

**CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA**

OCTOBER 2015 EXAMINATION PAPER

<p>SUBJECT D01</p> <p>INSURANCE PRACTICE & REGULATION</p>

QUESTION 1

Differentiate between the scope of cover under Fidelity Guarantee Insurance and Money Insurance policies. (10 marks)

SOLUTIONS TO QUESTION 1

FIDELITY GUARANTEE INSURANCE

Fidelity guarantee Insurance provides cover against losses to an employer following the dishonestly, or infidelity of an insured employee. The policy can be issued on a **named or unnamed**, or per capital basis.

It is an annual policy, and can also be extended to cover losses as a result of error or mistake.

POLICY EXCLUSIONS

- i. Loss or damage as a result of connivance, error or omission.
- ii. Loss or damage which is covered under a more specific policy.
- iii. Loss or damage which is specifically excluded from the policy, or caused as a result of fortuitous event.

SCOPE OF COVER UNDER MONEY INSURANCE

- All risk cover, which provide compensation to the insured in the event of loss of money either from the insured business premises, your home, or while money is in transit from the insured business premises to bank or vice versa.
- The definition of money under the policy includes cash, postal order, cheques, stamps and other monetary instruments. The policy is more

relevance to cash based businesses e.g. banks, finance houses, stock brokers and or retailer's, etc.

- The policy can be extended to cover injury sustained by insured's employee while carrying money to and from insured premises to the bank.

EXCLUSIONS

- Loss or damage to money as a result of use of key (i.e.) "Key Clause"
- Loss as a result of connivance of the insured employee's.
- Loss or damage traceable or attributable to war, invasion, hostility etc.
- Loss or damage caused as a result of confiscation by government or its agency.
- Loss or damage covered by a more specific Insurance e.g. fidelity guarantee.

QUESTION 2

- (a) Explain the major role played by an Insurance Broker in the Insurance Market Structure? (6 marks)
- (b) List four (4) functions of NCRIB (Nigerian Council of Registered Insurance Brokers). (4 marks)

SOLUTIONS TO QUESTION 2

a. **INSURANCE BROKERS ARE:**

- Full time agents have broad knowledge of the Insurance market.
- Professional expertise in the placement of Insurance risk, ensure that they get the best and competitive rates for their clients.
- In the placement of Insurance risk, they are professionals, and double as the agent of the insured, and the insurer, however, the interest of their client is placed above all other consideration.
- They provide professional advice in arranging clients Insurance and ensure that claims are settled promptly, and adequately too.

b. **N.C.R.I.B FUNCTIONS**

Nigerian Council of Registered Insurance Brokers performs the following function(s):

- They regulate the activities of all registered Insurance brokers.

- They keep a register of all licensed and registered Insurance and brokers in the Insurance market.
- They ensure that ethical and professional standard are adhere to in the placement of Insurance business by brokers.
- They enforced all the provisions of the N.C.R.I.B Act of 2003, and discipline any members of the Council who disregard any of the provisions or sections of the said Act.
- They organize seminars and conferences to improve member's continuous professional development.
- They settle disputes relating to professional ethics between brokers and Insurer or clients.
- The uphold ethical standard.

QUESTION 3

State briefly the major Regulatory functions of NAICOM as stipulated in NAICOM Act of 1997? (10 marks)

SOLUTIONS TO QUESTION 3

- They process and approved application for registration of new Insurance Company, and issue operating license to new company.
- They ensure that Insurance companies meet the solvency margin requirement as stipulated in NAICOM Act 1997 and Insurance Act 2003.
- They carried out periodic inspection of Insurance company operations and activities.
- They ensure that Insurance Company comply with the periodic valuation of Assets requirements to determine any surplus in their funds or insolvency.
- They ensure that all Insurance companies remit the 1% Insurance supervisory level to the Commission as stipulated in the Act.
- They ensure that companies comply with the statutory deposit requirement with the CBN.
- Ensure that all requirements of the consolidation/ recapitalization are comply with.
- Protect the policyholders' interest in areas of claims disputes, and delay in claim settlement.
- Grant renewal approval to the operational of Insurance companies.

- Coordinate's/ Supervise the activities of all stakeholders in the Insurance Industry e.g. CIIN, NCRIB, ILAN, RINSON etc.

QUESTION 4

State the five (5) major factors that are considered by underwriters in calculating rates of premium in general insurance business. (10 marks)

SOLUTIONS TO QUESTION 4

- Margin for Reserves
- Margin for Profits/ surplus
- Margin for expected claims
- Margin for operational/ overhead expenses
- Mortality rates
- occupational hazards
- Age/ medical condition.

QUESTION 5

Briefly explain the following:

- (i) **Adjustable Premium**
- (ii) **Premium Reserves**

(10 marks)

SOLUTIONS TO QUESTION 5

- a. Adjustable premium is premium which is calculated based on estimates e.g. under declaration policy where the limited premium paid is adjusted upward or downward, after the insured submitted full declaration at the end of the year e.g. marine declaration policy.
- b. Premium Reserve occurs where an insurer decides to provide or make adequate reserve for claims (IBNR) incurred but not reported claims.

QUESTION 6

Enumerate the functions of Loss Adjuster and Risk Control Surveyor in handling of Non-Life Insurance claims. (10 marks)

SOLUTIONS TO QUESTION 6

- Loss Adjusters are independent claim investigation experts appointed by the insurers to investigate, adjust and make recommendation to insurers in order to determine the extent of the insurer's liability in respect of general insurance claims.
- The loss adjuster will check if the policy is in force at the time of loss, and whether cover is adequate or not.
- Also, they will determine if the perils that caused the loss are covered under the policy, and if all the policy, clauses and warranties are fully complied with.
- They also ensure that premium is paid before the loss occurred before the claim can be settled.
- The loss adjusters after investigating a loss prepares a preliminary report in case of large claim and subsequently forward a final report to the underwriter for decision or necessary action.

QUESTION 7

Explain the five (5) major principles upon which Insurance Contract is based? (10 marks)

SOLUTIONS TO QUESTION 7

Insurable interest

- Indemnity
- Contribution
- Subrogation
- Utmost good faith
- Proximate cause

QUESTION 8

- (a) Explain the term Annuity? (4 marks)**
(b) Mention four (4) types of Annuity Contract. (6 marks)

SOLUTIONS TO QUESTION 8

- a. Annuity is defined as a method by which a person receives a yearly, sum, quarterly, or monthly sum in return for payment to an insurance company as a lump sum of money.

Annuity is not a life assurance policy, it is managed by an insurance company, and it is based in actuarial principles

- b. **Four (4) Types of Annuity are**
- Immediate Annuity
 - Deferred Annuity
 - Reversionary Annuity
 - Joint and last survivor Annuity.

QUESTION 9

- (a) **Explain the concept of Risk Management.** (6 marks)
- (b) **Describe the main reason(s) why primary Insurer seeks Reinsurance contract.** (4 marks)

SOLUTIONS TO QUESTION 9

- a. Risk management concept involves the assessment of risk, determine the level of risk exposures, minimize the risk of loss and also reduce the extent of loss, and finally the application of the risk prevention and elimination processes in an organization
- (b) The main reasons why insurers buy reinsurance are:
- Security
 - Stability
 - Spread of risk
 - Confidence
 - Capacity
 - Catastrophic protection

QUESTION 10

Mention the basic common features of Insurable Risk. (10 marks)

SOLUTIONS TO QUESTION 10

Common features of Insurable Risks

- Pure risk.
- Determinable (i.e.) the risk must be determined.
- The risk must be fortuitous

- The risk must have insurable interest.
- The risk must be homogenous (i.e.) homogeneity.
- The risk must be independence.
- The risk must not be against public policy.
- The risk must be capable of financial measurement.
- Particular risk

QUESTION 11

Enumerate the major features of Life Assurance contract. (10 marks)

SOLUTIONS TO QUESTION 11

Five (5) main special features of Life Assurance contracts are:

- Life assurance is permanent policy.
- The occurrence of a claim would occur either through death or maturity.
- Premium calculation is derived from mortality table, and premium paid is mostly level throughout the duration.
- Life assurance policy can be cash – surrendered (i.e.) it has surrender value.
- Insurable interest must exist in life assurance contract
- Participation in profit; after valuation of assets and liabilities, any surplus existing would be distributed to policyholders in form of profits and this is usually applicable to With Profits Endowment policy.
- Paid – up policies

QUESTION 12

A plastic manufacturing company insures its plant and machinery at ₦1.8m four years ago. The plant and machinery was destroyed by fire, and the current value of the machinery at the time of loss is ₦2.5m with the standard life of the machinery put at 10 years. Briefly explain how the insurer would settle the claim.

- (a) On indemnity basis (5 marks)
- (b) Reinstatement value basis (5 marks)

SOLUTIONS TO QUESTION 12

a.	Sum Insured	₦1.8M
	Value at the time of loss	₦2.5M

The Insurer will settle the claim on indemnity basis based on the sum insured and average will apply because the sum insured is less than the value of machinery at the time of loss. The Insurer will penalize the insurer for the under-insurance.

- b. Reinstatement value basis; The insurer will settle the claim based on the sum insured of the machinery at the time of loss and average will also apply as the sum insured is less than 85% of the full value at the time of loss.

QUESTION 13

Enumerate the difference in scope of cover under product liability and professional indemnity policy. State the exclusions. (10 marks)

SOLUTIONS TO QUESTION 13

Professional Indemnity (PI): the policy provides cover for liability arising out of professional Negligence, and this can arise where lawyers, accountants, doctors, insurance brokers or any other professionals give negligent advice or action which later result into financial loss to the insured.

While product liability provide cover for loss or injury sustained by the insured as a result of consumption or malfunctioning, sub-standard product which result into loss or damage to the consumer or third parties.

QUESTION 14

Compare the claim procedures in General Insurance and Life Assurance Contracts. (10 marks)

SOLUTIONS TO QUESTION 14

Claim notification procedure in Life Assurance

- Maturity Claim: the Insurer is obliged to notify the insured two or three months in advance before the maturity date.
- Death Claim: Notification to insurer by the deceased family or executors.
- Proof death is also required by the insurer e.g. death or burial certificate or obituary advertisement notice.

- Assignment of proceeds of death benefits which involve the courts e.g. obtaining of probate letter.

Claim notification procedure in Non-Life

- Immediate notification by the insured to insurer.
- Police report in case of burglary/theft claims
- No admission of liability, except with the written or express permission of insurer.
- Right of Action: the insured must assist the insurer in exercise of subrogation rights against any negligent third party responsible for the loss.
- Claim supporting documents e.g. details/ particular of loss.

QUESTION 15

Define the following terms:

- (i) Average
- (ii) Excess
- (iii) Franchise
- (iv) Deductible

SOLUTIONS TO QUESTION 15

Average: Is the penalty on the insured for under insuring his risks in general insurance contract. i.e. $\frac{S.I}{Value} \times Loss$

Excess: this is the amount which the insured bears for each and every loss in property insurance.

Franchise: this is the amount which the insured bears before a loss payment provided the amount of loss is not higher than the franchise limit. It could equally be used as days in personal accident contract's claims.

Deductible: This is large excess voluntarily assumed by the insured for a premium discount.

QUESTION 16

Explain the term Business Interruption Insurance and mention two (2) main sections under which the cover is usually arranged. (10 marks)

SOLUTIONS TO QUESTION 16

- a. Business interruption Insurance otherwise known as loss of profit Insurance covers losses resulting from damage to physical property by fire and allied perils, which affect the continuation of business operations. The damage caused to the physical property (i.e.) Building by Fire and Allied perils resulted into disruption of business operation, which leads to loss of profit by the insured organization. The policy covered costs incurred by the insured for wages, rent, net profits, etc., during the period the operation of the company is disrupted.
- b. Cover is granted under two basic Headings:
1. Costs of Overhead expenses
 2. Increase in cost of running the business (temporary accommodation) while the property is under repair.

QUESTION 17

Discuss the workings of Enterprise Risk Management in the operation of Insurance Company in line with NAICOM guidelines (10 marks)

SOLUTIONS TO QUESTION 17

Enterprise Risk Management (ERM) is an important arm of Risk Management concept which involves the assessment of risk determines the level of exposure, minimize, or elimination of indemnity risk.

In line with NAICOM guideline and directive an insurance company operating in Nigeria is expected to establish (ERM) department to be managed by a very senior officer in the rank of Assistant General Manager (AGM). The purpose of the department is to identify risk inherent in the operational structure of Insurance.

QUESTION 18

Explain the term Local Content Act, as it relates to Insurance of Oil and Gas in Nigeria.

SOLUTIONS TO QUESTION 18

The local content act – as it relates to Nigeria Insurance market states that all insurance transaction of major oil companies operating in Nigeria territory should be done locally before the excess is insured overseas.

- The act stipulates that all asset should be insured with Nigeria insurance company at least 70% local content, while the remaining 30% insured overseas.
- Before the Act, most of the assets of major oil companies operating in Nigeria were insured by 100% abroad while the local insurer in Nigeria only participate on facultative basis. However the Act is expected to increase the local capacity of insurance company in Nigeria in the area of oil and gas underwriting.

QUESTION 19

Explain the circumstances under which insurers delegate authority to an intermediary. (10 marks)

SOLUTIONS TO QUESTION 19

The circumstances whereby insurers delegate duties to an intermediary e.g. Agent/ Brokers are:

- Where the intermediary is acting as agent of the insurer on the authority of the principal.
- Where the intermediary has an express authority from the principal.
- Where the intermediary collects premium on behalf of the insurer.
- Where the intermediary issues the insurer's documents such as cover notes and certificates on behalf of the insurer
- Where the intermediary settles claims on behalf of the insurer.

QUESTION 20

Enumerate the difference between Captive Insurance and Self-Insurance.

(10 marks)

SOLUTIONS TO QUESTION 20

Self-insurance is a situation where an organization set aside funds to mitigate or settle any losses that may arise from its operation while captive Insurance is where an organization set-ups a subsidiary or affiliate company to insure the assets of the parent company.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D04

BUSINESS PRACTICE

QUESTION 1

- (a) Define the term 'economics'. (4 marks)
- (b) Explain briefly how businesses contribute to the growth of a nation. (6 marks)

SOLUTIONS TO QUESTION 1

Economics can be defined as the social science concerned with the production, distribution and consumption of goods and services, and the analysis of commercial activities of society

Can also be defined as the application of economic theory or decisions or an economic nature to solve economics problems.

- b. Businesses produce goods and services
- Businesses provide employment
 - Contribute funds to the state in forms of taxes
 - Pay Taxes find their way back towards the support or development of the society.
 - Contribute to nation's income and its economic growth.

QUESTION 2

Compare and contrast companies limited by shares and those limited by guarantee. (10 marks)

SOLUTIONS TO QUESTION 2

1. Both companies are registered by an appropriate authorities
2. Both have a registered office

3. Both are audited annually
4. Company limited by share are profit organization i.e. shareholders are recorded by dividends which can be sold and transferred while company limited by guarantee are non- profit organization (profits re-invested in the company).
5. Shareholders liability are limited to the values of their shares in a company limited by shares while the liability are limited to the agreed nominal value of contribution by companies limited by guarantee.

QUESTION 3

Outline the characteristics of a matrix culture.

(10 marks)

SOLUTIONS TO QUESTION 3

The matrix culture's characteristics are as follows:

- 1) Resources allocation and goal setting decisions are made bureaucratically
- 2) Operational decisions are made on a project group basis.
- 3) Specialist staff are used across the whole organization.
- 4) The organization relies on a team system
- 5) There is a cross- disciplinary approach
- 6) A more stimulating work environment is provided for individual

QUESTION 4

Indicate type of interests and expectations the various stakeholders listed below can have in a business.

- (i) Shareholders**
- (ii) Government**
- (iii) Suppliers/Creditors**

SOLUTIONS TO QUESTION 4

The following listings indicate the types of interest and expectations of:

- a. **Shareholders**
 - i) Quality products
 - ii) Value for money prices
 - iii) Warranties and guarantees
 - iv) Rapid delivery/ service
 - v) After sales service.

- b. **Government**
 - i) Tax revenue
 - ii) Openness
 - iii) New job creation
 - iv) Introduction and adoption of new technologies

- c. **Supplier/Creditors**
 - i) Prompt payment
 - ii) Reasonable delivery expectations
 - iii) Long- term company solvency.

QUESTION 5

Explain five (5) recent improvements in global communications. (10 marks)

SOLUTIONS TO QUESTION 5

Improvements in global communications are:

1. Integrated Services Digital Networks (ISDN): A high- speed telephone line that allows more digital information, including video- conferencing pictures, to be transferred quickly through the telephone network.
2. Mobile telephony and GSM: use of mobile telephone has become more and more popular, and GSM allows callers to use their telephone anywhere via satellites that relay messages around the world.
3. Email: a way of sending messages and documents cheaply and safely to people using existing telecommunications network and computers
4. Video conferencing: this allows a telephone call to be conducted not just by voice, but also with accompanying pictures of participants.
5. WAP/ Bluetooth technologies: These technologies provide internet access and other data- based services such as e-mail, e-transactions, news and weather reports over wireless networks. **(2 Marks each)**

QUESTION 6

- a. **Give the full meaning of the following acronyms**
 - (i) GATT
 - (ii) ECB

(iii) IMF

(iv) WTO

(4 marks)

- b. State three (3) key objectives of a trading group like European Union (EU) on African Union (AU). (6 marks)

SOLUTIONS TO QUESTION 6

- a. GATT- General Agreement on Tariffs and Trade
ECB- European Central Bank
IMF- International Monetary Fund
WTO-World Trade Organization

b. **The Key Objectives of Trading Groups are:**

- ✚ The maximization of the advantages arising from the free movement of goods, finance and people.
- ✚ The increase of competition and demand within the group.
- ✚ The maintenance of stable prices and high levels of employment.
- ✚ The co-ordination of the policies of individual governments and their control banks.

QUESTION 7

- a. Define the term 'Strategic Management'. (2 marks)
- b. List four (4) examples each of Strategic Long-term Plans and Business Unit Plans.

SOLUTIONS TO QUESTION 7

- a. Strategic management is about designing a strategy for an organization's long- term future plans or objective.
- b. Examples of strategic long- term plans are:
- ✚ Mergers and acquisitions
 - ✚ Diversification
 - ✚ Divestment
 - ✚ Profit improvement
 - ✚ Entry into new market
 - ✚ Product range extension or rationalization.

Examples of business unit plans are:

- ✚ Marketing
- ✚ Sales
- ✚ Production
- ✚ Research and technical development
- ✚ Financial
- ✚ Procurement
- ✚ Human resources

QUESTION 8

Identify two (2) responsibilities each of the following non-managerial staff in an insurance organization.

- (i) Training Officers/Managers
- (ii) Recruitment Officers
- (iii) Procurement Managers
- (iv) Technical Underwriters
- (v) Accountants

(10 marks)

SOLUTIONS TO QUESTION 8

Responsibilities/ Roles of:

i. **Training Officers/ Managers:**

- ✚ Identify training needs
- ✚ Designs and deliver training courses/workshop
- ✚ Plan and co-ordinates training needs (1 mark each for any 3 Pts)

ii. **Recruitment Officers**

- ✚ Identify recruitment needs
- ✚ Conduct job analysis
- ✚ Handle job advertisement
- ✚ Interview candidates
- ✚ Obtain References (1 mark each for any 3 Pts)

iii. **Procurement Managers**

- ✚ Develop company purchasing policy
- ✚ Identify preferred suppliers
- ✚ Negotiate purchasing contracts. (1 mark each for any 3 Pts)

iv. **Technical Underwriters**

- ✚ Provide technical advice on product underwriting and other attendant technical issues in assessing the subject matter of Insurance. (1 mark each)

v. **Accountants**

- ✚ Handle accounting needs including budgets
- ✚ Expenditure reporting
- ✚ Preparing end of the year accounts (1 mark each for any 3 Pts)

QUESTION 9

- a. List the business that may be transacted by the Annual General Meeting (AGM). (6 marks)
- b. Mention the circumstance(s) that could warrant an Extra-ordinary General Meeting (ECM). (2 marks)
- c. State the number of days' notice required for:
- (i) An AGM meeting to shareholder.
 - (ii) Other meetings for a business transaction. (2 marks)

SOLUTIONS TO QUESTION 9

Business to be transacted by AGM consists:

- The adoption of the annual accounts
- The reading of the auditor's report and appointment of auditors as the case may be.
- The directors' report- including recommendation for the dividend to be paid to shareholders.
- A resolution proposed for the account recommended to be paid by way of dividend.
- Appointments of directors (if need be)
- A resolution to pay the auditors
- A resolution to pay the directors. (1 mark each for any 6 Pts)

- b. The directors may convene an extra- ordinary meeting of members if important special business requires a meeting of members.

- c. AGM - 21 days' notice
Other Meetings - 14 days' notice (2 marks)

QUESTION 10

- a. List five (5) corporate governance regulatory risks that FSA is concerned with. (5 marks)
b. State five (5) stages in a firm's risk assessment frame work. (5 marks)

SOLUTIONS TO QUESTION 10

- a. Corporate governance regulatory risks are:
- ✚ Financial Failure
 - ✚ Misconduct
 - ✚ Customer Understanding
 - ✚ Fraud or dishonesty
 - ✚ Market abuse
 - ✚ Money laundering
 - ✚ Market quality
- b. **The Stages of the Assessment Framework are as follows:**
- ✚ Preparing for the risk assessment
 - ✚ Probability assessment
 - ✚ Development of a risk mitigation programme
 - ✚ FSA internal validation
 - ✚ Communication to the firm
 - ✚ Using regulatory tools
 - ✚ Ongoing assessment and response to risk assessment.
 - ✚ New assessment cycle.

QUESTION 11

- a. What do you understand by the term 'Depreciation'? (3 marks)
b. Explain the concept of 'accounting equation' (5 marks)
c. State the purpose of a balance sheet. (2 marks)

SOLUTIONS TO QUESTION 11

- (a) Depreciation is the 'writing down' of the value of an asset over a period of time in the organizations balance sheet, to reflect the cost of its use.
- (b) Accounting equation – is the relationship between the things owned by a business (its assets) and the funds which were used to buy them and is expressed by the accounting equation:
Assets = Capital + Liabilities.
or Capital = Assets – Liabilities
It is an accounting convention that the equation must always balance.
- (c) The purpose of a balance sheet is to give a 'snapshot' of an organization's wealth, expressed as the difference between assets and liabilities, at a particular point in time.

QUESTION 12

Explain briefly the following accounting terms.

- | | | |
|-------|-----------------------|------------------|
| (i) | Profitability | (4 marks) |
| (ii) | Liquidity | (2 marks) |
| (iii) | Solvency | (2 marks) |
| (iv) | Owner's equity | (2 marks) |

SOLUTIONS TO QUESTION 12

- (i) Profitability – is the amount of money left over when all costs and expenses are deducted from all the organization's income. If the amount left is exactly zero, then the organization is said to have broken even. If there is a negative amount, then the organization has made a loss. If there is a positive amount left over, then the organization has made a profit.
- (ii) Liquidity – This is the amount of cash which a business has, or has access to. It is needed to pay the organization's cost and expenses.
- (iii) Solvency – essentially relates to an organization's ability to pay its debts and is applied to all trading companies. It is often expressed in relation to the credit risk presented by an organization to a lender or creditor.
- (iv) Owner's equity – It is the portion of a company's assets that is owned by those who have invested capital in it.

QUESTION 13

In a tabular form, differentiate between financial accounting and management accounting under the following:

- (i) Legal Requirement
- (ii) Audit Requirement
- (iii) Time Periods
- (iv) Format

SOLUTIONS TO QUESTION 13

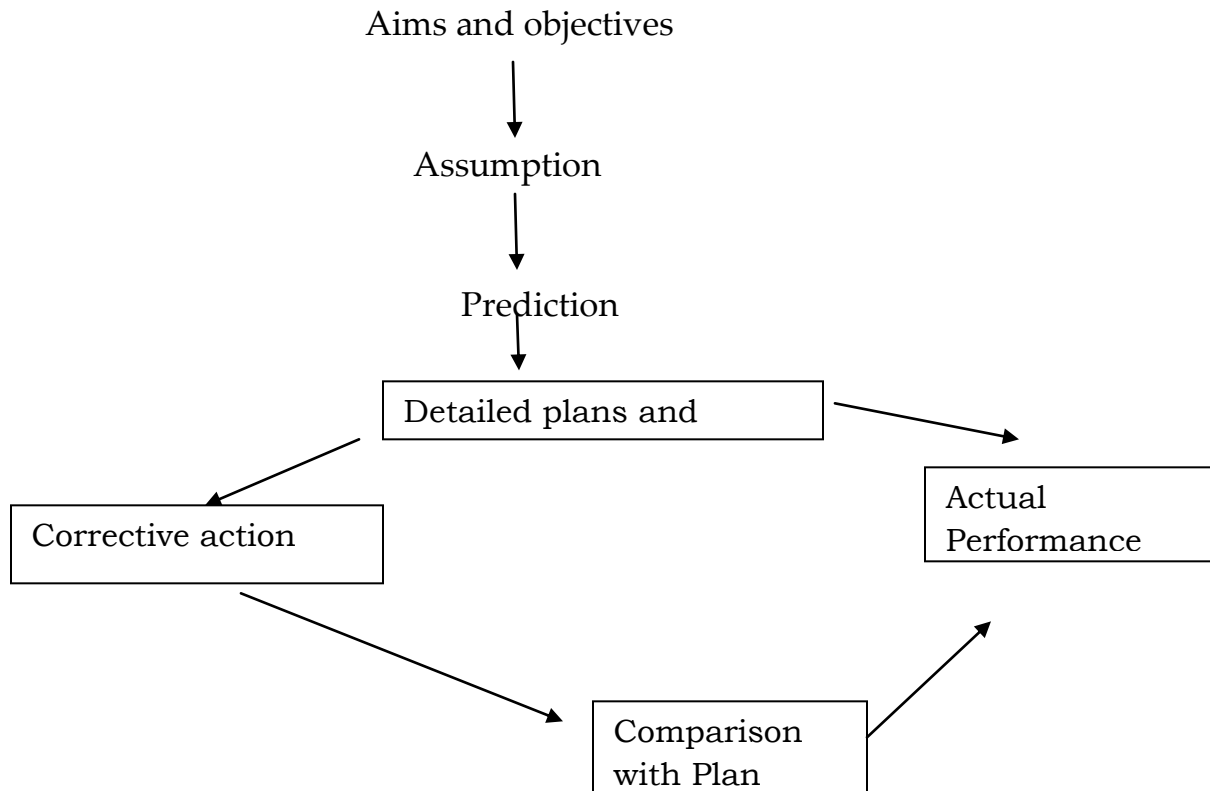
S/N		Financial Accounting	Management Accounting
1.	Legal requirement	Legally required to produce financial accounts	Not obliged by law to produce mgt accounts.
2.	Audit requirement	Must be audited by external auditor.	Do not have to be audited by external auditors.
3.	Time periods	Based on historical fact. They are accurate	Focused on future. Based on forecast, estimates and projections.
4.	Regulation	Precise figures are required due to legal requirement	No external regulatory constraints (rough figures expected).
5	Format	Looks at and records the financial impact of events on the organization as a whole. (1 mark each per points)	Naturally segmented and concentrated on processes. (1 mark each per point)

QUESTION 14

With the aid of a diagram, summarise what is meant by the planning and control cycle of budgeting. (10 marks)

SOLUTIONS TO QUESTION 14

Budgeting, Planning and Control cycle.



Organizations make initial aims and objectives, assumptions and predictions, which are formalized into detailed plans and budgets in turn, as the financial period always and throughout the period, actual performance is compared with the plan and corrective action taken as necessary to attain the target. This is in the form of a cycle, that is, an ongoing and repetitive exercise.

QUESTION 15

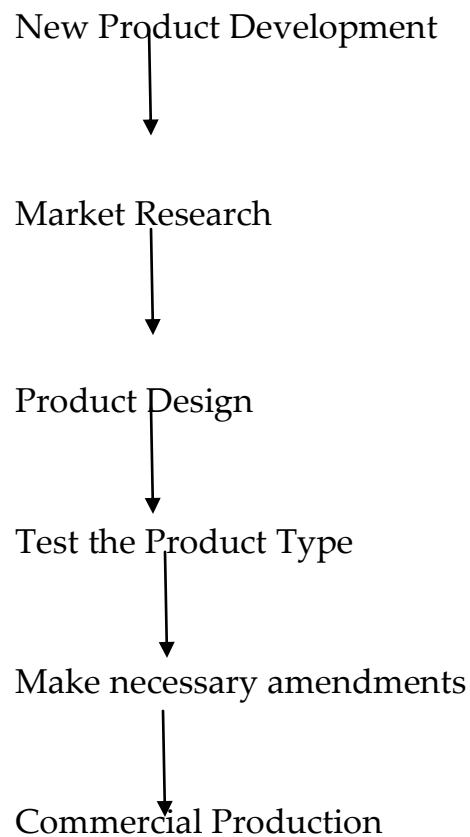
- a. List five (5) areas where ideas can be generated for developing a new product (5 marks)
- b. Depict in a diagram the five (5) stages of a new product development. (5 marks)

SOLUTIONS TO QUESTION 15

a. Ideas for new products can come from any of the following sources:

- ✚ Existing Customer
- ✚ The organization's staff
- ✚ Suppliers or agents
- ✚ Competitors
- ✚ The Government
- ✚ The media
- ✚ Trade associations.

b.



QUESTION 16

List ten (10) activities involved in marketing.

(10 marks)

SOLUTIONS TO QUESTION 16

Marketing activities include:

- ✚ Customer interaction
 - ✚ Knowing what the customer wants
 - ✚ Market research
 - ✚ Competitor research
 - ✚ Customer profiling, target markets or segmentation
 - ✚ Development of strategic marketing plans
 - ✚ Development of operational marketing plans
 - ✚ Advertising
 - ✚ Media relations
 - ✚ Public relations and sponsorship
 - ✚ Product development
 - ✚ Relationship management including sales management and customer service.
- (1 mark each for any 10 points)

QUESTION 17

- a. **Mention four (4) purposes of marketing research** **4 marks)**
- b. **Identify the market research process.** **(6 marks)**

SOLUTIONS TO QUESTION 17

- a. Purpose of market research are to:
- Develop marketing plans
 - Identify target markets
 - Formulate marketing strategy
 - Control marketing operations
 - Monitor the success of products or services
- b. Market research process:
- Identifying the missing information needed for analysis
 - Determining data needed, over which period of time and where it can be obtained.
 - Design research methods e.g. questioners, interviews
 - Design sample size and characteristics
 - Data collection, how it will be collected and stored
 - Techniques used in analysis and presentation of results.

QUESTION 18

- a. List four (4) distinct phases of the appraisal process. (4 marks)
- b. Mention six (6) assessment methods for recruiters in an organization. (6 marks)

SOLUTIONS TO QUESTION 18

The four phases are:

- Assessing the individuals performance
 - Agreeing the assessment
 - Identifying training and development needs
 - Setting objectives
- (1 mark each for 4 points)

b. Assessment methods for recruiters are:

- Interviews
 - References
 - Personality tests
 - Intelligence tests
 - Simulations
 - Assessment centres
- (1 mark per point)

QUESTION 19

- a. Distinguish between the two (2) categories of reward (i.e. intrinsic and extrinsic). Give two (2) examples of each. (6 marks)
- b. Mention four (4) ways of distributing rewards in a business organization. (4 marks)

SOLUTIONS TO QUESTION 19

Intrinsic rewards are derived from the pleasure which the individual associates with doing the job itself examples are: (2 marks)

- using personal skills to the full
 - dealing with problems
 - achieving targets
 - working with satisfaction
- (½ mark each for any 2 examples)

Extrinsic rewards are given to the employee by the organization and do not emerge from doing the work itself examples are: **(2 marks)**

- Salary & wages
- Performance business
- Overtime
- Holiday pay
- Pension contribution

(½ mark each for any 2 examples)

b. Four ways of distributing rewards are:

- Performance
- Effort
- Seniority
- Equality

(1 mark each per point)

QUESTION 20

a. State four (4) objectives of Manpower Planning. **(4 marks)**

b. Enumerate six (6) limitations of Manpower Planning. **(6 marks)**

SOLUTIONS TO QUESTION 20

Objectives of the manpower planning process are:

- Improved career progression
- Modified age structure
- Optionised skill mix
- Minimization of wastage

(1 mark per point)

b. Problems and limitations of manpower planning include:

- Obtaining the information (and updating)
- Rapid changes in the business environment.
- Legislation
- Government Policies
- Changes in the economy
- Changes in the labour markets
- Difficulty in obtaining commitment.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D05
INSURANCE LAW

QUESTION 1

Distinguish between the followings:

- (a) A Bill and an Act of Parliament.
- (b) Ratio Decidendi and Obiter Dictum
- (c) Retroactive and Retrospective legislations.
- (d) Codifying and Consolidation Acts

SOLUTIONS TO QUESTION 1

A BILL: is an Act in the making. It is a proposal that will be processed into an Act of parliament by the legislators. It may relate to public or private matters.

An Act of Parliament: is a fully processed Bill which has been duly passed and processed by the National Assembly and assented to by the President of the Federal Republic of Nigeria.

Ratio decidendi and obiter dictum.

Ratio decidendi: means “the reason for the decision” of a Judge in his judgment. It is based on the material facts of the case, previous decisions of Judges and the Judge’s reason for the decision. It is the ratio decidendi that creates a judicial precedent.

Obiter dictum: means “by the way” it is a statement or comment by a judge in his judgment or comment by a judge in his judgment that is not necessary to decide the case one way or the other. It may be just a hypothetical example given by the judge to drive home a legal principle or legal note. It is not the ratio decidendi However, an obiter dictum may be persuasive i.e. exact some influence on future cases.

Retroactive and Retrospective Legislations

Retroactive Legislation: affects acts done or rights acquired before it came into force. It makes illegal what was done legally and within the law. It is usually regarded as unconstitutional and it introduces uncertainty into the law.

Retrospective Legislation: is used to legalize actions which were illegal at the time it was done in order to protect people who acted properly but who, never the less, committed a technical tread of the law it is called Act of indemnity, Retrospective Legislation is passed to close loopholes in the law.

Codifying and Consolidating Acts

A Codifying Act: reduces all existing laws, statutes and ease laws on a particular topic into a single code.

Consolidating Act: on the other hand, repeals all previous legislations on a subject and re-enacts them into one logically arranged statute. No new law is created but existing statutory enactments are brought under one umbrella.

(2 ½ marks)

QUESTION 2

- a. Define the term 'Law' (4 marks)
- b. Distinguish between a 'legal rule' and a 'moral rule' (4 marks)
- c. What will make a law acceptable to the people in the society (2 marks)

SOLUTIONS TO QUESTION 2

The term "Law" refers to the body of general rules which governs and controls the behaviour of people in the country or state which we live.

(4 marks)

Legal Rules are backed up by sanctions and there are sanctions for whosoever breaks them.

Moral Rules on the other hand, may not be backed by sanction because moral rules are persuasive. Legal Rules are imperative. (4 marks)

Law will be acceptable to the people only if they reflect the feeling of the community as to what is right and what is wrong. (2 marks)

QUESTION 3

- a. What are Unincorporated Associations? (1 mark)
- b. Discuss briefly the liability of the members of such Associations in:
- (i) Contract (3 marks)
 - (ii) Tort (3 marks)
 - (iii) Property (3 marks)

SOLUTIONS TO QUESTION 3

They are groups of people which have not been incorporated by any of the methods of incorporation known to law. Examples are small social club, voluntary organizations and trade unions.

They do not have separate legal identity different from their members.

They are simply groups of individuals each of whom is a natural entity with its own legal rights and responsibilities.

- i. **Contract:** A member who enters into a contract on behalf of an unincorporated Association is personally liable. The other members will only be liable if they authorize the making of the contract. (3 marks)
- ii **Tort:** Members are individually liable for their tortuous wrong even when it is committed in the course of the Association's activities. However, if a person is injured as a result of the dangerous condition of the club's premises, the committee which runs the club may be held liable in some cases depending on the Rules of the Association. If a person is injured as a result of the negligence of the Association's employee, the person(s) who appointed the employee i.e. the secretary, the committee or the trustees of the association will be liable viciously. (3 marks)
- iii. **Property:** Unincorporated Associations have no separate and distinct legal personality. They therefore cannot own property properly as it is usually vested in a body of Trustees who hold the property for the benefit of members. (3 marks)

QUESTION 4

- a. Classify the tort of Trespass in relation to the interests that the tort protects. (5 marks)
- b. What are the general characteristics of the tort of trespass? (5 marks)

SOLUTIONS TO QUESTION 4

Trespass as a tort may be classified as follows:

- Trespass to Person (assault, battery, false imprisonment)
- Trespass to goods (Conversion)
- Trespass to land

General characteristics of Trespass are:

- The act of the Defendant must be direct
- The act of the Defendant must be intentional
- The tort must be actionable *per se*.

QUESTION 5

- a. What is 'Non est factum'? (2 marks)
- b. When will it be available as a defence in the law of contract? (8 marks)

SOLUTIONS TO QUESTION 5

Non est factum: it is a Latin word that means "not my will". It is a common law defence to protect the signer of a document e.g. an illiterate to whom the content of a document signed by him was wrongly explained. (2 marks)

- b. As a defence, to avail a defendant the following must be present:
- The signer must have no real understanding of the document because of defective education, illness or innate capacity.
 - There is a fundamental difference between the document actually signed and the one which the signer believed it to be.
 - The signer can show that he was not careless in signing the document.
- (8 marks)

QUESTION 6

What are the effects of the action of an Agent who enters into a contract with a third party on behalf of:

- (a) A Disclosed Principal? And
- (b) An Undisclosed Principal?

SOLUTIONS TO QUESTION 6

When the agent acts for a disclosed principal, he drops out of the contract after its conclusion. The parties can enforce the contract against each other personally e.g. because of his reputation or special skills.

Undisclosed Principal

The undisclosed principal can sue the Third party on the contract. However, the principal cannot:

- Sue if he did not exist or if he lacked capacity when the contract was made.
- Sue if the contract expressly provides that the person making it is the sole principal.
- Sue if the third party can prove that he had some good reason for dealing with the agent. Unless they can prove that at the time of the contract they did not understand what they were doing and the other party was aware of this. See **Imperial Life insurance co of Canada V Audelt**.

QUESTION 7

Discuss the legal rules relating to the capacity of the following entities to enter into insurance contracts

- | | |
|--------------------------------|-----------|
| (a) Minors | (6 marks) |
| (b) Mental and Drunken persons | (4 marks) |

SOLUTIONS TO QUESTION 7

Insurance contracts by minors.

An insurer who grants a cover to a minor is fully liable to meet and settle all valid claims under the policy.

A minor however is only bound by contract for necessities of which Insurance may not be one. It means that cover must be arranged to suit the situation of the minor in life see **CLEMENTS N LONDON, NORTH – WESTERN RLY**.

On the principles governing the return of premium, a minor will not be entitled to return of premium unless there is a total failure of consideration. Once the risk has started running and the minor has taken benefit of the cover, the minor cannot be entitled to return of premium. (6 marks)

Mental and Drunken persons

They are bound by their contracts. The Agent can neither sue or be sued on the contract. There are however, three exceptions to this general rule:

- Where the Agent signs a DEED, he may be liable on it
 - Where trade customs make an Agent liable personally on a contract
 - When the Agent signs his name on a negotiable instrument e.g. cheque.
- (4 marks)**

QUESTION 8

- a. **What is Misrepresentation in Insurance?** **(2 marks)**
- b. **Give at least three (3) examples of misrepresentation in insurance** **(3 marks)**
- c. **What are the conditions to be present before misrepresentation can affect the validity of an insurance contract?** **(5 marks)**

SOLUTIONS TO QUESTION 8

Misrepresentation is a false statement that motivates the other party to enter into an insurance contract. **(2 marks)**

- A proposer for theft insurance says that the premises are protected by a burglar alarm when they are not
- A proposer for motor insurance declares that his car has not been modified in any way when it has.
- A proposer for life insurance gives his age as 25 when he is 35yrs. **(3 marks)**

Misrepresentation to be:

- Of fact and not of law or opinion or belief
- Made by a party to the contract
- Be material
- Induce the contract
- Cause some loss or disadvantage to the person who relied on it. **(5 marks)**

QUESTION 9

- a. **Define Warranty as a term in an insurance contract.** **(2 marks)**
- b. **Attempt a classification of the term.** **(2 marks)**
- c. **To what uses can continuing Warranties be put by the Insurer?** **(6 marks)**

SOLUTIONS TO QUESTION 9

- a. Warranty as a term in insurance contract is a promise made by the insured relating to facts or something which they agree to do. **(2 marks)**
- b. Warranty may relate to past or present facts (a promise that something was so or is so).

It may be a continuing one in which the insured promises that a state of affairs will continue to exist or that he will continue to do something.

(2 marks)

(a) to ensure that some aspect of good housekeeping or good management is observed e.g.:

- ✚ Promise to be cleared up each night refuges.
 - ✚ An intruder system to be kept in good working order and regulatory tested manner in the premises.
 - ✚ That the insured should take safe keys home with him when he leaves business premises at night.
- c. To ensure that certain high risk practices or activities are not introduced without the insurer's knowledge e.g.
- ✚ That no inflammable oils may be kept/ stored
 - ✚ No work carried out at a greater height than 12 metres
 - ✚ No woodworking should take place. **(6 marks)**

QUESTION 10

- a. **Who is an insurance intermediary? (4 marks)**
- b. **When will an insurance agent be regarded as the agent of the insurer? (6 marks)**

SOLUTIONS TO QUESTION 10

An insurance intermediary is one through whom an insurance contract is arranged. He may be an Insurance agent, professional insurance agent who arranges insurance contract in addition to his other activities. **(4 marks)**

The Agent will be an agent of the Insurer when the Agent:

- Has the insurer's express authority to receive and handle proposal form.

- Handles the forms according to a previous course of business with the insurer and with an implied authority that has arisen.
- Is instructed by the insurer to ask questions and fill the answers on a proposal form.
- Surveys and describes the property on the insurer's behalf
- Acts without express authority and the company either ratifies his actions or has ratified such action in the past.
- Has express or implied authority to collect premiums. **(6 marks)**

QUESTION 11

Name four (4) Statutory Exceptions to the doctrine of Privity of Contract.

(10 marks)

SOLUTIONS TO QUESTION 11

- Third Parties (Rights Against Insurers) Act, 1930
- Law of Property Act, 1925
- Fires Prevention (Metropolis) Act 1774
- The Road Traffic Act, 1988.

10 Marks

QUESTION 12

Highlight four (4) major differences between the two (2) concepts of 'Abandonment' and 'Subrogation'.

SOLUTIONS TO QUESTION 12

- Subrogation gives the insurer the right to pursue a claim against a third party for the loss of the subject matter whereas ABANDONMENT/SALVAGE confers rights only over the subject matter itself.
- An action by way of subrogation cannot be brought in the insurer's own name (with one exception) whereas an insurer who accepts ABANDONMENT becomes the owner of the goods.
- The insurer can make a profit from the abandoned property, whereas subrogation allows the insurer to recover no more than his own payment.
- Subrogation operates automatically as a result of the principle of indemnity; abandoned property needs not be accepted by the insurer.

QUESTION 13

In relation to Marine Insurance Policy, distinguish between the followings:

- (a) Total Loss (5 marks)
- (b) Constructive Total Loss (5 marks)

SOLUTIONS TO QUESTION 13

Total Loss: This is a loss in marine insurance i.e. where the subject matter is destroyed, ceases to exist or the insured is irretrievably deprived of the subject matter. Where the insured has been paid for this, the insurers will be entitled to claim for their own benefit authority that remains of the insurance subject/matter.

Constructive Total Loss: Is a situation where the subject matter is not destroyed but the insured is deprived of the possession of the ship and the goods and is unlikely that the insured can recover the ship or goods or the cost of recovering the ship or goods would exceed their value when recovered.

With total loss, abandonment is automatic whereas in constructive total loss, the insured would need to serve a notice of abandonment on the insurers if they wish to be paid for a total loss without the notice, the insured is deemed to have offered a partial loss and may only claim for this. (10 marks)

QUESTION 14

In what circumstances will an insurance contract be declared?

- (a) Invalid automatically; (1 mark)
- (b) Voidable; (1 mark)
- (c) Void? (8 marks)

SOLUTIONS TO QUESTION 14

Where there is a breach of warranty or continuing condition precedent to the contract. (1 mark)

Where there is a breach of good faith i.e. misrepresentation and or non-disclosure. (1 mark)

- Where there is no insurable interest
- Fundamental Mistake
- Contract is illegal
- Condition precedent is never fulfilled (8 marks)

QUESTION 15

The doctrine of Privity of Contract, if strictly applied to insurance contract, will mean that the only person(s) who could claim on an insurance policy would be the policyholder(s) who originally entered into the contract with the insurer. However, there are established exceptions to this principle of law in the field of insurance.

- (a) Briefly explain the concept of privity of contract. (5 marks)
- (b) Cite two (2) cases in support of your explanation. (5 marks)
- (c) State and explain the well-established common law exceptions to the concept (20 marks)

SOLUTIONS TO QUESTION 15

Privity of contract is a doctrine which confines the rights and duties under a contract to the persons who originally made it. It is only the parties that can sue or be sued on it. (5 marks)

- DUNLOP V SELFRIDGE
- TWEDDLE V ATKINSON (5 marks)

- Assignment
- Agency
- Trusts
- Policies with “Additional Insureds”
- Nothing the interest of third parties (5 marks)

- i) **Assignment-** This doctrine allows a contract or benefits of it to be assigned to a third party. Where there is a statutory or legal assignment, the legal assignment will be able to enforce the contract even though he is not an original party. (3 marks)

ii) Agency- The principles of law of agency will allow a stranger to claim under a contract of which he is not a party for instance the principle relating to undisclosed principal applies to insurance so also is the doctrine of ratification. **(3 marks)**

iii) Trusts – A person is sometime deemed to have established a trust for the benefit of a third party, who can enforce the policy for example, a person insures his own life for the benefit of another person. **(3 marks)**

Policies with Additional Insureds- Some insurance policies especially liability insurance, often grant an indemnity to persons other than the main insured which is usually a company. **(3 marks)**

QUESTION 16

“Even with careful policy drafting, disputes about the meaning of words used in insurance contract often occur. From time to time and courts are called upon to decide the meaning of words used by parties.

- a. Identify the two (2) categories of principles of interpretation which the courts use to interpret or decide the meaning of the words in policy documents when resolving disputes as regards the meaning of the words used in insurance policy documents. **(4 marks)****
- b. Outline the common law rules of interrelation of the words in insurance policy documents. **(10 marks)****
- c. Explain, with the aid of decided cases, the following:**
 - (i) How ambiguities in an insurance policy may be resolved by the court. **(10 marks)****
 - (ii) How inconsistencies and contradictions in insurance policy documents may be resolved by the court. **(6 marks)****

SOLUTIONS TO QUESTION 16

- a** Statutory Rules of interpretation
Common law Rules of Interpretation **(4 marks)**

- b
- i) Ordinary Meaning
 - Technical or Legal meaning
 - Contextual Meaning
 - The contra proferentem Rule
- (10 marks)**

c Words used in an insurance policy may have two or more possible meanings which either the insured or the insurer may differently hold on to. This is what is referred to as ambiguity. When this happens, the courts may adopt the contra proferentem rule to resolve the logjane.

i. The Rule states that any ambiguity in any word of a policy will be constructed or interpreted against party that inserts it or who want take advantage of it. In this case, it is the insurer being the drafter of the policy. It will be the reinsurer in a reinsurance contract see HOUGHTON V TRAFALGAL INSURANCE COMPANY. For there to be successful operation of the rule, there must be genuine ambiguity i.e. there must be alternative construction that is reasonable rather than the one which is grammatically possible but farfetched in reality. **(10 marks)**

ii Inconsistencies and contradictions may occur in an insurance policy so that one part of the document appears to conflict with another. The courts have developed the ways out of such situation.

- Where printed words conflict with words that are hand written or typed, the latter takes precedence since it is assumed that the parties intendance to adopt a standard form to meet the needs of their particular case. An endorsement is likely to overrule anything in the printed policy that appears to conflict with it.
- In case of contradiction between a proposal which is made the basis of the contract and the terms of the policy document which is issued later, the policy document is likely to take precedence over the final and formal expression of the agreement. **(6 marks)**

QUESTION 17

- a. Define the concept of 'Frustration' in the law of contract. (2 marks)
- b. Discuss with the aid of decided cases, five (5) circumstances that can frustrate or terminate an on-going or a valid contract. (20 marks)
- c. List four (4) effects of a frustrated contract. (8 marks)

SOLUTIONS TO QUESTION 17

- a. **Frustration**- is a situation that occurs due to no fault of any of the parties to a contract, which makes performance of their contract impossible, futile or illegal (2 marks).
- b. Change in law or operation of law- This may occasion subsequent illegality. For Example in **AVERY V BOWDEN**, the outbreak of war with Russia, made the performance of an existing chartering agreement illegal, thus discharging the contract. The same or a similar thing happened in **BELLY V CRESPIGNY**. The dependant leased land to the claimant and promised that the adjoining land would not be built up. A Rail company compulsorily took over the land under a statute that was subsequently passed. The court held that the defendant was excused from the promise made by him to his claimant. (4 marks)
 - ii. Destruction of a thing necessary for performance of the contract. In **TAYLOR V CALDWELL**, a hall was hired out to the claimant for a series of concepts on four named days but the hall was accidentally burnt down before the date of the first award. The claimant's claim for damages based on wasted advertising expenses, failed as destruction of the hall frustrated the contract. (4 marks)
 - iii. Non occurrence of an event on which the contract depends. This can best be illustrated by the coronation cases. An example of which is that of King EDWARD II which was postponed owing to the king's illness. However, in **KRELL V HENRY**, the defendant agreed to hire the claimant's rooms to watch the coronation procession but refused to pay the balance of rent due when the procession was cancelled. The court held that the cancellation of the procession effectively discharged the contract and the balance of rent was not payable. The

failure of the event must completely remove the basis of the contract in order to discharge or frustrate it. See **HERNE BAY STEAMBOAT CO V HUTTON**. (4 marks)

- iv Commercial purpose of the contract frustrated. A contract may be frustrated and discharged when a change in the circumstances of the contract is so fundamental that the duties involved become entirely different from those which the parties originally envisaged. See **METROPOLITAN WATER BOARD V DICK, KERR & CO** where a firm of contractors agreed in 1914 to build a Reservoir within six years. In 1916, whilst the 1st world war was raging, the contractors were ordered to stop work and sell the plant. The court held that act frustrated the contract since the nature and uncertain duration of the interruption entirely undermined the agreement. Note however that a contract will not be frustrated or discharged simply because new circumstances make it more difficult to perform. See **TSAKIROGIOU & CO LTD V NOBLE THOR**. (4 marks)

Death or Personal Incapacity. Either of these will discharge a contract where the party in question is required to provide personal services. An obvious example is a contract to perform in a concert. See **CONDOR V THE BORRON OF KNIGHTS**. (4 marks)

- c All sums paid before frustration can be recovered
- ✚ Money payable before frustration is no longer payable
 - ✚ A party may claim or keep from what he had already been paid, a reasonable sum for any expenses he had incurred before frustration.
 - ✚ Where one party has conferred a benefit (other than a money payment) on the other party prior to frustration, he may recover a reasonable sum in compensation. (8 marks)

QUESTION 18

- a. Give a concise explanation of the concept of indemnity. (4 marks)
- b. Distinguish, with relevant examples, between Indemnity insurance and non-indemnity or contingency insurances

- c. **Give and Explain four (4) instances when the operation of the principle of indemnity will be extended. (20 marks)**

SOLUTIONS TO QUESTION 18

The word “Indemnity” literally means to save from loss or harm. Accordingly, “Indemnity” means the protection or security against damage or loss. In the context of insurance, indemnity policy or contract means one intended to provide financial compensation for a loss which the insured has suffered and put him back in the same position after the loss as he enjoyed immediately before it. Indemnity therefore implies that the object of insurance is to provide exact financial; compensation for the insured. **(4 marks)**

Indemnity Insurance is one where the Insurer agrees to pay only when the insured suffers a loss of a particular type and only for the amount of the loss. Most types of general (non-life) insurances are indemnity contracts i.e. virtually all property, pecuniary and liability insurances including motor, marine and aviation, are indemnity insurances. Non-Indemnity (or contingency) Insurances are policies in which insurers agree to pay specified sum when a particular defined event occurs. The insured does not have to prove that he suffered a loss, only that the event insured against has happened. Example is life insurance policies. In these cases, an agreed sum is payable in the event of death or after a certain number of years on maturity of the policy. No need to prove a financial loss life policy cannot be an indemnity one because it is usually impossible to place a value on human life and it is not always intended to cover financial loss. In many cases, the main aim is to serve as a means of saving for the future. **(6 marks)**

Contrary to the view expressed by the law lord, Brett, L.J in **CASTELLAIN V PRESTON** that the concept of Indemnity means giving full indemnity to the insured and not more, in four circumstances, the insured can set more than full indemnity. The circumstances are as follows:

- Cover on reinstatement basis
- New for old cover
- Agreed value cover
- Partial losses undervalued policies.

(20 marks)

.CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D10

COMMERCIAL INSURANCE PRACTICE

QUESTION 1

Establishing a captive insurer has various advantages mention five (5) out of these.

SOLUTIONS TO QUESTION 1

Any five (5) from these:

- It helps to reduce or stabilize Insurance cost
- Any accrued profits remain within the organization
- There can be no disputes with external Insurers
- Financial benefits are possible if the captive can be formed in an offshore tax haven.
- There is access to the reinsurance market.

QUESTION 2

As an Insurance professional, differentiate between the causation trigger and occurrence trigger.

SOLUTIONS TO QUESTION 2

The causation trigger means the Insurance responds to an event which was caused during the period of Insurance.

While:

The occurrence trigger means the Insurance responds to an event giving rise to a legal liability to insured that occurs during the period of Insurance.

QUESTION 3

What factors do an insurer need to take into account when fixing maximum Indemnity Period?

SOLUTIONS TO QUESTION 3

The time it will take to:

- Repair or reinstate the buildings;
- Repair or replace specialized machinery;
- Replace stock or raw material;
- Recover their customer base
- Recover their lost share of the market

QUESTION 4

We are all familiar with fire and special perils policies; these perils can be further divided into 'dry' and 'wet'. Mention three (3) each, the risks that are usually covered under 'dry' and 'wet' perils.

SOLUTIONS TO QUESTION 4

- a. The dry perils are:
- Explosion
 - Aircraft
 - Earthquake
 - Riot, Civil commotion and malicious damage
- b. The wet perils included:
- Storm
 - Flood
 - Escape of water/ burst pipes
 - Impact by own and third party vehicles

QUESTION 5

Contractors All Risks Insurance has specific exclusions; state three (3) of them.

SOLUTIONS TO QUESTION 5

Three (3) From:

- Fines and penalties for late completion
- Defective property
- Errors or omission in design
- Loss or damage after completion
- Damage to external structures not part of the contract.

QUESTION 6

Combined policy has various advantages; State any three (3) of these advantages.

SOLUTIONS TO QUESTION 6

Three (3) from these:

- There is only one Insurance policy, one premium, one renewal detail, one document.
- A number of individual cover can be combined.
- The actual levels of cover and terms are tailored to meet the needs of the individual business.
- They are more flexible than the standard package type of cover.

QUESTION 7

Estimated Maximum Loss (EMLs) is useful to insurers in many ways; Name three (3) out of these ways.

SOLUTIONS TO QUESTION 7

Three (3) from these:

- To identify the maximum loss which is likely in “normal” circumstances?
- To assess and manage their exposure to risk.
- To ensure that underwriters are making full use of the company’s full capacity.
- To protect the balance sheet.
- To help in the purchase of their reinsurance programmes.

QUESTION 8

There are four (4) areas of exposure under intellectual property cover. List any two (2).

SOLUTIONS TO QUESTION 8

Two (2) from these:

- Pursuit
- Defense
- Validity
- Agreements

QUESTION 9

Apart from bringing together the commercial clients and insurer, what additional services do brokers often offer the commercial clients?

SOLUTIONS TO QUESTION 9

- Risk management services
- Claims handling services.

QUESTION 10

What is the main purpose of Employers' Liability (Compulsory Insurance) Act 1969?

SOLUTIONS TO QUESTION 10

To provide security for employees if they have an accident for which their employer is responsible.

QUESTION 11

Q What are the three (3) main reasons for the inclusion of EXCLUSIONS in an Insurance policy?

SOLUTIONS TO QUESTION 11

The reasons are:

- To specify those risks that Insured does not wish to insure.
- To indicate those risks that are more traditionally insured under more specific covers.

- To know those risks that insured may be prepared to insure following further investigation and at additional premium.

QUESTION 12

What does 'permanent works' mean under Contractors' Insurance Cover?

SOLUTIONS TO QUESTION 12

This is the main subject of the contract, for example: The house, shop, factory etc. that is being built and all unfixed materials.

QUESTION 13

In order to rate Liability Insurance properly, what are the exposure measures the underwriters normally use? Mention four (4) of such measures.

SOLUTIONS TO QUESTION 13

These:

- Wage roll
- Turnover
- Per Premises
- Unit consideration

QUESTION 14

When underwriting a commercial goods-carrying vehicle some information will be useful to the insurance underwriter. What are these information?

SOLUTIONS TO QUESTION 14

Four (4) from these:

- Type and size of vehicles
- Use of vehicle
- Age/ Value
- District of use
- Claim experience
- Convictions
- The cover required
- The driver details
- No claims bones history.

QUESTION 15

a. Explain with example the usefulness of five (5) of the following words as applicable to insurance policy.

- (i) Excesses
- (ii) Definitions
- (iii) The Cover
- (iv) The Clauses
- (v) The Exceptions
- (vi) The Conditions

(20 marks)

b. Name five (5) favourable features that will influence a professional underwriter to allow discount off the theft rate. (10 marks)

SOLUTIONS TO QUESTION 15

EXCESS: It is used to determine the amounts to be deducted and to be borne by the insured from each and every claim at each and every location. These amounts are always stated in the schedule of policy.

DEFINITIONS: This is used to explain some key terms in the typical Insure policy e.g. Damage = Loss or destruction of or damage to the property insured.

The property = the subject matter of insurance

Cover: It states that “the insurer will indemnify the insured in respect of damage of insured property or interest during the period of insurance”.

The Clause: clauses are inserted into policies in order to widen their scope and meet as closely as possible the insurance requirement of the insured. clauses are often required delete policy exception, reward conditions and/ or express agreement of terms between the insurer and the insured.

The Exceptions: Exceptions stipulate some risks that are not covered within a policy however related or closed they are. The purpose or reason for this is such risks to be covered under another policy for clarity.

Example: Light fittings and signs are not covered under GLASS INSURANCE.

Conditions: Conditions clearly or expressly stipulate what should happen before a claim can be accepted.

Example: Condition precedence to claims in money Insurance says: A secure record must be kept for all money transactions.

b) They are:

- intruder alarms
- CCTV
- Strong rooms
- Employment of adequate guards
- Evidence of those goods are not attractive to theft

QUESTION 15

a. Professional Indemnity is a popular cover in the Nigerian Insurance Market.

- (i) What is the scope of cover?**
- (ii) Mention categories of professions that can effect this policy.**

(10 marks)

b. It is the duty of Insurers to put considerable efforts in highlighting the importance of your answers in Questions '15(a)' above in order to reduce not only the number and size of claims but, even more importantly the UNINSURED COSTS claim to the company. State five (5) uninsured cost claims that is known to you.

c. Under Road Traffic Act 1988, a certificate of Motor Insurance must contain certain information. Mention five of these.

SOLUTIONS TO QUESTION 16

a.

- i The policy covers the consequences on the professional from a wrong advice or treatment (practice).
- ii The professionals could be: accountants, solicitors, doctors, insurance brokers, engineers, etc.

b. The following are the Uninsured Cost: Five (5) from these examples:

- Possible Fatality

- Poor company image
- Hire Vehicle administration
- Poor residual value
- Missed appointments
- Late deliveries
- Loss of key staff
- Loss of custom
- Loss time for Injury
- Increased Insurance premiums

Certificate of motor must contain the following: Pick any Five (5).

- Registration mark or type of the vehicles;
- Name of the insured;
- Effective date of commencement
- Date of Expiry
- person(s) or classes of person permitted to drive the vehicle;
- Limitations as to the use of the vehicles
- Confirmation that the Insurance complies with the law
- Confirmation that the insurer is authorized (10 Marks)

QUESTION 17

Q Stock Declaration

Monthly Basis	Declaration (R)
January	400,000
February	350,000
March	300,000
April	350,000
May	No declaration
June	400,000
July	350,000
August	450,000
September	650,000
October	No declaration
November	600,000
December	500,000

NOTE:

Stock Sum Insured: N700,000
Fire and Special Perils rate 0.45%
Provisional Premium: $N700,000 \times 0.45\% = N3,150$ "75%
N2362.50

- (a) Write out the adjusted declaration figures as expected.
- (b) Calculate the total expected declarations.
- (c) Calculate the average declaration at risk during period of insurance.
- (d) Calculate the expected premium.
- (e) What is the maximum additional premium that could be charged in this case? (30 marks)

SOLUTIONS TO QUESTION 17

STOCK DECLARATION

Period of Insurance 31/12/2013 – 31/12/2014

Monthly Basis	Declaration (N)	Adjustment (N)
January	400,000	400,000
February	350,000	350,000
March	300,000	300,000
April	350,000	350,000
May	No declaration	700,000
June	400,000	400,000
July	350,000	350,000
August	450,000	450,000
September	650,000	650,000
October	No declaration	700,000
November	600,000	600,000
December	500,000	500,000

Total expected declaration = N5,750,000

$5,750,000 \div 12 = \underline{N479,166.66}$

$479,166.67 \times 0.45\% = \underline{N2156.25}$

700,000 X 0.45% @ 25%

3250 X 25% = ~~N~~787.50

QUESTION 18

- a. Why is it very important to state the full name of the proposer correctly in the proposal form and policy documents?
- b. State four (4) general questions that are usually found in majority of a typical proposal forms irrespective of the class of insurance.
- c. Outline four (4) of the limited risk information usually requested for in a checklist.

SOLUTIONS TO QUESTION 18

So as to properly identify the insured or beneficiary of the insurance contract.

b) General questions that most proposal forms will contain

- a) Name of the proposer
- b) Address
- c) Occupation
- d) Date of Birth
- e) Conviction
- f) Claims or loss history
- g) Previous Insurance history.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D11

PERSONAL INSURANCE PRACTICE

QUESTION 1

Explain the use of the Green Card System in UK Insurance Market or the Brown Card in the Nigerian Insurance Market.

SOLUTIONS TO QUESTION 1

GREEN CARD

Following the Third EC motor Insurance Directive which was introduced on 31/12/1992, all motor Insurance policies issued in the EU automatically provide cover against liability incurred to a third party while the insured vehicle is being used in the EU. The cover applicable is the minimum legal cover required in the relevant member state or the minimum cover required in the country where the vehicle is usually kept, whichever is greater.

Consequently the use of the green card system has diminished, however, they are still issued for those policy holders who wish to retain their existing domestic policy while motoring abroad, for which an additional premium is usually payable **OR**

BROWN CARD

Regulation of motor insurance is a matter over which each sovereign state has jurisdiction, and a motor vehicle usage cannot be limited to the confines of a single country for this reason ECOWAS established a scheme called ECOWAS BROWN CARD where motorist willing to undertake a journey outside his country within West Africa would approach his insurers and obtain an extension of Third party motor Insurance cover for liability to third parties in the country to be visited in return for payment of additional premium. Protocol establishing

ECOWAS Brown card was signed by on 29/5/82 at Cotonou. The Bureau of each country coordinates claims.

QUESTION 2

- a. **Explain Mortgage Indemnity guarantee Insurance.**
- b. **How did Building Society Act 1986 negatively effect this policy?**

SOLUTIONS TO QUESTION 2

- a. Mortgage Indemnity guarantee Insurance: when borrowers take out new loans from a building society, if they want to borrow more than around 75% of the value of the property the society will normally insist that they take out a mortgage guarantee, know as a mortgage indemnity policy, most insurer do not underwrite the risk individually and rely on the building societies instructions. If the mortgage goes into default, and the property is sold less than the outstanding amount on the mortgage, then the building society can make claim.
- b. Building societies Act 1986 provided the opportunity for building societies to adopt PLC status. This enables them to raise deposits from more sources and give more loans with the corresponding higher percentage of the purchase price subsequently high interest rates and a slump in property prices which led to huge number of claims in late 1980s/ early 1990s. This has led to losses by companies transacting this type of insurance and more stringent underwriting of this class of business is now imposed.

QUESTION 3

State the principle established in Harris V. Poland (1945) and the fact of the case.

SOLUTIONS TO QUESTION 3

In Harris V Poland (1941) the insured hid money in his fireplace and later inadvertently lit a fire. The judge likened the loss to something accidentally falling into the fire and the insured's claim was successful.

It is the intention of Insurance to cover losses which are accidental or fortuitous as far as the insured is concerned. In fire insurance there must be something on fire which should not be on fire.

QUESTION 4

What are the Insurers' rights following a claim?

SOLUTIONS TO QUESTION 4

The insurer's rights following a claim are:

- Rights to investigate the loss
- Conduct and control of claims
- Where claims is total loss a right to the salvage
- Recovery of lost property
- Contribution
- Subrogation

QUESTION 5

- a. **Define Proximate Cause**
- b. **What, in summary, is the cover granted under a typical breakage of glass clause of a comprehensive motor policy?**

SOLUTIONS TO QUESTION 5

- a. Proximate cause is the active and efficient cause that set in motion a train of events which bring about a result without the intervention of any force starting and working actively from a new and independent source.
- b. This section covers the cost of replacement of glass in windscreens and widows (including roof glass) and the cost of repairing any resultant scratched bodywork.

QUESTION 6

What are the three (3) examples of additional motor benefit in the personal line insurance market today which are not covered by the private motor insurance?

SOLUTIONS TO QUESTION 6

Extended Warranty Insurance

New cars carry a guarantee for a certain time usually a year, motorists are however liable to find out that their car breakdown is due to a defect in an original part. Extended warranty insurance extends the guarantee given by the car manufactures on major mechanical components.

It starts with the second year of the car's life and may be extended until the car has completed the third, fourth or fifth year or a specific mileage say 60,000 kilometers. Some scheme apply only to new cars while others apply to used cars provided there are not more than specified years and a motor engineer must give a satisfactory report.

Legal Expenses Insurance If an accident result in either death or personal injury to the insured or an authorized driver; or uninsured losses such as excess or the cost of luring a substitute car then the policy will pay the costs to claim against the person that is responsible. The insurer will provide a solicitor of its choice to pursue the claim or can approve a solicitor that is nominated by the insured.

Breakdown Recovery In the 1980s and 1990s, a number of insurers have introduced breakdown assistance as part of the standard cover under comprehensive policies. Some insurers have a special scheme with a specialist breakdown recovery firms that will tow the insured's vehicle whenever there is a breakdown to the repairer's workshop, if repairs cannot be done by the road side. What the insured needs to do is to call the company when the car breakdown. The insurer pays for labour while the insured will pay for the spare parts.

QUESTION 7

What are the general questions that most proposal forms contain?

SOLUTIONS TO QUESTION7

General questions that most proposal forms will contain

- Name of the proposer
- Address
- Occupation
- Date of Birth
- Conviction
- Claims or loss history
- Previous Insurance history.

QUESTION 8

What are the specific regulatory requirement regarding renewal of personal insurance policies which insurers or brokers must comply with, as contained in FSA Insurance conduct of business sourcebook?

SOLUTIONS TO QUESTION 8

- An invitation to renew or notice that renewal will not be invited, at least 21 days before the expiry of the policy
- A statement of any changes to the terms of the policy
- Any changes to the policy summary
- A statement of price
- Information about cancellation
- A statement of the customers' right to request a new policy document.

QUESTION 9

What are the general exclusions that apply to household policies? List and explain them.

SOLUTIONS TO QUESTION 9

1. **War Risk:** This is a fundamental risk that is generally regarded as being the responsibility of the state.
2. **Radioactive contamination and explosive nuclear assemblies:** The potential of this loss is bigger than the capacity of individual insurer and cover is therefore provided by a system of market pool.
3. **Sonic bang:** This excludes damages by pressure waves created by aircraft travelling at supersonic speeds.
4. **Pollution or Contamination:** This excludes loss caused by pollution unless arising from a sudden and unforeseen accident.
5. **Terrorism:** Underwriters were not excluding terrorism until the attack by the terrorism on the World Trade centre in America known as the September 11 attack.
6. **Computer Equipment:** This excludes loss arising from computers inability to recognize correctly any date as its true calendar date as we entered into new millennium.
7. **Confiscation:** No cover for property being confiscated by government.

QUESTION 10

Mention two (2) types of policy that are available under Travel Insurance and the basic sections of cover.

SOLUTIONS TO QUESTION 10

Two types of cover under travel insurance are:

- Single trip
- Annual

The major basic sections of cover are

- Personal accident benefit
- Medical and associated expenses; often in conjunction with a 24 hour emergency service
- Loss of deposits and other charges incurred due to cancellation or curtailment of the holiday.
- Baggage, Personal effects and money
- Personal Liability

QUESTION 11

- a. **What is the meaning of the following reinsurance terminologies?**
 - i. **Ceding Office**
 - ii. **Cession**
 - iii. **Retention**
 - iv. **Treaty Reinsurance**
 - v. **Retrocession**
 - vi. **Cede**
- b. **What is a suitable treaty appropriate to protect an insurer of household buildings? Explain how it works.**

SOLUTIONS TO QUESTION 11

- i. **Ceding Office:** The insurer that places reinsurance with a reinsurance company.
- ii. **Cession:** The amount of reinsurance passed by the insurer to the reinsurer.

- iii Retention: The amount of risk which an insurer retains for their own account, so that in the event of loss, the loss will not exceed the company's limit for that class of risk.
 - iv. Treaty Reinsurance: the arrangement in writing between the direct insurer and a reinsurer whereby the reinsurer will accept automatically any cession falling within the terms of the agreement
 - v. Retrocession: Reinsurers may themselves reinsure and the amount of risk they give away is termed a retrocession.
 - vi. Cede: To pass from an insurer to a reinsurer.
- b. A surplus treaty is appropriate particularly against large losses. To guard against accumulation from natural perils like storm, flood etc., catastrophe excess of loss cover can be purchased. Stop loss can also be purchased if the loss for a year is bad.

QUESTION 12

What is the difference between a loss adjusters and loss assessor?

SOLUTIONS TO QUESTION 12

Difference between a loss adjuster and a loss assessor are:

- A loss adjuster is appointed by the insurance company while a loss assessor is appointed by the insured or claimant.
- The loss assessor's fee is paid by the policy holder while the loss adjuster's fee is paid by the insurer(s)
- Loss adjusters belong to Chartered Institute of Loss Adjuster (CILA) in UK or Institute of Loss Adjuster of Nigeria. Loss assessors are not members of CILA or ILAN.
- Loss assessors assist the policy holders with uninsured loss recovery. Loss adjusters do not.

QUESTION 13

What are the main objectives of advertising?

SOLUTIONS TO QUESTION 13

Main objectives of advertising are:

- To increase public awareness of the company's products
- To introduce new products

- To target a particular market segment
- To generate a response as part of a direct marketing campaign
- To defend or improve a market position, by persuading the public that their products are better than their competitors
- To educate the public about the significance of insurance package and product in general.

QUESTION 14

What are the exclusions to extended warranty in household products?

SOLUTIONS TO QUESTION 14

Exclusions to extended warranty in household products: After a manufacturer's warranty on a household product has expired. Insurer can provide cover that extend the warranty from the second year to maybe five years the policy does not cover:

- Failure to comply with manufacture's instruction or negligent handling.
- Risk normally covered by a household contents policy
- War and radioactive contamination or sonic bargs
- Cost of repairs to bulbs, aerials, external wires, knobs, handles, driving belts etc.

QUESTION 15

Write short notes on the following

- (i) **Young additional driver**
- (ii) **Sonic Bang**
- (iii) **Express Duties**
- (iv) **Financial Ombudsman Services (FOS)**
- (v) **Motor Insurance Anti-Fraud and Data Base (MIAFTR)**
- (vi) **Role of Financial Service Authority (FSA)**

SOLUTIONS TO QUESTION 15

1) YOUNG ADDITIONAL DRIVER

Insurers are always wary of the young driver who is shown as a member of the family who may drive but who in fact is the main drivers. If the insurer discovers this then they will suggest that the driver takes out a policy in their own name.

If a young driver (say, under 21) is truly an additional driver then most insurers will charge additional premium, there may also be restricted to named persons. For higher group cars insurers may not be prepared to allow young drivers.

2) **SONIC BANG**

Most policies exclude damage caused directly by pressure waves from aircraft and other aerial devices travelling at sonic or supersonic speeds.

A number of windscreens are shattered by aircraft breaking the sound barrier. The insured does have the possibility of claiming against the aircraft operator, although this is usually not economically viable. Some insurers feel that this is an unnecessary exclusion and therefore omit it from their wording.

3) **EXPRESS DUTIES**

These are the duties written into or expressed into the contract. They are usually printed as the conditions in the policy document. Insurers sometimes reinforce or modify the implied duties in some way by inserting an appropriate condition in the policy and any breach can lead to repudiation. However under FSA Insurance Conduct of Business Source Book, insurer must not repudiate claim where the breach is not in connection with the circumstance of loss.

4) **FINANCIAL OMBUDSMAN SERVICE (FOS)**

The Insurance Ombudsman Bureau was set up by insurance companies to provide the independent body to investigate and adjudicate on complaints made by private individuals about their insurance. The Bureau was funded by its members and was very successful for many years until it was replaced in 2001 by a new statutory ombudsman service (FSO) and membership was made compulsory for all insurers and intermediaries.

The maximum award the FOS may make which is binding on insurer is £100,000. Insurer's own complaints procedures must have been exhausted before a claim can be referred to FOS. Complaints may be heard from individuals or small firms (with not more than £1m turnover) FOS can make decisions in favour of a customer, even where they have no legal case. FOS is funded by a general levy by all firms based on their relevant

gross premium and a case fee payable by the firm to which the complaint relates.

5) **MOTOR INSURANCE ANTI- FRAUD AND THEFT DATABASE (MIAFTR)**

In 1987, due to an alarming rise in fraudulent motor claims, UK insurers, through the medium of ABI, established MIAFTR. The purpose of the register is to record all motor vehicle and motor cycles that have been the subject of a total loss claim, or have been stolen and not recovered. Insurers placing information on the register relating to a new claim will be advised if the vehicle/ motor cycle, claimant or claimants address have been recorded previously.

6) **ROLE OF FINANCIAL SERVICE AUTHORITY (FSA)**

The FSA is an independent non- government body, given statutory powers by the financial services and market Act 2000 (FSMA) it was created by the UK government to regulate all aspects of the financial services industry, Including:

- ✚ Deposit taking
- ✚ Stock and shares
- ✚ Gifts and authority bond
- ✚ Debenture
- ✚ Future
- ✚ Unit trusts and OEIG (Open ended investment coy)
- ✚ All contracts of Insurance
- ✚ Mortgages
- ✚ Funeral contract plans.

QUESTION 16

- a. **What is cover note and why is cover note in use.**
- b. **State the contents of a cover note.**
- c. **What are the two (2) basic methods of insuring motor cycle?**

SOLUTIONS TO QUESTION 16

- a. A cover note is, in effect, a temporary certificate of Insurance. It is used to overcome the problem delay in the insurer issuing a full certificate which, has to be delivered to the insured in order for the policy to be effective.

- b. Cover note as a temporary certificate of insurance which meets the requirements of the Road Traffic Act must contain these information.
- A statement to the effect that the insured is held covered in the terms of the insurers' usual form of policy for the risk.
 - Date and time of commencement of cover
 - Name and address of the insured
 - Period of validity – usually 30 days
 - Make, model, engine size, value and registration number of the vehicle.
 - Use covered
 - Any special terms applicable
 - The reason for issuing the cover note (e.g. New business, alteration etc.)
 - Detail of the issuing intermediary
 - A. There are two basic methods namely
 - **Specified motor insurance:** This is the more conventional method whereby a driver is insured for a particular motor cycle. If the motor cycle is more than one, say 100cc engine capacity then the insurer would normally restrict driving to the policy holder but at the same time provide a driving other motorcycles extension. Conversely, if the engine is under 100cc, generally 'any driver' policy would be issued but with no 'driving other motorcycles' extension. Most insurers will exclude use as couriers or messenger while other insurers will charge a substantial additional premium if this is shown as the occupation. A further possibility is to restrict use to use with a side car permanently attached some motor Insurers allow a reduction of 40% to 50% because of the greater stability that a side car can bring to a motor cycle.
 - **Specified rider Insurance:** With the rapid rate at which many young people change their motorcycles, the administration of specified motorcycle insurance could be cumbersome. in response to market demand the "rider" policy was developed. This relies, as the name suggests, on the age and experience of the policy holder, who may ride any motorcycle owned by them. The flexibility of this arrangement made a huge impact upon the market to the extent that more than half of all motorcycle policies issued were on this basis. However because of bad claims experience this cover has been withdrawn from the market.

QUESTION 17

- a. **What are the things that a claim officer should check when the claim form has been received?**
- b. **If an insurer wishes to repudiate a claim, what must they try to prove?**

SOLUTIONS TO QUESTION 17

- a. Claims handles should check the following:
 - That the property which has been lost, damaged or stolen is covered by the description of property within the policy.
 - That the property was under the control or in the possession of an insured person at the time of loss.
 - That the use and place of loss are within the terms of the policy.
 - That the policy is in force this will involve checking that the premium due under the policy has been paid and the peril which caused the loss is one which is covered by the terms of the policy.
 - That all policy conditions have been complied with.
 - Whether a policy's exclusion is likely to arise.
 - That answers given on the claim form match those supplied on the original proposal form completed by the insured.
- b. When an insurer is about to repudiate a claim, the insurer must prove that an exception applies to overrule the peril covered.

QUESTION 18

- a. **What is Indemnity?**
- b. **What are the factors that limit its operations?**
- c. **What are the corollaries and how do they operate to ensure that the principle of indemnity is not violated.**
- d. **Explain whether or not a valid policy is a contract of indemnity.**

SOLUTIONS TO QUESTION 18

- a. Indemnity is the exact financial compensation sufficient to place the insured in the same financial position after a loss as they enjoyed immediately before it occurred. All contract of property or pecuniary insurance are contract to indemnity but life and personal accident contracts are not because no one can measure the value of life monetary.

b. **Factors that limit operation of indemnity are:**

- i) **Sum Insured:** The sum insured is always the maximum recoverable under the policy.
- ii) **Limit of Indemnity:** The limit of indemnity is the maximum payable by the insurer. It is commonly used under the liability sections of household.
- iii) **Average:** Where there is under Insurance, average will apply.
- iv) **Excess:** An excess is the amount of each and every claim which is not covered by the policy. Operation of compulsory and voluntary excess are popular under household and motor insurance.
- v) **Franchise:** A franchise is also a fixed amount which is to be paid by the insured in the event of a claim however once the loss has exceeded the amount of the franchise; the insurers pay the whole of the loss. Franchise are often found in personal accident and illness insurance policies.
- vi) **Limits:** Many policies limit the amount to be paid in respect of a certain items, by appropriate policy wording e.g. No one curio, picture, work of art is deemed to be greater value than 5 percent of the contents sum insured.
- vii) **Deductibles:** A deductible is the name given to very large excess and is commonly found in commercial insurances. In return for the insured agreeing that all claims payments under the policy will be subject to this deductible, insurers allows discount on the premium.

c. Contribution and subrogation are the corollaries of indemnity.

Contribution: It is the right of an insurer to call upon other similarly, but not necessarily equally liable to the same insured, to share the cost of an indemnity payment.

Contribution is a corollary of indemnity in that it supports the principle of indemnity. The principle of contribution ensures that a policyholder cannot recover more than an indemnity, even if they have several policies covering the same loss. The principle of contribution allows the total claim

to be shared among the insurers that are involved it is impossible for one insured to take the same claim from more than one insurer.

Subrogation: It is in effect the right of one person having indemnified another under a legal obligation to do so, to stand in the place of that other and avail themselves of all the rights and remedies of that other, whether already enforced or not.

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

Subrogation is a corollary of indemnity because it supports the principle of indemnity by ensuring that the insured does not make more than indemnity. If an insured is allowed to make a claim of an insurer and also execute his right against a negligent third party. It will amount to the insured having double.

- d. Valued policies are modified contracts of indemnity. A valued policy provides for payment of a specific sum on the occurrence of an insured event for these policies the value of the subject matter of the insurance is agreed at the start of the contract and the sum insured is fixed accordingly, usually based on a professional valuation. This is applicable to total loss. These types of policy are commonly used when insuring vintage cars, works of art and antiques.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D12

LONG TERM BUSINESS

QUESTION 1

Distinguish with an example the difference between personal data and sensitive data.

SOLUTIONS TO QUESTION 1

A personal data is any data relating to an identifiable living individual e.g. person's name, age, marital status etc.

Sensitive data is any data relating to a person's ethnic or racial origin, religious belief or political belief health or political belief health's or sexual orientation.

QUESTION 2

What is a market counter-party?

SOLUTIONS TO QUESTION 2

- i) This is a customer who is a government of a country
- ii) A central bank of a country
- iii) Various states or local government and government agencies.
- iv) Authorized firm recognized as such.

QUESTION 3

What are the objectives of financial services authority?

SOLUTIONS TO QUESTION 3

- i. The Financial Services Authority (FSA) creates market confidence.
- ii. If creates public awareness

- iii. It protects consumers
- iv. It fights for the reduction of financial crimes.

QUESTION 4

You are required to calculate the appropriate premium for a life aged 45 seeking for a Life Insurance Contract. The sum assured is N35m, and mortality rate is 5.13per mille. The quarterly conversion factor is 277.21 and mostly is 93.74. What is the monthly premium to be charged for the life assurance policy?

SOLUTIONS TO QUESTION 4

Life proposed	= X
Sum assured	= N35,000,000
Age	= 45
Mortality	= <u>5.13</u>
	1000
Conversion factor:	
Quarterly	= 277.21
Monthly	= 93.74
Annual Premium	= $35,000,000 \times \frac{5.13}{1000}$
	1000
	= N 179,550
... Monthly Premium	= $\frac{179,550}{1000} \times 93.74$
	1000
	= N 16,831.02

QUESTION 5

In 2014, the Federal Government signed into a new Pension Act effective from July 2014. You are required to:

- (a) State the minimum rate of contribution by employee and employer.
- (b) Confirm the minimum age to assess one's contribution.
- (c) The percentage of lump sum grantable upon retirement.
- (d) What retirement policy(ies) are available to retirees.
- (e) Who are the providers of the retirement policies and what do they provide?

SOLUTIONS TO QUESTION 5

- a) Employee 8%
Employer 10%
18%
- b) Age 50
- c) 25% of total contribution in the RSA at retirement.
- d) Programmed withdrawal
 - ii) Annuity policies.
- e) Pension fund Administrator (PFA) is programmed withdrawal while Insurance companies provide annuity policies.

QUESTION 6

What conditions are the payments of valid life Insurance Claims subject to?

SOLUTIONS TO QUESTION 6

- a) Payment of all due premium
- b) Production of policies document
- c) Proof of title
- d) Proof of death in death claim cases
- e) Proof of age

QUESTION 7

- a. **What is underwriting?**
- b. **What type of medical factors will the underwriter look out for?**

SOLUTIONS TO QUESTION 7

- a. The process or procedure for assessing and deciding whether to accept the risk and, if so, at what rate of premium.
- b. Factors affecting longevity

QUESTION 8

- a. **What is a Temporary Annuity?**
- b. **What is a Preference Share?**
- c. **Name four (4) types of insurance bonds.**

SOLUTIONS TO QUESTION 8

- a) This is an annuity which is paid for a specified term or for the annuitant's lifetime, whichever is the shorter.
- b) A share which gives the holder the right to a fixed dividend provided enough profit has been made to cover it.
- c) Insurance bodies are
 - i) Guaranteed Income bond
 - ii) High Income bond
 - iii) Unit-linked bond
 - iv) With-profit bond
 - v) Guaranteed growth bond

QUESTION 9

Name four (4) assets investors can invest in?

SOLUTIONS TO QUESTION 9

- 1. Cash/ Fixed deposit
- 2. Fixed Interest Security
- 3. Equities
- 4. Property

QUESTION 10

- a. **What is a Family Income policy?**
- b. **What is the life of another policy?**

SOLUTIONS TO QUESTION 10

- a) A family income policy is a policy that pays out an income on death instead of a lump sum.
- b) The life of another policy is a life assurance policy where the assured is not the same as the life assured.

QUESTION 11

Mention five (5) important pieces of information found in the trust deed of a unit trust policy.

SOLUTIONS TO QUESTION 11

- 1) Manager's Investment powers
- 2) Price structure
- 3) Registration of unite holders
- 4) Remuneration of the managers
- 5) Accounting & auditing rules

QUESTION 12

Insurance companies use proposal form as the basis of the contract. In the eyes of the law, what are Insurance representatives doing when they give uncompleted proposal forms to prospect to complete.

SOLUTIONS TO QUESTION 12

The process of giving uncompleted proposed forms to prospects to complete is regarded in law as Invitation to treat and not on offer to transaction business.

QUESTION 13

The National Insurance Commission (NAICOM) has recommended, beside the proposal form, that Insurance companies should ensure that the prospects/clients supply additional set of documents. What are these documents?

SOLUTIONS TO QUESTION 13

- 1) Know your customers (KYC)
- 2) Identification means – International passport, driver license, Voter's Card etc.
- 3) Proof of residency – Utility bills, like electricity, water & waste bill.
- 4) File with NFIU anti-money laundering agency premium income above ₦1million for individuals and ₦5million for corporate.

QUESTION 14

Cite two (2) examples or situation that provide proof that Insurable Interest in Life Assurance is not required at the time of loss but only at inception of the policy.

SOLUTIONS TO QUESTION 14

- 1) The original owner can assign the life policy to another person and the new owner does not have to have insurable interest in the life assured.
- 2) A key person policy is effected by an employer on the life of a key employee but the life assured leaves the company. The policy is allowed to continue.

QUESTION 15

- a. List four (4) ways retirement income can be provided.
- b. List three (3) factors that affect share prices.
- c. Write briefly on annuity certain.

SOLUTIONS TO QUESTION 15

- a. Pension Scheme
Lifetime annuities
Unsecured Pensions.
Alternately secured pensions
- b. Economic environment
Political environment
Investors sentiments
Events specific to the company or the business sector.
- c. An Annuity certain is a contract to pay an annuity for a specified period regardless of whether the annuitant dies during the period of payment, his/her estate or named beneficiary will continue to receive payments until expiry of the period.

QUESTION 16

List the contents of a medical Certificate of cause of death.

SOLUTIONS TO QUESTION 16

- 1) The attestation by the physician
- 2) The name of the deceased
- 3) The age of the deceased
- 4) Date he / she was last seen by the physician.

- 5) What deceased suffered before death.
- 6) Date of death
- 7) Time of death
- 8) Cause of death – Primary & secondary
- 9) When disease / sickness suffering abated
- 10) Witness
- 11) Signature of the physician
- 12) Address of the physician
- 13) Qualification of the physician
- 14) Stamp of the Hospital

QUESTION 17

A valuable client of your organization is insured under a group life policy. The client also insures various classes of insurance policies with your company. The sum assured of the promoter of the business (your client) under the group; life policy is N100m. He, the promoter completed the proposal form and premium was paid. How will you treat a death claim if?

- (a) There is a conditional acceptance requiring to complete medical test but failed to do so before death.**
- (b) There is a conditional acceptance requiring the assured to complete insurability form or declaration of health from which he completed but did not submit to the insurer before death.**
- (c) There is conditional acceptance requiring payment of extra premium which was not paid before death.**
- (d) There is a conditional acceptance limiting cover to Free Cover Limit (FCL) if medical test or DOH was not completed which the client failed to comply before death.**

SOLUTIONS TO QUESTION 17

- a) The insurer will not be liable provided in their letter of qualified acceptance, it made it express that it will not be on risk unless the required medical examination is done and accepted by all parties. There may be partial refund of deposit premium.
- b) This is the case of non-compliance. The insurer is not liable but may refund the deposit premium or premium so far paid even if it is partial refund.

- c) The insurer is fully liable. The insured has substantially complied with most requirement i.e. premium has been paid, insurability form has been completed, and medical text concluded with results. The results gave the clients life as substandard, hence the request to pay extra premium. The non-payment of the extra premium does not vital (void) the contract. The insurer will pay the full sum assured, and at worst, deduct the extra-premium from the sum assured.
- d) Benefit payable will be limited to the Free Cover Limit (FCL) as communicated in the conditional acceptance letter.

QUESTION 18

Suppose you are a tax-conscious citizen of the Federal Republic of Nigeria. You took out a qualifying life assured policy with annual premium of ₦1,635,700 and policy face value of ₦35m. You pay a personal income tax of 12.5% annually to Government on an annual income of ₦17,005,689 you are required to.

- (a) Calculate your tax liability if you do not have in force life policy and premium relief Certificate because premium was not paid.
- (b) Calculate the tax liability if you use the premium paid in the Life Assurance Relief Certificate (LARRC).

SOLUTIONS TO QUESTION 18

A. Tax- Liability without APRC

Annual Income = ₦17,005,680

Annual Premium = 0

Tax (12.5%) = ₦17,005,680 X 12.5%
= ~~₦2,125,710~~

B. Tax Liability with LAPRC:

Annual Income ₦17,005,680

Annual Plan ₦1,635,700

Balance after premium date ₦15,369,980

Tax liability = ~~₦15,369,980~~ X 12.5%
= ₦1,921,247.50

Note

There is a savings of ₦204,462.50 sum of life assurance in place.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D13

MARINE & AVIATION INSURANCE

QUESTION 1

- a. What is the earth's yearly movement round the sun called?
- b. If the local time of a place, Alpha on longitude 10 degrees East is 12.00 noon. What is the local time of another place Beta on longitude 100 degrees East?


SOLUTIONS TO QUESTION 1

- a. A Revolution
- b. Difference in Longitude between Alpha and Beta = $(100-10)$ degrees = 90 degrees.
If 15 degrees = 1 hr
90 degrees = $\frac{90}{15}$ hours
= 6 hours
If local time at Alpha = 12.00 noon
Local time at Beta = 6.00 p.m. or 18.00 hrs
Ans. = 6.00p.m or 18.00hrs

QUESTION 2

- a. What are the effects of a warm current on ship's navigation?
- b. What do you understand by Free Zone/free ports?

SOLUTIONS TO QUESTION 2

-  Warm currents keep the coast ice free throughout the year, thereby removing the ice hazard in navigation. A good example is the effect of North Atlantic Drift on the Norwegian coast and ports such as Navik.

- ✚ Ships speed increase when navigating in the direction of the movement of the warm current but it is retarded when moving against it, affecting the time of travelling and fuel consumption according to the direction of the ship.
- ✚ An area of land considered to be outside the territory of its host state for customs purposes is called 'A free Zone'.
- ✚ Goods may be brought into the zone without paying import duties.
- ✚ Enterprises operating in this zone are thus able to hold stock without adding duty element to their capital.
- ✚ Those traders buying from the zone pay duty before entry into the host state.
- ✚ Free zones located at or near ports are often called "Free ports".

QUESTION 3

What is the importance of a tramp as a Dry Cargo vessel?

SOLUTIONS TO QUESTION 3

A tramp vessel is one that has no scheduled route and plies the oceans of the world taking suitable cargoes from where it is available to the required destination.

Tramp vessels include all sizes of vessels employed in dry cargo trades, whether bulk or bagged, not flying specified routes. The two main categories are:

- i. Tweendeckers: having more than one deck, usually between 12,000 and 20,000 tons dead weight.
- ii. Bulk carrier: largely employed in the carriage of bulk cargoes such as grain, coal, etc. They are usually single deck vessels of 20,000 duct tons upwards.

QUESTION 4

Describe Passenger ships?

SOLUTIONS TO QUESTION 4

In simple terms passengers ships are the hotels of the sea.

They are ships which are, by design, built to accommodate passengers in luxurious surroundings whilst crossing the oceans at high speeds on a regular route, such as Southampton to New York.

Alternatively, they provide cruises in areas like the Mediterranean or the Caribbean seas.

QUESTION 5

a. State five characteristics of Air Cargo.

b. State five (5) types of Grain crops.

SOLUTIONS TO QUESTION 5

a. Any five of the following:

- i. Fashion goods of all descriptions.
- ii. Cargoes which are volumetric and have a low weight in relation to their size.
- iii. Perishable cargo
- iv. Cargo with high technological contents
- v. Specialized chemicals and medical products.
- vi. Livestock
- vii. Cargoes which have a short market life.
- viii. Electronic Toys, computers and goods related to the recording, TV and video industries.

b.

- i. Wheat
- ii. Barley
- iii. Maize
- iv. Oats
- v. Rye

QUESTION 6

Explain how vessels are able to carry Refrigerated cargoes, describing the three (3) types.

SOLUTIONS TO QUESTION 6

Vessels are being fitted with some insulated space for the carriage of refrigerated cargoes. These are usually divided into three types:

- **FROZEN:** this type of cargo is carried in hand frozen condition to prevent the growth of micro-organisms. They include beef and lamb.
- **CHILLED:** The compartments must be kept at a prescribed temperature without the slightest variation, as any change may lead to moisture condensing on the cargo (usually chilled beef) and encourage bacterial growth.
- **TEMPERATURE REGULATED:** These cargoes include fruit, cheese, eggs and other perishables. This system is designed to delay the natural process of ripening of the cargo and is effective by lowering the temperature of the compartment and the cargo to a point that does not harm the commodity.

QUESTION 7

- What is a contract of affreightment?**
- State any three (3) of the implied obligations and immunities.**

SOLUTIONS TO QUESTION 7

The word affreightment (derived from the French word affretement which means “the leasing of a vessel” is applied to all contracts of carriage by sea.

A contract between the carriage and the shipper for the carriage of goods from one port to another according to the terms bill of lading is a contract of affreightment.

So also is another between the ship owner and the shipper (termed the charterer) for the hire of the whole part of a vessel for a particular voyage or voyages or a period of time in the terms of a charter party.

In each case the consideration for the contract of affreightment is termed freight. Every contract of affreightment imposes on both parties to the contract specific obligations, rights and immunities, either implied by common law or expressed by statute or by the written terms of the contract itself.

Any three of the following:

- The carrier accepts the responsibilities and liabilities of a bailee.

- The carrier undertakes to provide a seaworthy ship.
- The ship must proceed on the agreed voyage with reasonable speed.
- The ship shall proceed on her voyage without deviating from her proper course.
- The shipper undertakes not to ship dangerous goods without notice.
- The carrier's right to freight is implied by a lien on the goods.
- If, after the formation of a contract of affreightment, it becomes impossible (for example, by the outbreak of hostilities) to keep the contract, the parties are released.

QUESTION 8

What is the relevance of a Freight forwarder?

SOLUTIONS TO QUESTION 8

A freight forwarder is often engaged by an exporting company to arrange the dispatch of its products.

These firms are experienced in transportation and export procedures, and know the special requirements of the particular countries to which the goods are consigned.

They will arrange transport; prepare some of the necessary documents, including insurance cover, if agreed by the exporter.

The employment of a freight forwarder will enable the exporter to dispense with the need for a large shipping department.

Where necessary, the freight forwarder will be responsible for collection of goods from the manufacturer from the works.

A forwarder can also offer groupage service for small consignments resulting in low freight and other charges.

QUESTION 9

What is the importance of the United Nations Conference on Trade and Development (UNCTAD)?

SOLUTIONS TO QUESTION 9

The United Nations Conference on Trade and Development (UNCTAD) was set up in 1964 with the following aims:

- ✚ To act as a forum for inter-governmental deliberations.
- ✚ To undertake research, policy analysis and data collection for the debates of government representatives and experts;
- ✚ And to provide technical assistance tailored to the specific requirements of developing countries, with special attention to the needs of the least developed countries and of economies in transition.
- ✚ When appropriate, UNCTAD cooperates with other organizations, and donor countries in the delivery of technical assistance.
- ✚ UNCTAD has supervised the introduction of international laws governing the limitation of liability for the carriage of goods, collisions and pollution.

QUESTION 10

- a. Under the “Convention on Limitation of liability for Maritime Claims 1976” which Persons are entitled to limit of liability?
- b. How does the insurer of ‘collision liability’ benefit from such limitation of liability?

SOLUTIONS TO QUESTION 10

- a. Persons entitled to limit liability are:
 - The ship owner
 - The charterer
 - The manager or operation of a sea going vessel
 - And, any salvos of the vessel.
- b. In a collision case, the aggrieved vessel may sue the owner of the vessel at fault, the master of the vessel and the time charterer of the vessel.

All those claims are subject to one limitation amount.

Thus the insurer of the collision liability is able to benefit as he needs only to pay out a maximum of the limitation sum.

QUESTION 11

- a. Name the principal statute that governs Marine Insurance.
- b. State the main components of the London Marine Insurance Market.

SOLUTIONS TO QUESTION 11

- a. The principal statute that governs marine insurance is the Marine Insurance Act 1906 (MIA 1906).
- b. The main components are:
 - ✚ Lloyds.
 - ✚ The principal British Insurance Companies
 - ✚ The agencies and branches of many overseas companies
 - ✚ Underwriting agency companies writing on behalf of member companies and mutual associations.

QUESTION 12

Distinguish between a “valued” and an “unvalued’ Marine Policy.

SOLUTIONS TO QUESTION 12

A valued policy is the one which specifies the agreed value of the subject matter insured.

Such policies can always be distinguished by the words “valued at” or “so valued” which appear after the subject- matter insured.

The value so specified is known as the insured value. While an unvalued policy is one which does not specify the value of the subject matter insured, leaves the insurable value to be subsequently ascertained.

The sum insured thus shown on the policy becomes only the limit of indemnity and the value now called the insurable value is ascertained in accordance with s.16 of MIA 1906.

QUESTION 13

- a. **The Institute Time Clause (Hulls) 1/11/95 cover 3/4ths collision liability only. How does the shipowner protect himself against the remaining 1/4th of the collision liability?**
- b. **Explain “Sistership Clause”**

SOLUTIONS TO QUESTION 13

- (a) The remaining 1/4th of the collision Liability is covered by the ship owner's protection and Liability (P&L) club.
- (b) This clause enables vessels belonging to the same owner to be treated as if it belongs to a different owner and management for the purposes of claiming collision damages and compensation for salvage services rendered to a sister ship.

QUESTION 14

Define Warranty in Marine Insurance.

SOLUTIONS TO QUESTION 14

A warranty is an undertaking by the assured that some particular thing shall or shall not be done, or that some condition shall be fulfilled, or whereby he affirms or negates the existence of a particular state of facts.

A warranty must be exactly complied with whether it is material to the risk or not.

QUESTION 15

What is a General Average Loss?

SOLUTIONS TO QUESTION 15

A general average loss is a loss voluntarily incurred for the common safety of marine venture and is made good, proportionally by all the parties concerned in the marine adventure.

It includes general average expenditure as well as general average sacrifice.

There is a general average act where any extra ordinary sacrifice or expenditure is voluntarily and reasonably made or incurred in time of part for the purpose of preserving the property imperiled in the common adventure.

QUESTION 16

How does a broker places a moderate Aviation risk?

SOLUTIONS TO QUESTION 16

A moderate risk is such that can be handled by one insurer.

In that case, the broker proceeds with slip to an underwriter he thinks most suitable.

The underwriter considers the terms and conditions on the slip and if the business is acceptable he indicates his rate.

The broker may seek several competitive quotations and eventually one of the underwriters states the rate and initials the slip.

The broker approaches his client with the rates and terms, and in consultation they both choose the terms most closely matching their needs.

The broker advises firm order to the underwriter who would produce a policy. Where the policy is not ready within 30 days at least a proof of cover must be produced by the broker by that day.

QUESTION 17

Why does an Aviation Underwriter often arrange an Excess of loss reinsurance?

SOLUTIONS TO QUESTION 17

Notwithstanding the arrangement of facultative, quota share or surplus reinsurances, a major loss may occur resulting in large exposure through accumulation.

The direct insurer then resorts to excess of loss reinsurance which protects him above an agreed level of retention for all amounts they are liable for, arising out of one occurrence.

Excess of loss reinsurance can be arranged to cover a direct underwriters entire port folio within a giving class either on the basis of loss occurring during the period, or risk that attach during the period.

Premium could be a fixed monetary amount or a percentage of the direct underwriters overall net premium income or a combination of both.

QUESTION 18

How does 'Montreal Convention 1999' define "international carriage"?

SOLUTIONS TO QUESTION 18

"International Carriage" means any carriage in which, according to the agreement between the parties, the place of departure and the place of destination, whether or not there be a break in the carriage or a transshipment, are situated either within the territories of two state parties, or within the territory of a single state party if there is an agreed stopping place within the territory of another state, even if that state is not a state party. Carriage between two points within the territory of a single state party without an agreed stopping place within the territory of another state is not international carriage for the purposes of this convention.

QUESTION 19

State any three (3) of the seven (7) "grouped" perils contained in War, Hijacking and Other Perils Exclusion Clause (Aviation) AVN 48B.

SOLUTIONS TO QUESTION 19

AVN 48B

- a) War, invasion, acts of foreign enemies hostilities (whether war be declared or not) civil war, rebellion, insurrection, revolution, martial law, military or usurped power or attempts at usurpation of power.
- b) Any hostile detonation of any weapon of war employing atomic or nuclear fission and or fusion or other like reaction or radioactive force or matter.
- c) Strikes, riots, civil commotion or labour disturbances.
- d) Any act, of one or more persons, whether or not agents of a sovereign power, for political or terrorist purposes and whether the loss or damage resulting there from is accidental or intentional.
- e) Any mendacious act or act of sabotage.
- f) Confiscation, nationalization, seizure, restraint, detention, appropriation, requisition for title or use by or under the order of any Government (whether civil military or de facto) or public or local authority.

- g) Hijacking or any unlawful seizure or wrongful exercise of control of the Aircraft or crew in flight (including any attempt at such seizure or control) made by any person or persons on board the Aircraft acting without the consent of the Insured.

QUESTION 20

What is the essence of the 'Slip Quality Checklist' in the use of 'The LMP BRAT Slip'?

SOLUTIONS TO QUESTION 20

To allow brokers and underwriters to check the quality of ships the produce or subscribe to.

It also enables the broker to correct error on the ship or seek assistance from the LMP programme office where the broken is unable to effect correction by himself.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D17

OPERATIONAL MANAGEMENT

QUESTION 1

Differentiate between a Leader and a Manager.

(10 marks)

SOLUTIONS TO QUESTION 1

A leader is a person who is able to influence others to pursue goals. Leaders do not require the trappings of officialdom. Leaders can lead through force of personality.

(5 marks)

While

A manager is a person who performs specific functions of management. He holds an official title and plays an official part in the organization.

(5 marks)

QUESTION 2

a. Mention six views of Leadership

(6 marks)

b. List four (4) principal value of facilitative leadership.

(4 marks)

SOLUTIONS TO QUESTION 2

a. Views of Leadership are:

- i. Behavioral Theories**
- ii. Existence of special leadership traits**
- iii. Action centered leadership**
- iv. Transactional leadership**
- v. Transformational Leadership**
- vi. Facilitative leadership**

- vii. Intrapreneurship (6 marks)
- b. Facilitative Leadership
- i. Teacher – Shows how things are done
 - ii. Guide – Provides wise counsel
 - iii. Coach – Provide direct Instruction
 - iv. Leader – Lead by exemplifying the values of the organization. (4 marks)

QUESTION 3

Briefly discuss the five (5) stages involved in delegation. (10 marks)

SOLUTIONS TO QUESTION 3

Stages involves in delegation are:

- i. Observation – The manager demonstrates to their subordinates how the task is done by doing the job themselves. The subordinates should be asked to watch and criticize.
- ii. Coaching – Having demonstrated how the task is done, the next stage is to ask the subordinate to do it. The subordinate should be briefed and allow to clarify any part of the task which they are unsure how to perform, but they should do the job while being watched and assisted by the manager.
- iii. Controlling – The team member can now do the job themselves, without supervision.
- iv. Exception – The task should now be done by the delegate without asking any questions. At the end, the delegates should report to the delegator to discuss any particular points.
- v. Delegation – The manager should now arrange for this task to be given directly to the delegate. (2 marks for each point)

QUESTION 4

List three (3) advantages and disadvantages each of face-to-face communication. (10 marks)

SOLUTIONS TO QUESTION 4

Face to face communication

Advantages

- i. Rapid
- ii. Easier to gauge reactions

- iii. Other point of view can be heard
 - iv. More personal
- 1 ½ x 3 (4 ½ marks)

Disadvantages

- i. Loss permanent
 - ii. More time consuming
 - iii. Need to be planned/ organized
 - iv. More effort
 - v. More personal skills required.
- 1 ½ x 3 (4 ½ marks)

QUESTION 5

List ten (10) symptoms of unresolved conflict in group. (10 marks)

SOLUTIONS TO QUESTION 5

Symptoms of unresolved conflict in groups are:

- i. Ideals are attached before they are completed.
- ii. Comments are made with vengeance
- iii. Members belittle one another's ideas or liability of the group.
- iv. Members arouse one another of not understanding
- v. Members distort one another's ideas
- vi. Members take sides
- vii. Members are impatient with one another
- viii. Members attribute negative motives to stress
- ix. Suggestions do not build on previous suggestions.
- x. Win- lose pressures and attitudes (we – they occur)
- xi. Members stick to their own points of view rather than finding common goals.
- xii. There is little movement towards solution of problems.

1 mark each for any 10 pts (10 marks)

QUESTION 6

List ten (10) areas that plans should cover. (10 marks)

SOLUTIONS TO QUESTION 6

Plans cover the following areas:

- i) Setting objectives

- ii) Identifying what needs to be done for those objectives to be achieved.
- iii) Creating the most appropriate organizational structure.
- iv) allocating management duties and responsibilities to senior manager(s).
- v) agreeing and setting budgets
- vi) agreeing staffs incentives
- vii) planning the most efficient use of material resources
- viii) Setting timetables and deadlines.
- ix) Identifying contingency plans
- x) Agreeing and establishing a consistent management style.

QUESTION 7

- a. **Explain the term Customers Relationship Management. (5 marks)**
- b. **State the tools used for adopting a Total Relationship Management. (5 marks)**

SOLUTIONS TO QUESTION 7

a. Customer Relationship management is largely about getting closer to the customer and roaring with a proactive culture. It is about trying to build relationships with customers by understanding their needs and suffering products and services that meet those needs.

b. The tools used are:

- 1) Direct mails
- 2) Tele marketing
- 3) Direct selling
- 4) Cross Selling
- 5) Customers Services
- 6) E-mail
- 7) Internet

1 mark each for any 5 pts (5marks)

QUESTION 8

- a. **Explain the term 'Validation' in assessment of the selection procedure for job interviews.**
- b. **Mention four (4) ways of assessing the validation of selection procedure. (8 marks)**

SOLUTIONS TO QUESTION 8

- a. Validation is the term used for evaluating how effective a process or material is in achieving its desired aim. **(2 marks)**
- b. Ways of assessing the validity of selection procedures are:
- i) Discrimination
 - ii) Reliability
 - iii) Fairness/ adverse impact
 - iv) Administrative Convenience
 - v) Cost and Development time. **2 marks each for any 4 pts (8 marks)**

QUESTION 9

In order to reward an employee appropriately, it is necessary to appraise his/her performance. State five (5) reasons why it is so. (10 marks)

SOLUTIONS TO QUESTION 9

Processes of performance appraisal include:

- 1) Establishing whether results are being achieved
- 2) Examining reasons for performance short- fall
- 3) Establishing training needs
- 4) Establishing potential
- 5) For career planning
- 6) It is used for imposing motivation
- 7) It is to encourage and improve communication of employees.

QUESTION 10

- a. **Explain briefly what you understand by a successful project. (6 marks)**
- b. **State four (4) common problems that may be encountered in carrying out a project. (4 marks)**

SOLUTIONS TO QUESTION 10

- a. A successful projects has the following attributes:
- 1) Stated objectives and deliverables are achieved.
 - 2) Delivered on time
 - 3) Within budget

- 4) Performed to an agreed specification
- 5) Must pre- defined success criteria
- 6) Satisfy the sponsor and beneficiaries. **(6 marks)**

b. Common problems encountered in project management include:

- 1) Late completion
- 2) Running over budget
- 3) Failure to achieve all goals due to failure to involve all parties affected
- 4) Results only achieved at the expenses of severe disruption to routine working and operations. **(4 marks)**

QUESTION 11

We have been advised to use SMART acronym in setting personal business and career goals. Give the meaning of the acronym. **(10 marks)**

SOLUTIONS TO QUESTION 11

S- Specific

M- Measurable

A-Achievable

R- Realistic

T- Time band

(10 marks)

QUESTION 12

T.Y. Aroba identified six (6) decision making styles. Explain them. (10 marks)

SOLUTIONS TO QUESTION 12

Aroba's styles of decision making are:

- 1) No thought _ taken on with or without reason
- 2) Compliment – taken others expectation into account
- 3) Logical – follows carefully objectives evaluation of alternatives
- 4) Emotional – based on individual wants and likes
- 5) Institute – according to guts or intuition
- 6) Hesitant- made slowly, without a sense of commitment **(10 marks)**

QUESTION 13

a. What is Stress? **(2 marks)**

- b. Identify four sources of Stress? (4 marks)
c. Mention four (4) ways to reduce Stress (4 marks)

SOLUTIONS TO QUESTION 13

a. Stress is the reaction of the body to changes or threats as a result of external or internal pressure. (2 marks)

b. Sources of Stress

- Work Overload
- Role ambiguity
- Person mismatch with the job
- Poor working environment
- Long work hours
- Classiness
- Poor Management
- Poor Communication
- Office policies
- Employment Insecurity

(4 marks)

c. Ways of Reducing Stress

- Provide break for staff
- Work variety to reduce monetary
- Good work environment
- Clear goods and targets
- Praise and positive feedback
- Mediation in time of dispute
- Involvement in decision making process
- Ensuring there are clear procedures for handling stress related problems.

(4 marks)

QUESTION 14

a. Explain the term reward system in a business organization. (4 marks)

- b. List three (3) examples each of a financial rewards and fringe benefits. (6 marks)

SOLUTIONS TO QUESTION 14

- a. A reward system is a collection of all the variable elements of an employment package related to performance, offered to employees in return for their services. (4 marks)

- b. Examples of financial rewards are;

- Salary
- Large town allowance
- Business
- Productivity payments
- Overtime payments
- Profit sharing/ share option schemes (3 marks)

- Examples of fringe benefits are;

- Holiday entitlement
- Non- contributory pensions
- Medical insurance schemes
- Company laws
- Subsidized loans
- Catering, welfare and recreational facilities. (3 marks)

QUESTION 15

- a. State five (5) essential features of a process of management by objectives (MBO) (15 marks)
- b. Adduce five advantages and five (5) disadvantages of MBO. (15 marks)

SOLUTIONS TO QUESTION 15

- a. The essential features of a process of MBO are:
- i. Clarification with each manager of the key results and performance standards to be achieved
 - ii. Agreement with each manager, a job improve plan, which will make a quantifiable and measurable contribution to achievement of the plans for the department, branch or organization as a whole

- iii. Provision of conditions which will help managers to achieve their key results and job improvement plans.
- iv. A systematic performance review of each managers results
- v. Regular potential review of each manager to identify the individuals with potential for advancement with the company
- vi. Development of management having plans to improve management skills.
- vii. Motivation of managers by effective salary, selection and career development. **(15 marks)**

b. **Advantages of MBO**

- i. Better managing through better planning and control.
- ii. Clarification of organization goals within the framework of a long-term plan.
- iii. It commits individual managers to their targets
- iv. It encourages better communication and co-ordination within the organization.
- v. It helps to identify the need for change in organizational goals for individual managers and provides a system for making such changes.
- vi. It is scheme for converting strategic plans into management actions plans and budgets.

Disadvantages of MBO

- i. There is danger of inflexibility
- ii. It can be a time consuming exercise which might not be perceived as justifying the benefits achieved.
- iii. It might over- stress the need for individual achievement at the expense of teamwork
- iv. It requires considerable interpersonal skills by managers throughout the organization.
- v. It might call for a significant change in the attitudes of senior managers, style of leadership and the organization structure if it is to function effectively as in system. **(7 ½ marks)**

QUESTION 16

- a. Define the term 'Competency'
- b. Identify and explain briefly eight (8) examples of competencies required of a manager to be successful (24 marks)

SOLUTIONS TO QUESTION 16

- a. A competency can be defined as the underlying characteristic of an individual, which is causally related to effective or superior performance. (3 marks)

The characteristics can include motives, behavior, attitudes, or knowledge, anything that can be reliably measured.

- b. Examples of competences of a manager include: (24 marks)
 - 1) Customer focus: Takes proactive action for customers.
 - 2) Leadership- Motivates team to achieve high goals.
 - 3) Planning & Organization – Effectively plans and organize work.
 - 4) Developing Others – Encourages long term developments.
 - 5) Problem solving – Used past experience to form judgment
 - 6) Change management – explain change.
 - 7) Focus on achievement – Improves performance
 - 8) Achieving quality results – Checks work for quality and accuracy.
 - 9) Working together – Shows active support and respect for others.(24 marks)

QUESTION 17

- a. Mention the four (4) essential characteristics of management development. (8 marks)
- b. List the two (2) fundamentals of management development planning. (4 marks)
- c. Training is an integral part of organisation's investment but some staff are finding it difficult to learn. State six (6) reasons why this so. (18 marks)

SOLUTIONS TO QUESTION 17

- a. The four essential characteristics of management development are:

- 1) Need for a supportive organizational climate.
- 2) Provision of opportunities for self-development
- 3) Recognition of the long- term nature of the process
- 4) Balancing individual and organizational needs. **(8 marks)**

b. The two fundamentals of management development planning are:

- 1) Assessment of company's future management needs
- 2) Assessment of the strengths and weakness of current management performance. **(4 marks)**

c. Reasons why people may not want to learn are:

- 1) Perception of reaching the limit of their abilities
- 2) Lack of confidence
- 3) Lack of recognition of need
- 4) External barriers
- 5) Discouraged by past experience. **(18 marks)**

QUESTION 18

a. Explain the term Automatic Call Distribution (ACD) **(5 marks)**

b. Mention five (5) benefits of ACD each to:

- i.** A customer
- ii** A business **(10 marks)**

c. Explain the following agent data terms in the information collected by ACDs.

- i.** Number Answered
- ii.** Time logged in and out
- iii.** Average talk time
- iv.** Occupancy
- v.** Total not ready. **(15 marks)**

SOLUTIONS TO QUESTION 18

a. The automatic call Distributor (ACD) is the key piece of technology used in a call/ contact centre. It is a computerized telephone system capable of handling a high volume of calls and which efficiently routes incoming calls to relevant staff (commonly known as agents or advisers) normally by automatically offering the next call to the agent waiting for the longest period. **(5 marks)**

Benefits of ACD to :

1) Customer

- It automatically routes calls to the person best placed to handle them.
- Service to customers is quicker (no switchboard)
- Customers get a more professional service
- It helps companies to meet consumers needs
- Customers are more likely to get calls answered (through queering)
- ACDSs can be linked to computers and automated services. **(5 marks)**

Business Benefits

- It helps with consumer satisfaction
- What is good for the consumer is good for business.
- It gives business control of the telephone traffic.
- It enables more effective use of resources
- It helps in managing calls and resources
- It provides real time and historic call information
- It gives agents wrap time for handling after call work.
- It helps management to make informed decisions. **(5 marks)**

C.

Agent date	Explanation
Number Insured	This shows the number of calls answered and handled by the agent while logged into the switched. (3 marks)
Time logged in and out	This shows the times the handler logged in and out of the system. It can be used to check levels of adherence (punctuality), arriving and leaving on timer, lunch/tea/coffee breaks. (3 marks)
Average talk time	This shows the average time that each handler is taking to handle the calls received. It can be used as a productivity figure when compared with the team average talk time. It is often used to identify a training need. (3 marks)
Occupancy	This is the percentage of time the handler actually spent on talk time and wrong time. Occupancy of 80% means that 20% of their time was spent waiting for calls while logged on to the switch.
Total not ready	This shows the amount of time a handler was not available to take customer calls. (3 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2015 EXAMINATION PAPER

SUBJECT D18

PROPERTY CLAIMS HANDLING

QUESTION 1

- a. Describe who is intermediary in the context of insurance.
- b. Mention the three (3) types of intermediaries

SOLUTIONS TO QUESTION 1

- a. An intermediary is someone who provides a distribution channel between insurers and policyholders.
 - Insurance brokers
 - Lloyd's brokers
 - Independent intermediaries

QUESTION 2

- a. What do you understand by the term – 'No Premium No Cover' in property claims handling.
- b. What is Indemnity?

SOLUTIONS TO QUESTION 2

- a. No premium No cover means that there is no insurance cover when premium in respect of it has not been paid. In other words, payment of premium guarantees the insurance cover.
- b. Indemnity means placing back the insured close to the exact financial position he was prior to the loss.

QUESTION 3

- a. What is an Average?
- b. State two reasons for imposing an average condition in property insurance.
- c. Write out the formula for the pro-rata average.

SOLUTIONS TO QUESTION 3

- a. An average is a device designed by the insurance to combat under-insurance by the insureds.
- b.
 - To discourage under insurance.
 - To preserve the principle of equity in the premium payment to the common pool of fund.
- c.
$$\frac{\text{Sum insured}}{\text{Value at risk at the date of loss}} \times \text{Loss}$$

QUESTION 4

- a. What is subrogation?
- b. Mention three (3) ways in which subrogation may arise.

SOLUTIONS TO QUESTION 4

- a. Subrogation is the right of the insurers to stand in the place of policyholder and pursue his rights of recovery after a claim has been settled.
- b.
 - i. Under statute.
 - ii. Under contract
 - iii. In tort.

QUESTION 5

Write short notes on the following:

- (i) Hotel Proprietors Act 1956
- (ii) Riot Damages Act 1886

SOLUTIONS TO QUESTION 5

- a. This act creates a strict liability (other than act of God, act of the Queen's premises or negligence of the guest) on the part of the proprietor of the hotel as defines in the Act. The liability is limited to £50 for any one item and a total of £100 per guest.
- b. In the event of there being a riot (riot is defined in the Public Order Act 1989), a recovery from the police is possible.
A claim must be presented (on a special form) to the police authority within 14 days.

QUESTION 6

- a. **What is an ex-gratia payment?**
- b. **Mention two reasons why an insurance company would pay on ex-gratia.**

SOLUTIONS TO QUESTION 6

- (a) An ex- gratia is a payment made by the insurance company when it is not legally binding to pay the claim.
- (b)
 - i. Out of grace.
 - ii. For business relationship or goodwill
 - iii. To relief the insured of financial hardship.

QUESTION 7

- a. **What are exclusions?**
- b. **Mention any three (3) exclusions that you know in property insurance.**

SOLUTIONS TO QUESTION 7

- a. Exclusions are risks which are not covered in the ordinary course of a policy.
- b. War risk, Terrorism, Radioactive contamination, sonic bangs and deliberate acts.

QUESTION 8

- a. **What is a proposal form?**
- b. **List three (3) examples of non-disclosure.**

SOLUTIONS TO QUESTION 8

- a. Proposal form is a form predesigned by the insurers to elicit vital information relating to the risk proposed for insurance.
- b. Non-disclosure of a criminal record.
 - i. Non-disclosure of previous claims.
 - ii. Non-disclosure of previous adverse insurance acceptance.
 - iii. Misrepresentation of security devices.
 - iv. Misrepresentation of the proposer's business

QUESTION 9

What are the four (4) essential features of insurable interest?

SOLUTIONS TO QUESTION 9

They are:

- i. There must be a physical object which is capable of being lost, destroyed or damaged
- ii. The physical object must constitute the subject matter of the insurance.
- iii. The policy holder must have some legal relationship to that object.
- iv. The value of that insurable interest must be measurable in monetary terms.

QUESTION 10

- a. **What is fire in the context of Insurance?**
- b. **What is lightning?**

SOLUTIONS TO QUESTION 10

- a. Fire is the actual ignition of something which ought not to be on fire but which is on fire.
- b. Lightning is an electrical discharge between clouds and the ground. But it is not always accompanied by rain.

QUESTION 11

What are the five (5) conditions to be met at common law for contribution to apply?

SOLUTIONS TO QUESTION 11

- i. There are two or more policies of indemnity at the date of the loss
- ii. These policies cover a common insurable interest
- iii. These policies cover a common peril which gave rise to the loss
- iv. These policies cover a common subject matter
- v. Each policy is liable for the loss arising.

QUESTION 12

Outline three (3) methods of apportionment under contribution.

SOLUTIONS TO QUESTION 12

- i. Sum insured method
- ii. Independent liability method
- iii. Mean method

QUESTION 13

What are the exceptions to All Risks policy?

SOLUTIONS TO QUESTION 13

- i. Exclusions of events
- ii. Exclusions of property
- iii. A Standard war exclusion
- iv. A standard ionizing radiation exclusion clause
- v. The Northern Ireland overriding clause
- vi. Consequential loss

QUESTION 14

Write short notes on the following:

- (i) **An excess**
- (ii) **A Franchise**

SOLUTIONS TO QUESTION 14

(a) An excess is each and every amount of a loss which is not covered by the insurer.

It may be expressed either as a flat amount or in percentage .The higher it is, the lower the premium.

(b) Franchise: This is the amount of a claim which will only be paid by the insurer if the franchise limit is exceeded.

QUESTION 15

What are Warranties?

SOLUTIONS TO QUESTION 15

Warranties are undertaking by the policyholder that some specified things shall be in place or be done or that certain things shall not be in place or not be done.

QUESTION 16

What is Proximate Clause?

SOLUTIONS TO QUESTION 16

Proximate cause is the active and efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new and independent source.

QUESTION 17

What are the conditions precedent to claims?

SOLUTIONS TO QUESTION 17

These are conditions to be met before all valid claims must be paid.

QUESTION 18

What is the difference between IBNR and outstanding claim reserves?

SOLUTIONS TO QUESTION 18

IBNR – Incurred But Not Yet Reported

Outstanding claims reserve – reserves for all claims already reported but not yet settled by the insurers.

QUESTION 19

What is an unearned premium reserve?

SOLUTIONS TO QUESTION 19

Reserves for premiums which have not been fully earned or reserves for risks which have not fully expired.

QUESTION 20

What does the operative clause state?

SOLUTIONS TO QUESTION 20

The operative clause states the circumstances under which the insurance company would be liable to the insured.