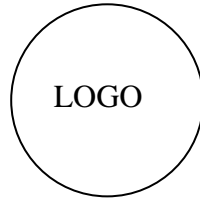


GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

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 @ the detriments of Parts B & C (Diploma & Advanced)
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 concentrating more on the Parts B & C (Diploma & Advanced)	Nurture fear on any subject. There is no subject that distinction cannot be obtained.

INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT.

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT A510
RISK, REGULATION AND CAPITAL ADEQUACY

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A510 - RISK, REGULATION AND CAPITAL ADEQUACY

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	42%
Highest Score:	87%
Lowest Score:	4%
Average Score:	49%

Breakdown Updates

Question 1

The question was under risk management and straight forward. Almost all the candidates attempted the question and with over 70% of the candidates who attempted it scored above the average for the total marks allocated to the question. Overall candidates' performance on this question was satisfactory.

Question 2

The question was under measures of central tendency (elementary). 89% of the candidates attempted this question. 68% of those who attempted the question did very well on the question.

Question 3

The question was under risk and its classification. About 98% of the candidates attempted this question and with long about 6% of the candidates who attempted the question scored below the average mark for the question. Therefore, the pass rate for this question may be put at 94%.

Question 4

The question was under database. Over 90% of the candidates attempted the question. The pass rate of the question was about 78%.

Question 5

The question was under policy terms and conditions. Almost all the candidates attempted the question and only 4% of the candidates scored below the average mark for the question. Overall the performance of the candidates was very satisfactory.

Question 6

The question tested the components of life assurance premium. Over 90% of the candidates attempted the question. Some of the candidates scored the maximum marks available for the question and on average, 87% of the candidates that attempted the question scored half or more of the total marks allocated.

Question 7

The question was under reinsurance (definition & uses). Almost all the candidates (96%) attempted the question. Some of the candidates obtained the maximum marks under the question. Only 5% of the candidates that attempted the question failed to score up to the average mark for the question. The performance was high.

Question 8

The question was under the sources of insurance information/data in Nigeria. About 90% of the candidates attempted the question and the pass rate was 66%.

Question 9

The question was the compulsory question and under grouping of raw data with questions drawn from both the measures of central tendency and dispersion. About 3% of the candidates did not attempt the question and only 36% of the candidates that attempted the question scored half or more of the total marks allocated for the question. The pass rate for the question falls below 50%.

Question 10

The question was under correlation. Only 51% of the candidates attempted the question. The performance under this question was very bad as only 4% of the candidates that attempted the question scored above the average mark for the question.

Question 11

The question was under a grouped data for measures of central tendency. Over 90% of the candidates attempted the question and with 71% of those who attempted the question scoring half or more of the total marks allocated for the question. The pass rate was satisfactory.

Question 12

The question was under risk management and its process. 87% of the candidates attempted the question and only 49% of those that attempted the question scored above the pass mark of the question.

Question 13

The question was a reinsurance question (non-proportional and of retention limit/priority). About 42% of the candidates attempted the question out of which 60% of them scored above average for the total marks allocated for the question. This is a fair performance.

Question 14

The question was under Financial Services Authority. Only 54% of the candidates attempted the question and with 66% of those that attempted the question failed to obtain an average mark for the question. The performance for the question is poor.

Chief Examiner's Comments on Overall Performance:

Less than 50% of the candidates will pass the paper if the pass mark is put at 55%. The performance is not encouraging.

Chief Examiner's Suggestions on Improvement:

I will like to suggest that the Institute come up with a one-week intensive tutorial for interested candidates in order to provide the candidates with an opportunity for a value-adding revision exercise.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Outline four (4) factors that have contributed positively to the increase in the adoption of risk management by organizations in Nigeria in the recent years.

Solution

Four (4) factors that have contributed positively to the increase in the adoption of risk management by organizations in Nigeria in the recent years are:

- Corporate Governance Issues
- Financial Services Reforms
- Discoveries of New Risks
- Nonchalant attitude of the society as a whole to accept risk
- An increase in both the frequency & severity in man-made and natural disasters such as terrorisms and hurricane.
- More awareness for financial compensation by the aggrieved parties
- Government intervention on business regulations and legislations.

(2 marks for any 3 correctly stated factor. Total: 6 Marks)

- 2(a) Find the Geometric Mean of 4, 1, 2 and 6.
(b) What is the Median of: $\frac{1}{2}$, $\frac{6}{8}$, $\frac{5}{8}$, and $\frac{3}{5}$
(c) Find the Harmonic Mean of 2, 3, 5 and 4.

Solution

- a) The Geometric Mean of 4, 1, 2 and 6

$$= \sqrt[4]{(4 * 1 * 2 * 6)} = \sqrt[4]{48} = 2.63$$

(1 mark for stating formula, ½ mark for showing calculation, ½ mark for correct answer = 2marks)

- b) Arranged in ascending order: $\frac{2}{8}$, $\frac{1}{2}$, $\frac{3}{5}$, $\frac{5}{8}$, $\frac{2}{8}$

The median is $\frac{3}{5}$ or 0.6.

(1 mark for proper ordering (either ascending or descending order) and 1mark for correct answer = 2 marks)

- c) The harmonic mean = $\frac{4}{\frac{1}{2} + \frac{1}{3} + \frac{1}{5} + \frac{1}{4}} = 4/1.28 = 3.125$

(1 mark for stating formula, ½ mark for showing calculation, ½ mark for correct answer = 2marks)

- 3(a) Give two (2) definitions of a risk.

Solution

Risk may be defined in any of the following ways:

- It is an uncertainty of loss
- It is a possibility of loss.
- It is a combination of the probability of occurrence of an undesired outcome (loss) and its consequences.

(1 mark for each of the definition. Maximum of 2 definitions to be graded. Total: 2marks).

(b) Distinguish between the following risks classification:

- Pure and Speculative Risks
- Particular and Fundamental Risks.

Solution

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

(1 mark for definitions; 1 mark for example. Total: 2 marks)

Particular and fundamental risks: A **particular risk** is a risk which has its origin (its cause) known and its effect can be borne by individuals. Thus, particular risks are said to be personal in both its origin and effect, meaning it is caused by individuals and solutions can be proffered by individuals as well. **Particular risks are generally insurable.** Whereas, **fundamental risks** are risks whose causes are beyond human control and consequences are felt by the society as a whole. **Examples of risks with fundamental nature are** floods, Tsunamis, earthquake as well as other major disasters.

(1 mark for definitions; 1 mark for example. Total: 2 marks)

4(a) What do you understand by the term “data base”? (2 marks)

Solution

The term “database” means a collection and store of related data for future use. It may also be defined as a way of describing raw material (i.e. raw data) of statistics.

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

(b) Explain the two (2) sources available for database creation. (4 marks)

Solution

The two sources available for database creation are:

- Development of an entirely new database and
- Making use of an existing database

(i) **Development of an Entirely New Database** – It is the establishment of database from a new source. This new source may be from raw data or already processed data (such as a published data). Creation of a new data base is desirable in the following circumstances:

- where no database exists
- where the database in existence was established for another purpose
- where there are suspected inherited faults in the existing database.

(ii) **Making Use of an Existing Database** – This is using the database that has been in existence (though, it may or may not have been processed) for another purpose(s), but which is still considered to have certain form of relevance to the new intended purpose. The following are the major advantages of making use of an existing data base:

- the relative frequencies with which the data have occurred in the past is very important.
- no data in actual sense exists in a vacuum.
- it may equally be put to cost and time effectiveness advantages.

(1 mark for stating the source. 1 mark for explanation. Total: 4 marks)

5. Describe the following terms:

- i. An Excess
- ii. A Franchise
- iii. A Warranty
- iv. Policy Exclusions.

Solution

i) **An excess** – An excess is each and every amount of claim which is borne by the insured

ii) **A franchise** – A franchise is an amount which will only be borne by the insurer if the loss amount exceeds that limit

iii) **A warranty** – This is an undertaking by the insured that certain things shall be done or not be done or that certain things shall be in place or not be in place.

iv) **Policy Exclusions** – These are the various risks which are not covered in the ordinary course of the policy.

(1½ marks for each correct answer. Total: 6 marks)

6. Outline and briefly explain the four (4) components of life assurance premium.

Solution

The four (4) component of life assurance premium are:

i) **Mortality** – This is the chance or probability of death from age to the other. It increases with age

ii) **Expenses** – These are the expenses incurred by the life office in running the business.

iii) **Interest Rate/Investment** – The rate of returns that would be received from investing certain portion of the premium

iv) **Contingencies** – These are reserves created to meet unexpected contingencies.

(1 mark each for correct component stated. ½ mark each for correct explanation. Total = 6 marks)

7(a) Define Reinsurance.

(2 marks)

Solution

Reinsurance may be defined in any of the following ways:

- As a process of insuring all or part of what has already been insured by the direct office/insurance company.
- Insurance of insurance.
- As a further spread of insurable risks.
- As the business of insurance across the boundaries of two or more countries. In this case, reinsurance business is regarded as an international business.

(2 marks for any correct definition)

(b) Mention four (4) main uses of reinsurance to the insurance companies.

(4 marks)

Solution

The main uses of reinsurance to insurance companies are:

- to further spread of risks for the insurance companies.
- For bigger capacity for the insurance companies.
- catastrophe protection.
- stabilization of claims ratio.
- profit sharing arrangement.
- product development.
- underwriting and other financial advisory services.
- solvency margin protection.
- training and development programmes.

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

8. Mention four (4) sources of insurance information/data in Nigeria.

Solution

Sources of insurance information/data in Nigeria are:

- National Insurance Commissions' office
- Insurance Associations
- Chartered Insurance Institute
- Professional Insurance Association

- Central Banks
 - Ministry of Finance (Insurance Department)
 - Bureau of Statistics / Federal Office of Statistics
 - Insurance magazines
- (1½ marks each correctly stated source. Maximum of 4 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. The following raw data related to the premium payment pattern of policyholders of ABC Insurance Company:

6, 16, 18, 21, 6, 14, 26, 11, 29, 4, 13, 25, 14, 27, 15, 11, 23, 19, 9,30

16, 10, 10, 2, 2, 4, 13, 23, 27, 4, 3, 18, 18, 5, 7, 20, 17, 30, 6, 17

19, 7, 18, 14, 22, 8, 5, 23, 23, 2, 14, 15, 22, 29, 9, 10, 23, 11, 18, 3

20, 16, 30, 28, 22, 26, 16, 22, 25, 27, 30, 30, 2, 4, 8, 25, 21, 27, 9, 29

17, 8, 7, 28, 2, 5, 6, 23, 23, 9, 10, 10, 15, 24, 26, 15, 21, 3, 10, 19.

You are required to:

- a) Compute and complete the frequency distribution table for the data below:

Class Limit	Frequency	Class Mid Point (X)	fX	X ²	Cumulative Frequency (F)	$X - \bar{X}$	$f(X - \bar{X})$

(18 marks)

Solution

Class Limit	Frequency	Class Mid Point (X)	fX	X ²	Cumulative Frequency (F)	$X - \bar{X}$	$f(X - \bar{X})$
1-5	15	3	45	9	15	12.7	190.5
6-10	20	8	160	64	35	7.7	154
11-15	13	13	169	169	48	2.7	35.1
16-20	17	18	306	324	65	2.3	39.1
21-25	18	23	414	529	83	7.3	131.4
26-30	17	28	476	784	100	12.3	209.1
	100		1570				759.2

- ½ mark for each correctly computed frequency. Total: 3 marks

- ½ mark for each correctly class mid-point. Total: 3 marks
- ½ mark for each correctly (fX) calculated point. Total: 3 marks
- ¼ mark for all others correctly calculated figures. Total: 6 marks
- 1 mark each for showing the sums of F, fX and $f(X - \bar{X})$. Total: 3 marks
(Total: 18 marks)

- (b) Determine the
- Mean (5 marks)
 - Mean Deviation (5 marks)
 - Standard Deviation (5 marks)
 - Co-efficient of Variation (5 marks)
 - Inter-Quartile Range (12 marks)

Solution

- i. Mean = $\frac{\sum fX}{\sum f}$ (2 marks)
 $= \frac{1570}{100}$ (2 mark)
 $= 15.7$ (1 mark) (Total: 5 marks)
- ii. Mean Deviation = $\frac{\sum f |x - \bar{X}|}{\sum f}$ (2 marks)
 $= \frac{759.2}{100}$ (2 marks)
 $= 7.59$ (1 mark) (Total: 5 marks)
- xiii. Standard Deviation = $\sqrt{\frac{\sum fX^2}{\sum F} - \frac{\{\sum fX\}^2}{\{\sum f\}^2}}$ (2 marks)
 $= \sqrt{\frac{31,970}{100} - \frac{(1570 \cdot 1570)}{(100 \cdot 100)}}$ (2 marks)
 $= \sqrt{319.7 - 246.49}$ (½ mark)
 $= \sqrt{73.21}$
 $= 8.56$ (½ mark)
- iv. Co-efficient of Variation = $\frac{\text{Standard Deviation}}{\text{Mean}} * 100\%$ (2 marks)
 $= \frac{8.56}{15.7} * 100\%$ (1 mark)
 $= 54.52\%$ (1 mark)
- v. Inter-Quartile Range = $Q_3 - Q_1$ (2 marks)
 $Q_3 = L1 + \frac{(3N/4 - \sum_{fi(b/4)} C)}{f_{Q_3}}$ (1 mark)
 $Q_1 = L1 + \frac{(N/4 - \sum_{fi(b/4)} C)}{f_{Q_1}}$ (1 mark)

For Q₃

- 1) $3N/4 = 3 \times 100/4 = 75$ (1/2 mark)
- 2) 1st CF > 75 = 83 (1/2 mark)
- 3) The third quartile class is: 21-25 (1/2 mark)
Therefore, $Q_3 = 20.5 + \frac{(75-65)}{18} \times 5$ (1/2 mark)
 $= 23.28$ (1 mark)

For Q₁

- 1) $N/4 = 100/4 = 25$ (1/2 mark)
- 2) 1st CF > 25 = 35 (1/2 mark)
- 3) The first quartile class is: 6-10 (1/2 mark)
Therefore, $Q_1 = 5.5 + \frac{(25-15)}{20} \times 5$ (1/2 mark)
 $= 8$ (1 mark)

Therefore, Inter-quartile Range = $Q_3 - Q_1$
 $= 23.28 - 8$ (1 mark)
 $= 15.28$ (1 mark)
(Total: 12 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. An interview was conducted by the Managing Director and Deputy Managing Director of ABC Insurance Company for twelve applicants that were shortlisted for the post of Executive Director (Technical) for the Company. The actual marks scored by these applicants are not available, but the following rankings for each applicant are made available by the two-man interview panel:

Applicant	Managing Director's Rankings	Deputy Managing General's Rankings
A	10	8.5
B	1	3
C	6	6
D	4	5
E	8	8
F	4	6
G	7	6
H	8	9
I	4	4

J	6	7.5
K	4	5
L	6.5	7

- i. You are required to calculate the Spearman's Coefficient of Rank Correlation Order. (25 marks)

Solution

Applicant	R _{MD}	R _{DMD}	d= R _{MD} - R _{DMD}	d ²
A	10	8.5	1.5	2.25
B	1	3	-2	4
C	6	6	0	0
D	4	5	-1	1
E	8	8	0	0
F	4	6	-2	4
G	7	6	1	1
H	8	9	-1	1
I	4	4	0	0
J	6	7.5	-1.5	2.25
K	4	5	-1	1
L	6.5	7	-0.5	0.25
				16.75

Correctly computed table – 18 points (1½ mark for each correct computation)

$$i) \text{ Spearman's Rank Correlation Order} = 1 - \frac{6\sum d^2}{n(n^2-1)} = 1 - \frac{6(16.75)}{11(11^2-1)} = 1 - 100.5/11(121-1) = 1 - 100.5/1320 = 1 - 0.0761 = 0.9239$$

(4 marks for stating the correct formula; 2 marks for showing at least 2 steps – if only one step is shown, then allocate only 1 mark; 1 mark for the correct final answer. Total: 7 marks)

- ii. Interpret your result. (5 marks)

Solution

The result above **shows a very strong positive correlation** implying that exist a strong relationship the ranking of the Managing Director and the Deputy Managing Director.

(3 marks for the first point **bolded** above; 2 marks for the correctly stated interpretation also **bolded** above. Total = 5 marks)

- iii. Outline two major advantages or usefulness of Spearman's Coefficient of Rank Correlation Order over other methods of determining Coefficient of Correlation. (4marks)

Solution

The major advantages or usefulness of Spearman's Coefficient of Rank Correlation Order over other methods of determining Coefficient of Correlation:

- a) useful where it is difficult to quantify the data given
- b) used where the data given have big values
- c) easier to apply/calculate compared to other methods.

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

11. The following table shows the frequency distribution of general accident claims of XYZ Insurance Company in 2017:

Claims	Frequency
0-49	8
50-99	10
100-149	24
150-199	20
200-249	22
250-299	12
300-349	4
	100

You are required to:

- i. Find the mean.
- ii. Find the median.
- iii. Find the mode.

Solution

Claims	Frequency (n)	Mid Class (x)	f(x)	Cumulative Frequency (F)
0-49	8	24.5	196	8
50-99	10	74.5	745	18
100-149	24	124.5	2,988	42
150-199	20	174.5	3,490	62
200-249	22	224.5	4,939	84
250-299	12	274.5	3,294	96
300-349	4	324.5	1,298	100
	100		16,950	

(Correctly computed table - 21 points (1 mark for each correct computation))

a) Mean = $\frac{\sum f(x)}{\sum f} = \frac{16,950}{100} = 169.5$
 (3marks for correctly stated formula, 1 mark for step shown, 1 mark for correct final answer)

b) Median = $L_1 + \frac{(N/2 - \sum f_{b4})}{f_m} C$
 $= 149.5 + \frac{(50 - 42) 50}{20} = 149.5 + 20 = 169.5$

(2marks for correctly stated formula, 1 mark for step shown, 1 mark for correct final answer)

$$\text{c) Mode} = L_1 + \frac{(D_1) C}{(D_1 + D_2)} = 99.5 + \frac{14 \times 50}{14 + 4} = 99.5 + \frac{700}{18} = 138.39 \text{ approx.}$$

(2marks for correctly stated formula, 1 mark for step shown, 1 mark for correct final answer)

12(a) What is Risk Management? (5 marks)

Solution

Risk management may simply be defined as a **continuous process of identifying, analyzing, evaluating, monitoring and taking best economic control** of all those **risks which may threaten the assets (human and non-human)** of an **organization or individual**.

(1 mark for each bolded point. Maximum of 5 points to be graded. Total: 5 marks)

(b) Mention and explain in details the Risk Management Process for an Organization. (29 marks)

Solution

The Risk Management Process involve the following and are also explained below:

1. Organization's Strategic Objectives
2. Risk Assessment
3. Risk Reporting
4. Decision
5. Risk Treatment
6. Residual Risk Reporting
7. Monitoring

(2 marks each for correct process stated. Total = 14 marks)

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

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

2. **Risk assessment:** this is of two components i.e. risk analysis and evaluation.

(a) **Risk analysis:** Risk analysis comprises of risk identification, description and estimation.

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

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

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

- H - stands for High
- M - stands for Medium or Middle
- L - stands for Low

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

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

4. **Decision:** taking informed decisions regarding the importance and acceptability of the risks having considered the threats & opportunities they present to the organization.

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

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

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

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

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

(3 marks each for every point duly explained. Maximum of 5 points should be graded. Total = 15 marks)

(Grand Total: 29 marks)

13(a) Messrs. ABC Insurance PLC is a fully owned Nigerian Insurance company which has arranged an excess of loss reinsurance programme with Messrs. DEL Reinsurance PLC to protect its Motor Insurance portfolio in four layers as below:

1st Layer: ~~₦~~300,000.00 XS ~~₦~~150,000.00
2nd Layer: ~~₦~~250,000.00 XS ~~₦~~ 450,000.00
3rd layer: ~~₦~~300,000.00 XS ~~₦~~ 700,000.00
4th layer: ~~₦~~200,000.00 XS ~~₦~~ 1,000,000.00.

As the Reinsurance Manager of Messrs. ABC Insurance Company, you are required to apportion the following different losses between ABC Insurance PLC and DEL Reinsurance PLC taking into consideration the appropriate layers responsible for each of the losses:

(i) ~~₦~~145,000.00; (ii) ~~₦~~440,000.00; (iii) ~~₦~~780,000.00 (iv) ~~₦~~990,000.00
(v) ~~₦~~1,200,000.00; (vi) ~~₦~~870,000.00; (vii) ~~₦~~ 305,000.00 (viii) ~~₦~~1,500,000.00
(25 marks)

Solution

a) As the Reinsurance Manager of the company, I will apportion the following different losses between ABC Insurance PLC and DELa Reinsurance PLC taking into consideration the appropriate layers responsible for each of the losses:

(i) ~~₦~~145,000.00: The insurance company bears the whole ~~₦~~145,000.00

(ii) ~~₦~~440,000.00: The insurance company bears the first ~~₦~~150,000.00 and the first layer bears the remaining ~~₦~~290,000.00

(iii) ~~₦~~780,000.00: The insurance company bears the first ~~₦~~150,000.00, the first layer bears the next ~~₦~~300,000.00, the second layer bears the next ~~₦~~250,000.00 and the third layer bears the remaining ~~₦~~80,000.00

(iv) ~~₦~~990,000.00: The insurance company bears the first ~~₦~~150,000.00, the first layer bears the next ~~₦~~300,000.00, the second layer bears the next ~~₦~~250,000.00 and the third layer bears the remaining ~~₦~~290,000

(v) ~~£~~**1,200,000.00**: The insurance company bears the first ~~£~~350,000.00, the first layer bears the next ~~£~~300,000.00, the second layer bears the next ~~£~~250,000.00 and the third layer bears the remaining ~~£~~300,000.00

(vi) ~~£~~**870,000.00**: The insurance company bears the first ~~£~~150,000.00, the first layer bears the next ~~£~~300,000.00, the second layer bears the next ~~£~~250,000.00 and the third layer bears the remaining ~~£~~170,000.00

(vii) ~~£~~**305,000.00**: The insurance company bears the first ~~£~~150,000.00, the first layer bears the remaining ~~£~~155,000.00

(viii) ~~£~~**1,500,000.00**: The insurance company bears the first ~~£~~650,000.00, the first layer bears the next ~~£~~300,000.00, the second layer bears the next ~~£~~250,000.00 and the third layer bears the remaining ~~£~~300,000.00.

(1 mark for each correct allocation. Total: 25 marks)

(b) Distinguish between Retention Limit and Priority in relation to reinsurance practice. (9 marks)

Solution

Retention limit may be defined in any of the following two ways -

- As the maximum amount of risk an insurance company is able to keep for its own account.
- As the maximum amount of liability an insurance company is prepared to pay per any loss occurrence on a risk.

Generally retention limit and priority mean the same in technical terms, but **while retention limit is used for proportional reinsurance treaties, priority is used for non-proportional reinsurance treaties**. Another name or term used for a priority is - deductible.

(9 marks should be allotted to the candidate for stating the reasons bolded above; however, if the candidate gives any explanation but does not explicitly state the reason, then each correctly stated point should be graded with 1 mark each - subject to a maximum of 9 points i.e. 9 marks).

14(a) Write short note on the Financial Services Authority. (5 marks)

Solution

Financial Services Authority is **an independent and non-governmental body** which is **given powers by the FSA**. It officially assumed its full role of **single regulator for the UK financial services industry in 2001**. The FSA is also **responsible for the resolution of complaints against insurers and the provision**

of compensation for customers of failed insurers. The FSA is funded by a levy on regulated firms.

(1 mark for each stated point. Maximum of 5 points should be graded. Total = 5 marks)

(b) Outline five roles of the Financial Services Authority. (15 marks)

Solution

The roles of the Financial Services Authority are:

- Sets the rules, via its handbook, sourcebooks and other guidance;
- Authorizes firms and individuals (approved persons) to operate within the regulated markets;
- Monitors the external environment for threats to its strategic objectives;
- Monitors the markets and the regulated firms operating within those markets;
- Responds to changes (e.g. new EU law), threats or other developments by amending its rules;
- Acts to prevent or resolve failures, problems or breaches of its rules (enforcement role)

(3 marks each for any correctly stated point. Max. of 5 points to be graded. Total: 15 marks).

(c) What is Risk-Based Capital Modelling? (10 marks)

Solution

Risk-Based Capital Modelling is the **name given to a number of mathematical modelling techniques** used for **calculating the capital that an insurer should allocate** to each of **its component businesses or product lines**. These individual allocations **help the insurer to understand the return** each business or product **should be making if it is to contribute fairly to the overall result**, and thereby **taking into consideration the cost of volatility and regulation**.

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

(d) Write out the full meaning of the following terms in relation to Risk-Based Approach to Capital Requirements:

(i) ECR (ii) CRR (iii) ICA (iv) ICG. (4 marks)

Solution

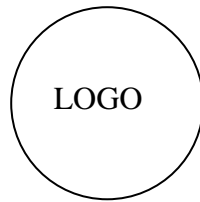
(i) ECR: Enhanced Capital Requirement

(ii) CRR: Capital Resources Requirement

(iii) ICA: Individual Capital Adequacy

(iv) ICG: Individual Capital Guidance

(1 mark each. Total = 4 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A520
COMPANY AND CONTRACT LAW**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A520 - COMPANY AND CONTRACT LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	55%
Highest Score:	61%
Lowest Score:	10%
Average Score:	39%

Breakdown Updates

Question 1

Only 2 candidates out of 39 candidates attempted the question.

Question 2

Candidates performed badly although it is a fresh question; not one that has ever come out in the last 10 years but a candidates are expected to read and be prepared.

Question 3

Poorly attempted question, perhaps the candidates were not expecting it.

Question 4

This was a popular question and candidates scored fairly well.

Question 5

Average score was got by the candidates but anyone with O'level background in Commerce, Economics should at least have an idea. Our candidates should be encouraged to read wide and do research on their own.

Question 6

EGM is an issue that candidates who work in offices can even pick from the media if they follow contemporary issues.

Question 7

Not popular and poorly attempted question by the candidates.

Question 8

Same as in question 7, but if candidates read wide and well enough, they ought to understand questions like this.

Question 9

This attracted attention naturally as it is a compulsory question and also because it attracts the highest mark (50 marks). It had 4 options which gave the candidates latitude.

Question 10

- a - Well attempted by the candidates
- b - Almost all candidates answered this well. It is a textbook question
- c - Fair knowledge by the candidates.

Question 11

This was the least attempted question. Less than 5 out of 39 candidates attempted this question.

Question 12

Few candidates changed the question to "types or method of indemnity", but the b part was well answered but as it carries lower mark it was not sufficient to lift the candidates into pass region.

Question 13

A textbook question but candidates still did not attempt it well.

Question 14

This was a popular question among the candidates. It was well attempted and they scored well.

Chief Examiner's Comments on Overall Performance:

None

Chief Examiner's Suggestions on Improvement:

As highlighted above, but in addition CIIN can introduce CD to aid learning.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What is pupillage?

Solution

Pupillage is a form of **apprenticeship** for **Barristers who have been called to the bar in UK** through which **they attach themselves to the chamber** of an **experienced barrister** in order to **gain their own experience**.

The pupillage period is usually **one calendar year** and the period affords the barrister the **opportunity to read his master's papers, attend his conferences and accompany him to court**. He may take his own cases after six months but he is **still a pupil until the one year agreed is extinguished**.

(1 mark each for the bolded points. 6 points to be graded. Total: 6 marks)

2. What is a recognisance?

Solution

Recognisance is an **obligation entered into before a court**.g. a promise to pay the crown a specified sum of money if the accused fails to surrender to custody made by a person who stood as a surety when the accused applied for bail.

(2 marks each for the bolded points. Total: 4 marks. 2 marks for correct complete example. Total: 6 marks)

3. What does the law on "restitution" deal with?

Solution

The law on "restitution" **deals primarily with** situations **where a person is liable to restore property**. For **example**, if a minor acquires property or goods other than necessary, such cannot be enforced against him and it will create economic hardship to allow a minor to profit from the consequences of his illegal action therefore the law gives such persons remedies in restitution and the minor is made to transfer the property back to the other party.

(2 marks each for the bolded points. Total: 4 marks. 2 marks for correct complete example. Total: 6 marks)

4. What are the remedies available in fraudulent misrepresentation?

Solution

The remedies available in fraudulent misrepresentation are:

- Rescission
- Damages and
- Refusal of further performance

(2 marks each. Total: 6 marks)

5. Who is a "Mercantile Agent"?

Solution

A “mercantile agent” is a person who in the ordinary course of such business act as agent, have authority to sell goods, consign goods for sale or raise money on the security of such goods. They are covered by the provisions of Factors Act 1889 and if in possession of good or documents of title to goods with the consent of the owner, then any sale, pledge or other disposition made in the ordinary course of business is as valid as if the owner of the goods had expressly endorsed it.

(2 marks each for any of the points mentioned above. Maximum of 3 points to be graded. Total: 6 marks)

6. What is an extraordinary general meeting and who may call such a meeting?

Solution

An extraordinary general meeting (EGM) is **any general meeting of a company other than an annual general meeting.** (2 marks for the bolded points each. Total:4 marks)

The people who may call an EGM are usually the directors of the company. (2 marks)

7. Explain the term “Restrictive Trading Agreement”.

Solution

The term “restrictive trading agreement” is an agreement **made by suppliers of goods and services to fix prices, control output, regulate methods of supply or otherwise influence competition and operation of a free market for their products.**

(1½ marks each for the bolded points. Maximum of 4 points to be graded. Total: 6 marks)

8. What is “Novation”?

Solution

Novation is the **substitution of a new contract, debt or obligation for an existing one** between the **same or different parties.**

For example, if A owes B ~~₦~~5,000.00 and B owes C ~~₦~~5,000.00, they can agree between them that B’s debt should be extinguished and that C should be allowed to recover his money from A.

(1 mark each for the bolded points. Maximum of 4 points to be graded. Sub-Total: 4 marks. 2 marks for a complete example. Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) State and explain the two rights that cannot be assigned? (25 marks)

Solution

The following are the rights that cannot be assigned:

1) **Personal Contracts:** there are restrictions on the assignment of personal contracts which are contracts where it would be unreasonable to expect a party to perform his obligations towards any person other than the person to whom he contracted. **For example**, contract of employment: if A is employed as an accountant in an office, it would be unreasonable for him to go and bring his wife to come and hold the office for him.

(5 marks for correctly mentioning; 5 marks for correctly explaining; 5 marks for correct & complete example. Total: 15 marks)

2) **An Assignment:** would be ineffective if the result would be to increase the obligations of the other party. **For example**, in *Kemp v Baenselman (1906)*, the defendant agreed to supply Kemp, a cake manufacturer, with all the eggs he should need in his bakery for one year. The latter in return agreed not to buy eggs from elsewhere during this period. When Kemp transferred his business to a large company, it was held that the defendant was not bound to supply eggs to the new owner as the effect of the assignment might be to increase the burden on him.

(5 marks for correctly mentioning; 5 marks for correctly explaining; 5 marks for correct & complete example. Total: 15 marks)

(b) What does the limitation of liability clause in the Memorandum of Association imply? (5marks)

Solution

The limitation of liability clause in the Memorandum of Association imply that the **liability of the shareholder is limited by shares and no member can be called upon to pay more than the nominal amount of his shares which remains unpaid at any given period.**

(1 mark for each bolded point. Total: 5 marks)

(c) What is interpleader summons? (10 marks)

Solution

Interpleader summons is the **procedure** through which **the agent avoid getting involved in disputes** concerning the **goods which he holds in trust on behalf of the principal** where a **third party dispute** on the **ownership of such goods with his principal.**

(2 marks for each bolded point. Total: 10 marks)

(d) State the instances when a certified accountant may disclose their client's information. (10 marks)

Solution

The general rule according to the rules of professional conduct and investment business rules is that a certified accountant cannot disclose their clients' information. However, this is subject to the following exceptions:

- **Obligatory Disclosure:** this is where the **accountant knows or suspects** his client has **committed the offence of treason**

(3 marks for mentioning the exception. 2 marks for correct instance stated. Total: 5 marks)

- **Voluntary Disclosure:** this arises in the following instances:
 - **Where it is necessary to protect the accountant's interest**
 - **Where compelled by process of law**
 - **Where there is a public duty** e.g. where an offence has been committed
- (3 marks for mentioning the exception. 2 marks for correct instance stated. Total: 5 marks)
(Grand Total: 10 marks)

Part III

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

10(a) What is a cold call? (10 marks)

Solution

A "cold call" is an **unsolicited visit** by **any person** which **result in investment contracts** (other than life assurance and collective instruments). **There is no offence committed in such instance** but the **contract is not enforceable** against the person in receipt of the unsolicited call and **that person may at his option enforce the agreement or recover any sum paid by him together with compensation.**

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

(b) Classify and explain the perils relevant to an insurance peril. (15 marks)

Solution

The perils relevant to an insurance peril are:

- Insured Perils (2 marks)
 - Excepted or Excluded Perils (2 marks)
 - Uninsured or other Perils. (2 marks)
- **Insured Perils:** these are named on the policy as insured or covered e.g. in a fire policy, fire, lightning, are insured perils. (3 marks)
 - **Excepted or Excluded Perils:** are those stated on the policy as specifically excluded or not covered. It could be either as causes of insured perils or as a result of insured perils. (3 marks)
 - **Uninsured or other Perils:** are those not mentioned at all in the policy i.e. they are neither excluded nor covered. Example of such in a fire policy are storm, smoke and water. (3 marks)
- (2½ marks for each bolded point. Maximum of 4 points to be graded. Total: 10 marks)

(c) Identify situations where we can infer an agency relationship between the Banker and his customer. (9 marks)

Solution

The following are some situations where we can infer an agency relationship between the Banker and his customers:

- i) where the customer gives the Banker a mandate to do certain acts in connection with his account
- ii) where the customer permits the Banker to allow another person to perform some acts on his account
- iii) where the Banker acts as an agent in the collection of cheques.

(Any 2 above should be graded. 4 marks each. 1 mark for correct preamble/opening sentence)

11(a) Explain the significance of Policyholders Protection Act 1975.

(20 marks)

Solution

The significance of the Policyholders Protection Act 1975 are as follows:

- i) the government board can raise funds by making levies on insurance companies
- ii) the funds from these levies is available to meet the claims of policyholders in case the insurer becomes insolvent and is unable to meet its contractual obligations
- iii) for compulsory insurance, the fund will meet the claims in full. For others, it will be 90% of the policyholders claim or 90% of the value of the life policy
- iv) the compensation fund does not cover marine, aviation, transit or reinsurance policies or the claims of non-life policyholders that are companies.

(5 marks for each point above. Total: 20 marks)

(b) Discuss Lloyd's Agents

(10 marks)

Solution

Lloyds' agents are the:

- i) eyes and ears of the Lloyd's market
- ii) they provide survey facilities
- iii) they also provide local adjustment and settlement of claims
- iv) they receive fees for services rendered for their work
- v) they are professionals duly recognized worldwide in insurance businesses

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

(c) According to Schedule 1 of the Insurance Companies Act 1982 which covers the types of insurance, mention any four (4) classes into which long-term insurance business is divided into. (4 marks)

Solution

The following are the classes tow which long-term insurance business is divided into according to Schedule 1 of the Insurance Companies Act 1982:

- Life & Annuity
- Marriage & Birth
- Linked Long-Term

- Permanent Health
- Tontines
- Capital Redemption
- Pension Fund Management

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

12(a) How are claims for damages to building adjusted? (20 marks)

Solution

Damages to building adjustment are usually adjusted as summarized below:

- if the insured intends to repair or reinstate the property in its previous form, then indemnity is the cost of that work less an allowance for depreciation as most appropriate
- if the insurer contends that the insured does not intend to reinstate, the insurer must proceed to prove it. Without the proof, indemnity will be reinstatement costs less depreciation
- if the insurer contends that market value is the measure of indemnity, the onus is to prove that there is a market for such a building and the level of value in that market. If not, indemnity will be reinstatement costs less depreciation
- where there is evidence that the insured is a willing seller of the property at the time of loss, indemnity will be the market value less site value.

(5 marks for each correctly stated/explained point. Total: 20 marks)

(b) Write a short but detailed note on the term “betterment”? (14 marks)

Solution

Betterment is a term which denote that the property repaired or replaced appears than the state it was before the loss (5 marks).

Therefore, an allowance has to be made for deduction for wear and tear as betterment (1 marks). defeats the essence of indemnity which implies that the insured be put in a position he was before the loss and not any more (1 marks).

It can take two forms (1 mark).:

- when the property is replaced or repaired, certain aspects may be in a better condition than immediately before the loss (1½ marks). e.g. plumbing or electrical wiring where a deduction is not made for the amount of wear and tear of the previous plumbing or electrical work, the insured will be better off after the loss than before the loss occurred (1½ marks)
- where the repaired or replaced article is better than the original one when it was new (1½ marks) e.g. where sprinklers are installed during reconstruction where the building was previously not with sprinklers (1½ marks);

(Total: 14 marks as allocated in the solution above)

13. State and explain how the principle of contribution can be modified.

Solution

Contribution is the right of an insurer to call upon others similarly but not necessarily equally liable to the same insured to share the limit if an indemnity payment.

The principle of contribution can be modified as follows:

- **Non-Contribution Clauses:** the equitable right to contribution can be removed through a clause like “this policy shall not apply in respect of any claim where the insured is entitled to indemnity under any other insurance”. This means that the policy will not contribute if there was another insurance in force.
- **More Specific Insurance Clause:** where there are two policies – one wide-ranged and one more specific, a clause may be inserted to prevent contribution between the two of them usually by narrowing it to the more specific in their cover to bear the loss e.g. Fire Insurance of mercantile stocks in the UK which would only insure the balance of loss after liability of more specific policies had been exhausted.
- **Market Agreement:** sometimes could prohibit some policies from contributing to the losses which falls under the ambit of another policy e.g. the Motor Vehicles Compulsory Insurance Regulations 1992 removed the employers liability exemption from the RTA 1988 unless cover is provided pursuant to a requirement of the Employers Liability (Compulsory Insurance) Act 1969. Therefore, with effect from that date, Motor Insurers would pick up such liabilities only if employers liability cover was not in force.
 - 4 marks for defining contribution
 - 5 marks each for correctly mentioning the “summarized how”. Sub-Total: 15 marks
 - 2.5 marks each for each point under explanation. Maximum of 2 points per “how” to be graded. Sub-Total: 15 marks
 - Total: 34 marks

14. Discuss the factors limiting the payment of indemnity.

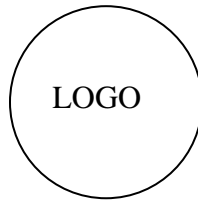
Solution

The factors limiting the payment of indemnity (i.e. exact financial compensation sufficient to place the insured in the same financial position after a loss as he enjoyed immediately before it occurred) are:

- i) **Sum Insured:** the maximum amount recoverable under any policy is limited by either the sum insured or the limit of indemnity. In policies with a sum insured, the insured cannot recover more than the sum insured because he paid the premium based on the value. Similarly, in

policies having a limit of indemnity or limits of liability, the limit is the maximum amount payable.

- ii) **Average:** where there is under insurance, the insurers are only receiving a premium for a proportion of the entire risk. Consequently, any settlement of loss will ensure the insured is penalized to the degree of under-insurance.
- iii) **Excess:** is the first agreed amount of each and every claim which is not covered by the policy. It is very common in Motor Policies. The amount of the excess is usually deducted from the claim amount before discharging the claim.
- iv) **Franchise:** is a fixed amount which is to be paid by the insured in the event of a claim. However, once the amount of the franchise is exceeded, the whole amount is paid by the insurer. Unlike excess which must be deducted irrespective of any situation.
- v) **Limits:** many policies put a ceiling on what is to be paid by that policy e.g. the household policy usually provide thatno one curio, picture, work of art, e.t.c. is deemed to be of greater value than 5% of the sum insured on contents.
- vi) **Deductibles:** a deductible is a very large excess. It is common on large/industrial risk, which is agreed between the parties to gain some savings in premium
 - 4 marks for defining contribution
 - 3 marks each for correctly mentioning the "factor". Maximum of 5 factors should be graded. Sub-Total: 15 marks
 - 1.5 marks each for each point under explanation. Maximum of 2 points per "how" to be graded. Sub-Total: 15 marks
 - Total: 34 marks



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A530
BUSINESS AND ECONOMICS**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A530 - BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	50%
Highest Score:	77%
Lowest Score:	14%
Average Score:	53%

Breakdown Updates

Question 1

Compulsory question with 91.84% of candidates passing. This was a direct question that required the definition of terms.

Question 2

Compulsory question with 78.87% of candidates passing. A direct question also.

Question 3

Compulsory question that required the explanation of a term with 75.51% passing.

Question 4

Compulsory question which involved application of what has been learnt; 76.40% passing.

Question 5

Compulsory question that required short answers with 75.51% passing.

Question 6

Compulsory question that required definition of terms, with 95.92% passing.

Question 7

Compulsory short question that required students to mention items with 64.28% passing.

Question 8

Compulsory question that required recall with 81.63% passing.

Question 9

The main compulsory question with 50 marks but only 25.51% of candidates passing.

Question 10

An optional main paper with 62.25% of candidates that attempted it passing.

Question 11

40% of candidates attempted the question with 32.50% passing. This is a question that required application.

Question 12

45.92% of the candidates attempted the question will 42.22% of them passing. This is an application question.

Question 13

This is an application question with 65.31% attempting the question while 37.50% passing.

Question 14

This is a direct question with 50% of candidates attempting the question while 24.45% of them passing.

Chief Examiner's Comments on Overall Performance:

The performance was average and with most of the students doing better in the direct questions.

Chief Examiner's Suggestions on Improvement:

Students should be encouraged to read widely; apart from just only the course books.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Define the following terms:
 - i. A Composite Insurance Company
 - ii. A Life Insurance Company
 - iii. A General Business Insurance Company.

Solution

- i) **A Composite Insurance Company:** is an insurance company that (is licensed to) transact all or several of the major classes of insurances
- ii) **A Life Insurance Company:** is an insurance company that is licensed to transact only life insurance/assurance
- iii) **A General Business Insurance Company:** is an insurance company that is licensed to transact only general business insurance.

2 marks each - 6 marks in all

- 2(a) What is the function of any economic system? (2 marks)

Solution

The function of an economic system is to **produce solutions** to the **basic economic problem** of how to **distribute limited resources** to the **unlimited human needs**.
½ mark each to the bolded points - 2 marks in all

- (b) What does the word "Professionalism" mean in insurance for insurance practitioners? (4 marks)

Solution

"Professionalism" in Insurance for Insurance practitioners means **accepting and enforcing** the **highest standards** that have emerged **amongst professional insurance community** who are **guided by the CII code of conduct/CIIN code of ethics**.
1 mark each to the bolded points - 4 marks in all

- 3(a) Explain with two concise points each, why government intervenes and uses the two principal ways - maximum and minimum prices; in regulating price determination, instead of leaving price determination to market forces. (4 marks)

Solution

Maximum Prices:

- i) to make the commodities more affordable
- ii) to safeguard the interests of consumers
- iii) to curb the abuse of monopoly of power

Minimum Prices:

- i) to protect the income of the producer
 - ii) to prevent insolvencies
 - iii) to encourage producers to continue supplying/producing their services/goods.
- 1 mark each - 4 marks in all

- (b) Mention any two ways by which Government attempts to safeguard consumer where competition may fail to protect. (2 marks)

Solution

The following are ways by which Government attempts to safeguard consumer where competition may fail to protect:

- i) Regulators
- ii) Commissions
- iii) Statutes
- iv) Laws
- v) Trade Associations.

1 mark each. Maximum of 2 to be graded - 2 marks in all

- 4(a) Why do insurance premiums fluctuate above and below inflation in any given period?

Solution

Insurance premiums fluctuate above and below inflation in any given period as a result of **hard and soft markets experiences** which cause violent premium fluctuations as **uncertainty of underwriting results** causes underwriters to under-charge in an effort **to maintain market share** or **gain market share from competitors**. After losing money, **the underwriter withdraw from the market, allowing those left to charge higher premiums for their capacity**. Eventually new **entrants come into the market and drive premiums down below the profitable level**.

1 mark each to a maximum of three of any of the bolded points - 3 marks in all

- (b) State any three probable effects of unemployment on the Insurance Industry.

Solution

The following are the probable effects of unemployment on the Insurance Industry

- i. Increased claims as a result of limited income which will likely make those on payment protection policies to make claims
- ii. Demand for certain insurances will change
- iii. Theft and crime rate will increase, leading also to more claims
- iv. Incidence of fraudulent claims will increase

1 mark each. Maximum of 3 to be graded - 3 marks in all

5. Mention any three (3) factors that most importantly affect the supply of insurance in the Industry.

Solution

The factors that most importantly affect the supply of insurance in the Industry:

- i. Premium Level in the Market
- ii. Costs
- iii. Level of Capacity Available
- iv. Reinsurance
- v. Uncertainty

2 marks each. Maximum of 3 to be graded - 6 marks in all

6. Define the following terms:

- i. Unemployment Rate
- ii. Delegation
- iii. Ethics.

Solution

- i) **Unemployment Rate:** is the number of people who are claiming unemployment benefit, expressed as a percentage of the workforce.
- ii) **Delegation:** is the process by which firms pass decision-making power down the hierarchy from managers to other staff members.
- iii) **Ethics:** (any of this definition suffices)
 - the study of the conduct that is ethical
 - the science of morals
 - the moral system of a particular school of thought
 - the rules of conduct recognized in certain limited departments of human life
 - the science of human duty in its widest extent.

2 marks each - 6 marks in all

7. Mention any three reasons why people analyze company accounts.

Solution

The reasons why people analyze company accounts are:

- i) to find out whether a company's performance meets certain targets
- ii) to compare the present performance of a company with its performance in previous years
- iii) to compare the performance of a company with that of other companies
- iv) to compare the performance of different activities of a company
- v) to decide whether or not to buy shares in a given company.

2 marks each. Maximum of 3 to be graded - 6 marks in all

8(a) What is the highest decision-making authority in an insurance company?
(2 marks)

Solution

The highest authority is the Board of Directors 2 marks

(b) E-commerce is another distribution channel to the Insurer. Mention any two advantages of e-commerce to the insurer and also any two advantages to the customer.
(4 marks)

Solution

Advantages of e-commerce to the Insurer:

- low start-up costs
 - low distribution costs
 - reinforcing the brand via a website
 - brings creativity to insurance thereby increasing visibility beyond physical borders
- Any 2 of these. 1 mark each. 2 marks in all

Advantages of e-commerce to the customer:

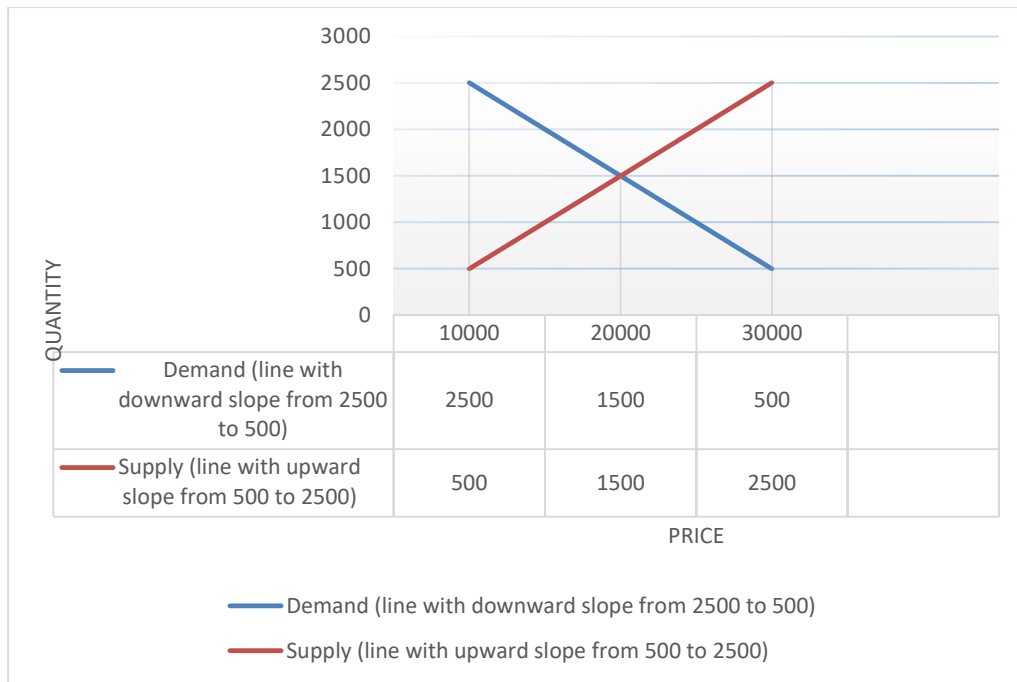
- offer cheaper insurance
 - saves time in purchasing insurance
 - allows comparisons of premium level
 - supports a chosen brand image
 - improves understanding of insurance.
- Any 2 of these. 1 mark each. 2 marks in all

Part II

Compulsory Question.

This question carries 50 marks.

9(a) The graph below shows the demand and supply for travel insurance at ABC Insurance Plc (note that the demand and supply curves have been plotted on the same pair of axes while bearing in mind that all factors affecting the pricing remain constant).



i. Explain with words and figures, what occurred at the following prices:

- a) ~~N~~30,000.00 (6 marks)
 b) ~~N~~10,000.00 (6 marks)
 c) ~~N~~20,000.00 (6 marks)

Solution

- a) i) @N30,000.00 – **2,500.00 policies were supplied** to be sold while only **500 policies were demanded**; therefore there was **excess supply**
 (2 marks for each bolded point -6 marks in total)
 ii) @N10,000.00 – **500.00 policies were supplied** to be sold and **2500 policies were demanded**; therefore there was **excess demand**
 (2 marks for each bolded point -6 marks in total)
 iii) @N20,000.00 – **1,500.00 policies were supplied** to be sold and **1500 policies were demanded**; therefore there was **balance in the demand and supply/ or equilibrium point was reached**. (2 marks for each bolded point -6 marks in total)

ii. State whether or not equilibrium has been reached at those prices with reason justifying your position; (12 marks)

Solution

- b) i) @N30,000.00 – equilibrium price **was not reached** because **supply was more than demand** (2 marks for each bolded point - 4 marks in total)
 ii) @N10,000.00 – equilibrium price **was not reached** because **demand was more than supply** (2 marks for each bolded point - 4 marks in total)
 iii) @N20,000.00 – equilibrium price **was reached** because **demand and supply were equal**. (2 marks for each bolded point - 4 marks in total)

- iii. Predict the most probable reaction (as it relates to profitability) of the Management Team of the Company at those three prices.

(6 marks)

Solution

c) i) @N30,000.00 – management will likely respond by cutting their prices to sell the unsold policies (2 marks)

ii) @N10,000.00 – management will likely respond by raising prices of future policies to be sold (2 marks)

iii) @N20,000.00 – management will likely maintain the price and supply volume (2 marks)

(36 marks in all)

(b) Marketing is an all-embracing function that links the company with the customer. To achieve this, marketing strategies are implemented through the marketing mix.

- i. Explain what you understand by the term “marketing mix” (2 marks)

Solution

“Marketing Mix” can be defined as the marketing strategy combination utilized by a Company to ensure that its goods and services reaches the targeted consumers. (2 marks)

the four (4) P’s of marketing. (12 marks)

Solution

ii) The four variable (P’s) of the marketing mix are:

a) **Product:** without a good quality product, a firm will struggle in the long term, no matter how good their other marketing strategy is. Customers, might flock in at the initial stage, for various reasons, but in the long run, if the product is not meeting up to expectation, the customers will leave. This is probably the most important element of the marketing mix.

b) **Price:** the fact that a company is the least expensive in the market does not guarantee of success because customers do not base their decisions on price alone. Therefore, company’s need to thoroughly consider its price setting mechanism as customers will generally seek out products that offer the best possible products and not necessarily the cheapest.

c) **Promotion:** this is used by companies as a form of non-price competition instead of cutting costs (which ultimately could lead to price war that ends up with slashed revenues at the end of the day). This is because there tend to be apprehension about trying to increase market share by cutting prices as the fear

is other competitors would try to hold on to their own market share by cutting their prices also.

d) **Place:** the need for goods/services to be at the right place, at the right time cannot be over-emphasized. Good distribution strategy is essential as even the best product will fail if it is not available for consumer to purchase.

(2 marks each for mentioning the points; 1 mark each for any explanation; maximum of two explanations should be graded; making it 2 marks for each P's explanation - 12 marks in all)

Part III

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

Each question carries **34** marks.

10(a) The major factor that limits public sector investment is the amount of finance the government feels it can raise. To boost investment, the Insurance Industry helps to stimulate both private and public sector investment in the economy. State and explain the four ways by which the Insurance Industry achieve this. (20 marks)

Solution

10a) To boost investment, the Insurance Industry helps to stimulate both private and public sector investment in the economy in the following ways:

i) **Insurance and Internally Generated Funds:** insurance helps to release internally generated investment funds in the sense that since the main service provided by the Industry is that of risk transfer, if the services were not available, firms would have to retain cash balances themselves to meet up any need being covered by insurance in the risk transfer model. **For example**, if a manufacturing firm had a factory burned down, the rebuilding costs could be very enormous.

ii) **Insurance and the Provision of Private Sector Finance:** when an insurance company receives premium payments from their policyholders, these premiums are not just held as cash in the company's bank accounts but rather, the company endeavours to generate a return on the capital through investment, especially in long tailed businesses like life assurance. These funds are invested in stock market, bonds, debentures, equity markets, HMOs, e.t.c. **For example**, the purchase of shares of multinationals and/or telecoms companies and/or setting up of HMOs by insurance companies in Nigeria.

iii) **Insurance and the Provision of Public Sector Finance:** usually, government raise fund for expenditure programs through taxation, but since taxes cannot be arbitrarily increased for various reasons to meet

escalating needs, the government resorts to borrowing for fund generation. One form of such borrowing is to sell interest-bearing securities that offer a good safe rate of return and these are a popular form of investment for insurance companies. The fund generated is thereafter available for use on the capital projects. **For example**, the sale of treasury bills, or State/Federal Bonds, e.t.c.

iv) **Insurance and the Provision of Saving by Individuals:** here the insurance company, through her teeming life-policyholders who purchase their savings products since it provides the facilities to save on a regular basis. For example, savings plans, endowment products, e.t.c.

(2 marks each for mentioning the points; 2 marks each for detailed and correct explanation; one mark for relevant example; making it 5 marks for point - 20 marks in all)

- (b) Inflation is a major concern for any Government, including the Nigerian Government. However in recent times, it has become unbearable. Mention the four (4) policy options that are available to governments who wish to ease inflationary pressure. (12 marks)

Solution

The following policy options are available to governments who wish to ease inflationary pressure are:

- i. Reducing inflation the monetarist way
- ii. Reducing inflation by demand management
- iii. Reducing inflation by income policies
- iv. Reducing inflation by high interest rate
- v. Reducing inflation by having a strong currency

(3 marks for every correctly stated point. Maximum of 4 to be graded; 12 points in all)

- (c) Explain how a trade surplus occur in one sentence. (2 marks)

Solution

A trade surplus occurs **when a country's export income is greater than their import expenditure.** 1 mark each to the bolded points - 2 marks in all

- 11(a) What does the following term involve with? State, on each term, two objectives on companies in general and two effects on the Insurance Industry:

- i) Monetary Policy
- ii) Fiscal Policy. (22 marks)

Solution

i) Monetary Policy involves **controlling the money supply** and **altering the country's interest rate** in order to achieve policy goals.

ii) Fiscal Policy involves **using a government's budget** to affect the level of spending within the economy.

1 mark each to the bolded points - 6 marks in all

	Objectives	Effects on Insurance Industry
Monetary Policy	i) Low inflation and retail price stability ii) Creating full employment iii) Manipulating the value of the currency iv) Manipulating the balance of payments	i) Level of investment income fall if interest falls ii) Personal lines demand for insurance falls as interest rises iii) Commercial customers spend less on Insurance as interest rates rises
Fiscal Policy	i) Raising of revenue ii) Controlling the level of government spending iii) Controlling the pattern of government spending	i) Level of corporation tax paid by Insurance Companies and Brokers is affected ii) Level of insurance premium tax paid by consumers is affected iii) Size and type of tax-efficient vehicles available to consumers are also affected.

(2 marks for each correct point - 16 marks in total)

(b) List three key points each on the terms below as it relates to sources of business finance:

i) Hire Purchase

ii) Venture Capital.

(12 marks)

Solution

The key points on each of the stated terms as it relates to sources of business finance are:

i) Hire Purchase:

- Used by firms who need to reduce their short-term cash requirements that are usually expensive
- The firm can start using the fixed asset once an initial down payment has been made

- The firm then buys the asset over a number of years by making regular payments to the owner by instalment
- The benefit here is that the firm may use the asset straight away without the cashflow associated with a standard purchase

ii) Venture Capital:

- It is a mixture of loan capital and share capital
- Usually used for investments considered by conventional banks to be too risky 'usually a long-term loan capital
- The sum learnt is usually very large

(3 marks for each correct point. Max of 2 points to be graded per term – 12 marks in total)

12(a) Why can insurance companies survive even if they are making an underwriting loss each year? (15 marks)

Solution

Insurance Companies can survive even if they are making an underwriting loss each year because the **time lag** between the **premiums being booked** and **claims being paid** allows the company **to invest the premiums** and **earn substantial investment income**. (3 marks each to the bolded points – 15 marks in all)

(b) Businesses may be categorized in different ways. Explain how these categorization take place when done (i) by products and (ii) by size. Give two (2) examples on each. (10 marks)

Solution

i) By Products: many products go through different stages in the course of their production using the services of a large number of companies along the way. Therefore, businesses may be categorized to the place they occupy within the production process e.g. manufacturing companies (cars, food, textile, e.t.c.); servicing industry (insurance, banking, transport, e.t.c.), extraction industry (farming, mining, quarrying, e.t.c.)

(3 marks for explanation, 1 mark each for stated example – maximum of two examples to be graded – 5 marks in all)

ii) By Size: businesses differ in size as some may be one man business, some may employ only one or two person(s), while other employ thousands of people, Therefore, businesses may be categorized by the number of persons in the companies/organization e.g. small sized companies, medium sized companies or large sized companies.

(3 marks for explanation, 1 mark each for stated example – maximum of two examples to be graded – 5 marks in all)

- (c) Why do insurance companies publish the following accounting information?
- i) Revenue Account
 - ii) Profit and Loss Account
 - iii) Balance Sheet.
- (9 marks)

Solution

Insurance Companies publish the stated accounting information for the following reasons:

- i) **Revenue Account:** to show the underwriting result of the Company
 - ii) **Profit and Loss Account:** to show the total profit or loss made by the Company
 - iii) **Balance Sheet:** to show the Company's assets, liabilities and if applicable, shareholders' funds.
- (3 marks each - 9 marks in all)

13. For the purpose of authorization by the Regulator to transact insurance business, state the two (2) main classes of insurance business and list the categories under each one.

Solution

For the purpose of authorization by the Regulator to transact insurance business, the two main classes of insurance business and their categories are:

- a. **Life Insurance Business:**
 - i. Individual Life Insurance Business
 - ii. Group Life Insurance Business
 - iii. Health Insurance Business.
- b. **General Insurance Business:**
 - i. Fire Insurance Business
 - ii. General Accident Insurance Business
 - iii. Motor Vehicle Insurance Business
 - iv. Marine and Aviation Insurance Business
 - v. Oil and Gas Insurance Business
 - vi. Engineering Insurance Business
 - vii. Bonds, Credit Guarantee and Suretyship Insurance Business
 - viii. Miscellaneous Insurance Business.

(6 marks each for stating the two main classes - making a sub-total of 12; 2 marks each for each correctly stated category - 22; both making a grand total of 34)

- 14(a) In what ways can ratios be used as a tool of planning? (2 marks)

Solution

Ratios can be used as a tool of planning to set targets for future performance

(2 marks)

(b) State the formula for any eight of the following terms:

- i. Return on Shareholders' Funds
- ii. Solvency Margin
- iii. Combined Ratio
- iv. Current Ratio
- v. Liquid Ratio
- vi. Claims Ratio
- vii. Expense Ratio
- viii. Acid Test Ratio
- ix. Shareholders' Funds Turnover Ratio
- x. Debtor Turnover Ratio
- xi. Creditor Turnover Ratio
- xii. Commissions Ratio.

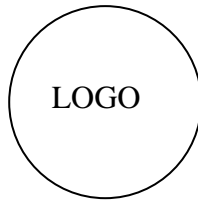
(32 marks)

Solution

The formula for all are:

- i. Return on Shareholders' Funds =
 $(\text{profit attributable to shareholders} / \text{shareholders' funds}) * 100$
- ii. Solvency Margin = $(\text{shareholders' funds} / \text{premium}) * 100$
- iii. Combined Ratio = $((\text{claims} + \text{commissions} + \text{expenses}) / \text{premiums}) * 100$
- iv. Current Ratio = $\text{current asset} / \text{current liabilities}$
- v. Liquid Ratio = $\text{current assets excluding stock} / \text{current liabilities}$
- vi. Claims Ratio = $(\text{claims} / \text{premiums}) * 100$
- vii. Expenses Ratio = $(\text{expenses} / \text{premiums}) * 100$
- viii. Acid Test Ratio = $\text{liquid assets} / \text{current liabilities}$
- ix. Shareholders' Funds Turnover Ratio = $\text{sales} / \text{shareholders' funds}$
- x. Debtor Turnover Ratio = $\text{annual sales} / \text{debtors}$
- xi. Creditor Turnover Ratio = $\text{annual purchases} / \text{creditors}$
- xii. Commissions Ratio = $(\text{commissions} / \text{premiums}) * 100$

(2 marks for correct numerator, 2 marks for correct denominator, making a sub-total of 4 marks for each correctly stated formula and a grand total of 32 for the eight correctly stated formula)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT A655
RISK MANAGEMENT

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A655 - RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	28%
Highest Score:	82%
Lowest Score:	1%
Average Score:	35%

Breakdown Updates

Question 1

This question was popular and attempted by almost all the candidates. Over 90% of the candidates scored above average.

Question 2

This question was a repeated one. All the candidates attempted the question and over 70% scored above average mark.

Question 3

About 50% of the candidates showed shallow understanding of this question but the remaining performed brilliantly as they scored above average.

Question 4

The question was attempted over 95% of the examination candidates, but less than 50% of the total candidates scored above average.

Question 5

This question was not all that new but lack of adequate preparation prevented majority of the candidates in doing justice to the question. Over 50% score above average.

Question 6

The question was straight forward but close to 40% the candidates that attempted the question did not have correct understanding. Those candidates that understood the question scored pass mark by correctly stating the required steps in arriving on full answer.

Question 7

The question was not popular as many of the candidates avoided it. There is need for good understanding because of importance of the topic (fault free).

Question 8

The question is directly from the textbook but over 50% of the total candidates that attempted it demonstrated poor understanding.

Question 9

This was a compulsory question. The question in previous examinations will cover close to 50% of the entire course syllabus. But the question now narrows down the candidates to

only corporate governance requirements in U.K with expected knowledge of various reports on this in U.K. This caught many candidates' unaware and the general performance was below average. The question may not be exactly repeated in future as it will fail to test the overall knowledge and general understanding of the course.

Question 10

This particular question was very popular with the candidates. Majority attempted the question and scored pass mark.

Question 11

The question has come out in many diets therefore many candidates were well prepared and attempted the question. Over 70% amongst those that attempted the question scored pass mark.

Question 12

Whilst about 35% of the total candidates attempted this question, over 50% of those that attempted scored pass mark. Few that were dry of points went guessing amongst the candidates.

Question 13

The course book addresses this question that (will) seems outside the syllabus. The question required good understanding of the course and of the industry to score pass mark. Less than 5% of the total candidates attempted the question.

Question 14

Well over 90% of the candidates attempted this question. Majority that attempted the question scored pass mark.

Chief Examiner's Comments on Overall Performance:

There were changes in the pattern of question which affected the overall performance of the students. Examiners noticed an unusual pattern with one of the candidates and this was duly addressed during the review.

Chief Examiner's Suggestions on Improvement:

In subsequent diets, the compulsory question 9 must touch most parts of the course book to enable candidates demonstrate balanced knowledge of the subject.

Part I

Answer ALL questions in Part I.

Each question carries six marks.

1. State any two (2) meaning of inappropriate insurance arrangement or protection.

Solution

The meaning of inappropriate insurance arrangement or protection are:

- Arranging insurance cover that does not suit the purpose intended
 - Insuring for less than the actual amounts
 - Choosing short indemnity periods for business interruption covers
 - Lack of deep understanding of both potential/extent of damage
- (3 marks each; Maximum of 2 points to be graded. Total: 6 marks)

2. What is a flow chart and why is it useful?

Solution

A flow chart is a diagram that pictures the route taken by all of the crucial ingredients of the final product, through the completion and final delivery. It therefore shows the bottlenecks and crucial dependencies within the process. With these flow charts, the risk manager can begin to see when the supply or the delivery chain can be broken. Crucial links in the chain that may otherwise be missed can be highlighted and identified for further investigation.

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

3. What is the risk model and how can it be used effectively?

Solution

The risk model is a way of creating a picture of a risk in a way that helps the organization to prioritize risks for attention.

It can be effectively used by ensuring that the model generated illustrates the following points:

- Vulnerability: i.e. the risk being carried
 - Triggers: i.e. what can cause the risk incident to occur
 - Consequences: i.e. the potential extent of loss or damage
 - Severity: i.e. to what extent would that level of loss impact the organization itself?
 - Probability: is it likely to happen and if so, how often?
- (2 marks for correct definition; ½ mark for mentioning the point; ½ mark for explaining the point. Maximum of 4 points to be graded. Total: 6 marks)

4. Mention any two (2) functions you expect a Group Risk Policy to address.

Solution

A Group Risk Policy will address the following:

- a) communicate company's risk policy to subsidiary managers
- b) avoid wastage of resources within the group
- c) explains how internal funding can be available
- d) informs the members of staff of how to mitigate losses and/or prevent losses.

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

5. What does "Crisis Management Plan" mean?

Solution

"Crisis Management Plan" means:

- a document that shows action/steps required to be taken in case of crises and unexpected but planned risk bearing in mind contingency plan in place. **OR**

- is a working paper/document that summarize and also represents the planning that has taken place to meet the identified crisis exposure. **OR**

- is the art of identifying, analyzing, monitoring, reviewing and communicating all the risk concepts in a context that include operations, trade, speculative, political, currency and investment risks. These risks could threaten the survival of an enterprise in its entirety and the management of such risks to acceptance level

(6 marks for any correct and complete definition from the above. Total: 6 marks)

6. What are the five steps for assessing Fire Risks as given in the Health and Safety Executive booklet on Fire Safety?

Solution

The five steps of assessing fire risks as given in the Health and Safety Executive Booklet on Fire Safety are:

STEP 1: Identify the locations of people and assets at risk from fire

STEP 2: Identify the fire hazards

STEP 3: Evaluate the risks

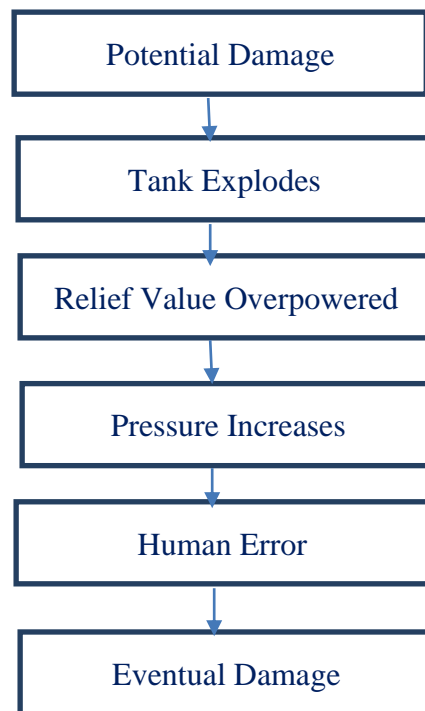
STEP 4: Record findings, prepare emergency plans and inform and train employees

STEP 5: Update and revise assessment as necessary.

(1 mark for each correctly stated point. 1 mark for correct ordering. Total: 6 marks)

7. An Engineer knows that a pressure vessel will explode once the pressure within the vessel exceeds its design load plus any margin of error that was built in by the designer. Present the above graphically with an engineering fault tree following just a single chain of events.

Solution



(1 mark for each correctly stated point and diagram. Total: 6 marks)

8. Mention any four (4) objectives of the business recovery plan.

Solution

The following are the objectives of the business recovery plan:

- limit damage, including fast reinstatement of security and safety
- accelerate the response by using trusted and authorized resources
- create an order and priority to the recovery process
- meet new communication challenges, both within and beyond the organization
- meet urgent customer and other needs
- protect the brand name and
- keep the organization firmly within its marketplace

(1½ marks for each correctly stated objective. Maximum of four objectives to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. The head of your Legal Department recently received a letter from the regulator, NAICOM, on corporate governance and consequently requested for additional information he can include in his report to the management from UK practice as it relates to corporate governance which can give the company edges above her competitors.

Explicitly respond with the use of an office internal memo explaining the key areas and headings as the Chief Risk Officer of the Company (N.B. answers must be given in memo format as specified).

Solution

XYZ HOLDINGS NIGERIA LIMITED
INTERNAL MEMO

Date: 6th October 2018
From: The Chief Risk Officer
To: The Head, Legal Department
Subject: Corporate Governance Requirements

.....
Further to your request, here are the list of Corporate Governance Requirements

- corporate governance recommendations (cadbury's)
- director's pay and service control (greenbury's)
- internal controls range required to be in place (hampel's)
- practical guidance to help companies ensure they have effective risk arrangement and control systems
- conclusion/ending.

Memo Format - 5 marks

Marks for

Date - 1 mark

From - 1 mark

To - 1 mark

Subject - 2 marks (it must be brief and concise. Relevant to the question)

Contents Section: 3 marks per section as tabulated above. Maximum of 2 points to be graded per section - 3 marks for each point - Sub-Total: 9 marks per section. Total: 36 marks)

4 marks for appropriate conclusion/ending.

Grand Total: 50 marks

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) State three (3) advantages and three (3) disadvantages of setting review periods for individual aspects of risk? (18 marks)

Solution

Three (3) advantages of setting review periods for individual aspects of risk are:

- it enable management to set up management standards for individual units
- it ensures that risk comes back unto the agenda regularly
- it ensures that the assessment of risk is not put off until a more “convenient” moment

(3 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 9 marks)

Three (3) disadvantages of setting review periods for individual aspects of risk are:

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

(3 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 9 marks)

(b) In what ways can buying Insurance for a risk add value? (16 marks)

Solution

The following are ways whereby buying insurance for a risk add value:

- buying insurance provides an economic vehicle for the sharing of unacceptable exposures with a large number of other organizations
- buying insurance brings to the organization a wealth of experience in risk and risk funding mechanisms
- the insurers can provide claims management services
- some exposures must by law be insured by third party accredited insurers, so it enables the organization to be law abiding
- an organization may decide to insure its entire public liability or professional liability risks. This will provide what is perceived by a claimant to be an independent body to negotiate third party claims
- the insurer may have a greater global coverage and thus be better able to respond quickly and with local resources to an incident that is far from the organization’s own core infrastructure
- the fast access to insurance funds means that the organization can retain and invest its own funds in the loner-term development of the

organization itself. They may otherwise lose cash resources or at least need to invest some funds in a way that they can be cashed quickly.

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

11(a) Risk Managers used to consider security risks. What types of security exposures may be faced achieving this? (9 marks)

Solution

The types of security exposures that may be faced when considering security risks are:

- security of physical assets
- security of individuals
- security of information (i.e. IT security, information on paper and word of mouth/conference calls security)

(3 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 9 marks)

(b) What are the key requirements of the Health and Safety at Work Act 1974?

(25 marks)

Solution

The key requirements of the Health and Safety at Work Act 1974 are that employers of five or more employees:

- carry out risk assessments around work activities
- make arrangements for implementing the health and safety measures that were identified as necessary by the risk assessment
- appoint competent people to help implement the arrangements
- set up emergency procedures
- provide clear information to employees and also training where necessary
- work together with other employers sharing the same workplace and
- continually monitor and review the risks and ensure health and safety work remains up to date.

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

12(a) What incidents could cause an organization to significantly fail to perform? (16 marks)

Solution

The incidents that could cause an organization to significantly fail to perform are:

- failure of central computer and communications infrastructure
- critical failure of local computer and communication structures
- destruction of buildings and other equipment that are needed for processing and delivery

- crucial information, whether it be on paper or within computer databases
 - individual key employees, teams or where there are concentration of employees felt to be at one risk or the other
 - essential service supplier and distribution chains
- (4 marks for each correctly stated point. Maximum of 4 points to be graded. Total: 16 marks)

(b) In considering alternative methods of working, whilst an ineffective computer is being replaced or repaired, the risk manager will need to consider carefully and fully the values the computer brought to the processes. What are the values? (18 marks)

Solution

Some of the values to be considered are:

- Replacement of a large number of trained and experienced staff who would be needed to fulfil the process manually. Over a period of time, the “manual skills” may have become extinct
 - The baseline product and client information within the database
 - An audit trail for the satisfaction of financial recording, internal and external controls and compliance
 - The credibility in the completeness of its output for the satisfaction of counterparties and regulators
 - Necessary formula and any corporate process standards built into the software
 - Security of various sensitive information about the organization itself, clients, employees, counterparties and third parties, e.t.c.
 - Access to up-to-date databases to other interested departments and authorized third parties
- (3 marks for each correctly stated point. Maximum of 6 points to be graded. Total: 18 marks)

13. Your Company’s training unit approached you to facilitate a training for your recently employed Graduate Trainees on Risk Based Supervision in the Industry. Prepare your draft presentation in a word document format pending when it will be transferred to a power point presentation.

Solution

Candidates are expected to use their knowledge of the course – “risk management” to answer this question and blend some with industry key operating (issues) factors that can bring about risk and its effects on all stakeholders.

The points that need to be mentioned mostly are:

- Establishment of functioning/effective risk management department by insurers, reinsurers and Brokers in the Industry as mentioned by regulatory requirement since 2010.
- The establishment of risk management department, staffing with appropriate employees and appointment of Chief Risk Officer
- Independence of Risk Management from Technical and Audit functions
- Appointment of external expert for regular review of adequacy of risk management procedure put in place by operating companies
- Board attention on and for risk management at every of their board meetings
- Establishment and inauguration of Board of Directors Risk Management Committee
- Establishment of Enterprise Risk Management Committee
- Preparation and submission of Annual Risk Management declaration signed by Directors (at least two (2)) of the company. Failure of such attracts sanctions and will contradict risk based supervision
- Keeping of updated risk register
- Keeping statutory risk register
- Keeping statutory required solvency margin.

(5 marks each for any well stated and expatiated point)

14(a) Draw a risk matrix showing how probability and severity can be demonstrated. Show on the matrix how it can illustrate a level of acceptance risk profitability and risk severity. (27 marks)

Solution

P R O B A B I L I T Y			Negligible	Marginal	Critical	Catastrophic
	5	>5 times per year				
	4	Annually	xxxxxxx	xxxxxxx		
	3	1 to 5 years	xxxxxxx	xxxxxxx		
	2	5 to 10 years	xxxxxxx	xxxxxxx		
	1	<10 years	xxxxxxx	xxxxxxx	xxxxxx	
	SEVERITY					

The shaded areas (with x) reflect where risks would be acceptable to the organization.

GRADING BASIS: The risk matrix need not be exactly like the above BUT it must show the same headings, classification of time/period, probability against severity and the candidate's shaded areas and what it implies.

3 marks each for the following stated information: probability axis; severity axis; period column, negligible column, marginal column, critical column and catastrophic column.

3 marks for each shaded area (maximum of 4 shaded areas to be graded)

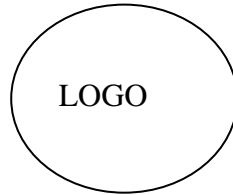
2 marks for explaining what the shaded are mean.

(b) What factors other than probability and severity could affect an organization's decision to manage risk? (7 marks)

Solution

Other than probability and severity, the following factors can affect an organization's decision to manage risks:

- i) The risk of committing illegal acts
- ii) Statutory/regulatory requirements
- iii) The Company's Management's own cultural approaches and references.
(1 mark for appropriate opening sentence. 2 marks each for the stated points. Maximum of three marks to be graded. Total: 7 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT A735
LIFE ASSURANCE

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A735 - LIFE ASSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	16%
Highest Score:	72%
Lowest Score:	13%
Average Score:	42%

Breakdown Updates

Question 1

Questions was generally well attended by the candidates. Performance in both sections was good.

Question 2

This is a popular one with the candidates. They displayed a good understanding of common alteration requests from assured. Performance was well above average on the question.

Question 3

Many candidates, had no difficulty in the first part of the question but the second part was not well understood. Many of the candidates did not do well in the part 'B' of the question. Most displayed surface knowledge, on underwriting consideration. Appreciable number also based their answers on the Group Life aspect of the Pension Reform Act.

Question 4

This question was well attempted by the majority of the students and they demonstrated fair knowledge of the topic.

Question 5

The question was attempted by majority of the candidates however, very few did well, and it is presumed that those are those who studied the course book.

Question 6

The question was straight-forward and candidates did very well which indicated that candidates have in-depth knowledge of the regulatory requirements from the life office.

Question 7

The question was well answered by most candidates. However, few candidates could not explain in-depth what insurable interest is all about.

Question 8

Most students that answered the question avoided item 'iii' which is on Pure Endowment. This shows that they did not understood what endowment policy is all about.

Question 9

This is a must for all candidates and we observed that responses from them lacked depth. They could not state underwriting factors and evidence(s) to seek while underwriting. Part B was worrisome as they could not state two points out of 5 required. Generally, performance was very poor.

Question 10

This is a proper underwriting question from the text book but was poorly answered. It shows that the candidates did not read their course books.

Question 11

Close to 70% of the candidates answered this question and the performance was above average. However, some candidates failed because they did not mention the contents of acceptance letter.

Question 12

This question was attempted by almost all the students. They also demonstrated good understanding of the topic.

Question 13

The performance of candidates on the question was not encouraging.

Question 14

Most candidates that attempted this question performed above average which signified that they understand Annuities and how it works.

Chief Examiner's Comments on Overall Performance:

The general performance is poor. It appears that the students did not prepare well.

Chief Examiner's Suggestions on Improvement:

Thorough preparation by student is highly recommended.

Part I

Answer ALL questions in Part I.

Each question carries six marks.

1(a) What is death strain? (2 marks)

Solution

Death Strain is the difference between the sum assured and the policy reserve. (2marks)

(b) Describe briefly what can cause a new business strain. (4 marks)

Solution

New Business Strain can occur as a result of unexpected early claims before the life fund has had a chance to build up a large reserve usually possessed by the long established offices. (2 marks) It is also influenced by the level of reserves and heavy initial expenses such as commission and underwriting (2 marks).

(Total: 4 marks)

2(a) How is an alteration to a life policy evidenced and recorded? (2 marks)

Solution

Alteration to a life policy is evidenced and recorded as follows:

- The policy holder is required to apply to the office in writing for alteration, so also is any person who might be interested in the policy e.g. mortgagee
- The policy will then be endorsed to show the alteration made and the office's record will be altered accordingly.

(2 marks each for the stated points above. Total: 4 marks)

(b) Give four (4) most common alteration requests to a life policy. (4 marks)

Solution

The following are the common alteration requests to a life policy:

- decrease in sum assured
- increase in sum assured
- conversion of policy e.g. convertible term assurance
- reduction of term
- extension of term
- addition of life assured
- removal of life assured
- fund switch

(1 mark to each correct example. Maximum of 4 to be graded. Total: 4 marks)

3(a) What is Group Term Assurance? (2 marks)

Solution

- Group Term Assurance is a term assurance that insures the lives of a large group of people. It may also be referred to as Group Life Assurance
- It provides benefits for the named dependants of the members who died in the course of the purpose that the policy was set up for e.g. if an association, when the person was a member; and if an employment related one, when the employee dies
- The insurer pays the agreed benefits when any member dies during the period of cover
(1 mark to each correct statement. Maximum of 2 to be graded. Total: 2 marks)

(b) Outline four (4) underwriting considerations for a Group Term Assurance. (4 marks)

Solution

Four (4) underwriting considerations for a Group Term Assurance are:

- previous death claims experience
- nature of the business of the group
- age distribution of the scheme members
- sums assured distribution of the members vis-à-vis the applicable free cover limit
(1 mark to each correct statement. Maximum of 4 to be graded. Total: 4 marks)

4. Distinguish between the terms “uniform simple reversionary bonus” and “terminal bonus”.

Solution

Uniform Simple Reversionary Bonus: is a uniform addition to the sum assured, irrespective of the time the policy has been in existence. Therefore, what basically determines the value of the bonus to be added under a uniform simple reversionary bonus is the value of the initial sum assured.

Terminal Bonus: here, the bonus is added to the life policies which have been in existence for a minimum number of years and are payable either at maturity or death (whichever is earlier).

(3 marks to each correct explanation. Total: 6 marks)

5. What does each of the following represent?

- a) L_x (b) d_x (c) L_{x+1} (d) q_x (e) P_x (f) Radix

Solution

- a) L_x : it represents the number of persons living at age (x) according to a particular mortality table
 (b) d_x : it represents the number of persons dying at age (x) according to a particular mortality table
 (c) L_{x+1} : it represents the number of persons living at age (x+1) according to a particular mortality table
 (d) q_x : it represents the probability that a person now age (x) will die at age (x)

(e) P_x : it represents the probability that a person now age (x) will survive to the next age (x+1)

(f) **Radix**: it represents the total number of persons that commenced the scheme under which the mortality table had been studied.

(1 mark to each correct explanation. Total: 6 marks)

6. Specify three (3) regulatory requirements for Life Office that are usually electronically done.

Solution

Three (3) regulatory requirements for Life Office that are usually electronically done are:

- producing key featured documents
- issuing of cancellation notices
- issuing of renewal notices
- maintaining training and competence record
- reports generation
- etc

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

7. Mention four examples of how insurable interest may arise in life business

Solution

In Life Assurance, insurable interest may arise in any of the following ways:

- a man has an insurable interest on his own life
- a man has an insurable interest on the life of his wife
- a surety on the life of his principal
- a creditor on the life of his debtor
- a trustee in respect of trust policies

(1½ marks each to any correct answer. Maximum of 4 to be graded. Total: 6 marks)

8. On which events will each of the following policies pay benefits?

- i. Whole Life Assurance
- ii. Income Protection Insurance
- iii. Pure Endowment.

Solution

Benefits are payable on the occurrence of the following events on the policies below:

- i. **Whole Life Assurance**: death of the life assured whenever it occurs
- ii. **Income Protection Insurance**: on disability (inability to perform regular work) of the insured due to illness or accident
- iii. **Pure Endowment**: survival of the life assured to the maturity date of the policy

(2 marks each to any correct answer. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Assume that a proposal for Life Assurance cover was submitted to your office on the life of a 50years old Mr. John Thomas, an employee of BEKIND Nigeria Limited.

The completed proposal form has been submitted by his employer for a sum of ₦100,000,000.00 for a term of 20years.

- i. As an underwriter, describe the main issues you will consider when assessing the risk. (20 marks)
- ii. Identify and explain the evidence you will seek and the recommendations to give when assessing the risk. (20 marks)

Solution

Proposer: BE KIND Nigeria Limited
Life Proposed: Mr. John Thomas
Relationship: Employee
Age of Life Proposed: 50 years
Cover Proposed: Term Assurance
Term/Duration: 20 years
Sum Assured Proposed: N100,000,000.00

i) As an underwriter, the main issues to be considered when assessing the risk are that:

- the proposal is on the life of another person hence the appropriate portions of the proposal form must be duly signed by the life proposed to ensure that he is a party to the contract
- the purpose of the proposed assurance must be clear
- the issue of whether the employer have adequate insurable interest up to the proposed sum assured on the employee
- to check/confirm the relationship between the employer and the employee
- to ascertain the duties and expertise of the employee which should justify the proposed assurance e.g. a marketing executive, an inventor or an employee with valuable contacts
- to obtain the Memorandum of Association and three (3) years Annual Financial Reports of the Company in order to determine the set up, operations, turnover, profit levels, e.t.c.
- the size of the sum assured proportionately to other information in order to rule out the issue of over-purchasing of cover
- to check the state of health and other moral hazards of the life proposed that could be material facts for assessment

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

ii) The evidence I will seek and the recommendations to give when assessing the risk are:

- Medical Examination Requirements: the life proposed will be required to undergo medical examinations because of the:
 - Size of the sum assured proposed
 - Advanced age (50 years) at entry since the premium calculation basis is on the actuarial assumption that the older the life, the higher the risk of death
 - the purpose of the proposed assurance must be made clear to be able to recommend the appropriate policy that would meet the needs of the company
 - insurable interest in the employee will be checked to ensure it is commensurate to the proposed sum assured so as to guard against the possibility of fraud
 - confirmation of the extent of the relationship between Mr. John Thomas and BEKIND Nigeria Limited as a check against collusion against my office and to facilitate the possibility of BEKIND Nigeria Limited being granted tax rebate
 - memorandum of association of BEKIND Nigeria Limited will be checked to confirm its existence and reveal the capability of the company to justify the proposed sum assured
 - most likely, at the end of the assessment/underwriting, instead of a 20-year term assurance, I would recommend a Term Keyman Assurance, on a 5-year renewable basis with the option to renew every 5 years for as many times as required, without further evidence of health, up to age 65 years.
- (4 marks for each correctly stated point. Maximum of 5 points to be graded. Total: 20 marks)

(b) Explain the purpose of Single Premium Unit-Linked Whole Life Policies. (10 marks)

Solution

The purpose of Single Premium Unit-Linked Whole Life Policies is explained below:

- the contracts are usually written as whole life contracts so that the investment can continue for as long as is desired
- the whole single premium is usually applied to purchase units in selected fund at the applicable price at the time of purchase
- the policy can then be cashed in at anytime, the surrender value is the total value of the units at the bid price on the day of surrender
- the contracts are used purely for investment purpose
- if the life assured dies, the death claim value will be paid out. In practice, the amount payable is 101% of the value of the units

- this reduces costs and makes it easier for older lives to invest by avoiding strict underwriting
 - some offices offer more substantial levels of life cover. For example, 120% at the age of 50 or 200% at the age of 30
 - the policies allow the investor to make partial withdrawals each year by cashing in many units needed to make the withdrawal amount
 - the policyholder will not be required to pay income tax if the amount withdrawn does not exceed 5% of the original investment.
- (2 marks for each correctly stated point. Maximum of 5 points to be graded. Total: 10 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) A couple had a Joint Life Last Survivor Life Policy with your office, the husband was born on 30th October 1979 and the wife's date of birth is 24th May 1980. They were both involved in a car accident and died instantly without a will.

- Who gets paid the benefit of a joint life, last survivor life policy?
(6 marks)
- What does Section 184 of the Law of Property Act 1925 says on this type case?
(6 marks)
- To whom will you pay the benefits in this case? State reason(s).
(6 marks)
- What proof(s) of title would you require from the claimants?
(6 marks)

Solution

i) Joint Life Last Survivor policy pays benefits on death of the second life assured.
(6 marks)

ii) Section 184 of the Law of Property Act 1925 states that where two or more people die at the same time, the deaths are presumed to have occurred in the order of seniority
(6 marks)

iii) in this particular case, since the husband is the older life, payment will be made to the administrators of the wife's estate
(6 marks)

- the required proof of title, since they both died intestate (without a will) will be the letters of administration issued by the courts wife
(6 marks)

- (b) Will the situation be different if the policy was a Joint Life First Death Policy? State your reason(s) for the answer provided. (10 marks)

Solution

No! (5 marks), the situation will not be different since the principle guiding the Law of Property Act 1925 presumes that the older life died first. Payment will still be made to the younger life's estate (i.e. the wife's estate). (10 marks)

- 11(a) Describe in details the purpose of the Acceptance Letter to a Life Assurance Contract? (24 marks)

Solution

An "acceptance letter" is a letter issued when the life office decides to accept a risk.

The contents of an acceptance letter include:

- details of any special terms offered, statement that the office is not on risk until it has received the first premium and the defined period for which the offer is valid (say 14-30 days)
- that the contract starts from payment of the first premium but if the offer is not taken up within a specified period, it will be automatically withdrawn
- that the office will obtain full details of any deterioration of health and can amend or withdraw its acceptance
- the office can avoid the contract where deterioration of health is not disclosed
- where the proposer has already paid a deposit which may be the actual amount required for cover to commence, the contract will come into force immediately the office indicates acceptance unless special terms are imposed
- if an extra premium has been charged and the ordinary rate of premium was paid, as deposit, the risk will not start to run until the extra premium has been accepted by the proposer

(4 marks for each correctly explained point. Maximum of 6 points to be graded. Total:24 marks)

- (b) Explain the following in line with the taxation of Life policy:
- i. Backdating (5 marks)
 - ii. Reinstatement . (5 marks)

Solution

- i. **Backdating:**

- Life policy may be backdated up to three (3) months and the commencement date will be seen as the backdated date. If this is so, it will enjoy applicable tax relief.
- If however the backdating is more than three (3) months, the policy will be regarded as having commenced on the date the contract was completed and may therefore not enjoy any tax relief.

(2½ marks for each point. Total: 5 marks)

ii. **Reinstatement:**

- If policy lapses, due to non-payment of premiums, it may affect tax relief status
- If reinstatement is within 13 months, it may be ignored provided the type of policy was not changed therefore, the tax status may not change
- If premium is increased due to health challenges as evidenced on the completed health declaration form, then it will be regarded as a new contract
- If reinstatement occurs after 13 months, it is also treated as a new policy which may prevent it from qualifying for tax relief. For example, if there are less than 10 years to run

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

12(a) Explain “Benefits” under the Life Assurance Contract. (7marks)

Solution

Benefits under Life Assurance Contracts refer to the **amount of a specified payment made by the Life Office to the Life Assured at a particular time, having paid regular contributions (premiums) and subject to other conditions of the contract**

(1 mark for each bolded point. 7 marks in all)

(b) Describe each of the following benefits stating their purposes when they are added to basic Life policies:

- Disability Benefit
- Terminal Illness Benefit
- Double Accident Benefit
- Family Income Benefit.

(27 marks)

Solution

Life offices design some additional covers to the standard policies (whole life and endowment) as riders. For these additional benefits, the policyholders are required to pay an increase in premium over the standard premium. The additional covers are usually only available to standard lives and some are described below as requested: (3 marks for appropriate preamble/opening remarks)

i. **Disability Benefit:**

- provides the sum assured which is payable on permanent disability as well as on death.
- the assured will be required to submit proof that he is permanently unable by way of illness or injury to follow his normal occupation.
- the payment is a lump sum (the death sum assured) rather than an income
- if the sum assured has been paid due to permanent disablement, there will be no further payment on subsequent death

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

ii. **Terminal Illness Benefit:**

- pays sum assured where the life assured is diagnosed as suffering from advanced incurable disabling terminal illness and the life expectancy will be less than 12months
- if the cover is part of an endowment policy, with less than as months to maturity, the advance payment will not be made
- it is an accelerated death benefit
- it can also be added to term assurance cover but will not apply in the last 18months of the contract
- cover provides large sum of money during the life of a terminally ill policyholder to meet the needs

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

iii. **Double Accident Benefit:**

- provides that if the life assured dies due to an accident (as defined in the policy) an additional payment equal to the death sum assured will be made. That is, the policy will pay out twice the original sum assured if death is by accident
- death by suicide is usually excluded
- death by pursuit of dangerous hobby is also usually excluded
- death while committing a criminal offence also is excluded
- when death is caused by any excluded peril, the main sum assured will be paid; it is only the double accident benefit that will not be paid

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

iv. **Family Income Benefit:**

- is a contract that pays out the benefit as an income instead of a lump sum on death of the policyholder
- it is intended to replace the income which the life assured would provide for their family if still alive
- it is written to provide capital sum payable by installments for a selected period
- the policy pays the selected level of income each year from the death of the life assured until the expiry date of the policy
- installments can be paid monthly, quarterly or yearly and often a commuted value (lump sum) will be available at death instead of the instalments

- the cost is relatively cheap because the cover, in effect, decreases over the term of the policy. the nearer the life assured gets to the expiry date of the policy, the lesser will be the total of the installments payable.
(2 marks per point. Maximum of 3 points to be graded. Total: 6 marks)

13(a) Explain why it is important for Life Offices to obtain “proof of age” of a deceased life assured at the time of claim. (8 marks)

Solution

“Proof of age” is important on a death claim because premiums calculations are based on the age of the life assured. (8 marks)

(b) What actions are opened to the life office where the age differs from that stated on the proposed form. (10 marks)

Solution

Where the age differs from that stated on the proposal form, it implies that an incorrect premium has been or will be charged and the following actions can be done by the life office:

- if the age is older than stated, the benefits will be recalculated, based on the reduced premium, thereby causing a reduction in the sum assured
- where the age is younger than stated, the excess premium paid over and above the correct one that ought to be paid will be refunded.

(2 marks for the opening preamble. 4 marks per point. Sub Total: 8 marks. Grand Total: 8 marks)

(c) Where the proposer is unable to provide the original birth certificate, what alternative evidence of age may be acceptable? (10 marks)

Solution

Where the proposer is unable to provide the original birth certificate, the following alternative evidence of age may be acceptable by the life office:

- Baptismal, Adoption or Naturalization Certificate
- School Record - if they contain evidence of age
- International Travel Passport
- Statutory Declaration of Age

Any evidence of the date of birth supplied must be the original copy.

Photocopies are not acceptable.

(4 marks each for any correct document stated. Maximum of 2 documents to be graded. 2 marks for the very crucial point bolded above. If this is incorporated into the named document individually, the candidate will still get the applicable 2 marks. Total: 10 marks)

(d) In the case of a married woman or widow, what other proof of identity document might be required apart from the statutory one(s)? (6 marks)

Solution

In the case of a married woman or widow, the other proof of identity document that might be required apart from the statutory one(s) is a copy of her marriage certificate or documents that shows that she was truly married to the deceased while alive. (6 marks)

14(a) Describe “annuities” and differentiate between “with proportion” and “without proportion” annuity. (14 marks)

Solution

- An annuity is a contract to pay a set amount over an agreed period of time at regular intervals
 - It can be payable monthly, quarterly, half yearly or yearly
 - It can be payable in advance or in arrears
 - Most annuities are purchased by single premium but deferred annuities are often purchased by regular premiums
 - Annuities are commonly used by retired people to provide an income that is guaranteed for life
- (3 marks for each correct description. Maximum of 3 descriptions to be graded. Total: 9 marks)

The following are the differences between a “with proportion” and “without proportion” annuity:

- Where annuity is payable in arrears, it can either be with proportion or without proportion. This is because each payment is made at the end of the period to which it relates, so when an annuitant dies, there will be a period since the last installment date which no payment has been made. When death has occurred and a proportion of the payment is made to the named beneficiary to cover the period described above, this is called an “annuity with proportion”. If, however, no payment is made, this is called, an “annuity without proportion”.

(5 marks for correctly and explicitly stated differentiation)

Grand Total: 14 marks)

(b) Explain each of the following different types of Annuities:

- i. Immediate Annuity (5 marks)
- ii. Annuity Certain (5 marks)
- iii. Temporary Annuity (5 marks)
- iv. Capital Protected Annuity. (5 marks)

Solution

i. **Immediate Annuity:**

- provides, in return for a single purchase price, an annual payment for the rest of the annuitant’s life

- usually purchased by retired people who desire to have a guaranteed income for life – no matter how short or long that may be
(2½ marks for each point. Maximum of 2 points to be graded. Total: 5 marks)

ii. **Annuity Certain:**

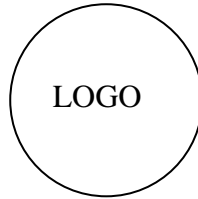
- a contract to pay an annuity for a specific period regardless of whether the annuitant survive or not
- does not depend on the age of the annuitant as payment is guaranteed for the set period whatever happens
(2½ marks for each point. Maximum of 2 points to be graded. Total: 5 marks)

iii. **Temporary Annuity:**

- an annuity which is payable for a fixed period or for the annuitant's lifetime whichever is shorter
- if the annuitant survives the fixed period, the annuity ceases
- the annuity will also cease if the annuitant dies during the period.
(2½ marks for each point. Maximum of 2 points to be graded. Total: 5 marks)

iv. **Capital Protected Annuity:**

- an annuity that guarantees that the annuitant or their estate will receive the full value of the premium paid i.e. if the annuitant dies before the total installments paid have equaled the total purchase price to be paid, the difference between the sum paid and the original purchase price will be paid to the deceased's estate
- it is more expensive than the immediate annuities
- no bulk purchase price is applicable here as the purchase price is contributed over an agreed period of time.
(2½ marks for each point. Maximum of 2 points to be graded. Total: 5 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT A745
PRINCIPLES OF PROPERTY INSURANCE

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A745 - PRINCIPLES OF PROPERTY INSURANCE

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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:	64%
Highest Score:	92%
Lowest Score:	4%
Average Score:	58%

Breakdown Updates

Question 1

This was a text book question. All that is required are the Exclusions Fund in Theft Policies. Performance of candidates was very good.

Question 2

This was a CAR question on covers available for CAR on Plant and Equipment. Performance was okay.

Question 3

This was also a textbook question and the performance was okay.

Question 4

The candidates' performance was okay.

Question 5

Compulsory question which was well attended to by candidates.

Question 6

Question on covers of fidelity which involved testing of the knowledge on various cover. Performance was above average.

Question 7

Compulsory question on collusion Extension of Burglary Policy.

Question 8

Candidates showed good understanding of the question. Performance was above average.

Question 9

Compulsory question based on Sum Insured Gross Profit. The performance of candidates was encouraging.

Question 10

This was an engineering question requiring (i) definition of various terms i.e explosion, collapse, damage/objectives. Performance was very poor.

Question 11

This was a textbook/technical question of Theft Act 1968 definition etc. Performance was very poor.

Question 12

This question was based on JCT Clause 22 (A-C). It was well attempted and the performance outstanding.

Question 13

The question was based on BI. 90% of the candidates attempted the question. Performance was above average.

Question 14

This is a technical question based on Property Insurance (various classes of Property Insurance). The performance on this was okay.

Chief Examiner's Suggestions on Improvement:

The candidates should try to get well prepared for the examination.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. State the main exclusions found in theft policies.

Solution

The main exclusions found in theft policies are:

- i. unexplained disappearance or shortage and omissions revealed during stock taking.
- ii. theft involving collusion
- iii. explosion.

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

- 2(a) What is the effect of adding reinstatement clause to material damage policy? To which item does it apply? (4 marks)

Solution

The effect of adding reinstatement clause to material damage policy is that the Insurer will bear the cost of a reinstatement in full without deduction for wear and tear. (2 marks)

The clause applies to building, machinery and other property but certainly not to stock. (2 marks)

- (b) How does average apply under this clause? (2 marks)

Solution

Average applies if the sum insured; represent less than 85% of the cost of reinstatement of the items. (2 marks)

3. What items would you expect to be covered under the plant and equipment section of the Contractors' All Risk Policy (CAR)?

Solution

The following are items expected to be covered under the plant and equipment section of the CAR policy:

- Contractors' own plant and equipment together with a limit in respect of any piece of plant.
- Employees tools and personal effect with a limit for any one employee
- Hired in plant

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

- 4(a) Explain the difference between storm and flood perils in a material damage policy. (4marks)

Solution

The difference between storm and flood perils in a material damage policy is as defined below:

- **STORM**: can be defined as atmospheric disturbance involving wind, rain, snow, hail or any consignment of them; **while**,
- **FLOOD**: is defined as escape of water from the normal confines of any natural or artificial water lake, reservoir, canal or inundation from the sea whether resulting from storm or otherwise
(1½ marks each for every correctly difference; 1 mark for the actual comparative word or if drawn in a table, for the tabular comparative reasoning. Total: 4 marks)

- (b) How might a flooded factory be considered as damaged by storm rather than flood? (2marks)

Solution

A flooded factory can be considered as damaged by storm rather than flood if the factory was flooded by heavy rain when no natural cause is involved or not from normal confines, then the damage would be considered as storm damage and not as flood damage. (2 marks)

5. Explain what you understand by the term “accumulation of risk” in property and pecuniary insurance. **Solution**

Solution

“**Accumulation of risk**” occurs when an insurer insures property and pecuniary business for one or more firms/persons at one address or at several address which form one risk.

The effect is that an insured event occurring in the premises of one firm or person may produce claims under the policies for others.

(1 mark each for the bolded phrases. Total: 6 marks)

6. Briefly describe three (3) types of fidelity policy.

Solution

The different types of Fidelity Policy are:

- **Individual**: a named employee is covered for a stated amount.
- **Collective Named**: the employees are listed; the list involved their duties. The amount insured may be set out per employee or overall.
- **Collective Unnamed**: the Employees are covered by category e.g. managers, cashier, stock keeper etc. The number insured in each category is stated. Again, the amount insured may be set out per person or overall.
- **Blanket**: it is used for large number of employees’ i.e. for a large organization.

- **Position:** it is used in local government insurance where the position is stated. Therefore, the job-holder for the period of cover is thus insured.
(2 marks each. Maximum of any 3 from the above should be graded. Total: 6 marks)

7. In what insurance may an insured ask for collusion extensions?

Solution

A theft policy covers theft involving:

- forcible and violent entry and/or exit
- assault or violent (or threat thereof) to insured staff.

Therefore, collusion by staff (e.g. in facilitating forcible and violent entry/exit) is often asked for as an extension to the above basic cover.

(2 marks for explaining what theft policy covers. 3 marks for stating how collusion extension can be asked for. 1 mark for "linking" the two words together so as to show the relationship. Total: 6 marks)

8(a) How was "Riot" defined in the Public Order Act 1986? (4 marks)

Solution

According to the Public Order Act 1986, the following five elements must exist for a situation to be defined as riot

- + There must be at least three people present
- + There must be common purpose, lawful; unlawful
- + There must be execution or inception of that common purpose
- + They must intend mutually to assist one another, by force if necessary in the execution of the common purpose.
- + There must be force or violence displayed in such a manner as to alarm at least one person of reasonable firmness and courage

(1 mark each. Any 4 of the above should be graded. Total: 4 marks)

(b) What changes did the Act make to the definition? (2 marks)

Solution

The changes made meant that;

- + The number of people involved increased from three to twelve
- + Persons of reasonable firmness fear for their personal safety

(1 mark each. Total: 2 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9(a) The following figures were supplied by the Chief Financial Officer (CFO) of ABC Plc.

Turnover	3,000,000.00
Purchases	1,500,000.00
Opening Stock 01/01/2017	440,000.00
Opening WIP as @ 01/01/17	190,000.00
Closing Stock as @ 31/12/17	290,000.00
Closing WIP as @ 31/12/2017	135,000.00
Direct Wages	127,000.00
Packaging Materials	288,000.00
Carriage	75,000.00
Power	25,000.00
Rent and Rates	75,000.00
Depreciation	150,000.00
Lightening and Heating	80,000.00
Advertising	60,000.00

- i. You are expected to assist the company to calculate the sum insured for Gross Profit. (36 marks)

This policy is written on a standard sum insured basis and is based on a 12 month maximum indemnity period. This business is expected to grow by 10% in 2018 and 15% in 2019. Inflation rate could be in the region of 5%.

- ii. Calculate the Year 2018 Projected Gross Profit Sum Insured with Inflation. (7 marks)
- iii. Calculate the Year 2019 Recommended Gross Profit Sum Insured with Inflation. (7 marks)

Solution

	N	(4 marks)
Turnover	3,000,000.00	(2½ marks)
Closing stock as @ 31\12\17	290,000.00	(2½ marks)
Closing WIP as @ 31\12\17	<u>135,000.00</u>	(2½ marks)
	<u>3,425,000.00</u>	(4 marks)
Less		
Opening stock as @ 01\01\17	440,000.00	(2½ marks)
Opening WIP as @ 01\01\17	190,000.00	(2½ marks)
Purchases	1,500,000.00	(2½ marks)
Packaging materials	288,000.00	(2½ marks)
Carriage	<u>75,000.00</u>	(2½ marks)
	2,493,000	(4 marks)
Gross profit	<u>932,000.00</u>	(4 marks)

(Total: 36 marks)

i. An allowance should be made for the effect of growth for the business for 10% in 2018 and 15% in 2019. Also the inflation rate would be in region of 5%

ii. 2018 Projected Gross Profit Sum Insured with Inflation
= Gross Profit + 10% +5% (3 marks)
= 932,000 + 10% +5% (1 mark)
= 932,000 + 93,200 + 51,260 (1 mark)
= ~~N~~ 1, 076,460.000 (2 marks)

(Total Marks: 7 marks)

iii. 2019 Recommend Gross Profit Sum Insured
= 2018 Projected Gross Profit + 15% + 5% (3 marks)
= 1,076,460 + 15% + 5% (1 mark)
= 1,076,460 + 161,469 + 61,896 (1 mark)
= ~~N~~ 1, 299,825 (2 marks)

(Total Marks: 7 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Explain what cover can be provided under Engineering Insurance Policy for:

- i. Boiler and Pressure Plant
- ii. Electrical and Mechanical Plant. (17 marks)

Solution

The cover that can be provided under Engineering Insurance Policy for :

- **BOILER AND PRESSURE PLANT**

The basic cover for boiler and pressure plant is damage to the plant itself arising out of explosion/collapse, which is defined as follows:

Explosion: The sudden and violent rending of the pressure plant by force of internal steam or other fluid pressure (other than pressure of chemical action ignition on the contents of ignited flue gases) causing bodily

displacement of any part of the pressure plant together with forcible ejection of contents. (4½ marks)

Collapse: The sudden and dangerous distribution (whether or not attended by rupture) of any part of the pressure plant caused by ensuing stress by force of steam or other fluid pressure) other than pressure of chemical action or of ignition of the content or of ignited flue gases.(4½ marks)

ii. **ELECTRICAL/MECHANICAL PLANT**

The basic cover for electrical/mechanical plant is breakdown which is defined as follows:

Damage occasioned by:

- actual breaking, distribution or burning out of any part of the plant whilst in ordinary use arising from either mechanical or electrical object in the plant causing its sudden stoppage and necessitating immediate repair or replacement of plant before it can resume normal working including and resultant loss of cooling lubricant or insulating oil or refrigerant or brine. (4 marks)
- factoring of any part of the plant by frost which facture renders the plant in inoperative. (4 marks)

(Total: 17 marks)

- (b) State the objectives of the *Pressure System Safety Regulation 2010* to what is required on owners and users of plants; and the duties imposed by the regulation; on owners and use of plants. (17 marks)

Solution

The Objectives of the Pressure system safety regulations 2010 are:

- To **prevent the risk of serious injury** from a **stored energy pressure system** as a **result of failure of the system or any part of it**. They are **concerned with the contents of the system** insofar as they are under pressure and **except in the case of steam, such as toxicity or inflammability** which is dealt with by other legislation.

(1½ marks for each bolded phrase. Maximum of 4 to be graded. Total: 7 marks)

The regulation defines a pressure system in two parts, which are:

- i. A system with pressure vessel(s) associated pipe work or a pipeline, all when certain or can certain a relevant fluid

- ii. The relevant fluid being steam, a fluid above a given pressure, a gas or liquid in given states.

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

There are four main duties and they apply to users of fixed plant and owners in case of mobile plant:

- i. To establish and use plant with safe operating limits
- ii. To establish a written scheme for a periodic examination by a competent person
- iii. To conduct examination in accordance with the written scheme
- iv. Action in case of imminent danger either immediate repairs or written report.

(1 mark each. Maximum of 4 points to be graded. Total: 4 marks)

(Grand Total: 17 marks)

11(a) Define "Theft" under the "Theft Act 1968". (10 marks)

Solution

Theft is defined under the "Theft Act 1968" (Section 1) as:

- i. a person is guilty of theft if he dishonestly appropriates property belonging to another person with the intention of permanently depriving the other of it, and "theft: and "steal" shall be construed accordingly
- ii. it is immaterial whether the appropriation is made with a view to gain or is made for the thief's own benefit.

(5 marks each for the two definitions stated above. Total: 10 marks)

(b) How does this differ from the definition of "Robbery and Burglary" as also defined in the Act. (16 marks)

Solution

Robbery is defined in Sec. 8 as: a person is guilty of robbery if he steals and immediately before or at the time of doing so and in order to do so, he uses force on any person or puts or seeks to put any person in fear of being then and there subjected to force. (6 marks)

Burglary is defined in Sec. 9 as: a person is guilty of burglary if he enters any building or part of a building as a trespasser and with intent to commit any such offence as is mentioned (3 marks) or

having entered any building or part of a building as a trespasser he steals or attempt to steal anything in the building or that part of it or inflicts or attempts to inflict any person therein every grievous body harm. (3 marks)

The basic difference is that theft does not involve force or violence, whereas robbery and burglary involve force, inflict fear and bodily injury. (4 marks)

- (c) Describe the cover under a basic "Theft Policy", (8 marks)

Solution

The basic theft policy insures loss or destruction or damage to property insured as a result of:

- theft or attempted thereof involving force or violent entry/exit from the premises; **or**
- theft following assault or violence or threat thereof to the insured or any director, partner or employee of the insured.

(4 marks each. Total: 8 marks)

12. Explain the Insurance requirements of the JCT (Joint Contracts Tribunal) 1998 Standard Form of Building Contracts as expressed by Clause 22. State the responsibilities of the various parties to the contract.

Solution

Clause 22 is in three main parts, namely:

- i. Clause 22 - applies to the erection of new buildings where the contractor is required to take out insurance. (5 marks)
- ii. Clause 22B - applies to erection of the new buildings where the employer is required to take out insurance. (5 marks)
- iii. Clause 22C - applies to work of alteration or extension works to existing structure where the employer is required to take out insurance. (5 marks)

CLAUSE 22A

- The contractor has to insure
 - The insurance must be in the joint names of the contractor and the employer (principal).
 - The cover must be at least as defined in clause 22:2 and it must include reinstated value, professional fees and debris removal.
 - Cover must remain in force until the date of issue of final completion certificate
 - The insurer must be approved by the employer.
 - If the contractor fails to insure, the employer can do so and charge the premium to the contractor.
 - Loss or damage must be notified to the insurers by the contractor
 - The insurer must discharge their obligations to all parties covered by the policy
 - The problem of deficient policy cover falls wholly on the contractor
- (1½ marks for each correctly stated point. Maximum of 6 points to be graded. Total: 9 marks)

CLAUSE 22B

This is used mainly where the employer is a large corporation or a local authority and where insurance is probably cheaper to obtain by them through the contractor. The contractor may arrange insurance if the employer fails to do so.

(5 marks)

CLAUSE 22C

This clause is in two parts:

Clause 22C.1: relates to existing structure being the sole risk of the employer

(2½ marks)

Clause 22C.2: relates to the works or extension to existing structures. The cover should be in the joint names. The cover is for fire and defined perils with reinstatement value, professional fees and debris removal clause.

(2½ marks)

(Grand Total: 34 marks)

13. Business Interruption (BI) insurers in Nigeria have shown great concern that loss settlement under their policies have been reduced owing to inadequate sum insured. As a consultant, advise the insurers on steps to be taken to provide an insurance to meet this challenge.

Solution

As a consultant, I would give the following advice to insurers as steps to be taken to meet the challenge of inadequate sum insured:

- ✚ advice the insured to take up declaration linked business interruption insurance
- ✚ insurer should require the insured to provide an estimated gross profit sum insured for the insurance year
- ✚ insurer to charge provisional premium
- ✚ insurer provides cover for 133 1/3 % of the sum insured. This should also be the limit of liability
- ✚ All losses up to the limit of liability are paid in full
- ✚ If the policy has extensions e.g. suppliers or customers' extension and are stated in percentages, the percentage apply to the limit of liability and not to the sum insured
- ✚ Average does not apply
- ✚ The policy is adjustable in the submission of an audited account
- ✚ If return premium is applicable, the maximum refund is 50% of the provisional premium paid
- ✚ If additional premium is due, there is not upper limit
- ✚ The policy provides for automatic reinstatement of sum insured

(6 marks for every correctly stated advise. Maximum of 5 advise should be graded. 4 marks for the opening response of addressing the exact question raised in the question. Total: 34 marks)

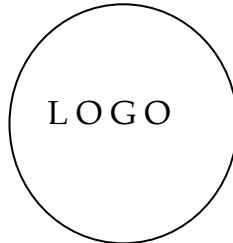
14. One of your new clients who is in the business of Iron and Steel Production has approached you to advise them on their insurance needs for a full protection. They have a sprinkled warehouse. Being a practicing Insurance Broker, discuss the various property insurance you would recommend.

Solution

As a practicing Insurance Broker, the advice I will give to one of my new clients who is in the business of Iron and Steel Production on their request for the need to have a full insurance protection, are:

- to put in place a **“Fire and Special Peril Policy”** which will cover:
 - ✚ Stock of raw materials and finished goods
 - ✚ Office contents
 - ✚ Buildings comprising of the factory, warehouse and offices
 - ✚ Fire, lighting, explosion, storm, flood, earthquake etc.
 - ✚ Sprinkler Leakage Insurance, since the warehouse is sprinkler protected, the cover is necessary or the fire policy may be so extended
 - ✚ construction or damage by water accidentally discharged or leaking from the sprinkler but not damage to the sprinkler itself.
- to put in place a **“Theft/Burglary Insurance”** which will cover:
 - ✚ theft involving forcible and violent entry and exit
 - ✚ the contents including damage to the building in an attempt to steal
- to put in place a **“Engineering Insurance”** which will cover: machinery breakdown due to damage to the plants and machinery the insured uses arising out of collapse or explosion
- to put in place a **“Glass Insurance”** which will cover: all glass apparatuses especially if the office is the modern type having substantial area of glass as the insurance will cover serious potential losses
- to put in place a **“GPA - Group Personal Accident Policy”** for the employee who may be insured or died whilst on duty
- to put in place a **“Group Life Assurance”** if the organisation has more than five employees - courtesy of Section 9 of the Pension Reform Act 2004.

(6 marks for every correctly stated advise. Maximum of 5 recommendations should be graded. 4 marks for the opening response of addressing the exact question raised in the question. Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A755
LIABILITY INSURANCE**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A755 - LIABILITY INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	59%
Highest Score:	83%
Lowest Score:	23%
Average Score:	54%

Breakdown Updates

Question 1

Candidates' performance was above average which showed their understanding of the liability of occupier and a visitor.

Question 2

Candidates' performance was above average. This showed good understanding of the question.

Question 3

Average performance by the candidates.

Question 4

Candidates performed very well in this question which reflected their understanding of risk management.

Question 5

The question was well answered and it showed candidates' good understanding of the question relating to employer/employee relationship.

Question 6

This question bothered on the differences between occurrence/claim made basis. Few candidates did very well while others scored average marks.

Question 7

Candidates scored above average. Few candidates did not do well which showed their lack of understanding about the exceptions on product liability insurance.

Question 8

Candidates scored above average marks. Few candidates missed the question altogether.

Question 9

This is the compulsory question. The candidates' performance was good as a good number of them understood the question very well.

Question 10

Candidates performance was above average on this question. Many of the candidates lacked understanding about the liability insurance as it relates to tangible property.

Question 11

The candidates' performance was above average.

Question 12

Only 8 candidates answered this question on professional Indemnity insurance. The performance was not encouraging.

Question 13

Candidates exhibited a fair knowledge on this question with performance below average.

Question 14

Only 8 candidates answered this question with performance above average.

Chief Examiner's Comments on Overall Performance:

Above average performance.

Chief Examiner's Suggestions on Improvement:

None

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1a) In relation to the Occupiers' Liability Act 1957, who is a visitor?

Solution

In relation to the Occupiers' Liability Act 1957, a visitor is any person who is invited into the premises i.e. he/she has authority to be on the premises. Any person who are lawfully on the premises is a visitor. For example, a police officer with a warrant has authority to be on the premises so also is postman. (3 marks)

(b) Explain what constitute "common duty of care" to a visitor.

Solution

Section 2 (2) of occupiers liability act 1957 defines the "common duty of care" to a visitor as a duty to:

take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in (3 marks)

using the premises for the purpose for which he/she was invited or permitted by the occupier to be there. (3 marks)

(Total: 6 marks)

2. What do you understand by the term "Onus of Proof"?

Solution

"Onus of Proof" state that in an action for negligence the plaintiff must prove the facts upon which the claim is based. The main principle is that he who assert must prove. (3 marks for each correctly stated point. Total: 6 marks)

3. The operative clause of a public liability policy refer to "accidental". Explain.

Solution

The word "accidental" in the operative clause of a public liability policy means that legal liability:

for death, bodily injury and damage to property must be accidental i.e. it must be fortuitous. In other words, it must not be a pre-meditated act of the insured.

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

4. Mention and explain two (2) ways in which an insured can control exposure to risk.

Solution

The ways in which an insured can control exposure to risks are:

- ✚ **Elimination/Avoidance/Removal of the risk:** this involves changes in work methods or discontinuing a product line.
- ✚ **Reducing/Minimizing the risk exposure:** this involves changes in work practices or changes in the product design or formulation.
- ✚ **Transferring the risk:** this involves effecting appropriate insurance cover for the risk exposure

(2 marks for mentioning the key word. 1 mark for explaining the mentioned word.

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

5a) Define Employee.

Solution

An employee is defined as any person under a contract of service or apprenticeship with the insured. (2 marks)

b) List four (4) tests that determine master and servant relationship.

Solution

The following four (4) tests will determine whether there is a master and servant relationship.

- The master's power of selection of the servant
- The payment of wage or other remuneration
- The master's right to control the method of doing the work
- The master's right of suspension or dismissal.

(1 mark each. Total: 4 marks)

6. Distinguish between "occurrence" and "claim made basis" wordings.

Solution

With occurrence wordings, the accident or event causing injury or damage must occur during the period of insurance, while **with claim made wording**, the claim must be made on the insured during the period of insurance; the date of the negligent act is irrelevant.

(2½ marks for each correct explanation, 1 mark for the distinguishing word used. Total: 6 marks)

7. In product liability insurance, damage to the product itself is not covered. Explain.

Solution

The cover provided by product liability insurance excludes damage to the product itself caused by the defect in the product or unsuitability of the product for the purpose it is intended. The cover for the damage to the product guarantee

insurance which would also provide cover for the cost of removal, recall, repair or replacement of the product.

(2 marks for any correct explanation stated. Maximum of 3 explanations to be graded. Total: 6 marks)

8. Liability insurance policies are usually contracted to indemnify the insured against their legal liability to third party.
- i. Who is the "third party"?
 - ii. Who are the "other contracting parties"?
 - iii. List four (4) liability insurance policies that are intended to benefit the "third party".

Solution

- i) In liability insurance policies a third party is any member of the public who is not a party to the insurance contract. (1 mark)
- ii. The other contracting parties are:
- 1st party is the insured and
 - the third (3rd) party is any member of the public.
- (½ mark each. Total: 1 mark)
- iii. The following liability policies are intended to benefit a third party.
- ✚ Public liability insurance
 - ✚ Product liability insurance
 - ✚ Professional indemnity insurance
 - ✚ Motor insurance (third party liability) (1 mark each. Total: 4 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) The management of an hospital is exposed to various liability risks in the course of their operation and they may incur legal liability if any of such risk occurs.
- i. Mention and explain three (3) of such risks. (12 marks)

Solution

- i. Hospital management is exposed to many liability risks such as:
- **Bodily injury, death or disease to their employees in the course of their employment.** This may arise due to their negligence in providing safe place or work, safe tools of trade or through the negligent act of fellow employee for which the hospital management (the employer) is vicariously liable.

- **Bodily injury, death or disease to their patient.** This may arise due to professional negligence of the hospital staff (doctor, pharmacist, nurse) to their patient.
- **Risk of bodily injury, death and property damage to third party** arising from defect in their premises or their activities away from their premises

(2 marks each for the bolded point. 1 mark each for every explanation on the bolded point. Maximum of 2 points/correct phrases per stated liability. Sub-Total: 4 marks each. Grand Total: 12 marks)

- ii. Explain three (3) liability policies that will be suitable for the risks you mentioned in 9(a)(i) above. (15 marks)

Solution

Liability policies that will be suitable to the above identified risk are:

✚ **Employer's Liability Insurance:** this policy will indemnify the insured for their legal liability for bodily injury, death or disease to their employees in the course of their employment. It is a compulsory insurance (Employers' Liability Compulsory Insurance Act 1969) and every employer of labour are to effect the cover so their fund will be available to compensate employees who may sustain bodily injury in the course of their employment.

✚ **Professional Indemnity Insurance** will take care of professional risks of error, mistake, omission etc. of a hospital professional e.g. medical doctor, pharmacist, nurse etc. Hospital professionals are exposed to professional risks in the course of their practice and the PI insurance will indemnify their employer for legal liability to third parties arising from their professional negligence.

✚ **Public Liability Insurance** will be very suitable for the potential legal liability of a hospital to the member of the public. The policy will indemnify those for bodily injury, death and property damage to third parties within their premises and away from their premises arising from negligence of the insured or their employees.

(3 marks each for the bolded point. 1 mark each for every explanation on the bolded point. Maximum of 2 points/correct phrases per stated liability. Sub-Total: 5 marks each. Grand Total: 15 marks)

- (b) Explain the importance of the following:

- i. The Rehabilitation of Offenders Act 1974 (3 marks)

Solution

Rehabilitation of Offenders Act 1974: The purpose of this act is to ease the rehabilitation into society of persons convicted of crime. Convictions are defined

to be “spent” after a certain period. A spent conviction means the person convicted has not committed the offence and no reference should or publish about it. Anybody who publishes the fact of the conviction after it is spent could be liable in defamation.

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

ii. Employers’ Liability (Defective Equipment) Act 1969.

(3 marks)

Solution

Employer’s liability (Defective Equipment) Act 1969: here, an employer is required to provide safe and suitable plant for their employees. If the plant provided is defective and cause injury to the employees, the employer will be liable accordingly. Before the passing of this act, an employer can escape liability if an employee is injured as a result of defect in plant or equipment if they could show that the defect was latent and that the plant had been purchased from a reputable supplier. This act rectifies this anomaly and make the employer responsible for the injury suffered by employees arising from the use of the defective equipment.

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

(c) What do you understand by the term “uberrima fides”? Explain its relevance to liability insurances.

(5 marks)

Solution

Uberrima fides means “utmost good faith” and is one of the insurance principle upon which all insurance contracts are built. It applies equally to liability insurance.

Uberrima fides require parties to insurance contract to exhibit utmost good faith toward each other i.e. they are under duty to disclose all material information (facts) about the contract they intend to enter. The duty to disclose material information is heavy on the proposer because he/she possesses all information (facts) about the risk offered for insurance.

A proposer for liability insurance must disclose to the insurer all material facts about the risk offered that they know or ought to know.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 5 marks)

(d) Mention and explain four (4) defences to the rule of *Rylands V. Fletcher* (1868).

(12 marks)

Solution

Defenses to Rylands v. Fletcher (1868)

i. **Statutory Authority:** if a dangerous thing is accumulated, under statutory authority the rule does not apply.

- ii. **Consent:** it is a defence that the plaintiff have accepted the risk of escape. However, the consent must be real and not coerced.
- iii. **Common Benefit:** it is a defence if it can be established that the accumulation of the dangerous thing is for the common benefit of the plaintiff and the defendant.
- iv. **Contributory Negligence:** this defence is available if it can be shown that the escape was contributed to by the carelessness of the plaintiff.
- v. **Act of Stranger:** This will be a defence so long as the defendant had no control over the stranger.

(2 marks for mentioning the defense. 4 defences to be graded. 1 mark for each correct explanation. Maximum of 1 point to be graded under each defense. Sub-Total: 3 marks. Grand Total: 12 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Explain how the premium for Professional Indemnity insurance is calculated taking into consideration the following:

- i. More than one office
- ii. Age of partners or experience of the business
- iii. Ratio of partners to staff. (12 marks)

Solution

The premium for professional indemnity insurance is normally calculated by applying a rate either to the gross fees or to total amount of indemnity plus a per capita charge for each person employed in the business. (3 marks)

The premium may be loaded in consideration of the following:

- i. **More than one Office:** where there is more than one office, the risk may be increased due to issue of supervision and control. (3 marks)
- ii. **Age of Partners:** an increased premium may be applied where the partners are young or where the business is only recently established. (3 marks)
- iii. **Ratio of partners to staff:** the ratio between supervisory and other staff is very important in arriving at the premium. This “span of control” the number of staff a supervisor can conveniently supervise will be taken into consideration in arriving at the premium. (3 marks)

- (b) In Public Liability insurance, the legal liability to third party property damage is limited to tangible property. Discuss with relevant examples. (7 marks)

Solution

In public liability insurance, legal liability to third party damage is limited to “tangible property”. In other words, the cover is available to physical or material

property and “intangible property” are not covered. Intangible property includes such things as patent, copyright, trade mark, brand etc.

(2 marks for every stated explanation/discussion. Maximum of 2 points to be graded. 1½ marks for every stated example. Maximum of 2 examples to be graded. Total: 7 marks)

- (c) Discuss the principle of reinsurance with particular reference to:
- i. Excess of Loss
 - ii. Layer Programme. (10 marks)

Solution

Reinsurance generally is the system whereby one insurer shares with another a part of the risk accepted. The company which reinsurer (the ceding company) thus reduces its possible liability underwriter. It offers a means of sharing risks to lessening the result of catastrophes. (4 marks)

i. **Excess of loss**

This is a form of reinsurance that is most suitable for liability insurance. It is non - proportional form of reinsurance. The ceding company assumes a level of loss and losses within the agreed level of loss are paid by the ceding company. Any excess of loss above the ceding company figure is reinsured with another reinsurance company. (3 marks)

ii. **Layer programme**

Reinsurance is arranged in layer. The ceding company takes the primary layer and then different insurers take the cover for layers in excess of the primary insurer.

Example of layers;

1st layer excess of 50,000 to 100,000

2nd layer excess of 100,000 to 200,000

3rd layer excess of 200,000 to 300,000

(3 marks)




(Grand Total: 10 marks)

- (d) As a public liability underwriter, list five (5) claims supporting document that will be required to settle “third party bodily injury” claim. (5 marks)

Solution

The following are relevant document required to settle “third party bodily injury”

claim:

-  Completed claim form
-  Sick leave certificate
-  Discharge certificate

- ✚ Medical report showing degree of deformity if any
 - ✚ Original medical bill
 - ✚ Evidence of earning / original current pay slip
- (1 mark each. Maximum of 5 stated documents to be graded. Total: 5 marks)

- 11 Write short notes on each of the following:
- i. Person of unsound mind
 - ii. Product Guarantee Insurance
 - iii. Directors' & Officers' Liability Insurance
 - iv. Accrual of Action
 - v. Professional Negligence of Engineers.

Solution

i) Person of Unsound Mind

Liability for person of unsound mind will depend on the degree of their insanity. If the insanity is so serious that the defendant is reduced to an automaton, there should be a complete defence. If they are aware of the nature and quality of their act, they will be liable. The test is whether or not the defendant has the state of mind to commit the tort in question.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 7 marks)

b. Product Guarantee Insurance

The object of product guarantee insurance is to indemnify the insured against some risk which are not covered under a standard product liability policy and in particular those which relate to the failure of the product to fulfill its intended purpose. The policy will take the form of product repair and replacement, financial losses and product recall.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 7 marks)

c. D&O Liability insurance

Directors' and officers' (D&O) liability insurance is aimed at protecting the directors and officers of a company against their liabilities for financial loss suffered by third parties.

Directors and officers now have responsibilities to their company, its shareholder, its employees, its creditors and to the general public. A director must act honestly and in good faith carry out his duties with reasonable care and such skill as they possess. D&O liability insurance will indemnify the directors for their negligent act to the stakeholders of their company.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 7 marks)

d. **Accrual of Action**

The limitation period commences from the date of accrual of action i.e. the date when the plaintiff has a valid cause of action. In contract, the date of accrual is date of injury or damage occurred.

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

e. **Professional Negligence of Engineers**

Engineers may be professionally liable as follows:

- ✚ Incorrect advice
- ✚ Incorrect drawing of plans
- ✚ Error in specification
- ✚ Incompetent design and supervision
- ✚ Error in tenders and qualities
- ✚ Providing a building unfit for human habitation.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 7 marks)

12(a) Explain the importance of the following in relation to Professional Indemnity (PI) Insurance Underwriting:

- i. Professional qualification of the proposer
- ii. Period in practice as a partner. (10 marks)

Solution

a. i. Professional qualification of the proposer is a very important underwriting factor in PI insurance and it may mean the difference between acceptance or declination of the risk. The insurer has to be satisfied that the proposer is competent in the particular profession and the best measure is the standard laid down by the relevant professional body in the form of examinations leading to qualification.

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

ii. Period in practice as a partner is another important underwriting factor in PI insurance. It helps the underwriter to assess the proposer's experience. The underwriter will assess the experience of the partner as regard the professional work as well as running or managing a business.

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

(b) List five (5) important information that are required for the underwriting of Directors' and Officers' Liability Insurance. (15 marks)

Solution

The following are important information that are required in the underwriting of

D&O liability insurance;

- ✚ the latest audited accounts
- ✚ evidence of correspondence with the company shareholder during the last year
- ✚ any changes to the capital structure of the company during the past year
- ✚ whether any shareholder owns 15% or more of the company's shares.
- ✚ whether there are proposals for the company's acquisition by or merger with any other company
- ✚ changes to the company's subsidiaries during the last 12 months
- ✚ details of the total gross assets of the company.

(3 marks for each correctly stated point. Maximum of 5 points to be graded. Total: 15 marks)

- (c) In public liability insurance, the insurer will usually exclude "contractual liability". Discuss. (5 marks)

Solution

It has been established that liability for negligence act may arise in contract. The insured is free to enter into contract on whatever basis they choose as long as the contract will be enforceable at law. However, the insurers have no way of assessing or evaluating the risk exposures in those contracts as well as the potential legal liability that may arise. Therefore, the insurer might decide to exclude contractual liability i.e. liability that attaches under contract unless the insured would have been liable. It is noteworthy to mention that insurers may consider removing the exclusion for contracts they have seen and selectively covers the insured's liability than falls within the terms of the operative clause of the policy.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 5 marks)

- d) In product liability insurance, what is advertising liability? (4 marks)

Solution

The product liability insurance may be extended to provide indemnity for advertising liability. It provides an indemnity for injury committed in the course of an insured advertising their goods, products or service. The injury will involve slanders a person or organisation's product or services, violates a person's right of privacy, infringement of copy right etc. The operative clause is for act of error or omission committed in good faith.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 5 marks)

13(a) Explain the significance of the following:

- i. Congenital Disabilities (Civil Liability) Act 1976
- ii. Law Reform (Contributory Negligence) Act 1945
- iii. Occupiers' Liability Act 1957. (15 marks)

Solution

i. Congenital Disabilities (Civil Liability) Act 1976

The Act established that a child injured whilst still in the womb may still bring an action after birth if a duty of care would have been owed to the parent. Prior to the passing of the Act, the position was that a foetus was not a legal person and no duty of care is owed.

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

ii. Law Reform (Contributory Negligence) Act 1945

Contributory negligence is one of the defences to an action in negligence case. Before 1945, it was a full defence i.e. if it could be shown that the plaintiff was partly to blame for the accident, they will recover nothing. This was amended by the Law Reform (Contributory Negligence) Act 1945 which stipulates that damages will be reduced to such an extent as the court thinks equitable.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 5 marks)

iii. Occupiers Liability Act 1957

The primary liability for injury or damage to the property of any party legally on premises falls on the occupier. The occupier normally has the more direct control of the premises and what goes on there. The modern law of occupiers' liability is found mainly in the provisions of the Occupiers Liability Act 1957. The Act covers liability to visitors i.e. all those lawfully on the premises. The occupier owes a common duty of care to all the visitors to ensure that they are reasonably safe in using the premises for the purpose for which they (visitors) were invited or permitted by the occupier to be there.

(1½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 5 marks)

(b) In an action for nuisance, explain the following defences:

i. Prescription

ii. Statutory Authority.

(10 marks)

Solution

i. Prescription

If the nuisance has existed for the last 20 years, then a prescriptive right to continue the nuisance may be acquired, most especially if the activity that constitutes nuisance has been carried out without complaint for that period.

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

ii. Statutory Authority

When a statutory duty or power is granted to an organisation and they exercise their statutory authority or power, they will not be liable in nuisance. However, the organisation must carry out their activities without negligence on their part.

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

- (c) Explain what you understand by the following:
- i. IBNR (4 marks)
 - ii. Forum Shopping. (5 marks)

Solution

IBNR: Incurred but not reported. These are the claims that have occurred but have not been reported by the insured to the insurer. It reflects the latency associated with the risk.

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

Forum Shopping: a plaintiff in pursuing their legal action may shop round the world for a forum (a court) and choose a court i.e jurisdiction that requires lowest standard of proof for their case or which offers the highest level of damages.

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

- 14(a) Discuss how the principle of “insurable interest” apply to liability insurance. (10 marks)

Solution

Insurable interest is one of the elements necessary to create a valid insurance contract. It is defined as the legal right to insure arising out of financial relationship recognized at law between the insured and the subject matter of insurance. The subject matter of insurance can be any form of property or event that may result in a loss of legal right or creation of legal liability.

In liability insurance, a person has insurable interest to the extent of any potential legal liability he may incur to pay damages and other costs. In other word, a person has legal right to insure his/her potential legal liability whatever it may be since it is not possible to pre-determine the extent of the interest. This is because we do not know in what way and how often we may incur a liability. It could therefore be said that the extent of a person’s insurable interest in liability insurance is without limit and so the insured has insurable interest up to the limit of his/her potential liability, whatever it may be.

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

- (b) Discuss three (3) roles of “Loss Control Auditor”. (12 marks)

Solution

The Roles of Loss Control Auditor are:

- ✚ must fully keep abreast all statutory and technological developments and trade processes
- ✚ when visiting the risk, must look out for those features which by the nature of the enterprise are likely to cause insured events

- ✚ must pay attention to all aspect of the risk such as housekeeping, the condition of stairways and passage ways, the lighting guarding of machinery e.t.c.
- ✚ should visualize how accidents can happen and suggest ways of avoiding them
- ✚ must liaise closely with the insured's own safety personnel drawing their attention to any deficiencies in standard and explaining how improvement can be effected.

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

(c) General damages consist of many parts for example:

- i. Pain and suffering
- ii. Loss of amenities.

Distinguish between the above with examples. (12 marks)

Solution

These are damages which the law presumes will flow and which the plaintiff need not specifically prove. They are commonly unliquidated damages i.e those which cannot be accurately assessed mathematically or evidenced by documentation.

(4 marks)

Examples of general damages are:

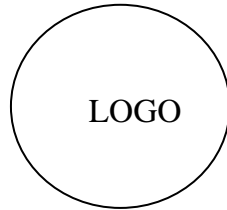
i. **Pain and Suffering**

Claims involving bodily injury are perhaps the largest single source of litigation. The injury involves pain and suffering which reflect their nature and severity and how long they are likely to last in the future. (4 marks)

ii. **Loss of Amenities**

This reflects the physical and/or mental limitations associated with the injury. For example, a pianist losing two fingers would constitute a higher level of loss of amenity than a person who did not play any instrument.

(4 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A765
MOTOR INSURANCE**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A765 - MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	29%
Highest Score:	67%
Lowest Score:	22%
Average Score:	45%

Breakdown Updates

Question 1

The question was out to test candidates' knowledge of the key operations of "Thatcham". Candidates knowledge and performance was above average.

Question 2

This related to Motor Insurance Underwriting (features). It was very disappointing that as simple as the question was, candidates performed very woefully.

Question 3

The relevance of and importance police report in motor claim administration was being tested here. Candidates displayed a good knowledge of the question and they did very well.

Question 4

This question centered on Contributory Negligence Act 1945. Almost all the candidates attempted the question and performed excellently well.

Question 5

The performance of candidates was below average. Question on RTA should be well known for Motor Insurance Candidates but they exhibited lack of knowledge.

Question 6

Candidates performance was good. This appeared to be one of the cheapest questions.

Question 7

Candidates performance was below average. Only few of them could differentiate between special and general damages.

Question 8

The performance of the candidates was below average.

Question 9

The compulsory question was out to test candidates' knowledge of Motor Insurance Practice as of relates to credit note, certificate of insurance, motor claim and the insurance principle of utmost good faith. Candidates general performance was not encouraging.

Question 10

This was out to test candidates' knowledge of the renewal process of some policies and vehicles. Only 6 candidates attempted the question and they all, except one(1), performed badly.

Question 11

This was out to test candidates' knowledge of Motor Insurance Practice. Only 2 candidates did well while others performed badly.

Question 12

Students performance was poor.

Question 13

The few candidates who attempted this question performed averagely.

Question 14

Good performance by the candidates that attempted this question. The question is one of the cheapest question and so was their performance.

Chief Examiner's Comments on Overall Performance:

None

Chief Examiner's Suggestions on Improvement:

None

Part I

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

1. What are key features of "Thatcham"?

Solution

The key features of "Thatcham" are as follows. It is that a model repair facility will estimate the time needed to complete different types of repair, it provides information regarding repair costs and the outcome of controlled crash programmes to the ABI who, in thus, provide the market with suggested car groups for member companies.

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

2. Irrespective of the type of vehicle involved, name at least six (6) common features applying to Motor Insurance contracts which must be available for underwriting purposes.

Solution

Irrespective of the type of vehicle involved, motor insurance contracts do have a number of common features particularly with regard to the following:

- ✚ Proposal forms
- ✚ Cover notes
- ✚ Certificates of motor insurance
- ✚ Policy forms
- ✚ No claim discount
- ✚ Policy forms conditions
- ✚ Payment of premium
- ✚ Renewal procedures
- ✚ Policy Excess

(1 mark each. Maximum of 6 to be graded. Total: 6 marks)

- 3(a) What is the relevance of police report in motor claims administration?
(2 marks)

Solution

The relevance of Police Report in Motor Claims administration is to assist in the investigation of the losses and possible recoveries – in cases of theft or attempted theft. It also helps in enforcing subrogation rights by the Insurance Companies.

(2 marks for any correctly stated relevance. Maximum of one point to be graded)

- (b) Distinguish between the "Preliminary and "Final" Police Report.
(4 marks)

Solution

Preliminary Police Report: After reporting a theft of a motor vehicle to the police, the preliminary police report is noted to the effect that the report was lodged with them and investigation was in process; **while for**

Final Police Report: The final police report is usually issued thereafter to the effect that investigation has been concluded and a stint of the outcome of the investigation is stated therein.

(1½ marks for correctly stating the meaning of each of the word/document; 1 mark for the actual comparative word or if drawn in a table, for the tabular comparative reasoning. Total: 4 marks)

4(a) What was the main change brought about by the Law Reform (Contributory Negligence) Act 1945? (2 marks)

Solution

The main change brought about by the Law Reform (Contributory Negligence Act 1945) was that before its enactment, any degree of negligence on the part of an injured party meant that no damages could be recovered at law for any injury sustained. However, after the enactment, it allowed apportioning of blame and consequent apportioning of damages to all negligent parties.

(1 mark each for stating the before and after. Total: 2 marks)

(b) Distinguish between “Relevant Disability” and Prospective Disability”. (4 marks)

Solution

Relevant Disability:

This is any prescribed disability and any other disability likely to cause. Danger to the public if the person who had such a disease drives; **while**

Perspective Disability:

This is a disability which by its nature is intermittent or progressive and may in future become a relevant inability.

(1½ marks for correctly stating the meaning of each of the word/document; 1 mark for the actual comparative word or if drawn in a table, for the tabular comparative reasoning. Total: 4 marks)

5. What are the major features of Principal and Road Safety Provisions under Part I of the RTA 1988?

Solution

i) **Driving and Cycling Offences:** for example, reckless and careless driving, breath tests and driving under the influence of drink and drugs. Few people realize that under the RTA 1988, it is specific offence to ride a cycle whilst under the influence of drinks and drugs! Certain offences were amended by RTA 1991.

ii) **Preventive Measures Principally Pertaining to Road Safety.** It is here that mention is made of such things as seat belts and safety helmets.

(3 marks each for stating the feature. Total: 3 marks)

6(a) What type of covers are available in the Nigerian Motor Insurance Market?
(2 marks)

Solution

Motor insurance will grant one of the four (4) main types of cover namely;

- ✚ Road Traffic Act only
- ✚ Third Party only
- ✚ Third Party, Fire and Theft
- ✚ Comprehensive.

(½ mark for each correct answer. Total: 2 marks)

(b) What are the ethical problems that an Insurer faces recording or accessing one of the anti-fraud data bases?
(4 marks)

Solution

The ethical problem that Insurers face recording or accessing one of the anti-fraud data bases is that they must take care in the way that they use database information particularly in view of the protection of individuals that the European, parliament is looking, for in its July 1995 Directive. They may only use the information for the purpose originally requested.

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

7. Differentiate between “Special Damages” and General Damages” in relation to Personal Injury Awards.

Solution

“**Specific Damages**”: are damages that are in respect of a quantifiable financing loss, such as loss of earnings, both present and future and medical expenses and other “out -of-pocket” expenses including the cost of services rendered to the plaintiff, **while**

“**General Damages**”: are damages which relate to non - financial loss and one less easily assessed, for example, pain and suffering and loss of expectation of life.

(2½ marks for correctly stating the meaning of each of the word/document; 1 mark for the actual comparative word or if drawn in a table, for the tabular comparative reasoning. Total: 6 marks)

8. What is the role of internet in Motor Insurance selling mechanism?

Solution

The roles of internet in Motor Insurance Selling mechanism are as follows:

- Ease of communication
- Immediate accessibility by clients and potential clients
- Less cost of selling on the long run
- Wider reach than conventional methods

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

Part II

Compulsory Question.

This question carries 50 marks.

9(a) Distinguish between a Cover Note and Certificate of Insurance.

(12 marks)

Solution

A policy of motor insurance is of no effect for the purpose of the Road Traffic Act (RTA) until certificate of motor insurance has been delivered to the insured. The police will not accept the policy document alone as evidence of insurance and a cover note or certificate must be produced when requested or within 5 days thereafter.

On the other hand, a cover note is a temporary certificate of insurance usually issued to a proposer pending the issuance of the permanent document. The cover note has, more or less, the same feature with the certificate of insurance except that it lasts for a shorter period e.g. 15, 25 or 30 days.

However, the certificate of insurance as a statutory requirement is what the insured carries about in case of police checking. The RTA imposes the duty on a driver to carry the certificate of insurance while driving on the road and failure to do this would attract some punishment. In the alternative, he should be able to produce the certificate within five (5) days.

If the certificate is lost or destroyed, the policy holder is required to make a statutory declaration for that effect.

(4 marks for each correct comparison. Maximum of 3 points to be graded. Total: 12 marks)

(b) Certificates and Cover Notes can be subject of abuse such as fraudulent issue, theft and forgeries, if they fall into wrong hands. What measures did insurers put in place to control the issuing of cover notes when it was still being used in the Nigerian Insurance Market space? (10 marks)

Solution

In the wrong hands, certificate and cover notes can be abused. In the main, certificates are usually under the control of insurers and should cause few problems. On the other hand, the thousands of cover notes issued can cause problems, including fraudulent issue, theft and forgeries. For these reasons, the issuing of cover notes was controlled in the following ways:

- i. Cover notes were issued in numbered booklets of say, 25 or 50
- ii. Each cover note had a usage identifying sequential number

- iii. The insurer required the counterfoils of the cover note booklets on the day of issue and will be able to check the sequence to ensure that there are no irregularities.
- iv. Rules will state that the agent must obtain a fully completed proposal form (or other proposal information) before issuing a cover note.
- v. The agent will only be authorized to issue a cover note if the risk falls within the insurer's stated criterion for acceptance.
- vi. Details of all Broker issued are recorded against the name of the Broker.
- vii. When the book has been completed and may be in any event after a certain period the book has to be returned to the insurers.
- viii. The insurer will audit the book, taking note of;
 - the fact that for each cover note issued, there should have been a copy sent to the insurer which should have been the subject of a computer record.
 - any cover note issued out of order (i.e. the dates and times do not logically follow)
 - any cover note left in the book and marked "issued in error" (suspicion may be aroused if the top copy is not still attached to the book).

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

- (c) "Good Title does not arise where a vehicle is sold by a thief". Confirm the authenticity or otherwise of this statement in relation to the case of *NEM Vs Jones (1988)*. (12 marks)

Solution

Yes, good title does not arise where a vehicle is sold by a thief. Even where subsequent purchasers acquire the car; these can never be a good title and the claimant can never recover that stolen property.

This was the decision reached in "*NEM vs JONES*" (1988). Here, the car had originally been sold by a thief and a number of transactions occurred before the property came into the possession of the defendant.

It was held that as Mr. Jones' title was derived from a thief, he could not claim a good title.

(10 marks in total for stating correctly the facts of the case. 2 ½ points per fact stated. Maximum of 4 facts to be graded. 2 marks for stating the reason why the statement is correct according to the decided case (in bold as the last paragraph in the solution))

- (d) The contract of Insurance is subject to the principle of “Uberima fides” (Utmost Good faith). Comment on this statement in relation to the case of *Rozanes Vs Bowen* (1928). (16 marks)

Solution

Insurance contracts are entered into the basis of Utmost Good faith (uberima fides) while both parties to the contract are bound by such a principle. Its application was felt to be important because the precise details of an individual insured risk are far more likely to be known by the prospective insured. Recognition of the unequal position of each party has resulted in the requirement of Utmost Good faith.

In *Rozanes v. Bowen* (1928), a proposal form for a jewelers block policy was incorrectly completed that only one previous loss had occurred, while in actual fact there were several previous losses. It was expressed that:

- It has been for centuries in England the law in connection with insurance of all sorts, fire marine, life guarantee and every other kind of policy, that as the underwriter knows nothing and the man who comes to him to ask him to insure knows everything, it is the duty of the insured, the man who desires to have a policy, to make a full disclosure to the underwriter without being asked of all material circumstances, because the underwriter knows nothing and the insured knows everything”.
- Unlike most other types of contract, the rule of “Caveat Emptor” (let the buyer beware) does not apply to insurance. However, the “uberima fides” doctrine require the disclosure of all material facts. This has been embodied in the Marine Insurance Act 1906, s.17 which states that “a contract of marine insurance is a contract based upon Utmost Good Faith and, if the Utmost Good Faith is not observed by one party, the contract may be avoided by the other party”.

(8 marks for correctly stating the fact of the case. 2 marks for every correct point thereafter stated to buttress the statement. Maximum of 4 points to be graded. Total: 16 marks.)

PART III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) As the underwriting manager of Stability Insurance Company, what will be your approach to the following at renewal.

- i. Agreed Value Policies (3 marks)
- ii. High Value Vehicles (4 marks)

- iii. High Performances Vehicles. (3 marks)

Solution

i. **Agreed Value Policies**

This will have been issued for in the main, for vintage or “classic” cars two aspects arise at renewal. Firstly, there is usually a need to re-agree a value for the forth-coming year. An insurer is unlikely to be prepared to continue with the same fixed figure infinite, secondly, the insurer may wish to review the claims experience, either individually, or if statistics allow, by comparison with the rest of the portfolio insured on a similar basis.

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

ii. **High Value Vehicles**

A number of motor manufactures particularly those at the luxury end of the market are prepared to customize vehicle (usually by incorporation high quality equipment fitting or finishes). The resultant value of the vehicle would then be for greeting than that envisaged by its group rating. Insurers may wish to monitor the experience of these risks individually. It may also be wise to obtain a revised estimate of value at successive renewal dates.

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

iii. **High Performance Vehicles**

Often the insurance of vehicles in this category is associated with some other undesirable aspects such as the age of the driver. Insurers may be prepared for the “standard” terms to apply where the only sub-standard feature is the care itself. However they are likely to monitor combinations of poor features very carefully each renewal.

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

(b) Distinguish between:

- i. Medium-Sized Goods Vehicles and
- ii. Passenger Vehicles.

(14 marks)

Solution

Medium-Sized Goods Vehicles

A medium-sized goods vehicles is by definition in the Act, a motor vehicle which is constricted or adapted to carry or hardy goods and is not adapted to carry more than nine (9) persons inclusive of the driver its permissible weight exceeds 3.5 tonnes but not 7.5 tonnes.

Passenger Vehicles

Passenger vehicle are likewise divided into small passenger- carrying vehicle and large passenger carrying vehicles and follows. The numbers quoted do not include the drawer.

- i. Small is defined as those constructed or adapted to carry more than 8 but not more than 16 passengers for hire or reward.
- ii. Large passenger - carrying vehicle are those that carry more than 16 passengers.

	<u>Class of Motor Vehicle</u>	<u>Age (in years)</u>
1.	Invalid carriage	16
2.	Motor Cycles	16
3.	Small Passenger vehicle or Small goods vehicle	17
4.	Agricultural Tractors	17
5.	Medium-sized goods vehicles	18
6.	Other motor vehicles	21

(3 marks for every correctly stated point. Maximum of 2 points to be graded per sub-class of vehicle. 2 marks for the comparative word(s) used or if in form of table, for the tabular comparison. Total: 14 marks)

- (c) Under the Road Traffic Act 1988, what are the prescribed maximum ages for obtaining driving licence for different classes of motor vehicles?
(10 marks)

Solution

	<u>Class of Motor Vehicle</u>	<u>Age (in years)</u>
1.	Invalid carriage	16
2.	Motor Cycles	16
3.	Small Passenger vehicle or Small goods vehicle	17
4.	Agricultural Tractors	17
5.	Medium-sized goods vehicles	18
6.	Other motor vehicles	21

N.B Please note that the motor vehicle (driving licenses) regulations law amended. Item of above to age 17 (and no more 16) in relation to all motor cycles, other than

- i. Motor cycles which are moving machines
- iii. Motor vehicles which are vehicles controlled by a pedestrian.

(1 mark each for the stated six (6) classes. 1 mark for any of the stated "note" above. Total: 7 marks)

- 11(a) Under the Standard Private Motor Policy, state at least five (5) risks that are not covered by the policy.
(16 marks)

Solution

Under the Private Car Loss and Damage – main cover, the following used are not insured (not covered) by the Standard Private Motor Policy:

- i. An excess amount as stated in the policy
- ii. Loss of use, depreciation, wear and tear, mechanical or electrical electronic or computer failures or breakdowns
- iii. Damage to tyres from braking or by road punctures cuts or bursts
- iv. Loss, destruction or damage caused directly by pressure waves, resulting from aircraft and other among devise travelling at sonic or supersonic speeds
- v. Any reduction in the market value of your car following any repair whether or not as a result of any claim under the policy
- vi. Loss or damage to telephone or communication equipment of any kind
- vii. Loss or damage as a result of a deliberate act by the insured person
- viii. Loss of your car by deception by someone who claims to be a buyer or selling agent.

(3 marks for every 1st five stated point. One mark for additional point stated. Total: 16 marks.)

- (b) What extra cover is granted under a “Third party only” private motor policy when compared to a Road Traffic Act policy. (8 marks)

Solution

The extra cover granted under a “Third Party only” private motor policy when compared to a Road Traffic Act policy are:

- i. Vehicles not on Road.
- ii. Third Party Property Damage cover unlimited.
- iii. Costs of defence in a cover of summary jurisdiction.
- iv. “Driving other cars” Extension.

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

- (c) Enumerate the cover provided for the insured under the liability section of the private motor policy. (10 marks)

Solution

The cover provided for the insured under the liability section of the private motor policy are:

- The policy cover for all sums the insured become legally liable to pay on the death of any person (third party)
- The policy cover for all sums the insured become legally liable to pay on the injury to any person (third party)

- The policy cover for all sums the insured become legally liable to pay on damage to any other person's property as a result of an accident involving the insured vehicle
- The same cover will apply if the insured is driving any other car which the schedule permits such insured to drive
- The limit of liability on the property damage is limited to a stated value
- The limit of liability on the life-related segment is unlimited but reasonable.

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

12(a) Premium is the consideration for the cover provided by the underwriters. Enumerate the elements that make up motor insurance premium.

(12 marks)

Solution

Motor Insurance premium is made up of the following number of elements:

- i. Firstly, there is the amount that is required to pay claims- expressed in percentage terms, this is known as claim expense.
- iii. Allowances for the variable costs. The main variable cost is that of agent commission and is relatively straight forward when calculating it.
- iv. Other expenses are the fixed costs. These are the operating costs of the company such as staffing, premises, IT, Equipment etc. and have to be paid for irrespective of the number of policies sold, through advertising costs represent a substantial outlay, particularly for direct writers.
- v. Profit element also is imbedded into the premium to allow for profit margin on the motor policy.

(4 marks for every correctly enumerated point. Maximum of 3 points should be graded. Total: 12 marks)

(b) How is expenses ratio managed?

(12 marks)

Solution

Expense Ratio, which is the **proportion of premium devoted to expenses from the premium income**; is managed after having understood the reasonings behind it. Some of the reasonings are:

- it becomes greater when sales are low and smaller when more policies are sold.

- There is therefore a temptation to set rates low in terms of heavy competition, thus ensuring sufficient income to reduce expenses ratio.
- Under cutting the market in this way, may be a short term necessity but it cannot be sustained.

(4 marks for stating the meaning of/formula for calculating the ratio. 4 marks each for any correctly stated point as above. Maximum of 2 points should be graded. Total: 12 marks)

(c) What is combined operating ratio? (10 marks)

Solution

The combined effect of claims cost plus commission plus expenses is sometimes known as COMBINED OPERATING RATIO.

- Ideally, the combined ratio should be such as to provide an underwriting profit. i.e a combined ratio of less than 100%.
- However, in today's insurance market, this is seldom, if ever possible and therefore reliance is placed on investment return.
- In this way, a profit might still be made on a combined ratio greater than 100%.

(4 marks for stating the meaning of/formula for calculating the ratio. 4 marks each for any correctly stated point as above. Maximum of 2 points should be graded. Total: 10 marks)

13(a) Distinguish between "spent convictions" and "current convictions".
(14 marks)

Solution

i. "Spent Convictions"

"Spent Convictions" in insurance are court convictions that an insurer must monitor (as a minimum) any cases where special terms have been imposed by virtue of one or more convictions which have been "spent" under the terms of the Rehabilitation of offenders Act 1974; **while**

ii. "Current Convictions"

are convictions will have been known at the outset of the policy. in such instances, terms would have been imposed and the insurer will wish to consider whether. these remain valid and whether any other feature have emerged (such as a claim which might otherwise not give use to any special action).

There will be others which the insurer will become aware during the past period of insurance. If they are notified by the policyholder, as they should be the insurer will consider renewal terms taking account of the seriousness of the convictions, the age and experience of the individual and whether the conviction was connected with a claim incident.

(3 marks for any point mention. Maximum of 2 points under each subtopic should be graded. 2 marks for the use of the comparative word/table. Total: 14 marks)

- (b) What is the commercial motor renewal procedure involved in both small fleets and large fleets? (12 marks)

Solution

For policies covering single commercial vehicle, the renewal procedure may well mirror that of private motor.

For small fleet, where each vehicle is “book-rated” and individual certificate issued for each vehicle, the renewal procedure may be the same as that for private motor. Many insurers would review even their smaller fleet-rated risks individually at each renewal. However, for larger fleet where rating is based on the individual fleet’s past performance, insurers will constantly wish to carry out a full review and to rate the risk for the following period of insurance.

For large fleet, the renewal process may start some months prior to the renewal date. This enables the underwriter to gather information about claims reported during the past year together with any determination or improvement in claims reported in poor years and which have not yet been settled. All of this information enables the underwriting to calculate the “burning cost” premium for the upcoming year.

(3 marks for any correctly stated point. Maximum of 2 points to be graded per sub-topic. Total: 12 marks)

- (c) What are the functions of courtesy cars and what has been the effect of its use on both the repairers and insurers? (8 marks)

Solution

Most reasonable sized repairers now offer some form of alternative transport while they have a customer’s vehicle in for repair and these are commonly known as courtesy cars.

The size, type and quality of such cars differ greatly from repairer to repairer as does their source e.g own vehicle, lease vehicles and rental vehicles. Most insurers insist upon availability of courtesy cars from their panel of repairers and indeed they use this fact in their publicity.

The pressure placed upon repairers to provide courtesy car has led to some difficulties over the past few years. In order to satisfy demand, repairers have had to hold sizeable fleets of such vehicles and/or make arrangements for rental availability. Courtesy cars are still billed as being “free” but the cost has to come into the equation somehow.

A number of insurers have recognized the cost factor and have agreed a separate charge for courtesy cars. Some insurers have come as far as arranging their own source of rental vehicles. All of this can cause difficulties when endeavoring to retain the repair and associated costs from a third party or their party insurer and this has been catered for in a market agreement, known as “memorandum of understanding on subrogated claims for subscribing insurers.

Most insurers will accept the insurance cover on courtesy cars as a temporary additional vehicle under the customers’ existing policy, usually free of charge.
(2 marks for any correctly stated point. Maximum of 4 points to be graded per sub-topic. Total: 8 marks)

14(a) What are the main rating factors for private car insurance? (10 marks)

Solution

The following terms to be the main rating factors for private car insurance:

- i. Vehicle
- ii. Proposer and other drivers
- iii. Geographical area of use and/or garaging.
- iv. Use to which the vehicle put
- v. Cover required.

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

(b) What is the relevance of geographical area of use and/or garaging in Private Car Insurance rating? (14 marks)

Solution

The relevance of geographical area of use/garaging in private car insurance rating is the fact that the area in which the vehicle is used makes a lot of difference to the risk. In heavily populated areas, there is more chance of collision even where the policyholder is not at fault (e.g a hit whilst parked by a hit and run driver). On the other hand, there is less chance of collision where there are fewer cars on the road.

The theft risk also differs from one location to another, with larger cities being top of the list.

The area of use of the vehicle is one indicator of the theft risk but perhaps more important is the place where the vehicle is kept overnight. The theft risk can be reduced if the vehicle is kept in a locked garage and reductions in premium can be obtained.

(4 marks for each correctly stated relevance. Maximum of 3 points to be graded. 2 marks for the relevant opening sentence as bolded above. Total: 14 marks)

- (c) What are the three (3) main elements of cover provided by the public/products liability section of a Motor Trader's Comprehensive, Road and Garage policy and what is the principal exclusion? (10 marks)

Solution

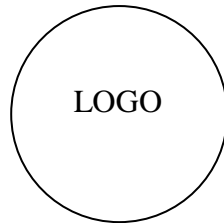
The three (3) main elements of cover provided by the public/products liability section of a Motor Trader's Comprehensive, Road and Garage policy are:

- i. Injury to Third Parties
- ii. Damage to Third Party Property
- iii. Nuisance and Trespass

The principal exclusions are:

- penalties
- liquidated damages
- punitive damages and
- exemplary damages.

2½ marks each for the main elements of cover correctly stated. 2½ marks for any correctly stated exclusion. Total: 10 marks.



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT A770
PRINCIPLES OF MARINE INSURANCE

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A770 - PRINCIPLES OF MARINE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	50%
Highest Score:	55%
Lowest Score:	47.5%
Average Score:	51.5%

Breakdown Updates

Question 1

The question was well answered by the candidates.

Question 2

The candidate who answered it had just a fair knowledge of the methods of sending frozen meat intended to test knowledge of the vessels, refrigerated compartments of cargo vessels and refrigerated containership.

Question 3

Only one of the two candidates understood and attempted it. The other candidate did not attempt it. Various ownerships of container were tested.

Question 4

Only one (1) candidate understood the questionit. The other candidate did not study the aspect but merely thought out some ideas about ship construction.

Question 5

The question was not well answered by candidates. The use of Premium Reserve; for unearned premium statutory required and security of reinsured were tested.

Question 6

The question was well answered by both candidates.

Question 7

The question was not understood by both candidates.

Question 8

The question was well answered by both candidates.

Question 9

The question was well answered by both candidates.

Question 10

The question was not attempted by both candidates,

Question 11

Both candidates answered the question well.

Question 12

Both candidates performed well.

Question 13

The question was well answered by a candidate while the other only answered part B. He left out the jack-up units.

Question 14

The question was not attempted by both candidates having completed their three optional questions.

Chief Examiner's Comments on Overall Performance:

The overall performance was above average.

Chief Examiner's Suggestions on Improvement:

The other candidate who could not score a pass mark overall needs to cover the study course well; he did well in most of the questions he attempted.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Mention three (3) important cocoa and coffee bean producing countries.

Solution

Nigeria, Ghana and Brazil

(2 marks each for every correct answer. Maximum of 3 to be graded. Total: 6 marks)

2. What are the three (3) methods used in the ocean transit of frozen meat?

Solution

The three (3) methods used in the ocean transit of frozen meat are:

- ✚ The traditional refer vessels
- ✚ General cargo carriers with limited refrigerated compartments
- ✚ Refrigerated container ship.

(2 marks each for every correct answer. Maximum of 3 to be graded. Total: 6 marks)

3. What are the three (3) main categories of containers' ownership?

Solution

The three (3) main categories of containers' ownership are:

- ✚ Container - line ownership
- ✚ Independent ownership by leasing and hiring companies
- ✚ Private ownership

(2 marks each for every correct answer. Maximum of 3 to be graded. Total: 6 marks)

4. What are six (6) main features of ship construction?

Solution

The six (6) main features of ship construction are:

- ✚ Pre - keel storage and fabrication
- ✚ Laying of keel and building
- ✚ Launching
- ✚ Fitting out
- ✚ Trials and
- ✚ Handing over to buyer

(1 mark for each correct answer. Maximum of 6 to be graded. Total: 6 marks)

5. State briefly, the three (3) reasons for using Premium Reserve in Proportional Reinsurance.

Solution

The three (3) reasons for using Premium Reserve in Proportional Reinsurance are:

- ✚ Unearned premium for risks that have not yet been earned
 - ✚ A statutory reserve as required by the government of the reinsured's domicile.
 - ✚ A reserve demanded by the reinsured as an additional security for the performance of reinsurers.
- (2 marks each for every correct answer. Maximum of 3 to be graded. Total: 6 marks)

6(a) What is Retention?

Solution

Retention is **the amount or percentage** of each loss **retained by the cedant** under a **reinsurance agreement**. The point at which the retention is used up is regarded to be the attachment point for the reinsurer.

(1 mark each for any 3 of the bolded points. Total: 3 marks)

(b) Who is a Retrocessionaire?

Solution

A retrocessionaire is the insurer that **contractually accepts** a portion of the cedant's

underlying **reinsurance risk** from **another reinsurer**. The transfer is known as a retrocession.

(1 mark each for any 3 of the bolded points. Total: 3 marks)

7. What are the three (3) general types of contract to carry cargo or hire a vessel?

Solution

The three (3) general types of contract to carry cargo or hire a vessel are:

- ✚ Bills of lading
- ✚ Voyage charters and
- ✚ Time charters.

(2 marks each for every correct answer. Maximum of 3 to be graded. Total: 6 marks)

8. Which of the following incidents is or is not a collision with a vessel?

- i. An insured vessels struck an anchor chain of another vessel.
- ii. An insured vessel fouled fishing nets of a vessel, a mile distant.
- iii. An insured vessel struck a vessel which had shortly sunk before, but was in the process of being salvaged.

Solution

- i. An insured vessels struck an anchor chain of another vessel: **is a collision with a vessel**
- ii. An insured vessel fouled fishing nets of a vessel, a mile distant: **is not a collision with a vessel**

- iii. An insured vessel struck a vessel which had shortly sunk before, but was in the process of being salvaged: **is a collision with a vessel**
(2 marks each for every correct answer. Maximum of 6 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) What is Marine Cargo Open Cover? (10 marks)

Solution

- Marine Cargo Open Cover:

- ✚ is the most common form of cargo insurance contract
- ✚ provides an automatic facility that cater for the future insurance needs of clients over the full range of their trading operations, no matter the variation of interests, voyages, conditions and rates
- ✚ guarantees protection on the agreed basis for all shipments falling within its provisions, subject to declaration of full shipping details of each dispatch
- ✚ has the need to negotiate each insurance of shipment removed from the client.
- ✚ Ensures the insurer on his part obtains prospective continuity of interest in the client's global activities.

(2½ marks for any 4 correctly stated point. Total: 10 marks)

- (b) Provide information for the following sub-headings as a specimen of an Open Cover:

- ✚ Assured
- ✚ Period
- ✚ Conveyance Voyage and
- ✚ Interest.

(20 marks)

Solution

Assured: Ola Oluwa Plumbing Materials Company Ltd and/or Associated and/or Subsidiary Companies.

Period: Open cover to take all sending for twelve months on and after January 1, 2019.

Conveyance: By vessels of institute classification standard (or held covered) and connecting conveyances and/or by air and/or road and/or rail conveyances.

Voyage: Place and/or places in UK, to Lagos Nigeria, world and/or vice versa as per attached scheduled

Interest: Plumbing materials, sanitary wares and/or spare parts packed in crates and/or cartons as per schedule attached.

(2 marks each for every correctly provided information. Total: 10 marks)

- (c) When is a notice of abandonment given by a shipowner to his insurer and what are the effects of such notice? (10 marks)

Solution

A notice of abandonment is given by a shipowner to his insurer as stated below along with its effects:

- The ship owner gives this notice to his insurer when the cost of repairs and/or recovery of his damaged vessel exceed the insured value and he wants a constructive total loss claim
- It is a condition precedent to such a claim under marine insurance act s.61
- The notice given to the insurers make them entitled to the interests of the assured in whatever remains of the subject matter insured and all proprietary rights incidental thereto. Underwriters often do not exercise the option because it entails taking over the liabilities attaching to the vessel.
- When it has been found out that the notice has been validly given, the underwriters will pay the insured value under the policy and will then decide whether or not to take over the remains of the subject matter insured.

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

- (d) How are premiums and claims handled in Facultative Reinsurance? (10 marks)

Solution

Premiums and claims are handled in facultative reinsurance as stated below:

- premiums are paid individually on each risk
- recoveries are also made separately for each claim submitted
- Under a facultative/obligatory, bordereaux are used for premium and claim accounting which may be quarterly
- The facultative obligatory cover gives convenience to the placing Broker who may account for the business placed under it individually.

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

Part III

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

Each question carries **34** marks.

10. List any eleven (11) sets of Peril from the peril clauses of the Institute Time Clauses.

Solution

The following are the sets of perils from the “perils clause” of the Institute Time Clauses:

- ✚ 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 and installation
- ✚ Earthquake, volcanic eruption or lightning
- ✚ Accidents in loading, discharging or sifting cargo or fuel
- ✚ Bursting of boilers, breakage of shafts or any latent defect in the machinery or hull.
- ✚ Negligence of masters officers’ crew or pilots
- ✚ Negligence of repairers or charterers provided such repairers or charterers are not an assured here under.
- ✚ Barratry of master officers or crew
- ✚ Contact with aircraft, helicopters or similar objects or objects falling there from.

(1 mark for the preamble opening; 3 marks each for the stated peril. Total: 34 marks)

- 11(a) Who is a Private Road Carrier and what is his business? (16 marks)

Solution

The Private Road Carrier and his business are described below:

- The road carrier that is at liberty to accept or refuse any goods offered to him for carriage
- Virtually all modern carriage of goods is undertaken by private carriers
- His business is to carry goods of his clients, which, when he takes possession of them, he becomes a bailee and has a common law duty to take care of the goods
- He is only liable where loss, damage or delay results from his negligence or that of his servants and agents
- Most private carriers are only willing to accept goods for carriage subject to their own conditions of carriage

- They can carry for reward or gratuitously.

(4 marks each for all correctly stated points. Maximum of 4 points to be graded. Total: 16 marks)

(b) What are Protection and Indemnity Clubs and how are they run?

(18 marks)

Solution

Protection and Indemnity Clubs are; and are also run as stated below:

- They are non-profit mutual associations of shipowners and charterers.
- They are owned and controlled by the insured shipowners and charterers members
- Each club is run by a board of Directors consisting of members and it decides from time to time on amendments to the cover.
- The day-to-day affairs of the clubs are managed by professional club managers.
- At the beginning of each year, members pay advance calls estimated to be sufficient to meet all the claims, reinsurance and administrative expenses.
- Where this proves insufficient, members would have to pay prorated additional calls.
- Where there is surplus, a return may be made to membership or the surplus transferred to reserve for future use.
- The insuring conditions are called "rules"
- Under some aspects of cover, discretion is given to the board to reject or admit claims.

(3 marks each for every correctly stated point. Maximum of 6 points should be graded.

Total: 18 marks)

12(a) What are Jack-up units and their suitability for oil or gas exploratory drilling.

(16 marks)

Solution

Jack-up units are self-elevating platforms which can float freely. They may be designed to have three or more legs. (4 marks)

Their suitability for oil or gas exploratory drilling are:

- the legs may be retracted by a jacking system when their shortening is required for stability during movement in tow
- to operate, the rig is jacked up to provide sufficient air space between the base of the platform and the surface of the sea
- the design and efficiency of the jacking system are of prime importance
- the penetration of the legs in soft and uneven bottom areas are checked by survey
- tugs and jacking up and down have been the main causes of its casualty
- they are used most frequently in the shallow waters of the world.

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

- (b) What is the measure of indemnity:
- i. Where a damaged ship has been repaired?
 - ii. Where the damaged ship has only been partially repaired?
 - iii. Where the ship has not been repaired and has not been sold in the damaged state during the risk? (18 marks)

Solution

- i) The measure of indemnity where a damaged ship has been repaired are the **reasonable cost of repairs, less customary deductions but not exceeding the sum insured in respect of any one causality**
(2 marks for every important point/bolded phrases stated above. Total: 6 marks)
- ii) The measure of indemnity where the damaged ship has only been partially repaired are the **reasonable cost of repairs, less customary deductions, plus reasonable depreciation, if any**, arising from the unrepaired damaged, **provided that the aggregate amount shall not exceed the cost of repairing damage in full**
(1½ marks for every important point/bolded phrases stated above. Total: 6 marks)
- iii) The measure of indemnity where the ship has not been repaired and has not been sold in the damaged state during the risk is the fact that the assured is entitled to be indemnified for **reasonable depreciation arising from the unrepaired damage**, but **not exceeding the reasonable cost of repairing such damage as provided for in the policy**.
(3 marks for every important point/bolded phrases stated above. Total: 6 marks)

13(a) State the War Exclusion Clause in the Institute Cargo Clauses.

(16 marks)

Solution

The War Exclusion Clause in the Institute Cargo Clauses state that:

- "In no case shall this insurance cover loss, damage or expense caused by;
- war, civil war, revolution, rebellion, insurrection, or civil strife arising there from, or any hostile act by or against a belligerent power.
- capture, seize, arrest, restraint or detainment (piracy excepted) and the consequences there of or any attempt thereat.
- derelict mines, torpedoes, bombs or other derelict weapons of war.
(4 marks for every stated point above. Total: 16 marks)

- (b) What is Quota Share treaty and how is its main disadvantage tackled in the Marine Reinsurance Market? (18 marks)

Solution

Quota Share Treaty is:

- the simplest form of proportional reinsurance

- where a set percentage of each and every risk is ceded to the reinsurer and
- all premiums and claims under the contract are settled in exactly the same portion
- Under this arrangement, both the reinsured and reinsurers are fully aware at all times of the share of risks apportioned to them.
- The main disadvantage to the contract is its rigidity.

The rigidity problem is tackled in the Marine Reinsurance Market by:

- the creation of a variable quota share
- here the reassured has differing percentage retentions on different classes of business within the general contract although such contract is less popular with reinsurers.

(3 marks each for any of the stated point above. Maximum of 6 points to be graded (one of the point MUST include the definition). Total: 18 marks)

- 14(a) What is the equivalence of the Unfitness and Unseaworthiness Exclusion Clause of the Institute Cargo Clauses in the Institute cargo clauses (Air)(excluding sendings by post)? (10 marks)

Solution

The equivalence of the Unfitness and Unseaworthiness Exclusion Clause of the Institute Cargo Clauses in the Institute cargo clauses (Air) (excluding sendings by post) is that:

- loss, damage or expense arising from unfitness of aircraft conveyance container or lift van for the safe carriage of the subject matter insured, where the assured or their servants are privy to such unfitness at the time the subject matter insured is loaded therein.

(1 mark for the opening preamble; 4 marks for correctly stating the clause. Total: 5 marks)

- (b) What action can the insurers take collectively to influence prevention of cargo loss by shippers and bailees?

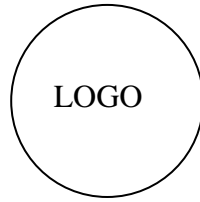
(24 marks)

Solution

The actions that insurers can collectively take to influence prevention of cargo loss by shippers and bailees are to pool resources to tackle specific problem at reduced cost and spread the efforts among themselves, thereafter they will be able to:

- speak with greater authority to the other parties involved
- hold discussions with sectorial trade associations and shippers' councils to obtain concerted action on tackling problems

- have greater chance of successfully lobbying of government officials to persuade them of the need for improvements
 - address effectively those Bailees with inadequate handling or storage methods
 - more selectively, choose suitable cases for recovery actions through the courts
 - at little costs, employ surveyors to supervise the discharge and storage operations of high - value consignments and food shipments
 - repair the perimeter fencing or suggest simple procedural improvements.
- (4 marks for each correctly stated point. Maximum of 6 points to be graded. Total: 24 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A780
AVIATION INSURANCE**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A780 - AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	100%
Highest Score:	72%
Lowest Score:	72%
Average Score:	72%

Breakdown Updates

Question 1

Text book exam to test the reading and familiarizing candidates with the course book contents. The question was well answered by the candidate.

Question 2

The candidate displayed no knowledge of the question. May be he did not study or remember or familiarize self with earlier chapters of the text book.

Question 3

The candidate displayed lack of diligence. He was to draw out understanding of the relevant convention.

Question 4

The question was well attempted. It was set to test general understanding of government set up.

Question 5

The candidate could not recall the risk elements and was not diligent at all.

Question 6

Good attempt was made on the question by the candidate. The question was to test understanding of reinsurance which cut across all sphere of insurance.

Question 7

Woeful attempt. The candidate may not have studied the relevant chapter at all. The question was set to impress on candidates' application of theoretical study.

Question 8

Good attempt was made on this question.

Question 9

Fair attempt. Question was to assess the reasoning ability of candidate.

Question 10

The question required diligent study. Candidates' may not have understood the question.

Question 11

The question was poorly attempted. Candidate may not have understood the text book. Perhaps tutorial class work would have assisted.

Question 12

Simple question from text book. Candidate displayed lack of study.

Question 13

Fairly good.

Question 14

Poor outing. Perhaps practical excursions to airport and aviation facilities would have bailed candidate out.

Chief Examiner's Comments on Overall Performance:

Poor

Chief Examiner's Suggestions on Improvement:

Nothing can substitute for diligent study. Recommend tutorial and practical excursions to aviation facilities – airport will encourage many to write and good performance.

Part I

Answer ALL questions in Part I

Each question carries six marks.

1. State any three (3) of the four (4) types of pilot referred to in Annex I to the Chicago Convention.

Solution

The following are the four (4) types of pilot referred to in Annex I to the Chicago Convention:

- ✚ Student Pilot
- ✚ Private Pilot
- ✚ Commercial Pilot
- ✚ Air transport Pilot

(2 marks for any three correctly stated type. Total: 6 marks)

2. Give three (3) reasons why underwriters consider that helicopters are more hazardous underwriting risks than fixed wing aircraft.

Solution

Underwriters consider that helicopters are a more hazardous underwriting risk than fixed-wing aircrafts because:

- Helicopter, by their nature, are not aerodynamic. If the engine stops or the rotor blades stop turning, the helicopter will lose heights rapidly. A fixed wing aircraft will tend to glide. A rotor wing aircraft relies on the rotor blades turning to generate lift. If there is a problem while the helicopter in flying, it will usually lead to a major damage. Underwriters recognize this by adjusting the rating and by imposing higher deductible which is usually applicable to all losses, whereas for fixed wing it will normally exclude total loss.
- Another reason for helicopters being considered a greater underwriting risk is that helicopters are often used in more hazardous situations and at lower attitudes than fixed wing aircraft. The uses to which helicopters are put will usually involve many more take offs and landings than fixed wing aircraft. This flying is very demanding without room for error and loss record is greater which is reflected in the rating.

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

3. What are the three (3) conventions related to offences committed on board an aircraft in flight?

Solution

The three (3) conventions related to offences committed on board an aircraft in flight are:

- i. Tokyo Convention 1963
 - ii. The Hague Convention 1970
 - iii. The Montreal Convention 1971
- (2 marks each for any correctly stated point. Total: 6 marks)

4(a) In the USA, as also in Nigeria, what are the three (3) arms of the Federal Government?

Solution

The three (3) branches of government in Nigeria as well as the USA, are

- ✚ The legislative
 - ✚ The Executive
 - ✚ The Judiciary
- (1 mark each for any correctly stated point. Total: 3 marks)

(b) What is the purpose of having three (3) arms of Government?

Solution

The purpose is to provide “**checks**” and “**balance**” to **each other’s sphere of influence**.

(1 mark each for the bolded points above. Total: 3 marks)

5. What are the main risk elements that an Underwriter should consider when assessing a satellite risk?

Solution

The main risk elements to be considered by an underwriter when assessing a satellite risk are:

- ✚ The technical complexity of the satellite and history of the manufacturer at building the type
 - ✚ The manufacturing and testing programme
 - ✚ The heritage of the components and their respective manufacturers.
- (2 marks each for any correctly stated point. Total: 6 marks)

6. What is the minimum Insurance cover for:

- i. Wide-bodied passenger jet?
- ii. Wide-bodied cargo jet?
- iii. Narrow-bodied turbo propeller?

Solution

The minimum Insurance cover for:

- i. Wide-bodied passenger jet: £200 million
 - ii. Wide-bodied cargo jet: £150 million
 - iii. Narrow-bodied turbo propeller: £60 million
- (2 marks each for any correctly stated point. Total: 6 marks)

7. Briefly explain three (3) key advantages to a company which results from owning a captive.

Solution

The advantages to a company which result from owning a captive are:

- ✚ Captives have lower administration costs compared with those of the company.
- ✚ The captives parent company will have the benefit of any investment income
- ✚ The cost of insurance should more closely reflect the risk
- ✚ Cover can be provided for risks which the traditional insurance markets do not wish to insure.

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

8. Outline three reasons why a direct aviation insurer might buy reinsurance.

Solution

Three reasons why a direct aviation insurer might buy reinsurance are:

- ✚ To provide protection against exceptional losses
- ✚ To avoid undue fluctuations in underwriting results resulting from a series of losses in the same class
- ✚ To protect from accumulation of losses from one particular source e.g a natural catastrophe
- ✚ To increase the capacity of direct insurers without increasing their retention
- ✚ To obtain technical advice from specialist reinsurers
- ✚ To be able to provide coverage in those countries where risks have to be insured through a local insurer.

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

Part II

Compulsory Question.

This question carries 50 marks.

9. Jewel Airline Incor flight from Johannesburg to Abuja International Airport via Lagos overshoots the runway on a scheduled flight stop at Murtala Muhammed Airport, Lagos and breaks up, resulting in death or injury to many of the passengers.
- (a) Describe the actions a surveyor appointed by insurers should take up to the final settlement of the hull claim. (15 marks)

Solution

The surveyor must as soon as possible go to scene of the accident and take photographs including one clearly identifying the aircraft.

The surveyor should examine the wreckage component by component to establish components serviceability and if they can be repaired. He must consider if the components were airworthy at the time of the accident. If a part malfunctioned there may be possibility of subrogation.

The surveyor must decide if the aircraft can be repaired. As the aircraft crashed at a major airport, clearing the run way for use will also be a major concern.

The surveyor will write a preliminary report containing the necessary details. In view of the aircraft breaking up, it is probable that the aircraft will be declared a total loss salvage offer would then need to be considered. If the aircraft were deemed repairable, the surveyor would need to keep insurers informed of any hidden damage as it comes to light. If repairs are made, the surveyor would be responsible for checkup and ensuring only charges attributable to the loss are paid.

(3 marks each for every correctly stated action. Maximum of 5 points should be graded. Total= 15marks)

(b) State any five (5) details that must be contained in either the interim and/or final reports? (10 marks)

Solution

The surveyor will prepare an interim and then a final report which should cover the following details:

- i. The identification of the aircraft involved in the accident.
- ii. The time, date and place of the accident
- iii. Where and when the survey took place
- iv. The name, age and address of the pilot their total flying experience with details of all the aircraft that they have flown.
- v. Full details of airframe together with its date of manufacture, total flying time since new, total flying time since last over haul and total allowed time between over hauls.
- vi. Full details of the accident and written and signed statement from the members of the crew.
- vii. Weather and other factors affecting the accident.
- viii. Details of the damage sustained by the aircraft with photographs and photographs of surrounding.
- ix. Recommendation concerning the time to repair, the requirement for stag payments on calculation to show whether it would be more economical for the insurers to declare the aircraft a total loss and sell the salvage and any reserve necessary for the insurers to set aside to payment of the claim.

- x. Copies of any agreement likely to affect the repair of the aircraft or possible subrogation.
 - xi. Details of ownership, including leases, liens or encumbrances.
- (2 marks for every correct point. Maximum of 5 points to be graded. Total: 10 marks)

(c) What rights and remedies are available to the injured and to dependants of the deceaseds? (25 marks)

Solution

The first point to consider is the nationality of the carrier and whether EU/2027/97 would apply. It should be noted that even if the carrier was not European Union the provisions could still apply.

The primary piece of legislation affecting passenger liability is the Montreal Convention 1999 as enacted in the EU under EU Regulation 2027/97 as amended by EU Regulation 889/2002.

The regulation state that the carrier is obliged to make an advance payment of at least 16,000 special drawing rights (SDRs) in the event of death to meet immediate economic needs on a basis proportional to the hardship suffered. This payment must be made not later than 15 days from the identification of the natural person entitled to the compensation. The interim payment can be much higher if severe hardship can be demonstrated.

After the hardship payment has been taken into account, the liability is governed by the Montreal Convention 1999. Under this convention, the carrier is strictly liable in the event of death or passenger bodily injury for damages up to 113, 100 SDRs other than if it is proved to be as a result of negligence or similar by the claimant.

Above 113, 100 SDRs the carrier bears unlimited liability and it is presumed to at fault unless it can prove that the death/injury was not due to the carrier's negligence/wrongful act/omission or was solely due to the negligence/wrongful act/omission of a third party.

(5 marks each for every explicitly/correctly stated right or remedy. Maximum of 5 should be graded. Total = 25 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Explain in full how an aeroplane is normally insured. (20 marks)

Solution

- a. Aviation Insurance provides coverage for hull losses as well as liability to passengers' injury/death, environmental and third party damage caused by aircraft accidents. An aircraft owner and operator has a duty of care towards third parties the aircraft is also an asset of the insured that is subject to loss or damage.

An operator is normally insured under the following headings.

- i. **Hull:** This covers to aircraft against loss or damage caused by any type of accident that falls within the scope of coverage of the policy. AVN IC Generally defined as "all risks" meaning that the policy covers anything that is not otherwise excluded.
- ii. **Hull War:** Indemnity is provided for aircraft caused by war, invasion, acts of foreign enemies, hostilities, terrorism, commotion malicious acts, sabotage (not caused by the insured. Hull was usually written back into policy.
- iii. **Third party liability (other than passengers)** Indemnifies the insured for all sums the insured becomes legally liable to pay as damages (including costs) in respect of accidental bodily injury or property damage caused by the aircraft or any person or object falling therefrom.
- iv. **Passenger Legal Liability:** Indemnifies the insured for passengers riding in the accident aircraft who are either injured or killed (including cost expenses) In many countries this coverage is mandatory with a specific limit for each passenger seat.
- v. **Aviation Personal Accident (Crew member) insurance** designed to cover insured persons against injury, disablement or death arising as a result of an accident that is generally granted on annual basis. The cover operates while mounting or dismounting from and whilst travelling an aircraft, while the aircraft is being used within the geographical scope as per its permitted usage.

(4 marks each for every sub-point i.e. 2 marks for stating the heading; 2 marks for explanation under each sub-topic. Grand Total = 20 marks)

- (b) Aircraft accidents are very expensive. State one (1) method how such large risks are spread across the Insurance Community. (14 marks)

Solution

One method by which the insuring of aircrafts are spread across the Insurance community is for:

- a primary insurer to take on 100% of the policy and then divide part of the risk that it does not wish to hold between other insurers.
- here, several primary insurers are involved in the policy with one acting as lead insurer. When there is a loss claim, it is handled by the lead insurer largely by reinsurance to enable the direct underwriters to spread the risk among a number of reinsurers.
- This can be on a case by case basis known as facultative reinsurance underwriters while account treaty in the form of quota-sharing or surplus.

(3½ marks for each correctly stated explanation. Maximum of 4 of such explanations should be graded. Total = 14 marks)

11(a) Describe what is meant by an airline code share agreement.(14 marks)

Solution

An airline code share agreement allows for a passenger to travel on two or more airlines but hold a single ticket specifying one airlines designator code and flight number (that of the first or contracting carrier with whom the passenger has made the contract)

The code share agreement will make provision for the contractual rights of passengers in the event of injury.

Both the Warsaw Convention 1929 and the Montreal Convention 1999 provide that single legs of a passenger's journey operated by different airlines are deemed together to be one undivided carriage, provided the following conditions are met.

- More than one carrier must be involved in performing different legs.
- The different legs must be agreed to be performed in successive manner.
- Both parties must regard the whole carriage as a single operation

(3½ marks for each correctly stated explanation. Maximum of 4 of such explanations should be graded. Total = 14 marks)

(b) Explain the coverage available to the insured in respect of passengers under section III of the London Aircraft Insurance Policy - AVN IC. (10 marks)

Solution

The cover is to indemnify the insured for **all sums that they become legally liable to pay as compensatory damages and costs** in respect of:

- Accidental bodily injury to passengers while entering, on board or whilst disembarking the insured's aircraft.
- Loss of damage to baggage and personal articles of passengers arising out of an accident to the aircraft.

(5 marks for the phrase bolded above, 2½marks for each correctly stated points in (i) and (ii) above. Total = 10 marks)

- (c) Explain the provisions to the coverage. (10 marks)

Solution

The provisos of the airlines code share agreement coverage relate to documentary evidence. The policy states that before a passenger boards an aircraft, the insured must take any necessary measures to exclude or limit liability to the extent permitted by law. If those measures include the issue of a ticket/baggage check, it must be issued correctly in a reasonable time before the passenger boards the aircraft. In the event of non-compliance, insurers' liability will be the same as if the insured had complied.

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

- 12(a) Write short note on mission and role of the International Air Transport Association (IATA). (14 marks)

Solution

- i. The **mission** of the International Air Transport Association (IATA) is to represent, lead and serve the airline industry. (5 marks)

- ii. The **role** of International Air Transport Association (IATA) are:

- ✚ Airport slots
- ✚ Benefits of aviation
- ✚ Changes and economic regulation
- ✚ Commercial fuel policy
- ✚ Environmental policy
- ✚ Infrastructure issues
- ✚ International treaties
- ✚ Liberalization
- ✚ New distribution capability
- ✚ Passenger rights
- ✚ Security
- ✚ Taxation

(2 marks for mentioning the role and 1 mark for explaining the role. Sub-Total: 3 marks. Maximum of 3 roles from those stated above should be graded. Grand Total: 9 marks)

- (b) Describe the role and mission of the International Civil Aviation Organisation (ICAO). (10 marks)

Solution

International Civil Aviation Organization (ICAO) created in 1944, has the **role** to create regulations for aviation safety, security efficiency and regularity and

environmental protection.

(5 marks)

The mission is to classify the principles and techniques of international air transport to ensure safety and security. Standards and recommended practices (SARPs) are technical specification adopted by ICAO in accordance with Article 37 of the Convention of on International Civil Aviation in order to achieve the highest practicable degree of uniformity in regulations, standards procedures and organisation.

(5 marks)

(c) Explain structured settlement.

(10 marks)

Solution

Structured settlement can be explained that it has often been the case that after having received large award or claimant has spent the money inappropriately and not had enough left to meet their medical and other requirements.

In order to avoid such problem and to avoid the need for constant management of the settlement fund, the attorneys will arrange for the award to be used to purchase an annuity or similar policy which will ensure that the claimant receives a regular income appropriate for their needs.

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

13 As the Insurance Broker to Messer Wazobia Plc, a Nigeria industrial Company which is buying a corporate jet aircraft. The aircraft will be chartered out commercially when not needed by the company. You have been requested to produce a report to Messer Wazobia Plc explaining:

(a) reason why detailed underwriting information concerning pilots, annual utilization, contractual agreements and geographical areas of operation are required by insurers? (20 marks)

Solution

Well qualified and experienced pilots is probably one of the most important factors for an aircraft owner. A corporate jet is a substantial investment for a company and the asset must be looked after. A pilot to fly this one will need to hold at least a Commercial Pilot Licence (CPL) if not an air transport pilot licence which are subject to nationally and internally set standard. Underwriter will need confirmation that Messrs.' Wazobi Plc is employing such pilots and is specifying certain minimum flying criteria.

Information concerning annual utilization will demonstrate to insurers how intensively Messrs. Wazobia Plc plans to use the aircraft. It must be remembered that many aircraft parts have a life limitation, the greater the use, the more frequently the aircraft will be down for maintenance.

Contractual agreements viz aircraft leases, ground handling agreements charters contracts – many of these call for Messrs. Wazobia Plc to sign away certain rights or require them to take on certain liabilities over and above those implied in common law. These will affect the aircraft insurers either by requiring, for say certain liability limits are purchased usually corporate jet can operate in many parts of the world, however there are known “hotspots” which are contained in market exclusion frequently applied to aircraft insurance policies. The majority of these countries can be written back with or without additional premium.

(4 marks for each correctly stated explanation. Maximum of 5 points should be graded. Total: 20 marks)

- (b) the factors that should be considered in deciding the level of liability limit to be purchased. (14 marks)

Solution

It is unwise for an insurance broker to tell a client the liability limit they should buy because in the event of a loss, if there is legal dispute about quantum of cover, the broker will find it difficult to justify their advice.

The broker can supply quotes for alternative limits and recommend a minimum, limit based on national and international legislation market practice and experience.

The broker will be aware of the liability limits carried by similar aircraft and will also be aware of legislation governing international flight, much of which will be under the Montreal Convention 1999.

These regulations state minimum levels of third party liability insurance that must be carried by any carrier flying to or over EY air space based on the maximum take-off mass of the aircraft stated in special drawing rights (SDRs).

In addition, passenger liability must be a minimum of 250,000 SDRs with small limits for baggage and cargo liability. Using these statutory limits as basis, the broker will convert the SDR limit to US dollars and give the client alternative limits above the minimum allowed.

(3½ marks for each correctly stated explanation. Maximum of 4 points should be graded. Total: 14 marks)

14. You are an Insurance Broker to an airport company and have been asked to review the liability insurances of a baggage handling company working airside at the airport.

- (a) Discuss the aviation exposures that the baggage handler needs to insure against. (15 marks)

Solution

There is a wide range of risk in an airport environment, especially while operating "airside". The company normal commercial insurances will provide cover for the operations up to the security line, however beyond that is classed as airside and usually excluded from coverage.

The company's liability will be for bodily injury and /or property damage that may arise from their operations this may be from the vehicles or their employees or from the products that they are using in the course of their duties.

The use of vehicles airside is strictly regulated, with drivers having to undergo instruction and be under control of air traffic control outside certain well-defined areas such as when crossing live aircraft maneuvering areas. In addition there are strict rules on the use of 'wing men' who are there to ensure that a vehicle does not hit aircraft when driving airside.

The very presence of many people working airside means that there is always a risk of human error. Personnel will be performing their various tasks involving, in several roles close proximity to aircraft. Whether driving vehicles, helping passengers, cleaning aircraft or resupplying aircraft with food, there is the opportunity for personnel to cause damage to injure a third party.

In addition, the company may have a products liability arising from the supply of goods and/or services to the airline industry in this case, the supply of food could result in food poisoning and the aircraft cleaning could involve a loss arising from the chemicals used. A further item to be reported on is the possibility of certain conditions being present within the contract between the airport and the contracting company. These could lead to the company's exposure to certain liabilities being increased.

(3 marks for each correctly stated explanation. Maximum of 5 points should be graded. Total: 15 marks)

- (b) Discuss the wordings and clauses you would recommend are used for the exposures in (a) above. (15 marks)

Solution

Within the London Market, there are several standard wordings which can cater for the company's exposure. Until recently, the standard wording used was called the ARIEL form (or the Airport Owners' and Operators' Liability Policy 48FLY00001) it is still used on the smaller risks and is a good basis for such coverage. This contains three sections being premises liability (covering bodily injury and property damage arising from an insured's operation) hangar keepers' liability (covering property damage to property in an insured's care, custody and

control) and products liability (covering bodily injury and property damage arising from a product not in the insured's control also includes services.

(5 marks for each correctly stated explanation. Maximum of 3 points should be graded. Total: 15 marks)

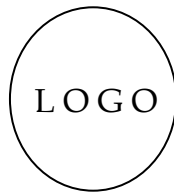
(c) State what the basic cover provided by section I only of Ariel Airport Owners' and Operators' Liability Policy entails. (4 marks)

Solution

The section 1 (Premises Liability) **covers the insured's liability for bodily injury and property damage to any person arising from:**

- i. In and around the specified premises as a direct result of the services provided by the insured.
- ii. Elsewhere in course if any work or performance of any duties came out by the insured or their employees in connection with the business or operations specified.

(2 marks for the bolded phrase above. 1 mark each for the points stated in (i) and (ii). Total: 4 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A785
PRINCIPLES OF REINSURANCE**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A785 - PRINCIPLES OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	40%
Highest Score:	80%
Lowest Score:	6%
Average Score:	49%

Breakdown Updates

Question 1

The question intended to test the candidates' knowledge of product commonly excluded under reinsurance treaty but majority of the candidates misinterpreted this to General Exclusions. About 50% of the candidates scored below average.

Question 2

The question tested candidates' knowledge of premium calculation under a non-proportional treaty with emphasis on Reinstatement premium. The candidates' performance was below expectation. Only 15% of the candidate scored above average. This is very important. A good understanding of non-proportional treaty is highly needed.

Question 3

This question intended to test candidates' knowledge of condition for termination of reinsurance contract by the reinsurer. Only about 40% of the candidates demonstrated good knowledge and understanding of the concept.

Question 4

The question was in two parts - the (a) part tested candidates' knowledge of excess of loss rating. Some of the candidates wrote on claims made basis and loss occurring during basis. However, most candidates performed well on the (b) aspect of the question which was on risk and claim apportionment under proportional reinsurance. About 80% of the candidates scored above average.

Question 5

The question intended to test candidates' understanding of types and forms of reinsurance programme. All the candidates attempted the question and scored above average. It was a very good performance.

Question 6

The question test candidates' knowledge of the categories of exclusions under proportional treaty wordings. The general performance was below average as only 45% of the candidate scored above average. Majority of the candidates could not identify the broad group.

Question 7

The question tested candidates' knowledge of the basic non-proportional treaty claims apportionment and cover. The performance was excellent as about 75% of the candidate scored above average. This shows a good understanding of the concept.

Question 8

The question tested candidates' knowledge of the meaning of some reinsurance abbreviations. All the candidates attempted the question and scored more than average. It was an excellent performance.

Question 9

This is the compulsory question that tested the candidates' knowledge on (a) purpose of reinsurance (b) short notes on types of reinsurance premium (c) factors relevant to rating reinsurance treaty. About 60% of the candidates performed above average, however, most of the candidates performed below average on the question relating to the key factors that are relevant to the rating process.

Question 10

About 40% of the candidates attempted this question and only 25% of them scored above average. The question tested candidates' knowledge of information requirement for reinsurance negotiation. The candidates could not give a good explanation of the information.

Question 11

The question tested the knowledge of claims reserving and its importance. Only 45% of the candidates attempted the question. However, only 55% of those that attempted it scored above average. There was poor performance on the (b) aspect of the question which tested candidates' knowledge of modeling. There is need to improve on this.

Question 12

The part (a) aspect of the question tested the concept of calculation and apportioning losses on non-proportional treaty. The candidates performed above average in the question. There is need to improve on the non-proportional treaty reinsurance concept. The part (b) was well attempted and the performance was good.

Question 13

The question tested candidates' knowledge of the "golden rule" as well as the concept of how accumulation could arise in property insurance portfolio. About 40% of the candidates that attempted the question scored above average.

Question 14

The question tested the component of excess of loss premium and the purpose of claim notification and above clauses. About 50% of the candidate attempted this question but only 30% performed above average. The (b) aspect of the question was not well attempted.

Chief Examiner's Comments on Overall Performance:

About 40% of the candidates scored above the pass mark. The performance on question (9) which comes about 25% of all the available mean affected the overall performance.

Chief Examiner's Suggestions on Improvement:

There is need for improvement in the calculation aspect of the course especially on the non-proportional treaty. Also candidates need to improve their level of knowledge and understanding on the key concept of reinsurance.

Part I

Answer ALL questions in Part I.

Each question carries six marks.

1. Mention any six (6) products or product components commonly excluded under treaty reinsurance.

Solution

The products commonly excluded under treaty reinsurance are:

- Aircraft
- Pharmaceuticals
- Blood and Plasma Products
- Toxic or Explosive Chemicals
- Industrial Boilers
- Portable Oil Heaters and
- Tobacco.

2½ marks each on any four stated. Total 10 marks.

2. ABC Insurance company, for its cover period of 01/01/2010 to 31/12/2010, a GPI of ₦1,200,000.00, has a cover of ₦100,000.00 XS of ₦100,000.00 any one loss with a minimum deposit premium of ₦10,000.00 adjustable at a rate of 1% of gross net premium income, subject to one reinstatement at 100% additional premium as to time and pro rata as to amount. There was a loss of ₦150,000.00 gross net from the ground. Calculate the initial and final deposit premium (note: loss to cover amount is ₦50,000.00 or 50% of limit of indemnity –WIG).

Solution

$$\begin{aligned} \text{Initial Reinstatement Premium} &= \frac{\text{Cost of Claim to Cover}}{\text{Limit of Reinsurance Cover Available}} * \text{Premium} \\ &= \frac{\text{₦50,000.00}}{\text{₦100,000.00}} * \text{₦10,000.00} = \text{₦5,000.00} \end{aligned}$$

(2 marks)

However, when the deposit premium has been adjusted, the actual premium for the year is: ₦1,200,000.00 * 1% = ₦12,000.00 (1 mark)

Consequently, Reinstatement Premium should be:

$$\frac{\text{₦50,000.00}}{\text{₦100,000.00}} * \text{₦12,000.00} = \text{₦6,000.00}$$

(2 marks)

ie. An additional payment of reinstatement premium of ₦1,000.00 is required when the premium adjusted is calculated. 1 mark... Total 6 Marks

3. Under what special circumstances is a Reinsurer allowed to effect immediate termination of a treaty?

Solution

The special circumstances in which the reinsurer is allowed to effect immediate termination of a treaty are:

- When the cedant is wound up
- If the reinsured fails to observe the terms and conditions of the treaty
- If the reinsured is involved in fraudulent acts
- If the reinsured loses its license to transact the business under the treaty
- If the reinsured fails to comply to the statutory solvency requirements
- When directed by the court of law.

2 marks each. Maximum of 3 points to be graded. Total: 6 marks

4(a) On what basis are excess of loss employers' liability reinsurance contracts rated? (2 marks)

Solution

Excess of loss employers' liability reinsurance contracts are rated on either **experience basis** or **exposure basis**. **1 mark each for the bolded point. Total 2 marks**

(b) ABC Insurance Company has a net retention of ₦200,000.00 with a 50% quota share and a nine-line surplus treaty. The company has written a line of ₦5,000,000.00, in respect of which it has filled its proportional treaties and placed the balance facultatively. It suffers a loss of ₦3,000,000.00. How would the premium and loss be allocated to all concerned parties/treaties? (4 marks)

Solution

	Proportion	Amount (₦)
Risk Apportionment		
ABC Net Retention	4%	200,000.00
Quota Share	4%	200,000.00
Surplus Treaty (9 lines)	72%	3,600,000.00
Facultative Reinsurance	20%	1,000,000.00
	100%	5,000,000.00
Claim Apportionment		
ABC Net Retention	4%	120,000.00
Quota Reinsurers	4%	120,000.00
Surplus Reinsurers	72%	2,160,000.00
Facultative Reinsurers	20%	600,000.00
	100%	3,000,000.00

½ mark on each correct calculation (4 marks).

5(a) Define Facultative Reinsurance.

(2 marks)

Solution

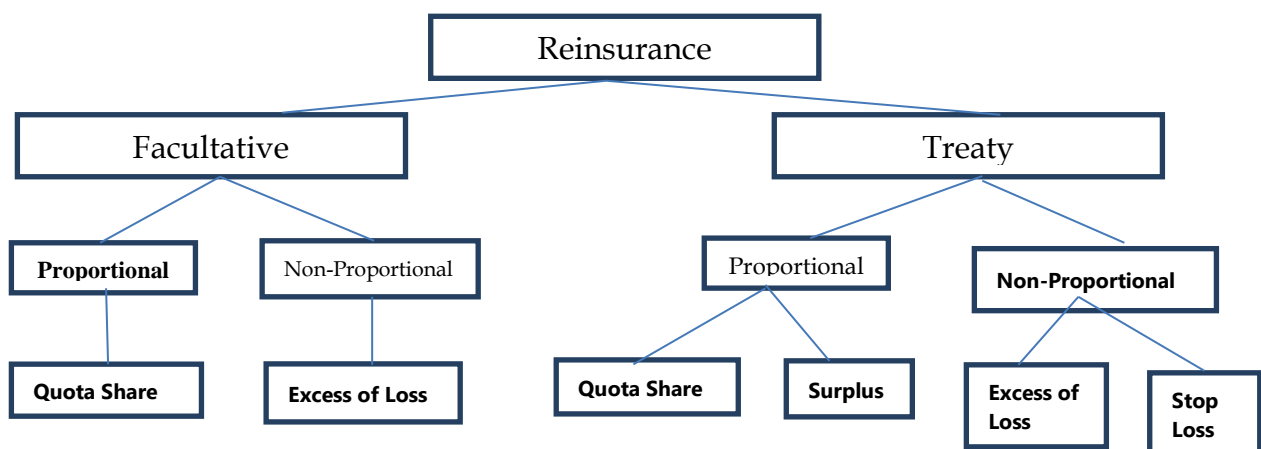
a) Facultative Reinsurance is an optional contract entered into between the insurer and the reinsurer for the reinsurance of an individual risk.

2 marks

(b) Complete the figure below showing the various types of reinsurance division.

(4 marks)

Solution



½ mark on each correct completion (4 marks).

6(a) Into what areas would exclusions under proportional wordings broadly fail?

(4marks)

Solution

a) The areas that exclusions would broadly fail under proportional wordings are:

- i) those relating to territory
- ii) those relating to peril or class
- iii) those relating to war and nuclear risk.

2 marks for any two correct area stated. Maximum of 2 points to be graded. Total: 4 marks

(b) Define a profit commission.

(2marks)

Solution

A profit commission is an **amount payable to the insurer from the reinsurer in return for the business ceded** under the reinsurance treaty **being relatively claims free**.

½ mark for each bolded point....2 marks in all

7. In a property account risk excess treaty for ~~₦~~200,000.00 XS ~~₦~~50,000.00, an event limit of ~~₦~~600,000.00 (i.e. three total losses) might be imposed. If four houses were hit by a storm, each loss being over ~~₦~~250,000.00 total insured limit, apportion the claim as most appropriate.

Solution

	₦	₦
Total Gross Claim	4*250,000.00 =	1,000,000.00
Priority Retained by Cedant	4*50,000.00 =	200,000.00
Risk Excess of Loss Cover	4*200,000.00 =	800,000.00
As this exceeds the event limit,		
Reinsurers will Pay:		600,000.00 OR
While the Cedant will Pay:		200,000.00

½ mark for each correctly calculated/stated figure...4 marks in all

8. Give the meaning of the following abbreviations:
- i. MPL
 - ii. IBNER
 - iii. PRAN
 - iv. EML
 - v. EDI

Solution

The meaning of the abbreviations are:

- i) MPL – Maximum Probable (or Possible) Loss
- ii) IBNER – Incurred But Not Enough Reported
- iii) PRAN – Professional Reinsurers Association of Nigeria
- iv) EML – Estimated Maximum Loss
- v) EDI – Electronic Data Interchange
- vi) IBNR – Incurred but Not Reported

1 mark for each fully correctly meaning6 marks in all

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Explain comprehensively any five purpose of reinsurance. (25 marks)

Solution

The following are the purposes of reinsurance:

- i) **Risk Transfer:** reinsurance is one of the ways that an insurance company could consider dealing with a risk. It is a vital tool as it provides a greater degree of financial control over the risks the company has underwritten as the ceding company shifts the

responsibility of bearing the risk to the reinsurer in line with agreed terms.

- ii) **Capacity Building:** capacity is the financial amount that an insurance company retains in relation to the acceptance of insurance risks. An insurance company would consider this in terms of the actual risks it has underwritten individually or collectively (i.e. on a per risk basis or a per event basis). Reinsurance provides an insurance company with capacity to compete against other insurance companies in a market where size would be a significant virtue e.g. aviation. It makes direct policyholders to place business with the insurer and this reduces the administrative burden caused by having to place the entire risk with more than one company.
- iii) **Stabilisation of Claims Ratio:** reinsurance helps the direct insurer to stabilise their loss levels by removing some of the uncertainty as neither the insured nor the direct insurer knows when a claim will occur or its cost; notwithstanding the insurance company's experience of handling losses and their attendant costs.
- iv) **Portfolio Management:** this is a very critical business reason for having a good reinsurance cover. The portfolio is the entire range of risks an insurance company might underwrite. It comprises of all the classes of businesses in their books. Certain classes of business are better suited to certain types of reinsurance covers than others, so as a whole, reinsurance helps to ensure that the portfolio performance is within acceptable performance matrix as determined from the onset by the direct insurer's management.
- v) **Asset Management:** Insurance companies are generally prudent with regard to investment, therefore with the knowledge and comfort that a number of uncertainties have been removed through their reinsurance package, they will be more willing to invest and manage their assets more aggressively and productively. Reinsurance also helps the direct insurer to manage its tax assets more efficiently as insurance companies are taxed on their technical underwriting results and not on the Gross Premium Income. This gives them some reliefs/reduction in taxes paid/to be paid.
- vi) **Catastrophe Protection:** reinsurance acts as a cushion to protect direct insurers against losses of catastrophic proportions when they occur. E.g. Tsunami, earthquake, oil rig disaster, e.t.c.
- vii) **Spread of Risk:** Reinsurance also serves as a mechanism by which the impact of losses is spread the same way that direct insurers also do. So, it gives peace of mind to the direct insurer that their risks are well spread and not a cause for concern.

- viii) **Development of New Products:** reinsurance helps in the development of new products by direct insurers/insurance companies in the manner that an insurance may want to develop some new product but because it does not have the experience, might be afraid to produce and thus lose potential income from there. However, with reinsurance, the direct insurer would get reinsurance cover for the new product and then start selling the products. The essence of this is to cushion the impact of any adverse effect that may occur in the new field and also to have more technical expertise on the product sales and management.

5 marks on any five - fully answered point from the above. Total: 25 marks.

- (b) Write short notes on the following, with one explicit example each:
- i. Deposit Premium
 - ii. Minimum Premium
 - iii. Minimum & Deposit Premium
 - iv. Flat Premium. (10 marks)

Solution

i) **Deposit Premium:** is an agreed amount of money to be paid on account by the reinsured and which will be subject to adjustment at the end of the contract.

ii) **Minimum Premium:** this is an amount of premium detailed in the reinsurance contract which represents the minimum amount of premium that reinsurers require for the protection provided at any stated/agreed period.

iii) **Minimum & Deposit Premium:** is an amount of premium that has been agreed to be both the deposit and minimum premium required by reinsurer to be paid on the reinsurance arrangement such that if the adjusted premium at the end of the period is higher than the deposit paid, then the reinsurer will be paid the outstanding balance but if it is lower, the insured will not get a refund because the earlier deposit paid had been agreed to be the minimum.

iv) **Flat Premium:** is the premium amount that has been agreed by reinsurers as appropriate for the cover required. There will be no percentage rate and no premium adjustment needs to be made at the end of the reinsurance cover.

2½ marks on each. Total: 10 marks.

- (c) Mention any five (5) key factors that are relevant to the rating process in any reinsurance treaty. (15 marks)

Solution

c) The following are the key factors that are relevant to the rating process in any reinsurance treaty:

- i) Claims Experience
- ii) Nature of the Account
- iii) Effect of Inflation
- iv) Currency Fluctuations
- v) Risk Profiles
- vi) Catastrophe Perils
- vii) Amount of Cover Requested
- viii) Relationship with the Reinsured:
- ix) Quality of the Business:
- x) Underlying Protections

Any 5 of the above. 3 marks each for any correctly stated factor. Total: 15 marks.

Part III

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

Each question carries **34** marks.

10. The successful negotiation of a reinsurance contract or programme depends on the quality and quantity of the information made available to potential reinsurers. Extensively discuss any six of those information, stating their importance.

Solution

The information required for a successful negotiation of a reinsurance contract/programme are:

- Details of the cedant
- The Cedant's business
- Class or classes of business covered
- Original Policy Sums Insured
- Risk Profile
- General Experience
- Claims Experience
- Exclusions
- Reinsurance Preference.

4/5 (0.8) mark for each correctly stated point. Total of 4 marks

- **Details of the cedant:**
 - Date that the company was established
 - Capital structure and ownership of the company
 - Company's trading results

- Knowledge and experience of the individual underwriters employed by the cedant
- **Cedant's Class or classes of business covered**
 - Precise risks to be protected by the reinsurance
 - Nature of coverage
 - Extent of coverage
 - Details of the territorial scope
- **Cedant's Original Policy Sums Insured**
 - Details of the sums insured or limits of liability
 - Applicable deductibles (if any)
 - Portfolio Risk Profile
- **Cedant's Risk Profile**
 - Details of different sums insured
 - Varied risks being covered
 - Relationship between any hazardous and non-hazardous risks
 - Special perils being covered
- **Cedant's General Experience**
 - In particular class(es) of business
 - Overall cedant's experience in managing all its accounts
 - Individual experience of its technical staff
 - Information on the development of the cedant's premium income over the years, usually the past 5-10 years
 - Growth pattern of the cedant – aggressive or conservative
- **Cedant's Claims Experience**
 - Cedant's claim reserving philosophy and expertise
 - Details of all claims
 - Claims and underwriting policy
 - All reported claims – paid, outstanding and IBNR
 - Triangulated claims especially on long-tail businesses
- **Exclusions**
 - Details of business or perils that it does not underwrite
 - Details of perils it does not require reinsurance
 - Nuclear Risks
 - War Risks
- **Reinsurance Preference.**
 - Type of reinsurance cover required – proportional or non-proportional
 - Commission negotiation
 - Likelihood of transfer of business to another reinsurer.

3 marks for each detailed explanation. Max of 2 points to be discussed from those highlighted above – discussed NOT highlighted. Total 6 marks per sub-heading. Total of 30 marks.

- 11(a) Enumerate six (6) important reasons why a cedant need to establish correct claim reserves in its books. (24 marks)

Solution

Important reasons why a cedant need to establish correct claim reserves in its books are because the reserves:

- are entered into the annual accounts
- serve for estimating the results for the current year
- are required in order to determine correct premium rates
- provide a signal to the to the underwriting department should rehabilitation measures be required
- affects the experience of the reinsurance treaties
- may have very annoying fiscal consequences should they be falsely estimated or established at the wrong level

4 marks for each correct response. Total: 24 marks.

- (b) To transfer non-standard risks to reinsurers, there are to be some basis of human judgement and unlike traditional lines of business, insurers are likely to have no book of similar risks to base their judgements. Therefore, to support their instincts, it is essential that a model of the likely risk behaviour is developed. In developing this model, there are some very crucial points that should be recognized so as to arrive at some basic levels of insurability for the business to be placed with the reinsurers. Enumerate these five points that should be recognized in the model being evaluated. (10 marks)

Solution

b) The points to be recognized when placing non-standard risks are:

- a model is nio substitute for common sense
- models are only as good as the assumptions and behaviours derived from the creator/user
- all assumptions need to be articulated clearly to enable them to be challenged
- stress testing the model assumptions is vital to establish which assumptions are most critical and to understand likely loss volatility
- stochastic simulations enable a full loss distribution behaviour to be derived and are usually more meaningful than a static view of potential outcomes.

2 marks each for each correctly stated point. 5 points are to be graded in total. 10 marks in all

12(a) XYZ International Insurance Plc transacts only General Insurance businesses. The Company has arranged an excess of loss reinsurance programme to protect its portfolio in four layers as below:

1st Layer: ~~₦200,000.00~~ XS ~~₦150,000.00~~

2nd Layer: ~~₦250,000.00~~ XS ~~₦350,000.00~~

3rd Layer: ~~₦300,000.00~~ XS ~~₦600,000.00~~

4th Layer: ~~₦150,000.00~~ XS ~~₦900,000.00~~

You are required to apportion the following losses:

- | | | |
|------|--------------------------|-----------|
| i) | ₦130,000.00 | (2 mark) |
| ii) | ₦350,000.00 | (3 marks) |
| iii) | ₦650,000.00 | (5 marks) |
| iv) | ₦950,000.00 | (6 marks) |
| v) | ₦1,200,000.00 | (8 marks) |

Solution

- | | | | |
|------------------------|----------------------------|---|---|
| i) | ₦130,000.00 : | Cedant – ₦130,000.00 | 2 marks |
| ii) | ₦350,000.00 : | Cedant – ₦150,000.00 and 1 st Layer: ₦200,000.00 | 3 marks (1½ marks each) |
| iii) | ₦650,000.00 : | Cedant – ₦150,000.00 ; 1 st Layer: ₦200,000.00
2 nd Layer: ₦250,000.00 and 3 rd Layer: ₦150,000.00 | 5 marks (1¼ mark each) |
| iv) | ₦950,000.00 : | Cedant – ₦150,000.00 ; 1 st Layer: ₦200,000.00
2 nd Layer: ₦250,000.00 ; 3 rd Layer: ₦300,000.00
4 th Layer: ₦50,000.00 | 6marks (2 marks for cedant; 1 mark each for others; total 6 marks) |
| v) | ₦1,200,000.00 : | Cedant – ₦300,000.00 ; 1 st Layer: ₦200,000.00
2 nd Layer: ₦250,000.00 ; 3 rd Layer: ₦300,000.00
4 th Layer: ₦150,000.00 | 8marks (4 marks for cedant; 1 mark each for others; total 8 marks) |
| Total: 24 marks | | | |

- (b) If there has been misrepresentation or non-disclosure, what is a reinsurer entitled to do? (14 marks)

Solution

If there has been misrepresentation or non-disclosure, a reinsurer is entitled to **avoid the risk from inception, refund the premium received on the account unless fraud is suspected or proved.** 2½ marks for all bolded points. 10 marks in all

- 13(a) What is the “Golden Rule”? (14 marks)

Solution

a) The “Golden Rule” means that words will be interpreted according to their natural and ordinary meaning. 14 marks

(b) How can “accumulation” arise in property insurance portfolio? Give four examples of such. (20 marks)

Solution

“Accumulation can arise in property insurance portfolio as a result of more than one insured’s interest being damaged by an insured peril at the same time. **4 marks**

Examples are:

- where there is co-insurance
- where the insurer has clients in a large multi-tenure company
- where several, separate but adjoining risks are damaged
- an insured material damage and business interruption policies are held.

4 marks each for every correctly stated point above. Sub-Total – 16 marks. Grand Total: 20 marks

14(a) The excess of loss premium is the amount of financial remuneration that the reinsurer requires for the contract requested by the ceding office. Enumerate the five main parts that this premium consists of. (15marks)

Solution

The five main parts of the excess of the excess of loss premium are:

- the **risk premium** which must cover the expected average loss cost to the cover
- the **fluctuation premium** which will cover random deviations of the claims experience
- a **provision for the catastrophe loss** that will occur sooner or later
- a **provision for the acquisition costs**, intermediaries commission, management expenses, **e.t.c**
- a **margin of premium that could be considered in the future as reinsurer’s profit**

4 marks each for every correctly stated point. Total – 20 marks.

(b) What is the purpose of claims notification and reporting clauses? (12 marks)

Solution

The purpose of claims notification and reporting clauses is to:

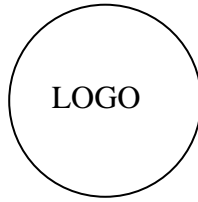
- reinforce what has to be notified to reinsurers
- when it is expected to be notified to reinsurers
- by what period the treaty may have to settle

4 marks each for every correctly stated point. Total – 12 marks.

- (c) Under the Limitation Act 1980, how long does an insurer have to commence an action before the reinsurer can argue that the “cause of action” is time barred? (2 marks)

Solution

Under the Limitation Act 1980, an insurer has **six years from the date that the action “accrues”** to commence an action before the reinsurer can argue that the “cause of action” is time barred. 2 marks



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A825
APPLICATION OF REINSURANCE**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A825 - APPLICATION OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	67%
Highest Score:	72%
Lowest Score:	44%
Average Score:	57%

Breakdown Updates

Question 1

The question tested the candidates' knowledge of characteristics of proportional treaties. The performance of the candidates was good. Majority of the candidates, about 60%, scored above average.

Question 2

The question tested candidates' knowledge of some reinsurance term. The candidates demonstrated good knowledge of the terms. However, there was little understanding of security rating and claims reserving.

Question 3

This question tested candidates' knowledge of the operation of burning cost. Majority of the candidates got the formula correctly but could not explain the meaning and the complaints in words.

Question 4

The question tested candidates' knowledge of retention limit and factors to be considered in fixing retention. All the candidates attempted the question and scored above average. They demonstrated a good understudy of a basic concept of reinsurance.

Question 5

The question tested candidates' knowledge of facultative reinsurance which is a type of reinsurance. The candidates performed very well.

Question 6

The question intended to test candidates' knowledge of options opened to a reinsurer after reviewing its book of business. About 60% of the candidate scored full marks. It was a very good performance.

Question 7

The question tested candidates' knowledge of factors to be considered in choosing reinsurance. The candidate was able to answer the question as expected. The performance was impressive.

Question 8

The question tested candidates' knowledge of sources of investable firms and the main types of investment. The candidate did not do well on the part (a) aspect of the question.

Question 9

This question tested candidates' knowledge of a technical aspect of reinsurance accounting, portfolio adjustment. The performance was poor as only about 33% of the candidate scored above average. This needs to be improved upon. Those that understood the concept scored a very good mark in the question. Also, most candidates could not explain the common methods of premium portfolio in use.

Question 10

Only 2 candidates attempted the question. The question tested candidates' knowledge of advantages and disadvantages of combining several classes of business in one reinsurance treaty. The two candidates that attempted the question scored above average.

Question 11

The question tested candidates' knowledge of some paired terms in Reinsurance. About 80% of the candidates attempted the question and about 60% of them scored above average. The most of the candidates could not explain the distinction between condition and warranty as well as differentiate between retention and deductible.

Question 12

The question tested candidates' knowledge of information the reinsurer needs to assemble to determine a suitable reinsurance cover. Only 4 candidates attempted the question and 3 of them scored above average.

Question 13

The question tested candidates' knowledge of the concept of profit commission as well as factors considered by the rating agency in assessing company. The candidate demonstrated good knowledge of items in computing profit commission. But the (b) part of the question was not well answered by the candidates.

Question 14

The question tested the candidates' knowledge of ex-gratia and alternative dispute resolution (ADR). Majority of the candidates could not give the technical definition of ex-gratia. The candidate was able to list the ADR but could not give a good explanation of the different ADR.

Chief Examiner's Comments on Overall Performance:

About 50% of the candidates scored above the pass mark. The performance on question (9) affected the overall performance. Only few of the candidates was able to answer the portfolio adjustment computation.

Chief Examiner's Suggestions on Improvement:

The candidates should pay more attention to the technical aspect of Reinsurance, especially the Reinsurance Accounting. Also candidates need to be more convincing in their methods of answering technical questions.

Part I

Answer ALL questions in Part I

Each question carries six marks.

1. What are the characteristics of Proportional treaties?

Solution

The characteristics of proportional treaties are:

- 1 the ceding company determines its net retention
- 2 premiums and claims (if any) are shared in the way or proportion the risk was shared between the insurer and reinsurer
- 3 these types of treaties are used to balance the cedant's account
- 4 these reinsurance treaties are also used for increased underwriting capacity
- 5 Profit commission is paid to the reinsured for writing the business profitably on a preceding year basis
- 6 Reinsurance commission is usually higher than acquisition cost paid by the reinsured

(1½ marks for each correct characteristic. Maximum of 4 to be graded. Total: 6 marks.)

2. Write short Notes on any four (4) of the following:
 - i. Deposit Premium
 - ii. Retrocession Cover
 - iii. Profit Commission
 - iv. Security Rating
 - v. Claims reserve

Solution

- (i) **Deposit Premium:** It is an agreed amount to be paid by the reinsured subject to adjustment at the end of the contract. If final adjustment is less than the amount deposited, return premium is made to the Reinsured. If the adjusted premium is greater than the deposit premium, an additional premium would be paid to the reinsurers.
- (ii) **Retrocession Cover** is a way by which a reinsurer buys cover to protect its portfolio of reinsurance business. This brings about increase in capacity, limits exposure to loss and bring greater stability to the results.

- (iii) **Profit Commission:** it is the percentage of profit made by the reinsurers under a treaty programme which is returned to the reinsured at the end of each financial year but on a preceding year basis. It encourages sound underwriting on the part of the reinsured.
- (iv) **Security Rating:** this is the assessment of a reinsurance company against typical range of factors such as operational performance, market profile including claims paying liability as well as assessment of the company's financial strength.
- (v) **Claims Reserve:** Has direct effect on company's profit & loss account; it serves in estimating results in the current year and also helps reinsurers to prepare adequately for eventual cash call from ceding office.

(1½ marks for each correct characteristic. Maximum of 4 to be graded on. Total: 6 marks.)

3. Explain the operation of a burning cost premium.

Solution

The burning cost premium operates by **calculating the ratio of the reinsurers incurred losses (claims paid & outstanding) to the reinsured subject matter premium income** and then **applying a loading factor**(commonly 100/70th or 100/80th) to determine the reinsurance premium rate. This is **then applied to the reinsured's premium income for the account protected.**

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

i.e. Burning Cost Rate =
$$\frac{\text{Incurred Loss to Reinsurers}}{\text{Reinsured's Premium income.}} * 100 * \text{Loading Factor}$$

(2 marks for stating the formula. Grand Total: 6 marks)

4(a) Define "retention limit". (2 marks)

Solution

Retention Limit may be defined as the maximum amount of risk an insurance company is able to take up for its own account. It may also be described as the maximum amount of liability an insurance company is prepared to pay per any one loss. (2 marks for any of the definition above)

(b) Outline four (4) factors to be taken into consideration when an insurance company is fixing its retention limit. (4 marks)

Solution

Factors to be taken into consideration when an insurance company is fixing its retention limit are:

- Market environment
- Strategic and financial consideration

- Pattern of losses under different combination of types of risk
- Cost of reinsurance
- Size and nature of the portfolio, premium income and profitability
- Its assets, capital and free reserves and solvency

(1 mark for each correctly stated factor. Maximum of 4 to be graded. Total: 4 marks. Grand Total: 6 marks)

5. Under what circumstances would an underwriter use facultative reinsurance arrangement?

Solution

An underwriter will use facultative reinsurance arrangement under the following circumstances:

- If the nature of risk is what the reinsured does not want to cede into the treaty
- If the sum insured exceeds the treaty limit
- When a large industrial risk is reinsured on a layer basis with a large deductible retained by the reinsured
- When the risk falls outside the reinsurance treaties
- If a specialist type of treaty is written by the reinsured

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

6. What are the options open to a reinsurer once it has reviewed its books of business?

Solution

The options open to a reinsurer once it has reviewed its books of business are to:

- cease to underwrite certain class of business
- increase rates
- reduce costs
- not renew certain contracts

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

7. List six (6) factors an insurer should look for whilst choosing its reinsurer.

Solution

The factors an insurer should look for whilst choosing its reinsurer are:

- Communication
- Business philosophy
- Standard of security required
- Strength of the reinsurers balance sheet
- Reputation of the reinsurers

- Business acceptance policy of the reinsurer
- Type of reinsurance required
- If the reinsurer is authorized to write the type of business
- Ownership of the reinsurer
- Reinsurers underwriting policy
- Reinsurers experience and quality of management
- Reinsurers own underwriting policy

(1 mark each. Maximum of 6 points to be graded. Total: 6 marks)

8(a) What are the main sources of investable funds for a reinsurance company.

Solution

The main sources of investable funds for a reinsurance company are:

- its capital(non-insurance funds)
- the reinsurance funds generated by the business written being the reinsurance premium and the cost of claims

(1½ mark each. Total: 3 marks)

(b) Enumerate three main types of investments that are open to reinsurers.

Solution

The main ways of investment that are open to reinsurers are:

- cash investment
- fixed interest securities investment
- equities investment
- real estate/property investments

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

PART II

Compulsory Question.

This question carries 50 marks.

9. ARock Insurance Plc operated a clean-cut surplus treaties for 2016 underwriting year effective 1st January, 2016. The treaty provision for Premium and Loss reserve is 35% and 90% respectively.

The Company's record shows the following information:

- ✚ Treaty Premium for 2016 was ₦20,000,000.00
- ✚ Outstanding losses as at 31st December, 2016 was ₦8,000,000.00.

In 2016, ARock had four(4) Reinsurers on its security list as stated below:

✚ A	35%
✚ B	25%
✚ C	20%
✚ D	20%.

In 2017, ARock had its security list as follows:

✚ A	35%
✚ B	25%
✚ C	10%
✚ D	0%
✚ E	30%.

Given the above information,

- i. Prepare a Portfolio Adjustment as at 1st January 2017. (30 marks)
- ii. Discuss briefly, common methods of premium portfolio, in use. (12 marks)
- iii. Mention various causes that may lead to preparation of portfolio adjustment. (8 marks)

Solution

Treaty Ceded Premium for 2016 ~~₦~~20,000,000.00
 Premium Portfolio withdrawal at 35% ~~₦~~ 7,000,000.00

Reinsurers Proportion (Premium Withdrawal)

		₦			
A	35%	2,450,000	DR	(1.25 marks)	
B	25%	1,750,000	DR	(1.25 marks)	
C	20%	1,400,000	DR	(1.25 marks)	
D	20%	1,400,000	DR	(1.25 marks)	Sub-Total: 5 marks

Outstanding Losses as at 31/12/2016 ~~₦~~8,000,000.00
 Loss Portfolio withdrawal @ 90% ~~₦~~7,200,000.00

		₦			
A	35%	2,520,000	DR	(1.25 marks)	
B	25%	1,800,000	DR	(1.25 marks)	
C	20%	1,440,000	DR	(1.25 marks)	
D	20%	1,440,000	DR	(1.25 marks)	Sub-Total: 5 marks

Premium Portfolio Assumption

		₦			
A	35%	2,450,000	CR	(1 mark)	
B	25%	1,750,000	CR	(1 mark)	
C	10%	700,000	CR	(1 mark)	
D	0%	0.00	CR	(1 mark)	
E	30%	2,100,000	CR	(1 mark)	Sub-Total: 5 marks

Loss Portfolio Assumption:

		₦			
A	35%	2,520,000	CR	(1 mark)	
B	25%	1,800,000	CR	(1 mark)	
C	10%	720,000	CR	(1 mark)	
D	0%	0.00	CR	(1 mark)	
E	30%	2,160,000	CR	(1 mark)	Sub-Total: 5 marks

Portfolio Adjustment as at 1st January, 2017

	DR	CR		
	(Premium Withdrawal + Loss Withdrawal) -			
	(Premium Assumption + Loss Assumption)			
	DR	CR	Balance	
	₦	₦	₦	
A	(2,450,000 + 2,520,000)	(2,450,000 + 2,520,000)	0	2mks
B	(1,750,000 + 1,800,000)	(1,750,000 + 1,800,000)	0	2mks
C	(1,400,000 + 1,440,000)	(700,000 + 720,000)	1,420,000	DR 2mks
D	(1,400,000 + 1,440,000)	(0 + 0)	2,840,000	DR 2mks
E	(0 + 0)	(2,100,000 + 2,160,000)	4,260,000	CR 2mks

(Grand Total Marks: 30 marks - as distributed above)

(ii) The common methods of premium portfolio in use are:

- 1 **Fixed Method:** here a certain percentage (35% or 40%) is applied to the premium ceded to the reinsurers in the outgoing year and its paid to the reinsurers in the incoming year as premium portfolio assumed.
- 2 **Eighth's Basis:** here, each of the four calendar quarters is divided into two, making eight blocks of premium. Each block has

earned/unearned element and a fraction of eight is applied on a progressive earned/unearned basis.

- 3 **Twenty Fourth's Basis:** here, each calendar month is divided into two, making 24 blocks of earned/unearned premium and a fraction of 24 is applied on a progressive earned/unearned premium basis. It provides greater precision than eighth's basis.

(2 marks for mentioning/stating the correct method. 2 marks each for correctly explaining the stated method. Total: 4 marks per point. Grand Total: 12 marks)

(iii) The various causes that may lead to the preparation of portfolio adjustment include:

- change in the number of participating reinsurers
- when the treaty is on 'clean-cut' basis
- cancellation of existing treaty programme
- change in the proportions held by existing reinsurers

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

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. What are the advantages and disadvantages of combining several classes of business in one reinsurance treaty?

Solution

The advantages of combining several classes of business in one reinsurance treaty are: (2 marks)

- ease of administration
- one singular treaty can be suitable as reinsurance requirements are similar across all classes
- cedant can maintain flexibility by purchasing different limits under excess of loss treaties for different classes
- it gives small sized companies to include small classes of business under their main treaty

(5 marks for each correctly stated advantage. Maximum of 3 points to be graded. Sub-Total: 15 marks. Grand Total: 17 marks)

The disadvantages of combining several classes of business in one reinsurance treaty are: (2 marks)

- difficult for reinsurers to exercise underwriting judgement as results of the different classes are obscured
- different classes of business may end up subsidizing for one another

- having common retention across all classes is less appealing to the reinsured
- reinsured is unable to split reinsurance costs accurately between departments
- (5 marks for each correctly stated advantage. Maximum of 3 points to be graded. Sub-Total: 15 marks. Grand Total: 17 marks)

11. Differentiate between any four (4) of the following paired terms:
- Condition and Warranty
 - PML & EML
 - Retention & Deductible
 - Facultative Obligatory & Facultative Reinsurance.
 - Co-Insurance & Reinsurance.

Solution

- (a) **Condition & Warranty:** condition is a promise by which the reinsured agrees to perform some acts but does not make its right to recover dependent upon performance of the act **while** warranty is a contractual promise made by reinsured either to an existing state of affairs or something the reinsured would not do in the future.
- (b) **PML & EML :** Possible Maximum Loss represents the amount which could be lost as far as the insurers is concerned in respect of all the risks usually through the operation of an element peril in or event or catastrophe **while** EML represents the maximum amount which an insurer anticipates could be lost in respect of an individual at any one loss
- (c) **Retention and Deductible:** Retention and Deductible represent the reinsured's limit of liability retained for its net account. Retention is used for proportional treaty and can be expressed in an amount or as a percentage **while** deductible is the reinsured's limit of liability under non-proportional treaty. It is the excess point - an amount above which the reinsurers will be called upon to participate.
- (d) **Facultative Reinsurance & Facultative Obligatory:** Facultative Reinsurance makes both offer and acceptance optional. Cedant and reinsurers has no obligation to cede and accept accordingly, **while** facultative obligatory is usually pre-arranged; here, the option to cede rests with the cedant and whenever it exercises this option, the reinsures is bound to accept the risk provided it falls within the agreed terms.
- (e) **Co-Insurance & Reinsurance:** Co-insurance involves sharing of risks between two or more insurers. Liability is several and proportion of claim

is settled independently, **while** reinsurance is the transfer of whole or part of risks accepted by an Insurance company to another insurers or professional reinsurer. Liabilities are joint as the reinsurer has to follow the fortune of the direct insurer.

(2.25 marks each for correct definition/explanation. 2 marks for each correctly stated example. Sub-Total of 4.25 marks per term. Sub-Total of 8.5 marks per paired terms. Maximum of 4 paired terms to be graded. Grand Total: 34 marks)

12. Describe the various ways of information the Reinsurer needs to assemble to determine a suitable reinsurance cover.

Solution

The various ways of information assembling by the reinsurer to determine a suitable reinsurance cover are:

- **Portfolio Analysis:** i.e. property risks with risks broken down into household, commercial and industrial risks; Motor risks would be according to number of risks, written premium, income and class. Liability risks classified into categories viz employers, product, public liabilities
- **Territorial Scope:** i.e. where the business comes from and where the risks situate
- **Limitations of Acceptance:** the basis upon which risks are identified and accepted needs to be identified
- **Risk Profiles:** insurer needs to show how many risks exists in each 'band'
- **Premium Income:** insurer needs to show statistics of income in past and current years
- **Claims Experience:** i.e. portfolio gross claims ratio over several years and future trends are relevant
- **Acquisition Cost:** information required in negotiating treaty commission

(5 marks each for each summarized assembling way mentioned. Maximum of 4 to be graded. 3½ marks for each brief but correct explanation under each point. Sub-Total: 8½ marks per sub-point. Grand Total: 34 marks)

- 13(a) What are "outgoings" in a typical Profit Commission Statement? Enumerate them. (7 marks)

Solution

"Outgoings" are the expenses netted off from the reinsurers' income when calculating a treaty result for one year. **(1 mark)** The contents are:

- losses and loss expenses paid by reinsurer during the year
- commission included in the account during the year
- any other deductions (e.g. premium taxes, e.t.c.)

- unearned premium reserve at the end of the current year
 - outstanding loss reserve at the end of the current year
 - an allowance for reinsurers' expenses (usually 3% - 7.5% of premium)
- (1 mark for each correctly stated outgoing. Maximum of 6 to be graded. Sub-Total of 6 marks. Grand Total: 7 marks)

(b) A rating agency uses various factors to assess a company's claims-paying ability. These factors relate to a company's financial strength, operating performance and market profile. List three (3) elements under each of these factors. (27 marks)

Solution

The elements related to these factors are:

Financial Strength	Operating Performance	Market Profile
Amount of capital	Profitability	Risks associated with the classes and territories of business written
Company's ability to access capital	Sources of business	Competitive market research
Effectiveness of its reinsurance program	Nature of premiums	General management
Adequacy of its reinsurance program	Investment income	Financial management
Technical reserves	All aspects of its management expense and associated objectives	Claims management
Quality of spread of investments		Underwriting management
Liquidity		Exposure to "event" risk

(3 marks for each stated elements. Maximum of 3 to be graded per factor. Total: 27 marks)

14(a) Explain ex gratia payment under reinsurance arrangement. (10 marks)

Solution

Ex gratia payment means a payment as a favour and essentially implies that the loss is outside the terms and conditions of the policy i.e. insurers or reinsurers **liability is not engaged** but for various other reasons, the reinsurer/insurer decides to honour the part or whole of the claim amount.

(the bolded point above = 5 marks. Any other stated point/explanation = 2½ marks each. Maximum of 2 other points to be graded. Sub-Total: 5 marks. Grand Total: 10 marks)

(b) Discuss any four (4) main forms of Alternative Dispute Resolution (ADR).

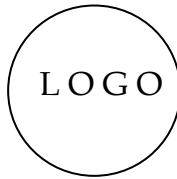
(24 marks)

Solution

The main forms of Alternative Dispute Resolution (ADR) are as discussed below:

- **Negotiation:** this is the commonest way of resolving dispute and it is only if negotiation breaks down that a “problem” becomes a “dispute” and some other means of reaching a settlement is then required, it is therefore the starting point for all forms of dispute resolution.
- **Mediation:** here, the parties select an independent third party who will assist them in arriving at a solution. The mediator will discuss the problem with both parties – in both open and private (called “caucus”) sessions and also in shuttle diplomacy.
- **Conciliation:** is a term with many meanings but here, it describes the process which looks like mediation but in which the actual conciliator will produce a recommended solution if the parties do not themselves form one.
- **Expert evaluation/early neutral evaluation:** here, the parties agree to appoint a mutually acceptable expert in the field of dispute and also agree to abide by the expert’s opinion. Early neutral evaluation is where the facts are put before a neutral party, generally a retired judge, who reviews the issues and renders a determination.
- **Executive hearing/mini trial:** here, presentations are made to a panel of senior executives of the disputing parties, chaired by a neutral third person. This panel will arrive at a conclusion as to how settlement should be effected.
- **Mediation/arbitration:** this describes contractual conciliation, where the process is enforced by authorizing the mediator/conciliator ultimately to make an arbitration award (which would then be enforceable in the courts). Usually, when the status of the reinsurance problem has entered the dispute stage, arbitration tend to be the most common form of resolution.

(3 marks for stating the form. 1½ mark for any explanation under each stated point.
Maximum of 2 explanations to be graded under each stated point. Sub-Total: 6 marks each.
Maximum of 4 forms to be graded. Grand Total: 24 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A930
INSURANCE BROKING**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A930 – INSURANCE BROKING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	67%
Highest Score:	72%
Lowest Score:	44%
Average Score:	57%

Breakdown Updates

Question 1

A compulsory question attempted by all the candidates with 65% of candidates passing the question. It is a direct question that required listing.

Question 2

Another compulsory question with 80% of candidates passing the question as it entailed the recall of a concept.

Question 3

Attempted by all the candidates with only 45% of candidates passing the question. Most of the candidates missed what was required as answer to the question.

Question 4

A direct question with 85% of candidates answering the question well.

Question 5

A direct question but only 60% of candidates could define the terms correctly.

Question 6

A direct question but only 45% understood the concept been tested by the question.

Question 7

A question which required recall and only 50% of the candidate got it appropriately

Question 8

Not well attempted and only 25% of the candidates answered the question well, irrespective of the fact that it was a direct question.

Question 9

75% of candidates attempted the question very well.

Question 10

A practical question which was not well attempted by candidate and with 60% of those that attempted it passing.

Question 11

Not well attempted question as the question was practical with only 10% of those that attempted it passing.

Question 12

Well attempted question with 75% of candidates attempting the question very well.

Question 13

50% of candidate attempted the question and only 5% of the candidates that attempted the question passed it. Very poor performance.

Question 14

Well attempted with only 60% of candidates passing the question.

Chief Examiner's Comments on Overall Performance:

Above average performance with 70% of candidates passing the paper.

Chief Examiner's Suggestions on Improvement:

None

Part I

Answer ALL questions in Part I.

Each question carries 6 marks.

1. What additional features are found in a large broking firm?

Solution

The additional features found in a large Broking firm are:

- ✚ a management structure to control branch organisations
- ✚ client servicing segmented by both trade groups, such as retailers, pharmaceutical companies e.t.c.
- ✚ head office functions such as Human Resources, Legal, Public Relations and Marketing, IT and so on
- ✚ back- offices to deal with London market processing
- ✚ total staff headcounts over ten thousand
- ✚ Representation in as many countries as possible/practical
- ✚ Ability to offer a wide range of risk assessment facilities
- ✚ Expertise to provide solutions from carriers in the fields of alternative risks transfer.

(1½ marks each. Maximum of 4 should be graded. Total: 6 marks)

2(a) Explain the term “disciplinary measure” in a regulatory regime.

(1½ marks)

Solution

Disciplinary measures are one of the tools available to the regulator in enforcing its regulatory regime.

(1½ marks)

(b) What are the reasons for the adoption of disciplinary measures?

(4½ marks)

Solution

The reasons for the adoption of disciplinary measures are:

- ✚ it shows that regulatory standards are being upheld.
- ✚ helps to maintain market confidence.
- ✚ promotes public awareness of regulatory standards.
- ✚ acts as a deterrence against financial crime

(1½ marks for each correctly stated reason. Maximum of 3 should be graded. Total: 4½ marks)

3. What data should be compiled in preparation for an initial client meeting?

Solution

As a minimum, the data to be compiled in preparation for an initial client meeting is likely to comprise of:

- ✚ business description
- ✚ business overview in terms of where the business is in its market
- ✚ the defining features of the business which contribute to its success core skills, e.t.c.
- ✚ business history recording key financial data and major changes such as mergers, acquisitions and disposals
- ✚ where relevant, share price track
- ✚ key decision makers such as the executive and non-executives on the Board
- ✚ any data that has been acquired on major loss issues. For example, major fires, problems at suppliers and so on
- ✚ information about their risk management activities.

(1½ marks each. Maximum of 4 should be graded. Total: 6 marks)

4. Give six (6) features that should be looked for when selecting an insurer for a global programme.

Solution

The features that should be looked for when selecting an insurer for a global program are:

- ✚ sufficient spread of operations nationally or worldwide
- ✚ an understanding of the procedures involved in the management of global insurance programmes
- ✚ the ability of the central underwriting area to mandate its overseas operations
- ✚ an ability to provide specialist local claims handling facilities
- ✚ experience in the insured's business sector
- ✚ where relevant, an ability to write local covers outside of the terms of the global programme
- ✚ the ability to be flexible in the allocation and distribution of premiums around the world
- ✚ efficient internal accounting operations
- ✚ sufficient capacity to write worthwhile limit

(1 mark each. Maximum of 6 should be graded. Total: 6 marks)

5(a) What is the market definition of contract certainty?

Solution

The market definition of contract certainty is achieved by the completion and final

agreement of all terms between the insured and insurers before inception. (3 marks)

(b) State the standard definition of “materiality” in insurance.

Solution

The standard definition of materiality is the **material information** that would **influence a prudent insurer in deciding** whether a risk is acceptable, **and if so, the premium, terms and conditions to be applied.**

(1 mark for each bolded point. Total: 3 marks)

6. What are the purposes of risk evaluation?

Solution

The purposes of risk evaluation are to assess:

- ✚ financial value of a given risk
- ✚ probability
- ✚ impact of self-insurance and deductible
- ✚ possibility of cost-effective loss elimination, reduction and control measures
- ✚ viability of risk transfer to insurers or a captive.

(2 marks each. Maximum of 3 should be graded. Total: 6 marks)

7. What is “white labelling”?

Solution

White labelling describes those circumstances where an insurance product may be designed and negotiated by a broker working with an insurer but is branded or badged with another name, normally that of a retailer or other distributor of an insurance product.

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

8. Give three (3) reasons why large broking firms maintain security committees.

Solution

The reasons why large broking firms maintain security committees are:

- ✚ as a result of the number of jurisdictions they trade in around the world
- ✚ not all insurance companies are rated by the rating agencies, therefore brokers need to assess the companies and form their own opinion
- ✚ competitive advantages can be gained by demonstrating superior knowledge over competitors, especially medium size and smaller firms.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) It seems that the “steady state” for the insurance market is now constant turbulence and change. List five (5) factors that affect the Broker under this constant turbulence and change. (10 marks)

Solution

Factors that affect the Broker under the “steady state” of turbulence and change in the insurance industry are:

- ✚ market cycles that cause volatility of income and upset clients
- ✚ the challenges presented by new regulation
- ✚ clients and competition exerting pressure on fee income
- ✚ expenses that have a habit of growing faster than revenue
- ✚ the fact that in practical terms the western economies, are over supplied with both insurance capacity and brokers
- ✚ competition coming from new sources, such as banks, internet-only insurers etc.
- ✚ greater risk retention by larger clients
- ✚ fees that are often lower than the brokerage that would have been paid
- ✚ demographic changes

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

- (b) List the sanctions open to the Chartered Insurance Institute of Nigeria for an erring Broker. (5 marks)

Solution

The sanctions open to the Chartered Insurance Institute of Nigeria for an erring Broker are:

- ✚ Expulsion from the Institute
 - ✚ Revocation of professional qualification(s)
 - ✚ Revocation of chartered title holder status.
- (2½ marks each. Maximum of 2 should be graded. Total: 5 marks)

- (c) List five (5) key functions of a Broker. (10 marks)

Solution

The key functions of a Broker are to:

- ✚ understand the client’s business and its risk and insurance needs.

- ✚ design the most appropriate insurance cover, explaining the options and the reasons for their advice.
- ✚ take instructions from the client.
- ✚ execute the client's instructions in an efficient manner.
- ✚ explain the needs of and the behavior of the market to clients.
- ✚ maintain effective relationships with the market.
- ✚ assist in the negotiation of claims.
- ✚ provide continuous service and advice.

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

(d) What is marketing? (5 marks)

Solution

Marketing is the **management process** which **identifies, anticipates** and **supplies customer requirements - efficiently and profitably**.

(1 mark each for each bolded phrase/word. Total: 5 marks)

(e) Mention the five (5) core principles underpinning the definition of marketing. (20 marks)

Solution

The core principles underpinning the definition of marketing include the facts that marketing:

- ✚ focuses attention towards the needs and wants of the marketplace
- ✚ is concerned with satisfying those needs and wants
- ✚ of necessity involves analysis and planning
- ✚ requires the business decisions must be made with a careful and systematic consideration of the customer
- ✚ is about meeting customer needs and wants and obtaining satisfaction, not selling to them
- ✚ must reflect the dynamic nature of the market and respond and react to changing trends
- ✚ led organisations tend to have different systems of management compared to other styles of business
- ✚ is not a specific function, but must be the basis of the underlying philosophy of the business.

(4 marks for each correctly stated function. Maximum of 5 should be graded. Total: 20 marks)

Part III

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

Each question carries **34** marks.

10(a) What is the marketing environment? (5 marks)

Solution

The marketing environment is composed of the **forces** which are **normally external** to a business , which **it may have little control** but **which it must respond to** and **understand in order to survive**.

(1 mark each for each bolded phrase/word. Total: 5 marks)

(b) List five (5) constituent parts of marketing environment. (15 marks)

Solution

The constituent parts of marketing environment are:

- + the internal organisation of the company
- + competition
- + distribution to customers
- + the supply chain
- + the world and domestic economic climate
- + socio-cultural factors affecting and influence customers
- + the political climate
- + regulation
- + consumerism
- + other global issues such as the threat of terrorism
- + issues specific to the insurance sector

(3 marks for each correctly stated part. Maximum of 5 should be graded. Total: 15 marks)

(c) Give five (5) methods of surveying. (10 marks)

Solution

The methods of surveying are:

- + Face to face
- + Instant response questionnaires
- + Panels
- + Postal
- + Telephone
- + E-mail/website response
- + Continuous research
- + Interactive

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

(d) Explain any one (1) of the methods listed in (c) above. (4 marks)

Solution

The correct explanation of any of the methods stated above should be graded.

(2 marks for any correctly stated explanation. Maximum of two correct explanations should be graded. Total: 4 marks)

11(a) Why is it necessary for security committees to have their own rules of governance? (10 marks)

Solution

It is necessary for security committees to have their own rules of governance because **the rules are to protect the independence of the committee** so as to **insulate it from commercial pressures from within the broking firm.**

(5 marks each for the bolded phrases. Total: 10 marks)

(b) What is the purpose of security committee analysts, meeting with the senior management of an insurer? (10 marks)

Solution

The purpose of such meetings is **to gain a broader and deeper understanding of the insurer's strategy and its plans for the future.** They are **particularly valuable when an insurer is going through a bad patch.**

(5 marks each for the bolded phrases. Total: 10 marks)

(c) What are the issues that arise when an insurer is removed from the classification lists? (14 marks)

Solution

The issues that arise when an insurer is removed from the classification list are that:

- the insured faces great uncertainty
- and will look to the broker for advice on whether it should continue until expiry
- or if it should cancel and arrange alternative cover
- or maintain dual or contingent insurance.
- The broker will be reluctant to give explicit advice
- as Brokers will wish to avoid any suggestion
- that the claims are being guaranteed.

(3½ marks each. Maximum of 4 to be graded. Total: 14 marks)

12(a) How has consolidation in the Insurance Industry had a detrimental effect on service? (14 marks)

Solution

Consolidation in the Insurance Industry had a detrimental effect on service in the following areas:

- ✚ job reductions have resulted in experienced people leaving the industry through redundancy or early retirement.
- ✚ the focus on cost has led to extensive 'de-skilling' with jobs reorganized to allow for 'un-skilled' labour to 'process' tasks.

- ✚ staff have had to cope with learning new working practices and new systems.
- ✚ organisations can become inward looking as they try to consolidate to merger, causing customer service to suffer.

(3½ marks each. Maximum of 4 to be graded. Total: 14 marks)

- (b) What are two (2) examples of the impact of a mistake on the reputation of a Broker? (10 marks)

Solution

Examples of impact of a mistake on the reputation of a Broker are:

- ✚ litigation by a dissatisfied client will damage the broker.
- ✚ a dissatisfied client who moves to another client company will take their low opinion of the broker with them.
- ✚ the insurer's opinion of the broker will be damaged, particularly if they suspect the cause of the problem is deep seated.
- ✚ In a worst case scenario, FSA/NAICOM could review the Broker's authorization and/or impose penalties.

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

- (c) What are the benefits of an effective diary system? (10 marks)

Solution

The benefits of an effective diary system are to:

- ✚ alert the broker that a renewal is due
- ✚ ensure that tasks are completed within agreed timelines
- ✚ ensure the task passed to another party is duly monitored
- ✚ ensure that premiums are collected from clients and paid to the market/insurer within agreed timescale.

(2½ marks each. Total: 10 marks)

- 13(a) List five (5) intermediaries that have traditionally been involved in insurance in both Nigerian and UK markets. (10 marks)

Solution

Intermediaries that have traditionally involved in placing insurance business in Nigeria and UK markets are:

- ✚ fulltime insurance brokers, agents and consultants
- ✚ part time agents and consultants
- ✚ travel agents, airlines and tour operators
- ✚ property companies, landlords and managing agents
- ✚ professionals like solicitors and surveyors
- ✚ retailers and motor traders
- ✚ banks, building societies and other financial institutions
- ✚ newspapers and magazines.

(2 marks each. Maximum of 5 to be graded. Total: 10 marks)

- (b) Consumer credit business covers a wide range of transactions. Mention seven (7) of such transactions. (14 marks)

Solution

Consumer credit business covers the following range of transactions:

- ✚ hire purchase
- ✚ issuing credit cards
- ✚ budget accounts
- ✚ instalment sales
- ✚ cash loans
- ✚ subscription accounts
- ✚ trading cheques
- ✚ overdrafts
- ✚ Personal loans.

(2 marks each. Maximum of 7 to be graded. Total: 14 marks)

- (c) Mention the three (3) laws on insurance that affect broking business in Nigeria. (10 marks)

Solution

The three laws in Nigeria that affect broking business are:

- ✚ NAICOM Act 1997 (3 marks)
 - ✚ NCRIB Act 2003 (3 marks)
 - ✚ Insurance Act 2003 (4 marks)
- (Total: 10 marks)

- 14(a) Mention the levels of service that should be looked for when considering an insurer. (24 marks)

Solution

The levels of services that should be looked for by a Broker when considering an insurer are:

- ✚ fast and comprehensive quotations
- ✚ an efficient system of documentation
- ✚ responsiveness to Broker's and Clients' needs
- ✚ a competent survey system
- ✚ efficient accounting
- ✚ suggestions for the improvement of cover
- ✚ timely payment of claim
- ✚ prompt notification of proposed changes in market practice
- ✚ specialist services
- ✚ web-based quotation and document production.

(4 marks each for each correct level of service mentioned. Maximum of 6 to be graded. Total: 24 marks)

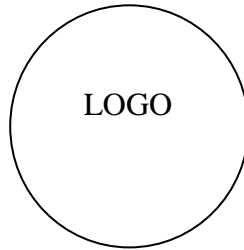
- (b) List the four (4) main areas that needs to be addressed in assessing an independent insurance company going into provisional liquidation.
(10 marks)

Solution

The four (4) main areas that need to be addressed in assessing an independent insurance company going into provisional liquidation are:

- ✚ quoted new business
- ✚ existing policies and forthcoming renewals
- ✚ unpaid claims
- ✚ outstanding premiums for unpaid policies already on cover.

(2½ marks each. Total: 10 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A935
MANAGEMENT**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A935 - MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	30%
Highest Score:	68%
Lowest Score:	26%
Average Score:	46%

Breakdown Updates

Question 1

Poorly attempted question. 8 of the 43 candidates scored 50% and above. This is just 19% of the total attempts.

Question 2

14% pass rate. Question was fair and direct.

Question 3

19% pass rate. Candidates need to study harder to maximize points.

Question 4

14% pass rate. Candidates should study harder.

Question 5

16% pass rate. Question intended to test the ordinary knowledge of financial interpretations of business activity.

Question 6

14% pass rate. Question was friendly and fair.

Question 7

26% pass rate.

Question 8

0% pass rate. Question is clearly taken from the tutorial book.

Question 9

16% pass rate. Question is on appraisal and training. This is friendly enough.

Question 10

30% of candidates attempted question. 23% pass rate.

Question 11

37% of candidates attempted question. 75% pass rate. Fair attempt.

Question 12

70% of candidates attempted question. 87% pass rate. Fair attempt.

Question 13

74% of candidates attempted question. 70% pass rate.

Question 14

42% of candidates attempted question. 22% pass rate too poor.

Chief Examiner's Comments on Overall Performance:

50% of all the candidates scored slightly below the average. They are in 40+ scores.

Chief Examiner's Suggestions on Improvement:

Candidates need to study harder. Questions were simple and direct.

Part I

Answer ALL question in Part I

Each question carries six (6) marks

1. State three (3) of the common challenges encountered in the management of projects.

Solution

Some common challenges encountered in the management of project are:

- ✚ Projects completed date.
- ✚ Projects running over budget.
- ✚ Failure to achieve goals due to failure to involve all the parties affected by the project.
- ✚ Result only achieved at the expenses of severe disruption to routine operations.

(2 marks each. Maximum of 3 to be graded. Total = 6 marks)

2. Itemise three (3) obstacles to effective delegation.

Solution

Some obstacles to effective delegation are:

- ✚ When managers do not trust the delegates to carry out the tasks properly
- ✚ When managers enjoy doing the tasks themselves even when the tasks do not make the best use of their time.
- ✚ Some managers fear the skills and abilities their subordinates.
- ✚ Delegation can be a time-consuming process and some managers cannot spare the time.

(2 marks each. Maximum of 3 to be graded. Total = 6 marks)

3. Briefly explain what “Job Content” and “Job Context” mean.

Solution

i. **Job Content**

Details of the individual own function, responsibilities and authorities, the results expected and how performance is assessed.

ii. **Job Context**

Details of the organisation structure, conditions of employment, how pay and prospects are assessed.

(3 marks for each correct explanation. Total = 6 marks)

4. Define ‘Job Enrichment’ and ‘Job Enlargement’ to show the difference in meaning.

Solution

i. **Job Enrichment**

Where the job of an employee is expanded in a vertical plane. Individuals are allowed to work on more levels of the same basic job.

ii. **Job Enlargement**

Is the same in concept but on horizontal plane; that is more jobs of similar type. (3 marks for each correct definition. Total = 6 marks)

5. Show formulas on how to arrive at Gross Profit and Trading Profit.

Solution

Gross Profit = Turnover – Cost of Sales.

Trading Profit = Gross Profit – Adin + Overhead Costs
(3 marks for each correct formula. Total = 6 marks)

6. Briefly explain the three (3) types of “benchmarking”.

Solution

The three (3) types of “benchmarking” are:

i. **Internal Benchmarking**

Compare the performances of departments within the same organisation.

ii. **External Benchmarking**

These contrast the company’s overall performance with competing firms.

iii. **Functional Benchmarking**

Assessment of the company’s main functions and processes and compare them against similar function in other organisations not necessarily competitors.

(2 marks for each correct explanation. Total = 6 marks)

7. Briefly explain “Tactical Information” and “Operational Information”.

Solution

i. **Tactical Information**

Is used by middle management to ensure that resources are employed efficiently and effectively to achieve the strategic objectives of the organisation.

ii. **Operational Information**

Used by front-line managers such as supervisors to ensure that specific tasks are planned and carried out properly.

(3 marks for each correct explanation. Total = 6 marks)

8. Generally, it is easiest to resolve differences over facts and most difficult to settle differences over values. Give the four (4) reasons why this is so.

Solution

Four reasons why it is it is easiest to resolve differences over facts and most difficult to settle differences over values are:

- i. **Limited Resources:** even when goals and methods are similar, parties can still be in conflict over scarce resources.
 - ii. **Information:** parties may have been exposed to different information and this have arrived at different understanding of the issue.
 - iii. **Perception:** although parties have the same information but may see and interpret it differently.
 - iv. **Role:** people's situation or roles cause them to take different positions.
- (1½ marks each. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) Define "Performance Management" and "Performance Appraisal".
(10 marks)

Solution

Performance Management: is a systematic approach to the management of people using performance and development as forces to motivate individual employees to contribute to organisational goals while at the same time realizing their own career plans.

Performance Appraisal: is a methodical assessment of how effectively each job in an organisation is being performed. It also tries to identify the reasons for a particular level of performance and seek ways to improve.

(5 marks for each correct definition. Total = 10 marks)

- (b) Performance-related rewards have advantages and disadvantages. Mention three (3) each of the advantages and disadvantages.
(18 marks)

Solution

Advantages of Performance - Related Rewards:

- ✚ They fit with the development of a result-oriented culture
- ✚ The focus efforts on the organisation's priorities.
- ✚ Financial rewards can be used as substitutes for lack of internal promotion.
- ✚ They help to retain productive individual employees

Disadvantages of Performance - Related Rewards:

- ✚ Rewards bring short-term compliance
- ✚ Incentives are blunt instruments for motivating employees
- ✚ Can destroy cooperation between employees.
- ✚ Does not encourage innovation or risk-taking for fear of losing rewards.
- ✚ Asking direct questions of the trainee.
- ✚ Spot-checking on work done in newly trained areas.
- ✚ Observing any increased confidence and more use of initiative.
- ✚ Check for company standards or backlogs or targets before and after training sessions.

- ✚ Check for error rates before and afterwards.
 - ✚ Check whether staff turnover or absenteeism improve or reduce.
 - ✚ Check for general improvement in relation with other appraisal.
- (3 marks for each stated point. Maximum of 3 points under each sub-topic should be graded. Total: 18 marks)

(c) Suggest five (5) methods, a line manager can use in evaluating the effectiveness of a team member's training. (10 marks)

Solution

The methods through which a line manager can use in evaluating the effectiveness of a team member's training are:

- spot-checking or work done in newly trained areas
- observing any increased confidence and more use of initiative
- check for company standards or backlogs or targets before and after training sessions
- check for error rates before and afterwards
- check whether staff turnover or absenteeism improve or reduce
- check for general improvement in relationship with others
- appraisal.

(2 marks each. Maximum of 5 methods to be graded. Total = 10 marks)

(d) Suggest four (4) ways in which the training department can support line managers in carrying out effective training on their team members. (12 marks)

Solution

The ways in which the training department can support line major in carrying out effective training on their team members are:

- ✚ Conducting training needs analysis
- ✚ Developing and conducting courses
- ✚ Developing training packages
- ✚ Design individual learning programmes
- ✚ Training managers in training skills
- ✚ Evaluating training
- ✚ Providing information.

(3 marks each. Maximum of 4 ways to be graded. Total = 12 marks)

Part III

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

Each question carries **34** marks.

10(a) The European Union (EU) is one of the trading groups formed to regulate trading within member-states. Enumerate four (4) of its objectives. (12 marks)

Solution

The objectives of the European Union are:

- ✚ The maximization of the advantages accruing from free movement of goods, finance and people.
- ✚ The increase of completion and demand with the group.
- ✚ The maintenance of state prices and high levels of employment.
- ✚ Coordination of policies of individual government and their control banks.

(3 marks each. Total = 12 marks)

- (b) There have been unparalleled advances in communications. State five (5) recent developments. (10 marks)

Solution

Five recent developments in advancement in communications are:

- ✚ ISDN - Integrated Services Digital Network
- ✚ Mobile Telephony and GSM
- ✚ E-mail
- ✚ Video Conferencing
- ✚ WAP - Wireless Application Protocol

(2 marks each. Total = 10 marks)

- (c) Mention four (4) reasons you think single currency is good for African Countries. (12 marks)

Solution

Four reasons I think that single currency is good for African Countries are:

- ✚ It will cut down transaction costs (the cost of converting from one currency to another).
- ✚ It will increase certainty in future business planning
- ✚ It will reduce inflation
- ✚ It will foster greater political cooperation between the states.

✚ (3 marks each. Total = 12 marks)

- 11(a)i Define Customer Relationship Management (CRM) . (8 marks)

Solution

Customer Relationship Management: is about getting closer to the customer and moving into a proactive environment. It is about trying to build relationships with customers by understanding their needs and offering products and services that meet those needs.

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

- ii Mention four (4) areas it entails. (16 marks)

Solution

Customer Relationship Management Entails the following:

- ✚ Offering a relationship focus rather than an enquiring focus
 - ✚ A better understanding of buying patterns of customers to expand business relationship.
 - ✚ Moving to a proactive rather than reactive environment.
 - ✚ Adopting a total relationship management approach e.g director mail, telemarketing, direct selling, cross-selling e-mail, internet etc.
 - ✚ Enhancing/complimenting additional revenue generating effort.
- (4 marks for any correctly stated point. Maximum of 4 points to be graded. Total= 12 marks)

(b)i Who are the Internal Customers and the External Customers of a business? (5 marks)

Solution

The **internal customers** are those people who work for the organisation. They are in the company's payroll. **External customers** are those who generate income for the business. They are not on the payroll of the organisation.
(2½ marks each. Total = 5 marks)

ii How do they impact each other? (5 marks)

Solution

They both impact on each other in the sense that if suppliers of internal services (company) do not serve their internal customers well, the chances are the external customers will not be served well either. (5 marks)

12. Corporate Culture simply means the way we do things around here

(a) Mention the three (3) factors that corporate culture is made of. (9 marks)

Solution

Corporate Culture is made up of:

- ✚ **Norms:** the behaviour which is most acceptable to the organisation.
 - ✚ **Beliefs and Values:** e.g "We stand for quality", "The input of every employee is valued.
 - ✚ **Management Style:** e.g open door, autocratic, paternalistic democratic etc.
- (2 marks for stating the point. 1 mark for explanation or example. Total = 3 marks per point. Grand Total = 9 marks)

(b)i Mention five (5) characteristics of Bureaucratic Culture. (15 marks)

Solution

- ✚ Characteristics of Bureaucratic Culture are:
- ✚ It is pyramidal in shape.
- ✚ Clear hierarchy of positions.
- ✚ Codified rules and norms for workers.

- ✚ Employees are appointed and promoted according to open and testable procedures.
- ✚ Highly developed specialization of tasks
- ✚ Certainly and stability for employees with regard to the work and standards expected of them

(3 marks for any correctly stated characteristic. Maximum of 5 characteristics to be graded.
Total = 15 marks)

ii Mention five (5) dangers of Bureaucratic Culture. (10 marks)

Solution

The dangers of Bureaucratic Culture are:

- ✚ The individual employee becomes “a little cog in a big machine
- ✚ Sense of loss of personal liberty
- ✚ Difficult for employees experience to grow
- ✚ Harder for the organisation to adapt to change
- ✚ There is over-conformity and obeying rules becomes the goal.

(2 marks each. Total = 10 marks)

13. Customers, Shareholders, Government, Public and Employers are examples of stakeholders in a business.

(a) List three (3) areas of interests for each of the stakeholders mentioned above. (30 marks)

Solution

i. **Customers**

- ✚ Quality Products
- ✚ Value for money prices
- ✚ Warranties and Guarantees
- ✚ Rapid delivery/service
- ✚ After-sales service

ii. **Shareholders**

- ✚ High rate of investment return
- ✚ Sustained and increased growth
- ✚ Increased share value
- ✚ Profitable products and services
- ✚ Cost-effective operating

iii. **Government**

- ✚ Tax Revenue
- ✚ Openness
- ✚ New job creation
- ✚ Introduction and adoption of new technologies

iv. **The Public**

- ✚ Environmental responsibilities
- ✚ Safety
- ✚ Ethical working
- ✚ Good neighbour polices

v. **Employers**

- ✚ Provision of equitable salaries/wages
- ✚ Availability of good staff benefits
- ✚ Job security and promotion opportunities
- ✚ Good working conditions

(1 mark each for every correctly stated area. Maximum of 3 areas per stakeholder. Sub-Total for each: 3 marks. Grand Total: 15 marks)

- (b) Mention four (4) other stakeholders in a business. (4 marks)

Solution

Other Stakeholders in a business are:

- ✚ Employees
- ✚ Suppliers/Creditors
- ✚ Consumerists
- ✚ The law
- ✚ Union

(1 mark each for any four other stakeholders mentioned. Total: 4 marks)

- 14(a) Generally speaking, there are four (4) potential marketing objectives for any business. State them. (12 marks)

Solution

Objectives of marketing for any business are:

- ✚ Continue to sell existing offerings to existing markets
- ✚ Sell existing offerings into new markets
- ✚ Develop new offerings for existing markets
- ✚ Develop new services for new markets.

(3 marks each. Total: 12 marks)

- (b) Define Critical Success Factors. (7 marks)

Solution

Critical Success factors are those **quantifiable factors** that **will determine successful** implementation of the corporate strategy in **the eyes of the organisation's managers**. The **factors must be specific and measurable**.

(1¾ marks each for the bolded phrase above. Total: 7 marks)

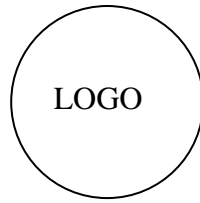
- (c) Identify five (5) of the critical success or failure factors in business plan. (15 marks)

Solution

Critical Success or failure factors in any business plan are:

- ✚ Sales Revenue
- ✚ Overheads and Production cost
- ✚ The learning effect
- ✚ Overtime and under-time
- ✚ Dismissals, redundancy and attrition
- ✚ Turn-over of labour and its cost implications
- ✚ Productivity and efficiency
- ✚ Market performance against the competition
- ✚ Profitability
- ✚ Customer satisfaction surveys.

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT A940
FINANCE AND ACCOUNTING

INSTRUCTIONS

- Three hours are allowed for this paper
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A940 - FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	50%
Highest Score:	57%
Lowest Score:	06%
Average Score:	35%

Breakdown Updates

Question 1

The question tested the concept of debit and credit items in accounting. The performance was very poor as candidates displayed lack of understanding of this concept. The average performance was below 40%. Candidates need to develop more interest in this aspect of the course.

Question 2

The question tested candidates' knowledge on directors' responsibility to prepare final accounts. The average performance was very poor as candidates did not show understanding of this simple and familiar topic.

Question 3

The question tested candidates' knowledge of the contents of Director's Report as it appears in Annual Reports of companies. The performance was not encouraging as all the candidates could not obtain a single mark in this question. Candidates are advised to study the course book and prepare harder for this examination in the future.

Question 4

The question tested candidates understanding of items that are found in capital and reserves in the liabilities section of a typical balance sheet. The performance was not encouraging as none of the candidates obtained any mark from this question. Candidates are advised to study harder in this area.

Question 5

Examiner asked candidates to define the terms - associated company, subsidiary company and a joint venture. Average performance in this question was well above 75% as candidates displayed a good understanding of the concepts tested.

Question 6

The examiner tested candidates' understanding of components of "Net Operating Expenses" of an Insurance Company. The performance was not encouraging as the Average performance was below 50%. Insurance Manager need to display a good understanding of the concepts tested.

Question 7

This question was on the statutory requirements in respect of profit and loss account (income statements) of an Insurance Company. The average performance was very poor as none of the candidates obtained a single mark available for this question.

Question 8

Candidates were asked to outline the difference between financial accounting and management accounting. The performance was highly encouraging as candidates displayed a good know of these concept. Average performance was above 80%.

Question 9

The compulsory question tested candidate's knowledge on absorption costing and variable/marginal costing as well as source from which Inland Revenue raise taxes. The performance was very poor. The average performance was about 38%.

Question 10

The average performance was about 44%. Candidates are advised to study every part of the study book as there is no shortcut to come out successful in this kind of examination.

Question 11

This question was on parties that are interested in financial statements and their areas of interest. The performance was quite impressive as candidate that attempted the question scored about 40%. Some candidates avoided this interesting question.

Question 12

A popular aspect of the course "solvency margin" was tested again by this question. The performance was surprisingly low (below 60%). Candidates are advised to study this very important part of the course harder.

Question 13

This question tested candidates understanding of different types of funds and their respective requirements. The average performance was very poor as none of the candidates obtained a single mark in this question.

Question 14

The question tested candidates' understanding of functions and code of conducts of BIIBA as well as the main types/classes of intermediaries. All candidates avoided this questions. Candidates should know that the answer to this question are clearly stated in the course book

Chief Examiner's Comments on Overall Performance:

None

Chief Examiner's Suggestions on Improvement:

As stated in the updates on the individual questions.

Answer ALL questions in Part I.
Each question carries six marks.

Complete the spaces with correct words in questions 1 & 2(a)

1. In Accounting, a debit balance represents, or a A credit balance is a, or

Solution

- An asset
- Expense
- Loss
- Liability
- Income
- Profit

(1 mark each for each correct answer. Total:6 marks)

- 2(a) The directors of every company shall prepare from the Company's financial transactions, for each financial year, a (i) and (ii) account.

Solution

- i. A balance sheet (statement of financial position)
- ii. A profit and loss account (income statement)

(1½ marks each for each correct answer. Total: 3 marks)

- (b) The profit and loss accounts is part of the double-entry system, what is the balance sheet?

Solution

The balance sheet is a listing of balances remaining on individual accounts at a given date - i.e. its assets, liabilities and capital. It is not itself a ledger account.

(1½ marks each for each correct statement. Maximum of 2 correct statements to be graded. Total: 3 marks)

3. Outline four (4) items that are included in the "Directors Report".

Solution

Items included in the "Director's Report" are:

- i. Changes in asset values, directors' shareholdings and other interests contributions for political and charitable purposes.
- ii. Any acquisition by a company of its own shares or a charge on them.
- iii. Employment, training and advancement of disabled person.
- iv. Health, safety and welfare at work of employees.

- v. Involvement of employees in the affairs policy and performance of the company.

(1½ marks each for each correct items. Maximum of 4 correct items to be graded. Total: 6 marks)

4. List six (6) items that are found in capital and reserves under liabilities section of a balance sheet.

Solution

Items found in capital and reserves under the liability section of a balance sheet are:

- ✚ Subscribed capital or equivalent funds
- ✚ Share premium account
- ✚ Revaluation reserve
- ✚ Profit or loss brought forward
- ✚ Reserve
- ✚ Profit or loss for the financial year.

(1 mark each for each correct answer. Total:6 marks)

5. Define an Associated Company, a Subsidiary Company and a Joint Venture.

Solution

An Associated Company:- is an undertaking in which (a company) included in the consolidation has a participating interest and over whose operating and financial policy it exercises a significant influence and which is not a subsidiary or a joint venture.

A Subsidiary Company:

This is a company that is owned or controlled by another company, which is called the parent company or holding company.

A Joint Venture:

This is a commercial enterprise undertaken jointly by two or more parties which otherwise retain their distinct identities.

(2 marks each. Total: 6 marks)

6. List four (4) components of “Net Operating Expenses” of an Insurance Company.

Solution

Four (4) components of “Net Operating Expenses” of an Insurance Company are:

- ✚ Acquisition cost
- ✚ Change in differed acquisition cost
- ✚ Administrative expenses
- ✚ Reinsurance commissions and profit participation.

(1 ½ marks each. Maximum of 4 points to be graded. Total: 6 marks)

7. Outline six (6) statutory requirements in respect of Profit and Loss Account of an Insurance Company.

Solution

The statutory requirements in respect of Profit and Loss Account of an Insurance Company

- ✚ An analysis of interest paid on different types of loans made to the company.
- ✚ Details of the charges for corporation tax and overseas tax.
- ✚ Amount set aside for the redemption of shares or loans.
- ✚ The aggregate amount of dividend paid and proposed.
- ✚ The remuneration of the auditors.
- ✚ Turnover for the year.
- ✚ The for which tax paid was calculated.
- ✚ The material respects on which profit is affected by unusual or exceptional activities or any charges in basis of accountancy.

(1 mark each for each correct answer. Total:6 marks)

8. Outline three (3) differences between “Financial Accounting” and Management Accounting”.

Solution

- i. Financial accounting is concerned with the provision of information to parties outside the organization e.g. shareholders inland revenue etc. **whereas** management accounting is concerned with the provision of information for internal use e.g. management team
- ii. Financial accounting is statutory and embraces various companies’ Acts and other statutes, **whereas** management account is not statutory
- iii. Financial accounting is historical in nature, **whereas** management accounting is futuristic.

(1 mark each for each correct FULL answer - on both. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks

- 9(a) Using the following information, compare Absorption Costing and Variable/Marginal Costing and objectively advice on how the profit of the Company can be increased.

	Budget for 2018 ('000)				
	Fire	Liability	Householders	Motor	Total
Premium	10,000	20,000	50,000	40,000	120,000
Less:					
Claims	6,000	12,000	37,500	32,000	87,500
Commission	1,500	3,000	6,000	4,000	14,500
Underwriting Costs	3,000	4,250	2,000	1,500	10,750
Accounting	<u>500</u>	<u>1,000</u>	<u>2,500</u>	<u>2,000</u>	<u>6,000</u>
Profit/Loss	<u>(1,000)</u>	<u>(250)</u>	<u>2,000</u>	<u>500</u>	<u>1,250</u>

Notes:

- Accounting costs are allocated to product pro rata to premiums.
- Underwriting cost are apportioned to products relative to the numbers of estimated transactions processed, with due allowance for the processing time and salary grade of the individual(s) concerned.

(b) List and explain four (4) sources from which Inland revenue raise taxes.

Solution

To stop selling fire insurance and inability insurance, which are both operating at a loss seems a sensible idea let us see the result below:

	Householders	Motor	Total
Premium	50,000	40,000	90,000
Less;			
Claims	37,500	32,000	69,500
Commission	6,000	4,000	10,000
Underwriting cost	2,000	1,500	3,500
Accounting	<u>3,333</u>	<u>2,667</u>	<u>6,000</u>
Profit/ (Loss)	<u>1,167</u>	<u>(167)</u>	<u>1,000</u>

Under this alternative the overall profit level of the company actually falls. Let us explore why. The budget for 2018 is based upon full absorption of fixed costs which on this case are accounting costs of ₦6,000,000.00. They are neither direct to nor variable with the activity of any one product.

(3 marks for each correct line of calculation above; 2 marks for the conclusion immediately above.

Sub-Total: 17 marks)

Variable costing would present this budget in a different way i.e.

Option 2

Variable Costing

	Budget for 2018				
	Fire	Liability	Householders	Motor	Total
Premium	10,000	20,000	50,000	40,000	120,000
Less:					
Claims	6,000	12,000	37,500	32,000	87,000
Commission	1,500	3,000	6,000	4,000	14,500
Underwriting	<u>3,000</u>	<u>4,250</u>	<u>2,000</u>	<u>1,500</u>	<u>10,750</u>
Contribution to					
Fixed costs &					
Profit	(500)	750	4,500	2,500	7,250
Fixed costs					
Accounting					<u>6,000</u>
			Profit/(Loss)		<u>1,250</u>

What can be seen here is that, as currently estimated, the fire insurance business will not make a contribution towards our fixed overheads. In fact, it does not even cover its own direct costs of claims, commission and underwriting. On the other hand, our liability business is making a contribution of ₦750,000 towards the overhead costs. Therefore, while absorption costing indicates that both these products, i.e. Fire and liability, will run at a loss and prima facie should be discontinued, variable costing indicates that we should discontinue only fire i.e.

(3 marks for each correct line of calculation above; 2 marks for the conclusion immediately above.

Sub-Total: 17 marks)

	Under Absorption Costing	Under Variable Costing
Original budgeted profit for 2018	1,250	1,250
Add: Negative contribution from		
Dropping Fire	500	500
Less: Contribution from		
Dropping; Liability	(750) <u>(250)</u>	NIL <u>500</u>
Revised budgeted profit for 2018	<u>1,000</u>	<u>1,750</u>

(2 marks for each correct line of calculation above; Sub-Total: 6 marks)

Total: 40 marks.

(b) List and explain four (4) sources from which Inland Revenue raise taxes.

Solution

Sources from which Inland Revenue raise taxes are:

- Income
- Capital Gains
- Value Added
- Transfers of Capital on Death

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

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Outline and explain the six (6) stages in the planning process.

(24 marks)

Solution

The stages in the planning process are:

- i. Identify objectives
- ii. Search for alternative courses for action
- iii. Gather data about alternatives
- iv. Select course of action
- v. Implement long-term plans
- vi. Monitor actual results and respond to divergences from plan

Identify Objectives

The objective must be;

- ✚ Measurable
- ✚ Time - related
- ✚ Attainable
- ✚ Practical

Objectives can be identifying by answering these question;

- What kind of company are we: what is the economics of the company; what should our products be? Should we serve each market differently? What rate of growth is required?

Search for Alternative Courses for Action

Management must decide the following;

- Where is the company now?
- Where does it want to be?
- How does it get there?

Gather Data about Alternatives

Management should choose those areas of activity which have the greatest potential for achieving the company's objectives. This will involve a financial assessment of the cost and benefits attaching to the various options.

Select Course of Action

- i. It will certain financial target, at a high level for a 5 to 10years period

- ii. It should refrain from being unnecessarily detailed particularly from a financial point of view
- iii. Clear and concise indication of the company's future direction

Implement Long-Term Plans

Fundamental questions will have to be asked and answered such as; how many staff do we need? Do rates need to be increased next year? Are we due to move into new premises?

Monitor Actual Results and Respond to Divergences

Budget set pre-defined standards, measure actual performance and prompt corrective action should adverse variance arise.

(4 marks in all for each process - 2 marks for each outlining. 1 mark per point in the explanation.
Maximum of 2 points per process should be graded. Total: 24 marks)

- (b) List and explain five (5) reasons why budget is necessary. (10 marks)

Solution

Reasons why budget is necessary

- ✚ Planning
- ✚ Coordinating
- ✚ Communicating
- ✚ Controlling
- ✚ Evaluating

Planning:

Annual budgeting process refines long-term plans. In budget a typical insurance company will plan for premium, commission, claims, cost, profit etc. The process of planning will make the achievement of objectives more likely because both opportunities and problems are considered.

Coordinating:

Goal congruence is vital for a company to succeed budgeting process allows for conflicts between various departments to be addressed with emphasis on commonly objectives.

Communication:

Budgets introduce principles of "Top Down" / "Bottom up" management.

Top management communicate their future expectation to staff via the budgeting process and equally as important staff should be able to influence and direct management as to the best way of realizing such expectation at individual unit level.

Motivation:

The budget can be a useful device for influencing managerial behavior and motivating managers to perform on line with the organisational objectives.

Control:

By comparing actual results to pre-set standards managers can decide which areas do not conform to the original plan and this require attention. Once variances have been examined, appropriate control action should be taken to remedy the situation.

Evaluating:

A manager's performance is after evaluated by measuring his success in meeting budgeted targets. This could be accompanied by financial rewards or penalties in addicting the manager himself may wish to evaluate his own performance.

(2 marks in all for each stated reason - 1 mark for each outlining, 1 mark per point in the explanation. Maximum of 1 point per reason should be graded. Total: 10 marks)

11. List five (5) parties that are interested in financial reports of an Insurance Company and state three (3) reasons each for the interest.

Solution

Parties interested in financial reports of an insurance company, with the reasons why, are as follows:

- ✚ **Shareholders:** will be interested in:
 - the return on their investment – profit, dividends capital growth
 - the stability of the company, its solvency
 - the future profitability of the company.

- ✚ **Policyholders:** will be interested in:
 - the stability of the company
 - whether they are getting value for money
 - whether the company is well positioned to keep to her words

- ✚ **Investment analyst and commentators:**will be interested in:
 - the performance of the company's shares
 - spread of business

- profitability
- dividend policy
- distributable reserves

✚ **Reinsurers security advisor:** will be interested in:

- the soundness of the company's underwriting
- the security of the company as shown in its solvency
- durability of the company
- the strength of any group to which the company belong

✚ **Other insurers:** will be interested in:

- underwriting and profit comparisons
- marketing policy and developments
- non comparative analysis on other issues that relate to staff

✚ **Internal Management:** will be interested in:

- efficiency and profitability of each department/unit
- the efficiency and profitability of the company
- future plans

✚ **Staff:** will be interested in:

- profitability of the company
- the security of the company
- the ability of the management
- future plans

(Any five above should be graded. 4/5 mark for each corrected stated party. 2 marks each for the area of interest. Maximum of 3 interested focus area to be graded. Sub-Total: 6 marks. Total Sub-Total per Point = 6.8 marks. Grand Total: 34 marks)

12(a) What is solvency margin in relation to the operations of Insurance Companies. State ten (10) factors that should be considered in attempting to assess the solvency margin scientifically. (24 marks)

Solution

Solvency margin is the excess of the value of (an insurer's) assets own the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulations. It is a sort of cushion and like a cushion its desirable size depends on the contours of the user and the circumstances of its use.

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

The factors that that should be considered in attempting to assess the solvency margin scientifically are:

- i. the size of the insurer (net retention)
- ii. the type of business underwritten
- iii. the efficiency of management
- iv. the risk of outstanding claims exceeding provisions therefore
- v. the possibility of a collapse in investment values at a time when cash is needed
- vi. the danger of default by debtors particularly reinsurers
- vii. the harmful effects of an increase in inflation rates
- viii. the degree of exposure to exchange rate risk
- ix. the existence of equalization or other reserves counted as liabilities
- x. bases of values assets and liabilities

(2 marks for each stated factor. Total: 20 marks)

- (b) State five (5) reasons in favour of supervision of Insurance Companies.
(10 marks)

Solution

Some reasons in favour of supervision of insurance companies are:

- i. requirement for compulsory insurance
- ii. authorization of insurers
- iii. control of managers etc.
- iv. regulation of expense charges
- v. regulation of policy condition
- vi. limitation of expense charges
- vii. financial requirement deposit, minimum capital, solvency
- viii. requirement for annual and that returns
- ix. powers of direction and other intervention
- x. controls on adverting and marketing
- xi. controls on intermediaries, commission payments etc.
- xii. nationalization and the prohibition of overseas competition
- xiii. compulsory compensation schemes for affected policyholders and claims.
- xiv. regulation and directives.

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

- 13(a) A composite Insurance Company will be able to distinguish three (3) different types of funds, each having different requirements. List and explain the three (3) types of funds and their respective requirements.
(24 marks)

Solution

The three different types of funds and their respective requirements are as stated below:

- ✚ Long-Term Insurance Fund -Life
- ✚ Long-Term Insurance - Unit Link
- ✚ General Business Fund

LONG TERM INSURANCE FUND - LIFE

The main features of the business are identified below;

- i. the contracts are long term ones. This premium income tends to be constant and reliable
- ii. outgo can be estimated reasonably accurately both as to timing and amount – these are not likely to be sudden calls for funds
- iii. the catastrophe risk is unlikely to be significant
- iv. premiums take into account income to be earned over the period of the policy. The life fund relies for its solvency on its investment income as much as in the premium stream and thus it must earn a rate at least equal to that assumed in calculating premiums
- v. investment policy is as important as underwriting policy
- vi. home business is still much more significant than that transacted overseas.

LONG - TERM INSURANCE - UNIT LINK BUSINESS

In recent years, unit linked contract, both for life and pensions business, have become of the fastest growing fund they are called different names and of different types as indicated below;

- i. managed fund
- ii. equity fund
- iii. international fund
- iv. fixed interest fund
- v. property fund
- vi. money fund

GENERAL BUSINESS FUND

These are the non-life funds available for investment;

- i. contract are short term, usually annual, premium income is not consistent and reliable
- ii. investment income has of recent years become increasingly significant in fixing premium
- iii. funds are much smaller compared to life funds
- iv. during period of economic difficulty claims ratios may tend to increase
- v. the overseas element is much more significant than with life business
- vi. Despite reinsurance, there is frequently a catastrophe risk consideration, requiring large sums of money at short notice to pay claims.

(8 marks in all to each fund type -3 marks for mentioning the general name. 1 mark per point in the explanation. Maximum of 5 points per fund type should be graded. Total: 24 marks)

- (b) There are four (4) ways in which an issue of shares can be made and the shares listed for the first time. Mention and explain these ways in detail.
(10 marks)

Solution

The ways in which an issue of shares can be made and the share listed for the first time are either by:

- i. An offer for sale
- ii Offer by tender
- iii. Placing **OR**
- iv. Introduction

An offer for Sale:

A third party, usually an issuing house acting as a principal, purchases shares from the venders and offers them for sale to the public, inviting subscription at a fixed price.

Offer by tender:

The price at which the shares are offered is not fixed, but the public is invited to offer to subscribe, naming the prices that it will pay.

Placing:

Shares are “Placed” or “Sold” by the stockbrokers to a number of investors (usually institutions) prior to advertising the prospective, but the market – makers are usually offered a proportion of the issue so that they can make a market

Introduction:






In this instance, there is a prospective in order to give information about the company to the public but no invitation to the public to subscribe for the shares. After the stock exchange has granted the quotation dealing can begin.

(2½ marks in all to each way -1½ marks for mentioning the way. 1 mark per point in the explanation. Maximum of 1 explanation per sub-way stated should be graded. Total: 10 marks)

- 14(a) List and explain six (6) functions and three (3) code of conducts of BIIBA.
(27 marks)

Solution

The six (6) functions of BIIBA are:

-  representation on matters of concern to members
-  advice to members
-  support for members
-  member promotion – advertising, public relations, public enquiry and similar services on behalf of members
-  training and recruitment

- ✚ dealing with complaints from the public

The three (3) code of conducts of BIIBA are:

- ✚ the sole in man business must be broking
- ✚ business must not be substantially derived from one client
- ✚ records and systems are independent of companies with which business is placed.

(3 marks for each correctly stated point. Total marks: 27 marks)

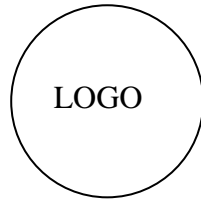
- (b) Enumerate seven (7) main types/classes of intermediaries involve in insurance transactions. (7 marks)

Solution

The main types/classes of intermediaries involved in insurance transactions are:

- (Lloyd's) brokers
- Cash and credits agents
- Industrial Assurance agents
- Banks
- Building societies
- Insurance company employees
- Other agents
- Connected intermediaries.

(1 mark each. Total: 7 marks).



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT A945
MARKETING**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet must 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 graded.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A945 - MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate: 36.29%

Highest Score: 87%

Lowest Score: 03%

Average Score: 42%

Breakdown Updates

Question 1

The overall performance of candidates that answered this question is about 50%. The examiner tested candidates' knowledge about the condition necessary for an exchange to take place. Many candidates misinterpreted the question and scored zero, and some could not list all the points. Candidates are advised to study every part of the syllabus to enable them come out successful in this type of examination.

Question 2

Candidates performance in this question was impressive. Above 80% of candidates scored pass mark and many obtained full marks available. Candidates' performance may be attributed to the fact that they concentrated on this part of the syllabus. To succeed in the future examination, candidates need to study much harder.

Question 3

Overall performance in the question is below 50%. The answer provided by many candidates were far from the expectation of the examiner. Most of the candidates did not study the reference text but depended on residual knowledge. Candidates are advised to study harder and cover every aspect of the course book in their future preparation.

Question 4

The overall performance in this question was about 40%. Many candidates did not attempt the question while some that attempted could not obtain a pass mark. A question testing formulation of marketing strategy should not be difficult to candidates in advanced level of this examination. There is no shortcut to pass other than studying very hard.

Question 5

Candidates' performance in this question was below average. The question tested examples of qualitative research. Majority of candidates did not show adequate understanding of this concept. Some could not differentiate between qualitative and quantitative research. Candidates are advised to read and understand questions before answering.

Question 6

The average performance was about 55%. The question tested the main tasks addressed by public relations departments. Some candidates' answers were off-target. They were mistaking public relations with promotional activities. Candidates are advised to read more in this area to enable them succeed in future examinations.

Question 7

The question was testing candidates' understanding of features of internet distribution. The candidates did not have good understanding of this concept. The performance was not encouraging. About 40% of the candidates scored below average. Candidates are advised to take this aspect of their studies more seriously.

Question 8

The question was testing candidates' understanding of a component of foreign market. Performance of candidates who attempted this question was encouraging as 60% of the candidates' score were above average.

Question 9

This question was a compulsory question with 50marks it was divided into sub questions application at market research. Many candidates displayed lack of understanding of this important concept, hence the performance was not encouraging. About 45% of the candidates scored above average.

Question 10

This question tested candidates' knowledge on direct marketing. Many candidates avoided this question. 40% of the candidates who attempted scored above average mark allocated. Many candidates could not define direct marketing/personal selling. Candidates are advised to study harder in this area.

Question 11

The average performance by candidates in this question was very poor. The performance was about 30%. The question tested candidates' knowledge on 'customer service' as well as location decision for services. Candidates are advised to study the reference course book.

Question 12

Candidates' performance in this question is not encouraging. Less than 40% of those who attempted this question scored above average. The question tested their knowledge about international distribution channel as well as international marketing operations. These aspects of the course are equally important and should not be left out.

Question 13

This question tested candidates' knowledge of types of marketing or exchanges of goods/services. The overall performance was highly disappointing as about 20% of candidates performed above average. This performance showed that many candidates did not prepare well for this examination.

Question 14

The question tested candidates' knowledge on communications as well as elements of Insurance offering. The overall performance was above 60% as many candidates that attempted the question did well. Candidates are advised to study harder to obtain better performance in the future.

Chief Examiner's Comments on Overall Performance:

None

Chief Examiner's Suggestions on Improvement:

None

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. From a seller's perspective the conditions necessary for an exchange can be met only after they (or some exchange specialist acting on their behalf) has successfully performed several tasks. Outline four (4) of such tasks.

Solution

From a seller's perspective, the conditions necessary for an exchange can be met only after they (or some exchange specialist acting on their behalf) has successfully performed several tasks. Some of those tasks are:

- ✚ Identifying potential buyers
 - ✚ Developing appropriate solutions to their needs, whether products or services.
 - ✚ Communicating information to those buyers about those solutions
 - ✚ Making the exchange.
 - ✚ Delivering the offering.
- (1½ marks for each correctly stated task. Maximum of 4 to be graded. Total: 6 marks)

2. Services have certain characteristics and attributes that distinguish them from goods. Mention six (6) of such attributes.

Solution

Attributes that distinguish service from goods are that:

- ✚ services are intangible
 - ✚ services are almost always temporary or have a lifetime mutually agreed by the provider and the recipient.
 - ✚ some services, such as hairdressing, do not necessarily conform to a recognizable and consistent specification.
 - ✚ some services, such as state education, are subject to official government regulation.
 - ✚ to be bought and sold, services are most often based on personal interaction between the receiver and provider of the services; or the engagement of an intermediary between them.
 - ✚ to be attractive to buyers, services rely less on their inherent qualities and more on the qualities of the people that supply them.
 - ✚ services require no physical distribution channel to allow them to pass from seller to buyer.
 - ✚ the value of a service is most commonly ascertained on its completion and there must therefore be a higher degree of trust between seller and buyer.
- (1 mark each for every correct answer. Maximum of 6 to be graded. Total: 6 marks)

3. Mention four (4) methods that insurers can use to maintain a high quality of customer interaction in most situations.

Solution

Four methods that insurers can use to maintain a high quality of customer interaction in most situations are:

- ✚ rigorous selection standards
 - ✚ regular training and coaching
 - ✚ motivation systems such as rewarding excellence
 - ✚ quality management systems
- (1½ marks for each correctly stated method. Maximum of 4 to be graded. Total: 6 marks)

4. Formulating and implanting a marketing strategy is a four-stage process. The third-stage is formulating a marketing strategy. Outline four (4) steps of formulating marketing strategy.

Solution

Four steps of formulating marketing strategy are:

- ✚ establishing marketing objectives
 - ✚ establishing marketing strategies
 - ✚ predicting expected results.
 - ✚ identifying contingent and alternative strategies.
- (1½ marks for each correctly stated method. Maximum of 4 to be graded. Total: 6 marks)

5. Qualitative research investigates the subjective views of an organisation's customers. This may take the form of a "customer satisfaction survey". Mention six (6) examples of qualitative research.

Solution

Some examples of qualitative research are:

- ✚ what the customers (hereafter referred to as they) like about the product or service
 - ✚ what they dislike about the product or service
 - ✚ what would make them use the product or service more
 - ✚ what qualities they associate with the offerings' brand or image
 - ✚ whether they feel the offering is meeting their needs
 - ✚ how the offering compares to those of competitors
- (1 mark each for every correct answer. Maximum of 6 to be graded. Total: 6 marks)

6. The public relations (PR) function is complimentary to other communication activities. Mention six (6) main tasks usually addressed by public relation departments.

Solution

Six main tasks usually addressed by public relation departments are:

- ✚ building or maintaining a corporate image
 - ✚ supporting other communicating activities
 - ✚ handling specific problems
 - ✚ reinforcing positioning
 - ✚ assisting in the launch a new products and services.
 - ✚ influencing specific external groups
- (1 mark each for every correct answer. Maximum of 6 to be graded. Total: 6 marks)

7. Broadly speaking, the internet presents four (4) distinct distribution features. Outline these four (4) features.

Solution

Four distinct distribution features the internet presents are:

- ✚ a direct link between customers and business to complete transaction or swap information more easily.
 - ✚ technology that lets companies by-pass traditional distributors
 - ✚ a way for organisations to develop and deliver new products and services for new customers
 - ✚ a way for organisations to use the internet to become the dominant players in the electronic channels of a specific industry or segment, controlling access to customers and setting new business rules.
- (1½ marks for each correctly stated method. Maximum of 4 to be graded. Total: 6 marks)

8. Mention six (6) components of a foreign market.

Solution

Six components of a foreign market are:

- ✚ Physical and geographical environment
 - ✚ Legal environment
 - ✚ Political environment
 - ✚ Cultural environment
 - ✚ Competitive environment
 - ✚ Local infrastructure
- (1 mark each for every correct answer. Maximum of 6 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9(a) Market research has five (5) principal applications. List and explain the five (5) applications in details.

Solution

The five principal applications of market research are:

- i. Quantitative sales and sales performance research
- ii. Competitor intelligence
- iii. New product trials
- iv. Qualitative research
- v. Buying behavior

QUANTITATIVE SALES AND SALE PERFORMANCE RESEARCH

The marketing managers need to have accurate information about how well or badly their products and services are selling. Market research provides quantitative, scientific and statistical information about the way the organisation's customers are reacting to its offerings for example.

- The number of sales made in a given period
- The value of sales made in a given period etc.

COMPETITOR INTEGLIGENCE

- Managers need to be aware of developments among their competitors that might have a direct or indirect bearing on the business
- This might include information about new products and services being brought out by competing companies, the relative price and how competitors are promoting their products to customers

NEW PRODUCT TRIAL

- Market research includes feasibility testing to assess the market potential of a new product or service
- This help the organisation to pre-test product and services in a limited market or among a defined test group
- Test groups can be asked question about their reaction to the appearance, characteristics, price, value for money or adverting methods of a proposed new product or service

QUANTITATIVE RESEARCH

- Qualitative research investigates the subject views of an organisation's customers. This may take the form of a customer satisfaction survey for example;
- What they like about the product or service
- What they dislike about the product or service
- What would make them use the product or service more etc.

BUYING BEHAVIOUR

Any marketing strategy must pay attention to the in which potential and existing customer make their choice to buy the organisation's product or service offerings.

- This application of market research looks at the way in which customers make buying decisions
- For example, it examines the buying criteria used by the customer; this is the most important element of the entire buying process the price, packaging, the value for money, the ease of purchasing or the quality of the experience.

(4 marks per point. 1 mark for mentioning it. 1½ marks for each correct explanation under each point. Maximum of 2 explanations per point. Grand Total: 20 marks)

- (b) Miles and Snow classify businesses into four (4) strategic types. List and explain the four (4) types in details.

Solution

The four strategic types of business classification by "Miles & Show are:

- ✚ Prospectors
- ✚ Defenders
- ✚ Analysers
- ✚ Reactors

PROSPECTORS: Pursue growth through the early development of new products and service in new markets.

- They operate in a board market that is occasionally redefined
- They compete principally by stimulating and meeting all the market opportunities.
- It is well suited to volatile, unstable environment such as those affected by rapidly changing technology, shifting customer needs or both.

DEFENDERS

- Attempt to locate and maintain a secure position in relatively stable service or product area while paying less attention to new product development.
- They offer a limited range of services compared to their competitors and try to protect their domain by offering higher quality, lower prices or better service than their competitors.
- This strategy is best organisations that already have a profitable share industry such as the insurance industry.

ANALYSERS

- Attempt to maintain a strong position in their core markets but seek to expand into new product markets
- They try to sustain a stable, limited line of products and services but also follow a selected set of promising new developments in their industry.
- The strategy is most appropriate for well-developed industries that are still experiencing some growth and change.

REACTORS

- These business with no clearly defined strategy
- They tend not to have as consistent customer orientation as their competitors
- They are not as will to assume the risks of new product development as their competitors
- They are not aggressive in marketing their established products and service
- Tends to respond to market demands only when forced to do so by environmental pressures.

(5 marks per point. 2 marks for the classification name; 1 mark per stated point under each classification; maximum of 3 points per classification. Total: 20marks)

- (c) The value chain for an insurance organisation comprises of two (2) main activities. Mention the two (2) activities and their main components.

Solution

The two main activities on the value chain for an insurance organization are:

- the Core Activities and
 - the Support Activities.
- (1½ marks each. Total: 3 marks)**

Their main components under:

a) **Core Activities are-**

- i. **Underwriting:** Assessment, Rating, Policy Issue, Renewal, e.t.c.
- ii. **Claims Handling:** Assessment, Legal Advice, Negotiation, Settlement, e.t.c.
- iii. **Customer Service:** Queries, Complaints, Restitution, e.t.c.
- iv. **Marketing:** Advertising, Sales, PR, e.t.c.

b. **Support Activities are -**

- i. **Infrastructure:** Management, Finance, Computes, Administration
- ii. **Human Resources:** Staff, Payroll, Training, Recruitment
- iii. **Product Development:** Research.

(1 mark each for each component mentioned. Sub-Total: 7 marks. Grand Total: 10 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10(a) Explain the term “direct marketing”. List and explain its four (4) different media. (14 marks)

Solution

Direct marketing is the action carried out by firms/individuals/organization that is aimed at creating a two-way personal relationship between the organisation and

its customers. (2 marks)

It encompasses:

- Direct Mail
- Direct Response Advertising
- Tele Marketing/Telesales
- Internet Marketing.

Direct Mail: Unsolicited letter sent to a list of potential customers

Direct Response Advertising: Advertising which invites interested people to contact the insurer for more information, often about a special offer.

Tele Marketing/Telesales: Unsolicited telephone calls are made to a list of potential customers.

Internet Marketing: E-mails are sent to a list of potential customers

(2 marks for explaining the term. 2 marks each for stating the media. 1 mark each for explaining the stated term. Grand Total: 14 marks)

(b) List and explain the five (5) products or service attributes in which advertising is the most important mix element. (10 marks)

Solution

The products or service attributes in which adversity is the most important mix element are those with the following characteristics:

- the benefits to be communicated are relatively simple
- there is a need to develop awareness and comprehension of these benefits in a mass market
- a brand name is involved
- products or service are purchased frequently
- product or service specification is reasonably standard

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

- (c) List any five (5) out of seven (7) products or service attributes in which personal selling dominates the communication mix. (10 marks)

Solution

The product or service in which personal selling dominates the communication mix are those with the following characteristics:

- is complex
- is bought on specification
- is expensive
- involves negotiation over the terms of sale
- needs to be demonstrated
- requires after sales service
- is sold to only a few customer

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

- 11(a) What does the term “customer service” as learnt in “A945” imply. Outline its scope, with three (3) summarized (positive) activities under the three (3) sectional elements. (18 marks)

Solution

Customer service means all activities required to accept, process, deliver and fulfill

customer orders and to follow up any activity that has gone wrong. It must take into account all activities which relate to customer – before, during and after the transaction. (3 marks)

The scope are;

- i. **Pre – transaction elements (Before)**

- ✚ Written service mission
- ✚ Customer service policy
- ✚ Customer awareness of the policy
- ✚ Customer service staff of training

- ✚ Process for handling complaints
- ✚ Preparation of warranties

ii. **Transaction Elements (during)**

- ✚ Managing customer service demand patterns
- ✚ Timing
- ✚ Levels of customer service
- ✚ Finance
- ✚ Demonstrative of products / services.

iii. **Post transaction elements (after)**

- ✚ Handling complaints
- ✚ Cross selling
- ✚ Loyalty schemes
- ✚ Post purchase comfort and support

(3 marks for the definition; 2 marks each for correctly stating the Before, During and After "Names" 1 mark each for correctly stated activity. Maximum of 3 activities to be graded per subsection. Grand Total: 18 marks)

- (b)i Location decision for services is critical in marketing mix. All insurance companies may interact with their customers in four (4) ways. List and explain these four (4) ways. (8 marks)

Solution

Four ways by which insurance companies may interact with their customers are:

- i. the customer comes to the organisation's premises
- ii. the organisation goes to the customer's premises
- iii. the organisation and customer transact business directly but at arms' length e.g. via telephone or the internet.
- iv. the organisation and customer transact business indirectly e.g. via an intermediaries.

(2 marks for each correctly stated point. Total: 8 marks)

- ii List and explain four (4) key questions that managers should ask before they choose the location for static or building-based business. (8 marks)

Solution

Four key questions that managers should ask before they choose the location for static or building-based business are:

- should the service be delivered at a single site or through multiple outlets?
- what type of transaction best suit the customers?
- how would a change in type of interaction affect the service quality?
- can suitable intermediaries be used to achieve multiple outlets?

(2 marks for each correctly stated point. Total: 8 marks)

- 12(a) International distribution is an important part of marketing distribution. List and explain three (3) main types of international distribution channel that are available to a product or service provider. (18 marks)

Solution

Three main types of international distribution channel that are available to a product or service provider are:

- i. a wholly or partly owned joint venture on local subsidiary
- ii. domestic - based intermediaries with specialization in the organisation's foreign market.
- iii. overseas - based intermediaries working in the organisation's foreign markets.

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

These are explained below:

FOREIGN SUBSIDIARIES

- Organization can set up its own subsidiary in each foreign market or buy existing foreign company purposely for its distribution facilities
- There may be strict regulations about ownership of foreign subsidiaries on some countries.
- Advantage of this is greater control over the subsidiary's activities
- There may be taxation and other financial implications.

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

DOMESTIC INTERMEDIARIES

- The advantage of this is that domestic intermediaries will be close to the producer on geographical terms
- Close proximity means that there will be greater communication between the parties and this will be more convenient for the producer.

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

OVERSEAS INTERMEDIARIES

- A domestic provider of goods or services may decide to deal directly with intermediaries in a foreign country
- This brings the domestic producer closer to the foreign market

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

(Grand Total: 18 marks)

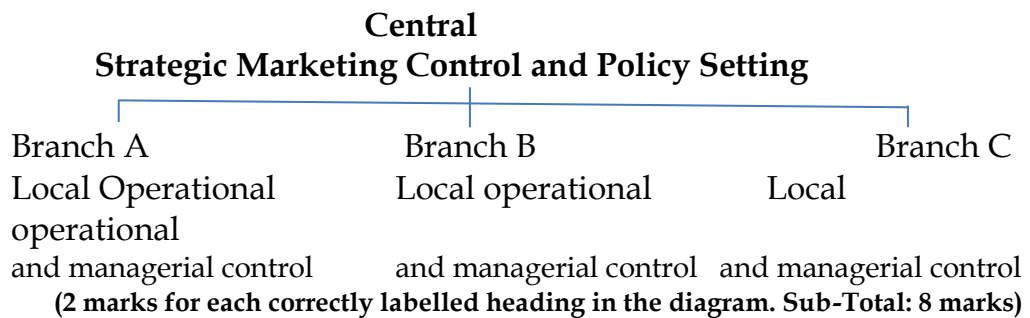
(b) There are two (2) main structures for managing an international marketing operation. With the aid of diagram list and explain them. (16 marks)

Solution

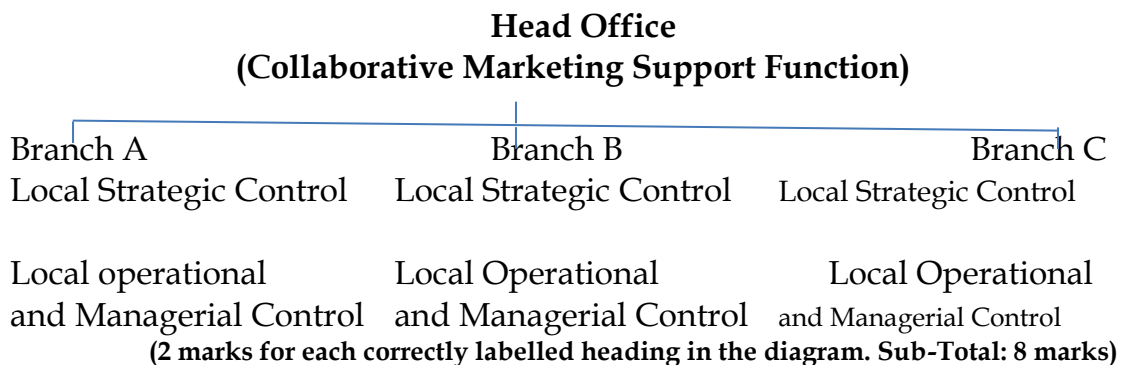
The two main structures are:

- Centralized marketing
- Decentralized marketing

Centralized Marketing Management Structure



Decentralized Marketing Management Structure



13(a) With respect to the origin and development of marketing as a business activity, list and explain eight (8) types of how marketing or exchanges of goods/services take place. (16 marks)

Solution

The following are types of how marketing or exchange of goods and services took place are:

- ✚ Tribal Societies
- ✚ Specialization of Labour
- ✚ Central Market Places
- ✚ Early International Trade

- ✚ Adam Smith and the Wealth of Nations
- ✚ Industrial Revolution
- ✚ Emergence of Free Market Economics
- ✚ Socialist System
- ✚ Specialist, Departmental Stores, Supermarkets and Mail Order.
- ✚ Electronic Databases and the Elevation of the Consumer
- ✚ Internet, E-Commerce and the Global Market.

(2 marks each for any correctly stated type. Maximum of 8 types to be graded. Total: 16 marks)

- (b) The most important general function of marketing is that it provides an interactive link between the selling organisation and the world outside. Outline eight (8) functions of marketing managers in any insurance company. (8 marks)

Solution

The functions of marketing managers in any insurance company are:

- Market Research
- Competitor Research
- Customer Profiling
- Development of Strategic Marketing Plans
- Development of Operational Marketing Plans
- Advertising
- Media Relations
- Corporate Affairs and Sponsorship
- Product Development
- Product Pricing
- Branding and Brand Management
- Sales Management
- Customer Service.

(1 mark each for any correctly stated type. Maximum of 8 types to be graded. Total: 8 marks)

- (c) What are the five (5) categories into which most communication can be put. (10 marks)

Solution

The five categories into which most communications can be put are:

- Face - to - face
- Using Telecommunication Media
- Using Printed Media
- Using Broadcast Media
- Using Electronic or New Media.

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

- 14(a) Goods can be classified according to the expected length of their lives and to whether they are intended for the consumer market or not. List and explain the three (3) main classifications of goods. (12 marks)

Solution

The three main classification of goods are:

- ✚ Fast Moving Consumer Goods (Financing)
- ✚ Consumer Durables Goods
- ✚ Industrial Goods

FAST MOVING CONSUMER GOODS

These are general household consumable such as milk, tea, washing powder and include all the products that are found in an everyday shopping basket. They are purchased regularly and frequently.

CONSUMER DURABLES

Those are consumer products that have a longer life than fast moving consumer goods. Examples are electricity domestic appliances (refrigerators, televisions personal computers) and cars.

INDUSTRIAL GOODS

Those products are bought for use in the production of other goods and services. e.g. office equipment and stationeries. Industrial goods can be divided into raw materials and partly finished materials

(2 marks for stating the classification. 1 mark for each explanation/point under the different classification. Maximum of 2 to be graded. Sub-Total: 4 marks. Grand Total: 12 marks)

- (b) Outline twelve (12) elements of Insurance offering. (12 marks)

Solution

Twelve elements of insurance offering are:

- Limited or unlimited financial protection on the event of an insured occurrence.
- Participation in the risk by the insured via excesses and deductibles
- Loss preventing advice
- Premium discounts
- Discounts on loss prevention equipment
- Discounts on repairs by using the insurer's partners
- Provision of industry information and news
- Special offers on other insurances
- Access to affiliated financial service providers such as banks
- Loyalty bonuses
- No claims discounts
- The insurance contract itself
- 24hours emergency claim service

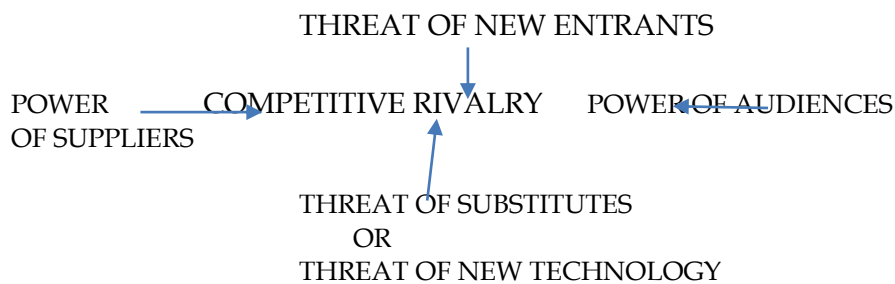
- Training about the insurance offering
- A comfortable retail outlet where business can be conducted over the counter.

(1 mark for each correctly stated offering. Maximum of 12 points should be graded. Total: 12 marks)

- (c) M. Porter devised a simple model for showing the elements that contribute to a competitive environment. With the aid of a diagram, explain the five (5) elements. (10 marks)

Solution

The five elements that contribute to a competitive environment are:



(2 marks for each correctly stated point/arrowed relationship. Total: 10 marks)