prudent and reasonable man would not do. (3 marks)

(ii) Strict Liability: A person who brings on his land to collect and keep there anything likely to do mischief if it escapes, is liable for all the damage which is the natural consequence of its escape.

(4 marks for a correctly stated explanation. Sub Total: 7 marks)

(d) (i) The elements of proof required by the plaintiff for negligence are:

- A duty of care owed by the defendant.
  - A breach of that duty of care.
  - Resulting damage, which is a direct consequence of the breach (causation)
- (3 marks for correctly stated element. Maximum of two (2) to be graded. Sub Total: 6 marks)

(ii) The elements of proof required by the plaintiff for strict liability are:

- The defendant brought and accumulated something likely to do mischief.
  - The accumulated thing escaped.
  - The accumulation constituted a non-natural use of the land
- (3 marks for correctly stated element. Maximum of two (2) to be graded. Sub Total: 6 marks)

**Grand Total: 34 marks)**

11. (a) The Escalation Clause allows the Sum Insured to increase progressively during the policy year to reflect inflation. Discuss three (3) ways in which the Escalation Clause is effective in reducing the risk of Average under the Standard Reinstatement Memorandum. Also, state three key contrasts between this and the effectiveness of the Reinstatement Memorandum (Day One Basis) in addressing inflation and Average.
- (i) explain any three (3) ways in which the Escalation Clause is effective in reducing the risk of Average under the Standard Reinstatement Memorandum. (9 marks)
- (ii) state three (3) key contrasts between this and the effectiveness of the Reinstatement Memorandum (Day One Basis) in addressing inflation and Average. (9 marks)
- (b) The Institute of Loss Adjusters of Nigeria (ILAN) maintains strict professional conduct standards for its members. A Loss Adjuster is appointed on a complex liability claim involving a severely distressed claimant and a third party represented by legal counsel.
- (i) State and explain two (2) mandatory prohibitions imposed on the Adjuster concerning communication, negotiation, and settlement with a claimant who is mentally or emotionally traumatized as a result of the loss. (10 marks)

### Solution

- (a) (i) Escalation Clause is effective in reducing the risk of Average under the Standard Reinstatement Memorandum in the following ways:
- **Purpose:** The clause provides for an incremental increase in the Sum Insured during the policy period.
  - **Ineffectiveness Reason 1:** The increase provided by the clause does not apply to the sum insured immediately after the damage.
  - **Ineffectiveness Reason 2:** The Average test is applied against the value at risk at the completion of reinstatement, months or years later.
  - **Conclusion:** The clause fails to cover inflation that occurs *during* the reinstatement period, providing no assistance against the Average penalty.  
(3 marks for a correctly stated way. Maximum of three (3) to be graded. Sub Total: 9 marks)
- (ii) The key contrasts and the effectiveness of the Reinstatement Memorandum (Day One Basis) in addressing inflation and Average are:
- **Superiority:** The Day One Basis is highly effective against post-loss inflation.
  - **The Test Shift:** It shifts the Average test date to the inception of the policy period (Day One).
  - **Test Condition:** Average only applies if the Declared Value at Day One is less than the cost of reinstatement at Day One.
  - **Protection:** This structure protects the insured from subsequent inflation that occurs *after* the inception date and during the rebuilding process.  
(3 marks for a correctly stated contrast. Maximum of three (3) to be graded. Sub Total: 9 marks)
- (b) (i) The mandatory prohibitions imposed on the Adjuster are:
- negotiation/statement prohibition;
  - settlement prohibition;
  - legal advice prohibition.
- **Negotiation/Statement Prohibition:** An adjuster cannot negotiate with or obtain a statement from a claimant or witness at a time they would reasonably be

expected to be in shock or serious mental or emotional distress as a result of physical, mental, or emotional trauma associated with a loss.

- Settlement Prohibition: An adjuster cannot conclude a settlement when the settlement would be disadvantageous to a claimant who has been traumatised or distressed by a loss.
- Legal Advice Prohibition: An adjuster cannot advise a claimant to refrain from seeking legal advice or retaining legal counsel. (The general prohibition against giving legal advice also applies.)

**(Candidates are required to explain all stated prohibitions. 2 marks for a correctly stated mandatory prohibition, 3 marks for each correct and completely stated explanation. Sub-Total per prohibition: 5 marks. Maximum of 2 to be graded. Sub-Total: 10 marks)**

(ii) (a) An adjuster cannot negotiate with a third-party represented by an attorney if the adjuster has knowledge of the attorney. (This limitation does not apply to an insured or the insured's resident relatives). **(2 marks)**

(b) In handling a third-party liability claim, the adjuster's

- Right to Interview Witness: An adjuster is permitted to interview any witness without the consent of the opposing counsel or party.
- Disclosure Requirement: If the witness gives a signed or recorded statement and requests a copy, the adjuster must provide a copy.

**(2 marks for a correctly stated limitation. Maximum of two (2) to be graded. Sub Total: 4 marks. Grand Sub Total: 6 marks)**  
**(Grand Total: 34 marks)**

12. In adjusting a Business Interruption (BI) claim, the Loss Adjuster is required to assess both the Loss of Gross Profit and the Increase in Cost of Working.

(a) Distinguish between Loss of Gross Profit and Increase in Cost of Working in terms of the nature and purpose of the indemnity each provides. **(10 marks)**

(b) State three (3) limitations to the increase in the cost of working **(9 marks)**

(c) Under sum insured, state the formula for:

(i) amount payable **(3 marks)** (ii) loss. **(3 marks)**

(d) (i) Explain "Gross Profit as a difference basis". **(4 marks)**

(ii) Explain "Other Circumstances Clause". **(5 marks)**

### **Solution**

(a) The difference between Loss of Gross Profit and Increase in Cost of Working in terms of the nature and purpose of the indemnity is:

**Loss of Gross Profit** seeks to indemnify the insured for the loss of the profit element (Net Profit + Insured Standing Charges) that is directly attributable to the interruption. It covers the loss.

**Increase in Cost of Working** seeks to indemnify the insured for additional expenditure reasonably and necessarily incurred for the purpose of avoiding or diminishing the reduction in turnover. It covers the cost of mitigation

**(5 marks for each correct and completely stated difference. Sub Total: 10 marks)**

(b) The limitations to an increase in the cost of working shall be:

- Necessary and reasonable
- To avoid or diminish a reduction in turnover and therefore a loss of gross profit
- In consequence of the damage (or incident);
- Incurred during the indemnity period; and
- Equitably limited in the amount payable by insurers

**(3 marks for a correctly stated limitation. Maximum of three (3) to be graded. Sub Total: 9 marks)**

- (c) (i) The formula for Amount Payable = Rate of Gross Profit × Annual Turnover x Loss  
(ii) The formula for Loss = loss of gross profit (clause (a)) plus increase in cost of working (clause(b)) minus savings under savings provision.  
**(3 marks for each correctly stated formula. Sub Total: 6 marks)**
- (d) (i) Gross profit is normally defined on what is known as the difference basis which is so called because it is the difference between turnover and the variable or prime cost.  
**(4 marks for a correct and completely stated explanation.)**
- (ii) Other Circumstances Clause (or adjustment clause or bracketed provisions) provides this degree of necessary flexibility. It was once known as the Special Circumstances Clause but it was realized that not all circumstances that were different were necessarily special, and so when the wording was revised, it was felt that Other Circumstances was more accurate.  
**(5 marks for a correct and completely stated explanation.)**  
**(Grand Total:34 marks)**

13. The Goods-in-Transit (GIT) Insurance Policy provides varying levels of cover and presents distinct procedural and technical issues for the Loss Adjuster, particularly in relation to sub-limits and risk identification.
- (a) Differentiate between the “All Risks” and “Restricted Cover” options under a GIT policy by stating the range of perils insured under each. **(10 marks)**
- (b) Explain the purpose and operation of the “50/50 clause” commonly applied to inland water transit risks. **(8 marks)**
- (c) During the initial investigation of a GIT claim, the Loss Adjuster must promptly obtain information about the conveyance and the driver. State two (2) key pieces of information that could materially affect policy liability. **(6 marks)**
- (d) In consideration of the historical and ethical arguments surrounding the introduction of Reinstatement Cover,  
(i) state the two (2) reasons why some insurers initially opposed this development; **(6 marks)**  
(ii) state how the Reinstatement Memorandum, despite its intention, conflicts with the traditional principle of indemnity. **(4 marks)**

### **Solution**

- (a) The difference between “All Risks” and “Restricted Cover” options is:  
**All Risks Cover** includes all risks associated with GIT, such as road accidents, fire damage, theft (armed robbery), and risks attaching during loading and unloading. Cover commences upon loading and lasts until the goods are unloaded at the destination.  
**Restricted Cover** is strictly limited to losses following an accident, collision, or overturning of the conveying vehicle. It excludes risks like theft unless they occurred as a direct result of one of the defined perils.  
**(5 marks for each correct and completely stated difference. Sub Total: 10 marks)**

- (b) (i) The purpose of the “50/50 clause is that it is incorporated when the transit involves both marine cargo insurance (e.g., discharge from an ocean vessel) and a GIT policy, and the actual time the damage occurred cannot be isolated (e.g., damage discovered long after arrival when items are taken for erection). **(4 marks)**
- (ii) The operation of the “50/50 clause is that it has the effect of apportioning liability equally (50/50) between the insurer for the marine cargo and the insurer who issued the goods-in-transit policy for the damages. **(4 marks)**
- (c) The key pieces of information that could materially affect policy liability are that the loss adjuster must confirm if the:

- conveyance was suitable for the type of goods being carried (e.g., proper vehicle type, capacity, tie-down).
  - vehicle was roadworthy (e.g., expired road papers or defects).
  - driver was adequately licensed for the type of vehicle involved (e.g., correct class of license for articulated vehicles).
- (3 marks for correctly stated information. Maximum of two (2) to be graded. Sub Total: 6 marks)**

(d) (i) The reasons are:

- Insurers resisted on grounds of a high moral attitude.
- They believed there was "something immoral" in paying an indemnity figure greater than the Traditional Indemnity calculation (Reinstatement less deduction for wear and tear)

**(3 marks for correctly stated reason. Sub Total: 6 marks)**

(ii) The traditional principle of indemnity aims only to put the insured in the same position as immediately before the loss. However, Reinstatement Cover inherently runs contrary to the pure principle of Indemnity because it deliberately removes the deduction for wear and tear/depreciation

**(4 marks for correctly stated explanation)**

**(Grand Total:34 marks)**

14. (a) Explain the term “Contractors’ All Risk”. **(5 marks)**
- (b) (i) State the two (2) parties involved in the main construction as it relates to (a) above. **(6 marks)**
- (ii) Explain the duties of the two (2) parties stated in (a) above. **(4 marks)**
- (c) (i) Briefly explain one (1) way a cover can be pre-arranged under Contractors’ All Risk (CAR). **(5 marks)**
- (ii) State and explain the two (2) forms of cover that can be taken during the maintenance period. **(8 marks)**
- (d) State two (2) general exclusions applicable to a CAR policy. **(6 marks)**

### **Solution**

(a) Contractors’ All Risk (CAR) is defined as an insurance policy that covers contract works and engineering projects in the course of construction or erection, on an all risks basis. CAR Policy is an insurance contract guided by certain principles to make the contract a valid one.

**(5 marks for correctly stated explanation)**

(b) (i) The two (2) parties involved in the main construction are:

\* the employer; \* the contractor

**(1 mark for each correctly stated party. Sub Total: 2 marks)**

(ii) 1. **Employer:** This is the person or organisation commissioning the work.

2. **Contractor:** This is the person responsible for the means and methods to be used in the construction of the project in accordance with the contract agreement.

**(2 marks for each correctly and completely explained party. Sub Total: 4 marks. Grand Sub Total:6 marks)**

- (c) (i) The ways a cover can be pre-arranged under Contractors’ All Risk (CAR) are:
1. Single Contract Policy – Contract by contract basis: The period of cover depends on the duration of each construction period either in days, weeks, months or years
  2. Blanket (or Floater) Policy – where a considerable number of contracts are undertaken each year. The policy is renewable annually and charged at fixed premium rates against the turnover. The policy covers the contractor, his employer and subcontractors.

**(5 marks for correctly stated explanation)**

(ii) The covers during the Maintenance Period may be any of these three forms:

\* visit cover; \* limited maintenance; \* full guarantee.

1. **Visits Covers:** is a cover in respect of loss or damage to the works caused by the contractor whilst on site during the Maintenance Period for the purpose of rectifying defects in accordance with his obligation under the contract conditions.
  2. **Limited Maintenance:** Visit cover plus any loss or damage arising during the maintenance period from a cause occurring on the site during the erection or construction period.
  3. **Full Guarantee:** In addition to (1) and (2) above, cover may also be granted for loss or damage arising during the maintenance period caused by a manufacturing fault.  
**(4 marks for correctly explained cover. Maximum of two (2) to be graded. Sub Total: 8 marks)**
- (d) The general exclusions applicable to a CAR policy are:
- (i) Loss, destruction of or damage to any property whatsoever or any loss or expense whatsoever resulting or arising therefrom or any consequential loss.
  - (ii) Any legal liability of whatsoever nature directly or indirectly caused by or contributed to or arising from:
    - ionising radiations or contamination by radioactivity from any nuclear waste from the combustion of nuclear fuel.
    - The radioactive, toxic, explosive or other hazardous properties of any explosive nuclear assembly or nuclear component thereof.
  - (iii) Any consequence of war, invasion act of foreign enemy hostilities, (whether war declared or not), civil war, rebellion, revolution, insurrection or military or usurped power.  
**(3 marks for correctly stated exclusion. Maximum of two (2) to be graded. Sub Total: 6 marks)**
- (Grand Total: 34 marks)**