



*Chartered Insurance
Institute of Nigeria*

Chief Examiners' Report

October 2018 Examination

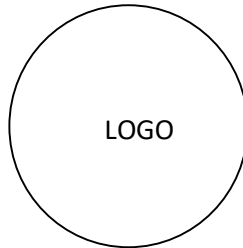
Diploma in Insurance (D01 – D19)

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)
Start each question on a fresh page	Write after invigilators have declared "time-up"
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts
Master the tricks of answering questions intelligently by concentrating more on the Parts B & C (Diploma & Advanced)	Nurture fear on any subject. There is no subject that distinction cannot be obtained.

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

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D01
INSURANCE PRACTICE AND REGULATION**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D01 - INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Summarized Report

Pass Rate:	100%
Highest Score:	61%
Lowest Score:	51%
Average Score:	56%

Breakdown Updates

Question 1

The majority of the candidates understand the principle to which the question is intended to test. The points were well highlighted.

Question 2

The candidates answered the question properly but few could not differentiate between fire and special peril cover.

Question 3

The performance is fairly okay although only one candidate did the question properly. Majority could not differentiate between claims procedure in life and general business.

Question 4

Few candidates did understand the principle to which the question is intended, while others could not highlight the steps involved in policy renewal.

Question 5

Few candidates got the answer correctly. The question is a practical question relating to oil and gas insurance market in Nigeria. However, the candidates' explanations on the Act were poor.

Question 6

Majority of the candidates did understand the principle to which the question is intended to test. The explanations were okay.

Question 7

Few candidates understood the question; however, some other candidates could not explain the features of a Life Assurance contract.

Question 8

The candidates did not understand the principle to which the question is intended to test, particularly the difference between the terms co-insurance and reinsurance.

Question 9

The candidate answered the question fairly but few candidates could not explain the scope of cover under Business Interruption (BI).

Question 10

The candidates did understand the principle but few could not explain the corollary of subrogation to indemnity.

Question 11

Majority of the candidates did not understand the principle, particularly the need for inspection in Engineering Insurance.

Question 12

The candidates did not explain the areas of cover under Marine. Few candidates attempted the question correctly.

Question 13

Few candidates did the question correctly, while others could not differentiate between the policy conditions' classification.

Question 14

Majority of the candidates did the question correctly, but few lack explanations.

Question 15

Few candidates that attempted this question did well. The points were highlighted but explanations were poor.

Question 16

Majority of the candidates did not give proper explanation of the characteristics of reinsurance market but the (b) part was well answered.

Question 17

Only one candidate answered this question, who also failed to give explanation on the points highlighted.

Question 18

Only one candidate answered this question and the question was well answered. The candidate understood the principle to which the question was intended to test.

Chief Examiner's Comments on Overall Performance:

The overall performance is above average.

Chief Examiner's Suggestions on Improvement:

The candidate needs to give more attention to examination and prepare very well.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. Explain the specific roles and responsibilities of an underwriter in the underwriting process of large risks.

Solution:

The specific roles and responsibilities of an underwriter in the underwriting process of large risks are:

- i. assesses each risk that are presented to the Insurer
- ii. determine and fix terms and conditions including extent/scope of cover to be provided
- iii. determine whether to accept, reject or impose special terms and conditions before accepting the risk
- iv. determine what percentage of the risk to retain, and how much percentage to be ceded out
- v. determine and calculate a suitable and equitable premium to be charged for the risk based on the risk profile

(2 ½ marks for each correctly stated point. Maximum of 4 points to be graded. Total: 10 marks)

2. Describe the main cover provided by a Standard Fire Policy. Mention the extraneous or special perils that can be covered and its' exclusions.

Solution:

The Standard Fire Policy provide covers for damage to property caused by fire, lightening, explosion, where the explosion is brought about by gas or boilers not used for any industrial purpose **(3 marks)**

The extraneous or special perils that can be covered are: storm, tempest of flood damage, subsidence and landslip, burst pipes, earthquake, aircraft and article dropping, riot, civil commotion, lockup and strikes, malicious damage, explosion, e.t.c

(1 mark each for each correct example. Maximum of 5 examples to be graded. Total: 5 marks)

Exclusions are war, rebellion, insurrection, confiscation, e.t.c

(1 mark for each correct example. Maximum of 2 examples to be graded. Total: 2 marks)

3. Compare the major differences between claim notification procedure in Life Assurance and General Business Insurance.

Solution:

The major differences between claim notification procedure in Life Assurance and General Business Insurance are stated in the table below:

S/No	Life Assurance	General Business
1	Notification need not be immediate	Notification is expected to be immediate
2	Police Report is not required except if death is as a result of an accident	Police report is usually required in so many lines of the business
3	Liability is immediately engaged once death occurs	Insured is advised not to admit liability without approval from the Insurer
4	No subrogation right can accrue	Could arise with subrogation rights
5	Supporting document cannot emanate from the policyholder	Supporting documents must emanate from the policyholder
6	Insurer is obliged to inform the policyholder two or three months in advance before the maturity date of the policy's maturity or expiration	Insurer is not obliged to inform the policyholder of any maturity or expiration
7	Policy can be assigned	Policy cannot be assigned though a lien clause can be placed on it.

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

4. Illustrate the steps involved in policy renewal and issuance of endorsement in General Business Insurance.

Solution:

The steps involved in policy renewal and issuance of endorsement in General Business Insurance are:

- The insurer will send a renewal notice to the Insured, at least 30 days prior to the renewal date
- The insured will confirm receipt of the renewal notice and advise the Insurer, through his Broker or Agent, to renew cover on existing basis or review the sum insured (or other terms)
- The insured will pay the applicable premium stated on the endorsement
- Where there are changes in the risk, or value, the Insurer will issue renewal endorsement reflecting the amendment of risk, after confirming receipt of the renewal premium
- The renewal endorsement will show the standard agreed clauses, and warranties in cases of large industrial risks

- The endorsement will be sent to the insured and the Insurer will ensure that same is received

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

5. Explain the term “Local Content Act” as it relates to “Oil and Gas” Insurance business in Nigerian Insurance Market.

Solution:

- The Local Content Act as it relates to Nigeria Insurance Market states that all insurance transaction of major oil firms operating in Nigeria Territory should be done locally before ceding overseas **(3 marks)**
- The Act stipulates that all assets should be insured with the Nigerian Insurance Market at least 70% local content, while the remaining 30% ceded abroad after satisfying the Nigerian Market **(3 marks)**
- However, before the Act, most of the assets of major oil firms operating in Nigeria were insured 100% abroad, while the local market only participated on facultative basis **(2 marks)**
- In addition, the purpose of the Act is to increase the retention of Nigerian Market in oil and gas business and improve the underwriting capacities of the Nigerian underwriters. **(2 marks)**

6. Explain the following terms:

- a. Adjustable Premium (4 marks)
- b. Operational Expenses (4 marks)
- c. IBNR. (2 marks)

Solution:

- a. **Adjustable Premium:** this is premium which is calculated based on estimate e.g. under declaration policy where the deposit premium paid is adjusted upward or downward, after the Insured submitted full declaration at the end of year e.g. marine declaration policy, stock insurance. **(2 marks for explanation; 2 marks for one good example; Total: 4marks)**
- b. **Operational Expenses:** are a number of expenditure made in order to meet the running of the business. They are expected to be recovered from the aggregate premium collected from the policyholder e.g. staff salaries, office costs of all forms, commissions, advertising costs, e.t.c.. **(2 marks for explanation; 2 marks for one good example; Total: 4marks)**

- c. **IBNR:** this is where insurer make provision for claims that have occurred but have for one reason or the other not been reported by the client(s) or formally brought to the attention of the insurer. **(2 marks)**

7. Outline the major features of a Life Assurance Contract.

Solution:

The major features of a Life Assurance Contract are:

- life assurance contracts are permanent policies
- the occurrence of claim would definitely occur either through death or maturity
- premium calculation is derived from mortality table, and premium is paid mostly at level term throughout the duration
- life assurance policy can be cash-surrendered i.e. it has surrender value
- insurable interest must exist at inception in life assurance contract
- participation in profit: after valuation of assets and liabilities, any surplus existing would be distributed to policyholder in form of profits, and this is usually applicable to with profits endowment
- life assurance contracts have paid-up value
(2 marks for each correctly stated point; Maximum of 5 points to be graded. Total: 10 marks)

8(a) Mention the major differences between co-insurance and re-insurance as it relates to General Insurance business. **(6 marks)**

Solution:

8a) The major differences between co-insurance and re-insurance as it relates to General Insurance business are as tabulated below:

S/No	Co-Insurance	Reinsurance
1	Between different insurers	Between insurer and reinsurer
2	Arranged in percentages.	Arranged in pre-agreed sharing formula. Could be proportional or non-proportional
3	Insured could be a party to the arrangement	Insured is not a party to the arrangement
4	Policy document issued to the insured by the lead underwriter	Policy document issued on the insured by the reinsurer to the lead insurer
5	Has a schedule for each and every policy	Has no individual schedule for each and every policy.

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

(b) Mention the difference between re-insurance and retrocession. **(4 marks)**

Solution:

The difference between re-insurance and retrocession is that reinsurance is the transfer of risk which is over and above the retention capacity of the ceding company, while retrocession is the term used when a reinsurance company takes on part of the risk assumed by another reinsurance company. Its aim is to reduce the risk and liability burden of the initial reinsurer by spreading out the risk to other reinsurance companies.

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

- 9(a) Mention the two basic headings under which cover is granted in Business Interruption (BI) Insurance Policy. (6 marks)
- (b) Explain the scope of cover under Business Interruption (BI) Insurance Policy. (4 marks)

Solution:

- 9(a) The two basic headings under which cover is granted in Business Interruption (BI) Insurance Policy are:

- costs of overhead expenses
- increase in cost of running the business (temporary accommodation while the property is under repair)
- dual basis wages cover

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

- (b) The scope of cover under Business Interruption (BI) Insurance Policy otherwise known as loss of profit insurance cover losses from damage to physical property by fire and special (allied) perils, which affect the continuation of business operations. The damage caused to the physical property i.e. building by Fire & Special Perils might result in disruption of business operation, which leads to loss of profit by the insured organization. The cover under this policy could also include costs incurred for repairs and maintenance of plant and machinery.

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

10. Briefly explain the concept “subrogation is a corollary of indemnity”.

Solution:

Subrogation is a corollary to indemnity is a **concept backed by common law** which states that **when an insurer indemnify an insured, he is allowed to take over the rights and remedy of the insured to recover any amount payable from other parties which might be liable for the loss. The insured is said to have subrogated their rights to the insurer.**

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

11. Explain why physical inspection is important during placement of “Engineering Policy” with underwriters.

Solution:

Physical inspection is important during placement of “Engineering Policy” with underwriters for the underwriter to know:

- how often the plant and machinery is maintained
- the age of the plant and machinery
- the breakdown of the plant and machinery
- the record of damages to the plant and machinery
- the cost of repair of own surrounding property
- legal liability for injury that can be caused by damage or breakdown of plant and machinery
- legal liability for damage to third party property that may arise as a result of breakdown or damage to plants and machinery

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

12. Mention three (3) areas of risks covered by Marine Insurance and state the legislation that brought Marine business into being.

Solution:

Three (3) areas of risks covered by Marine Insurance are:

- Hull All Risk (including war and deductible)
- Marine Cargo (open cover or declaration policy)
- Freight Policy

(3 marks for each correctly stated area. Total: 9 marks)

The legislation that brought Marine business into being is Marine Insurance Act 1906 (1 mark)

13. Discuss the three main classification of policy conditions in General Insurance.

Solution:

The three main classification of policy conditions in General Insurance are:

- Conditions precedent to the contract
- Conditions subsequent to the contract
- Conditions precedent to liability.

- **Conditions precedent to the contract:** these are the conditions which must be fulfilled prior to the formation of the contract i.e. implied conditions
- **Conditions subsequent to the contract:** these are conditions which have to be complied with once the contract is in force i.e. conditions relating to adjustment of premium, or notification of alterations to risk.
- **Conditions precedent to liability:** these are conditions relating to claims and must be complied with if there is to be a valid claim.

(1 mark for each correctly stated point. 2 marks for each correct explanation on the first two conditions. 3 marks for correct explanation on the third condition. Total: 10 marks)

14. Mention the reasons why Insurers share risks by means of co-insurance and re-insurance.

Solution:

The reasons why Insurers share risks by means of co-insurance and re-insurance are:

- for security
- for stability
- for capacity building
- for catastrophes
- for macro benefits.

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

Part II

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

Each question carries 30 marks.

- 15(a) Mention the detailed information contained in a standard policy schedule for a typical General Business Insurance policy. (6 marks)

Solution:

The detailed information contained in a standard policy schedule for a typical General Business Insurance policy are:

- Address of the Insured
- Nature of the business
- Period of Insurance
- Annual Premium Payable
- Renewal Period
- Limits of Liability
- Policy Number

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

(b) State the usefulness of any five (5) of the information stated above.

(20 marks)

Solution:

- **Address of the Insured:** apart from showing evidence of having complied with KYC regulatory requirement, it also enables the Insurer to know the location of the risk being covered and provide required information on the risks associated with the location of the risk.
- **Nature of the business:** it enables the Insurer to be able to rate as most appropriate and also gives a guide to what terms and conditions to be imposed on the policy.
- **Period of Insurance:** for immediate and easy understanding of when the effective period of cover is so as to prevent any ambiguity regarding when liability is engaged is not.
- **Annual Premium Payable:** to be able to know how much was paid for the cover being provided. This also helps in assuring all parties that compliance with the “No Premium, No Cover” Rule has been effected.
- **Renewal Premium Payable:** to be able to know how much is required to be paid for subsequent periods so as to continue to keep the policy in force.
- **Limits of Liability:** to enable all parties to the contract, and also any other person with access to the document, know the extent of liability without having to go through the whole policy document.
- **Policy Number:** this is useful so the office can be able to trace the policy easily and it is also a unique identify for the insured on which when required it will be readily and easily retrieved.

(2 marks for each correctly stated point. Maximum of two points per information should be graded. Sub-Total: 4 marks per information. Maximum of 5 explained information to be graded. Total: 20 marks)

(c) Explain the use of standard and non-standard clauses and endorsements in General Insurance. (4 marks)

Solution:

The use of standard and non-standard clauses and endorsements in General Insurance is to reflect changes made to the policy during the continuation of cover. It also is used to bring more clarity to the cover terms. These changes may be requested by the Insured Brokers by notifying the Insurer of review of certain changes e.g. limits of liability, addition of items, deletion of items, extension of cover, inclusion of new clauses to the policy, e.t.c.

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

16(a) Explain the characteristics of the reinsurance market. (10 marks)

Solution:

Reinsurance can simply be defined as the “insurance” (or cover for risks) purchased by an insurance company.

Market can also be simply defined as an area or arena in which commercial dealings are conducted.

Therefore, **reinsurance market** can be simply defined as an area or arena in which reinsurance dealings (ie. purchase of cover by direct underwriters) are concluded.

The characteristics of the reinsurance market are:

- The insured does not have any knowledge of the reinsurance contract because the contract is strictly between the direct insurer(s) and the reinsurer
- In the event of a claim, if the reinsurer does not meet up for whatever reasons, the direct insurer must ensure the claim is paid to the insured, even if it means paying by itself
- Although international in nature, the market place is globally same no matter where the cover is bought
- It has no boundary and can be bought from any country and/or reinsurance – subject to local laws in place.

(2 marks each for defining Reinsurance; Market and Reinsurance Market. Two marks each for any correctly stated point. Maximum of two points should be graded. Total: 10 marks)

(b) Mention the major buyers of reinsurance. (5 marks)

Solution:

The major buyers of reinsurance are:

- Primary Insurers
- Captive Insurers
- Lloyd’s Syndicates
- Reinsurers
- Intermediaries

(1 mark for each correctly stated buyer. Total: 5 marks)

(c) Write short notes on the buyers mentioned in (b) above. (15 marks)

Solution:

- **Primary Insurers:** these are direct insurers licensed to practice insurance business who come to the reinsurance market to purchase cover for their risks from the reinsurers.
- **Captive Insurers:** these are a group/groups of insurers creating a licensed company to provide cover for itself. The main purpose is to avoid using traditional commercial insurance companies, which have volatile pricing and may not meet the specific needs of the company. It enables the company

to determine its own appetite and provide maximum cover as would be recovered, though it also presents its own many challenges.

- **Lloyd's Syndicates:** are groups of people in the British Insurance Market (usually called Lloyd's of London) who specializes in placing different types of risk in the reinsurance market. Each syndicate decides which type of risk to be involved with and they join hands together to reinsure and spread the risks of different players in the market.
- **Reinsurers:** these are the companies licensed to sell reinsurance covers to any of the buyers that come to the market to purchase such covers. The covers sold must be in line with what they have capacity for and not arbitrary in nature.
- **Intermediaries:** these are people that facilitate the place and purchase of reinsurance in the market, they provide services to all concerned parties that complement the reinsurance placements. They are mainly referred to as reinsurance brokers.

(1½ marks for each correctly stated point. Maximum of two points should be graded per buyer. Sub-Total per buyer = 3 marks. Total Marks: 15 marks)

17(a) Discuss the alternative ways to resolve disputes available to claimants in the event of disagreement with insurers as at the time of claim settlement.

(18 marks)

Solution:

Alternative ways to dispute resolution imply that although there are some other known and usually trodden ways of resolving disputes whenever such arise, these alternative ways could actually be faster and more effective than the other usual ways.

They are:

- The insurer will engage the Broker and direct client to resolve the issue directly
- If the dispute is in the area of the quantum of the claim (i.e. amount offered by the Insurer is not acceptable to the Insured), it can be referred to arbitration by the Insured whereby a learned person(s) in the subject matter of insurance and law, will sit down the two parties and try to arbitrate on the issue. The advice from here is not binding on the Insured but is binding on the Insurer.
- Use of mediation whereby other parties apart from the insurer and the insured, mediate in the matter and endeavor to resolve the issue amicably
- Another way is conciliation whereby instead other parties come into the matter and from the legal point of view, endeavor to reconcile the parties so as to ensure that the knotty issues are resolved and that the claim does not end in litigation

- Expert Appraisal: this is when the parties refer their dispute to an expert in a particular field who will dispassionately assess the claim/dispute and thereafter offer a legal opinion on the matter. The opinion is also not binding on the Insured but it binding on the Insurer
- The claim can also be escalated to the Insurance Ombudsman for resolution where the decision of the Onbudsman is also not binding on the Insured but it binding on the Insurer
- Mini-Trial of Structured Settlement Procedure is also another “legal” route of settling the claim issues without a full blown litigation by concerned parties
- If all the above fails or if the Insured is not inclined to going through such routes, especially if the issue of liability acceptance by the Insurer is involved, the insured may resolve to litigation.

(2 marks for the explanation of the term “alternative ways”. 2 marks for mentioning any alternative way; 1 mark for each explanation. Maximum of two points/explanation to be graded per point. Total: 4 marks per point. Maximum of 4 points to be graded. Grand Total: 18 marks)

- (b) Enumerate the principle for business practices for all regulated insurance firms. (12 marks)

Solution:

The principles for business practices for all regulated insurance firms are:

- **Integrity:** an insurance firm must conduct its business with integrity. It must observe proper standards of market conduct.
- **Due Skill, Care & Diligence:** an insurance firm is required to conduct its business with due skill care and diligence
- **Management and Control:** an insurance firm must take reasonable care to organize and control its affairs responsibly and effectively with adequate risk management systems
- **Financial Prudence:** an insurance firm must maintain adequate financial resources and must be prudent in the utilization of such deplored resources.
- **Customers Interest:** an insurance firm must pay die regard to the interests of its customers and treat them fairly
- **Communication with Clients:** an insurance firm must pay due regard to the information needs of its clients and communicate information to them in a way that is clear, fair and not misleading
- **Conflict of Interest:** an insurance firm must manage any conflict of interest fairly, between itself and its customers and between any two or more clients/customers
- **Clients’ Assets:** an insurance firm must arrange adequate protection for its clients’ assets when it is responsible for them
- **Relations with Regulators:** an insurance firm must deal with its regulator in an open and cooperative way, and must appropriately disclose to the

regulator any issue relating to the firm which the regulator would require or have asked for.

(1 mark for stating the principle. 2 marks for any fully articulated point/explanation. Total of 3 marks per point. Maximum of 4 points to be graded. Total: 3 marks per point. Grand Total: 12 marks)

18. Mention five (5) standards of behaviour required of a CII member in order to comply with the CII Code of Ethics and Conduct? (25 marks)

Solution:

The standard of behavior required of a CII member in order to comply with the CII Code of Ethics and Conduct are:

- behaving with responsibility and integrity in their professional life
- complying with the law and meeting the requirements of regulatory authorities and codes of practice and conduct
- demonstrating professional competence and due care
- upholding professional standards in all dealings and relationships
- respecting the confidentiality of information
- applying objectivity in making professional judgments and in giving opinions and statements

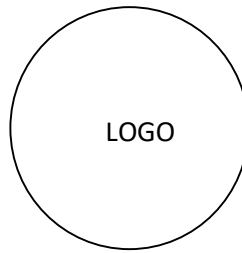
(5 marks each for any correctly stated point. Total: 25 marks)

- (b) Distinguish, by way of definition between bancassurance and brandassurance. Give one example each. (5 marks)

Solution:

Bancassurance is the convergence of banking and insurance (or the term used to describe the relationship whereby insurance companies sell their products to Bank clients and vice-versa) while **Brandassurance** is the situation whereby a retailer with a strong brand becomes an insurance company intermediary.

(2½ marks each for correct definition. Total: 5 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D04
BUSINESS PRACTICE**

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

D04 - BUSINESS PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

Summarized Report

Pass Rate:	41%
Highest Score:	81%
Lowest Score:	4%
Average Score:	43%

Breakdown Updates

Question 1

90% of candidates attempted the question with 78.71% passing. It was a direct question.

Question 2

A popular question with over 90% of candidates writing the exams and 83.93% passing. Another direct question.

Question 3

All the candidates attempted the question with 11.62% passing the question. Candidates were required to draw a diagram which was poorly drawn.

Question 4

All the candidates wrote the paper with 73.55% passing. Another direct question that was well attempted.

Question 5

All the candidates attempted the question with 55.49% passing. Not enough points were given by candidates on the question.

Question 6

92% of candidates wrote the question with 14.20% passing. Although a direct question but it seems that candidates did not understand the concept required.

Question 7

99% of the candidates wrote the question with 33.78% passing. This was also a practical question which was poorly attempted by the candidates.

Question 8

All the candidates wrote the question with 32.61% passing. A direct question but candidates did not perform well in it.

Question 9

All the candidates wrote the question with 38.76% passing. A practical question which was not well attempted by the candidates.

Question 10

All the candidates wrote the question with 73.55% passing. A direct question which was well attempted by the candidates.

Question 11

All the candidates attempted the question with 18.71% passing. A practical question but was not well attempted. It seems that candidates did not understand the concept involved.

Question 12

All the candidates attempted the question with 9.82% passing. A practical question which was not well attempted by the candidates as it requires recall of a concept.

Question 13

All the candidates attempted the question with 60.65% passing. A direct question which was well attempted by the candidates.

Question 14

All the candidates attempted the question with 52.26% passing. A direct question but was averagely attempted by the candidates.

Question 15

About 78% of the candidate wrote the question with 56.13% passing. A direct question with average performance by candidates.

Question 16

All the candidates wrote the question with 54.20% passing. A practical question which was well attempted by candidates.

Question 17

All the candidates wrote the question write 42.90% passing. A direct question which we had expected all candidates to pass.

Question 18

All the candidates wrote the question with 69.04% passing. A direct question with above average performance.

Question 19

Only 79.36% of the candidates attempted the question with 21.14% passing. A direct question with good performance.

Question 20

80% of the candidates wrote the question with 21.78% passing. A practical question that requires application which was not well attempted.

Chief Examiner's Comments on Overall Performance:

The good performances were mainly in the direct questions while most of the students failed in those questions that required application of what has been learnt.

Chief Examiner's Suggestions on Improvement:

Candidates should be implored to read as wide as possible.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. There are five essential elements in any individual communication when promoting insurance businesses to both existing and potential customers. Fill in the missing EXPLICIT WORD as it relates to transiting from effective communication to customer acquisition.
 - i. A.....: usually the organization
 - ii. A.....: usually the information about the product or service
 - iii. A.....: the communication channel
 - iv. A.....: the person or business receiving the communication
 - v. A.....: a reaction to the message.

Solution

- i. A source : usually the organization
- ii. A message : usually the information about the product or service
- iii. A medium : the communication channel
- iv. A receiver : the person or business receiving the communication
- v. A response : a reaction to the message.

(2 marks each for each explicitly stated word/point) – 10 marks in all

2. What is the difference between debt and equity?

Solution

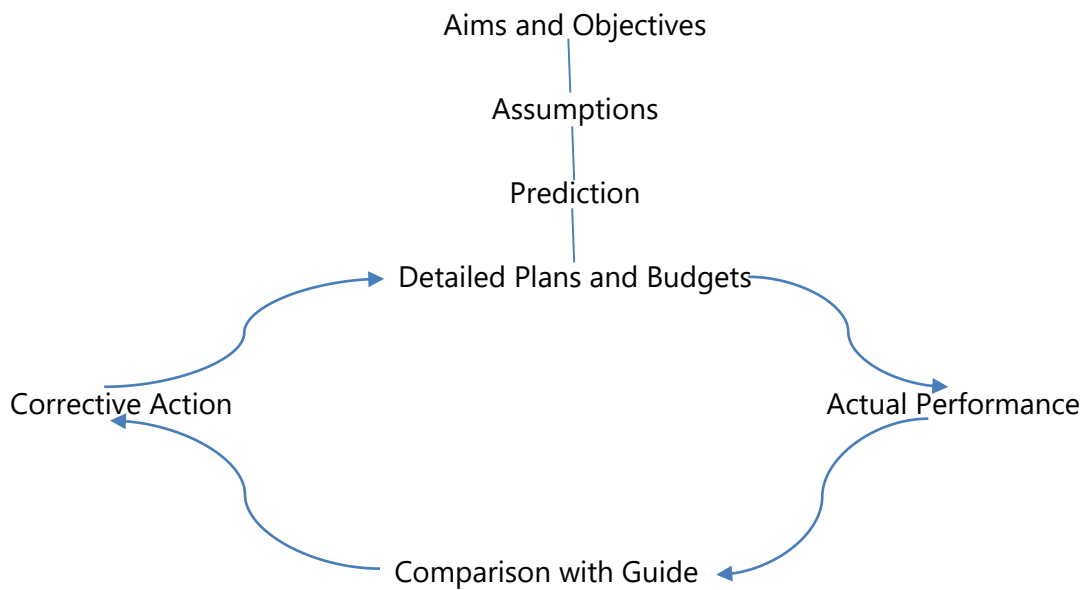
“Debt” is money raised by borrowing it from another organization. The lender transfers the money to the borrower, who can then use it to fund their own business operations.

While “equity” is the name given to money raised by issuing shares in an organization. The shareholder hands over money to the company and receives equity (in the form of shares certificates) in the future profits of the company.

2 points each for every correctly stated point. Maximum of 5 points to be graded – 10 mks in all

3. Using a diagram, explain the budgeting, planning and control cycle of an organization as it relates to its management accounting.

Solution



(1 mark each for the stated words (7 marks in all) and the remaining three for the correctly drawn arrows/lines (1 for the first three; ½ each for the other four lines/arrows)–10 marks in all

4(a) What does the acronym “WTO” stand for? Mention any two of the WTO’s main activities.

Solution

WTO – World Trade Organization

(1 mark)

Main Activities are:

- i. Establishment of rules which govern trading behavior between nation states
- ii. Attempts to liberalise trade through tariff and quota reduction
- iii. Offering a legal framework and a court for the settlement of disputes
- iv. Monitoring trade agreements and government policies, especially those that may contravene the WTO objective of further liberalization.

(2 marks each. Maximum of two points to be graded – 4 marks in all)

(b) Mention any five different standards that different countries have for work practices.

Solution

The different standards that different countries have for work practices are:

- i. Weights and Measures
- ii. Business Languages

- iii. Professional and Other Employment Qualifications
- iv. Product Specification
- v. Law of the Sale of Goods
- vi. Product Quality Requirements
- vii. Solvency Requirements
- viii. Taxation and Fiscal Regimes
- ix. Power Supplies
- x. Banking Practices
- xi. Working Hours.

(1 mark for each correctly stated practice. Maximum of 5 to be graded. Total 5 marks)

5. In relation to this "Business Practice Course – D04"

- (a) With one sentence, state what makes up "job satisfaction" (1 mark)

Solution

Job satisfaction is made up of attitudes which employees have to their work setting, rewards, supervision and job demands. 1 mark

- (b) Mention any four advantages that research has shown, of having employees that are satisfied with their jobs, in any organization's employ. (4 marks)

Solution

Advantages that research has shown, of having employees that are satisfied with their jobs, in any organization's employ are:

- i) the employees' mental health increases
- ii) the employees' physical health improves
- iii) the employees' have more resistance to stress
- iv) the employees' live longer
- v) the organization report lower absentees
- vi) the organization have lower staff turnover
- vii) the organization have increased productivity.

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

- (c) Mention any five statutory rights that cannot be signed away by the employer or employee, which the employee is entitled to under the Employment Protection Act 1975. (5 marks)

Solution

The following statutory rights cannot be signed away by the employer or employee, which the employee is entitled to under the Employment Protection Act 1975:

- i. Equal pay with members of the opposite sex providing it like like work or of equal value
- ii. Maternity and paternity rights and benefits
- iii. Parental leave
- iv. An itemized pay statement (payslip)
- v. Not to have any unlawful deductions from an employee's pay
- vi. Be paid when an employee is laid off
- vii. Redundancy pay (subject to service conditions)
- viii. Parttime/contract workers to be treated in the same manner as full time employees
- ix. Statutory sick pay
- x. Paid time off for certain duties
- xi. Belong to or not belong to a trade union
- xii. A safe system of work
- xiii. Not to be unfairly dismissed
- xiv. Not to be discriminated against on grounds of race, sex, marriage or disability
- xv. Employee access to their personal data held by the employer
- xvi. Be able to make disclosures about illegal activities on the part of the employer.

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

6. Economics can be applied to real-world challenges and comprises many powerful tools for understanding the environment in which business operate. Therefore, it is of great interest to business managers. Mention the four levels at which "economics" is of such interest to business managers and state two points each, on any three, how such influences can come into being.

Solution

The four levels of influence by "economics" on business are:

- i. Global Economy
- ii. Domestic Economy
- iii. The Economy of the Market
- iv. The Economy of Local or Business Management.

(1 mark each) - 4 marks in all

a. Global Economy:

- i. Structural Changes

- ii. Variation in the global demand for products and services
 - iii. Variations in the supply and price of raw materials
 - iv. Variations in the supply and price of labour
- b. Domestic Economy:**
- i. The decline of an industry sector
 - ii. The growth of an industry sector
 - iii. Interest rates
 - iv. Exchange Control
 - v. Inflation
- c. The Economy of the Market:**
- i. Type of market
 - ii. Causes of price changes
 - iii. Different types of competitive structure
- d. The Economy of Local or Business Management:**
- i. Efficiency issues
 - ii. Profit Maximization
 - iii. Maximization of Resources

(1 mark for each correctly stated point. Any three economy to be graded. Total of 2 marks per economy. Grand Total: 6 marks)

7. Minutes provide the background to a committee's business and their permanence in written form reduces the possibility of disagreement over exactly what was discussed and decided, when and by whom. State any ten "conventions/guidelines" that are expected to be followed when someone is assigned the task of taking the minutes of a business meeting.

Solution

The following are "conventions/guidelines" that are expected to be followed when someone is assigned the task of taking the minutes of a business meeting:

- i. Familiarize yourself with the usual pattern of the minutes by looking at previous sets of minutes
- ii. Check with the chairperson if there is a particular house style
- iii. Do not try to chair the meeting and take notes
- iv. Ensure your reference notes are clear and legible
- v. Record the date, time and place of the meeting
- vi. Record the names of those present, those absent without apologies and those from whom "apologies for absence" have been received
- vii. Give each minute a consecutive reference number linked to the agenda item number and use the agenda to guide you in categorizing topics of discussion
- viii. Make a note of each topic under a separate heading

- ix. Summarize discussions concisely, bringing out the main points, decision taken, action required by when and by whom and keep up with the thinking of the meeting
- x. Draft the minutes as soon as possible, while events are still fresh in your mind
- xi. Check your draft with another person who was present
- xii. Ask anyone who was present about anything you did not understand at the meeting
- xiii. After they have been typed, proofread the minutes carefully
- xiv. Send the minutes to all who were invited to the meeting, and keep a copy got the central file of minutes
- xv. File the minutes carefully. Some minutes are required to be kept by law
- xvi. Since minutes are a record of past discussions, they should consist mainly of reported speech, all tenses move back one stage in time e.g. "has" becomes "had", "is" becomes "was", e.t.c
- xvii. Use the third person ("he", "she" "it") and never the first or second person ("I", "we" or "you").

(1 mark each for correctly stated point) - 10 marks in all

8. Each component of the "promotion" element of the marketing mix has its advantages and disadvantages over the others in communicating with the customer. Complete the missing data in the table below:

	Scope	Cost per Contact	Advantages	Disadvantages
Advertising	Mass	Inexpensive	.....	.....
Personal Selling	Personal	Expensive	.....	.....
Sales Promotion	Mass	Can be Expensive	.....	.....
Public Relations	Mass	Inexpensive	.....	.....
Direct Marketing	Mass/Personal	Moderately Expensive	.....	.....

Solution

	Scope	Cost per Contact	Advantages	Disadvantages
Advertising	Mass	Inexpensive	Control over the message	Hard to measure results
Personal Selling	Personal	Expensive	Flexible Presentation. Immediate Results	Very Expensive

Sales Promotion	Mass	Can be Expensive	Gains Attention. Immediate Effect	Easily Copied
Public Relations	Mass	Inexpensive	Very Believable	Lack of Control
Direct Marketing	Mass/Personal	Moderately Expensive	Consistent	Lack of Control

(1 mark each for each correctly stated point and explanation) – 10 marks in all

9. Given the following figures, calculate the gross profit/loss by the Company on its Commercial Vehicle Third Party line of business at a particular year end:

Gross Premium Written: 2500 units of Third Party Insurance Policies at ~~₦~~25,000.00 each; out of which 62.5% were sold by Brokers and the remaining by other licensed Agents.

Commission Rate: 17.5% (for Brokers);
50% of Brokers' Rate for other licensed agents

Other Acquisition Costs: 6% (inclusive of the 1% Regulatory Fee)

Management Expenses: 25%

Net Claims: ~~₦~~18,250,000.00

Investment Income: 5% of the GPI (take GPI as GPW less Commission only).

Solution

	₦	₦
Income		
Gross Premium Written (2500*25,000)		62,500,000.00
Expenditure		
Commission		
Brokers: 17.5% of (62.5% of sales)	6,835,937.50	
Others: (50% of 17.5%)* (100-62.5)% of sales	2,050,781.25	
Other Acquisition Costs (6% of sales)	3,750,000.00	
Management Expenses (25% of sales)	15,625,000.00	
Net Claims	18,250,000.00	
Total Expenditure		(46,511,718.75)
Investment Income i.e. (5%*(62,500,000 – (6,835,937.50+2,050,781.25))		2,680,664.06
Total Income:		65,180,664.06
Gross Profit/Loss		<u>18,668,945.31</u>

(1mark each for each correctly calculated figure above) – 10 marks in all

10. State the Financial Accounting Formula for:

- a. Profit
- b. Capital
- c. Straight Line Depreciation
- d. Assets
- e. Net Current Asset.

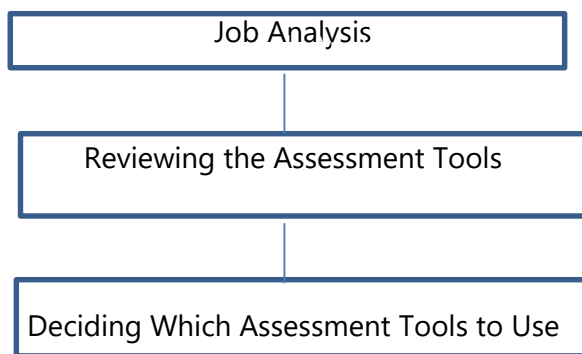
Solution

- a. Profit: Income from Running the Business - Incurred Costs in Running the Business
- b. Capital: Assets - Liabilities
- c. Straight Line Depreciation: Cost of Asset Scrap Value/ The Life of the Asset
- d. Assets: Capital + Liabilities
- e. Net Current Asset : Current Liabilities - Current Assets

(2marks each) - 10 marks in all

11(a) Explain by way of a diagram the three (3) key stages in the recruitment process of new employees in any organization. (6 marks)

Solution



(2 marks each for each correctly stated point and diagram) - 6 marks in all

(b) Mention the two (2) methods used by employers to conduct personality tests on a new employee. (2 marks)

Solution

Two methods used by employers to conduct personality tests on a new employee are: by Use of Questionnaires and (ii) by Use of Psychometric Tests

(1 mark each for each correctly stated point) - 2 marks in all

(c) During the interview process, the Employer tests the personality and/or intelligence of the would-be-employee. How does intelligence test differ from personality tests? (2 marks)

Solution

Intelligence tests differs from personality tests in that many of them measure specific abilities such as mechanical, numerical, verbal aptitudes and intel quotients; while personality tests rely much on the candidates honesty and tries to measure such traits.
(1 mark each for each correctly stated point) – 2 marks in all

12. Mention, in a tabular form, five different management styles and state their characteristics in the table.

Solution

S/No	Management Style	Characteristic
1	Open Door	Managers are approachable by staff at all times
2	Autocratic	Control and power rest with a single individual, usually the Chief Executive
3	Paternalistic	The Company looks after its employees in a fatherly way, and the employees respect the organization's managers in the way that children respect their parents
4	Militaristic/Hierarchical	The Management is structured in a formal way, with clear job demarcation
5	Democratic/Consultative	Decisions are taken with prior reference to as many staff as possible

(1mark each for type and characteristic) – 10 marks in all

- 13(a) How may the term “structure” be defined? (1 mark)

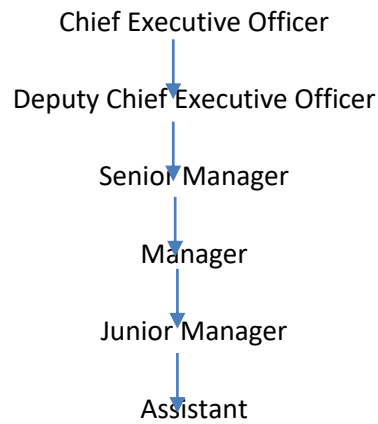
Solution

“Structure” may be defined as the “shape” or configuration of the organization, it is not just an organization chart. (1 mark)

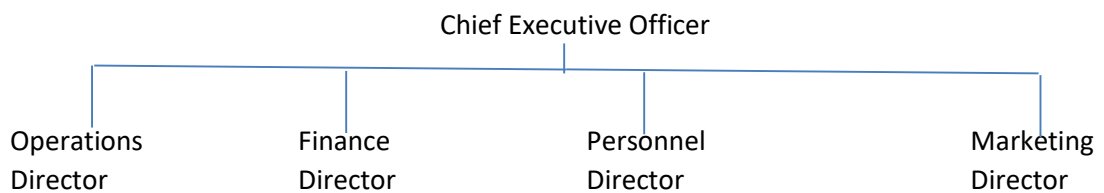
- (b) Mention and explain (by way of diagram ONLY) any three types of management structure in an organisation. (9 marks)

Solution

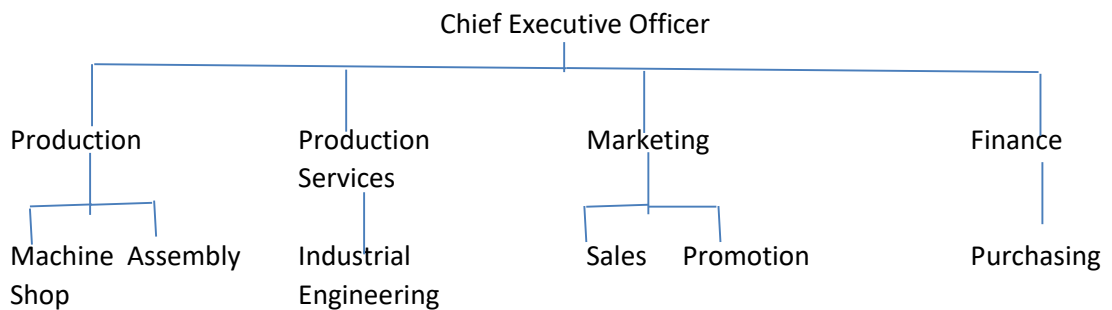
i) Vertical Management Structure:



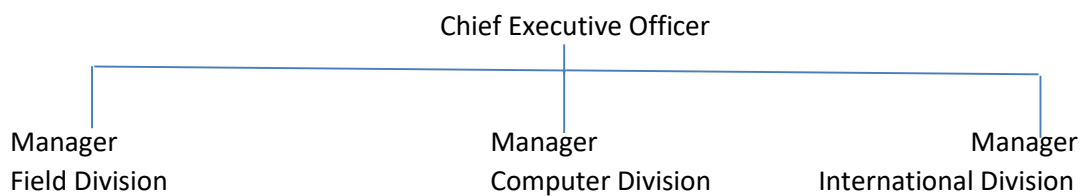
ii) Flat Management Structure



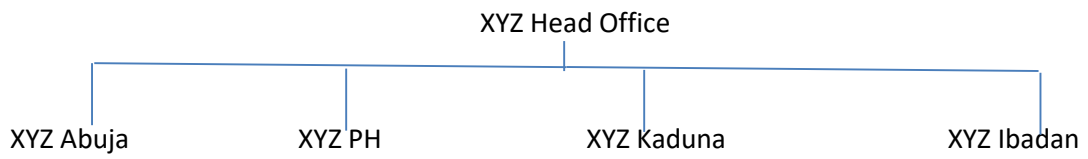
iii) The Functional Design



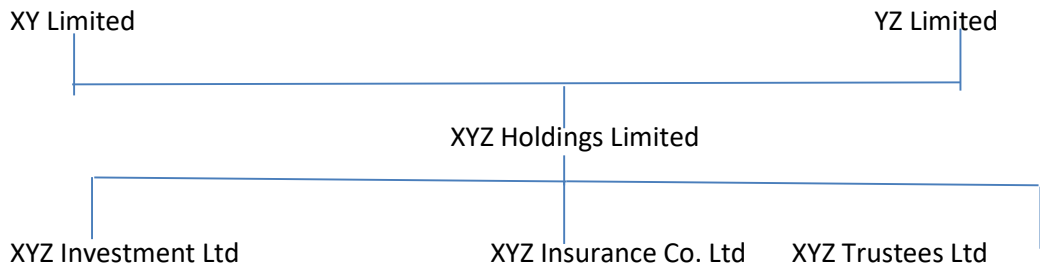
iv) The Divisional Design



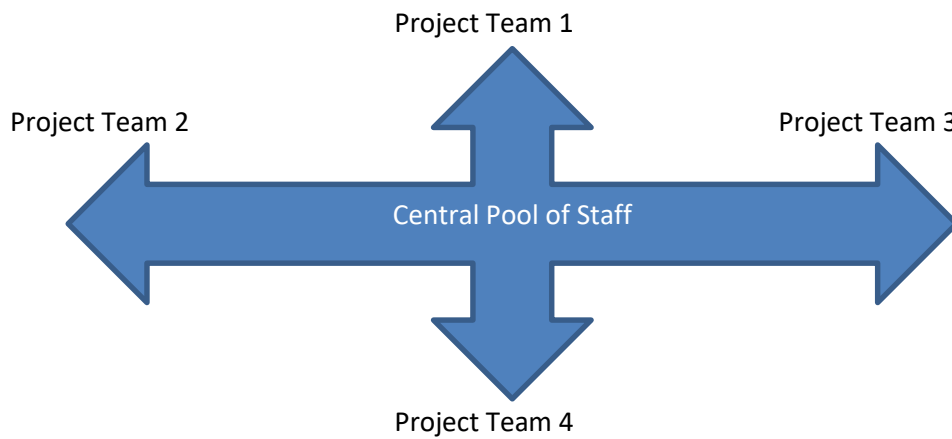
v) The Territorial Design



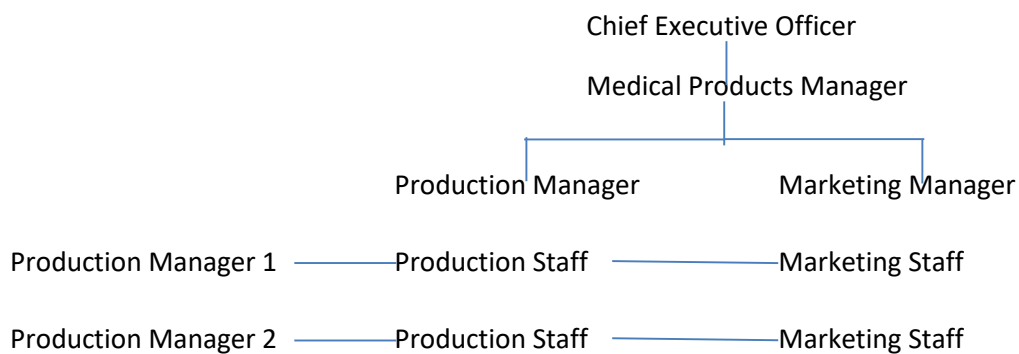
vi) The Holding Company



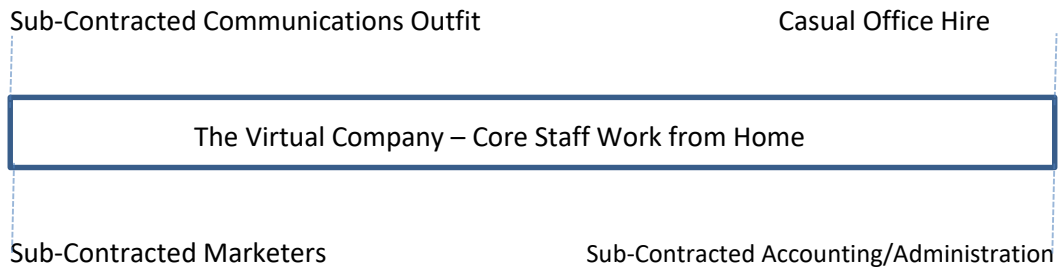
vii) The Project Team Design



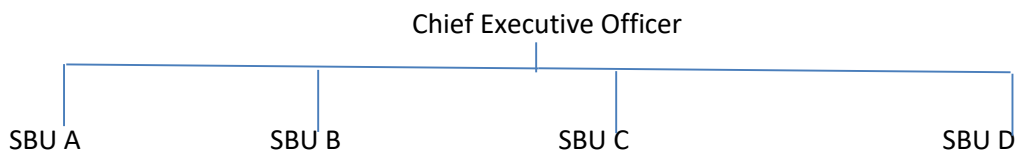
viii) The Matrix Design



ix) The Virtual Firm Design



x) The SBU Organization



1 mark each for mentioning; 3 marks each for correct diagram - 10 marks in all

14(a) What is the central piece of legislation (name and year) affecting the Insurance Industry in Nigeria? (2 marks)

Solution

a) Insurance Act 2003

(2 marks - 1 for name; 1 for year)

(b) Most Companies are required by the Companies Act to hold an annual general meeting, although the Act does not specify in any detail the business to be transacted at the Annual General Meeting (AGM). State any four "typical content" of such required company's AGM document. (8 marks)

Solution

The "typical content" required to be in any company's AGM document is:

- The adoption of the annual accounts
- The reading of the auditor's report and the appointment of auditors for the future
- The directors' report, which will include the directors' recommendation for the dividend to be paid to shareholders - a resolution will be proposed that the amount recommended be paid by way of dividend
- Appointment of directors (if some are retiring)
- A resolution to pay the auditors
- A resolution to pay the directors.

(2 marks each for correctly stated point - maximum of 4 points should be graded) - 8 marks in all

15(a) Explain what the term “manpower planning” help to address in an organization. (2 marks)

Solution

Manpower Planning helps to determine the numbers and skills of people the organization will need (1 mark) in order to achieve its strategic goals (1 mark).

2 marks in all

(b) Historical analysis of manpower data plays a vital role in providing a basis for supply forecasts. Mention and explain with one sentence each, the four indexes used in the turnover calculation for any organization. (8 marks)

Solution

i) **Turnover Index:** this is the number of leavers in a period (say 1 year) expressed as a percentage of number of employees at the start of the period OR number of employees at end of period OR average number of employees.

ii) **Index of Skill Retention:** this is the number of jobs that have retained their occupants during the year expressed as a percentage of the total number of jobs.

iii) **Survival Index:** this is the number of starters still employed at the year-end expressed as a percentage of the number of starters at the beginning of the year

iv) **Stability Index:** this is the number of employees with more than one year’s service expressed as a percentage of the number of employees employed one year ago.

(1 mark each for correctly stated point and also for explanation. Total 2 marks per point. Grand Total: 8 marks)

16(a) New product development is required to follow a disciplined route for it to be successful. Sequentially state the required stages/routes.

Solution

The required stages/routes required to be followed for a new product development are:

- i) Market Research
- ii) Product Design
- iii) Test the Prototype
- iv) Make Necessary Amendments
- v) Commercial Production

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

- (b) For a new product to be successfully developed, there are various range of sources that the idea can come from. Mention any five of such sources.

Solution

The various range of sources that idea can come from for a new product to be successfully developed are:

- i) Existing Customers
- ii) Organization’s Staff Market Research
- iii) Suppliers/ Agents
- iv) Competitors
- v) The Government
- vi) The Media
- vii) Trade Associations

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

17. Explain the term “marketing mix” in one sentence. State and explain, with the use of a table, any four of the marketing mix for goods and services.

Solution

Marketing Mix is the term used to describe the combination of controllable marketing variables that a manager uses to carry out a marketing strategy in pursuit of the firm’s objectives in a given target market. (2 marks)

S/No	The “P”	Explanation
1	Product	The product or service being offered
2	Price	The cost or fees charged for the product/service; and the terms associated with its sale
3	Promotion	The communications programme associated with marketing the product/service
4	Place	The distribution and logistics involved in making the product/service available
5	People	Since people are an essential element in the production and delivery of services, the service quality is largely determined by the quality and behavior of the Organization’s staff
6	Process	The procedures, routines and policies which are used to deliver a service to customers determine how

(1 mark each for mentioning and 1 each for correct explanation – Maximum of 4 to be graded. Total: 8 marks)

18. Define the following terms:
- Critical Path Analysis
 - Codification Strategy
 - Management
 - Planning
 - Personalization Strategy.

Solution

- Critical Path Analysis:** is a planning method which allocates timings to each aspect of a project at each stage and for each component, determining the extent to which it is dependent upon the completion of another part of the project.
- Codification Strategy:** is where knowledge is carefully codified and stored in databases, where it can be accessed and used easily by anyone in the company.
- Management:** is the process of planning, organizing, leading and controlling the material, financial and human resources of an organization.
- Planning:** is a process whereby an organization's managers can allocate its resources in order to achieve future objectives.
- Personalization Strategy:** is where knowledge is closely tied to the person who developed it and is shared mainly through direct person-to-person contact.

(2 marks each) - 10 marks in all

19. Mention five different terms by which expenditure can be captured when preparing an Insurance Company's income and expenditure statement (management report or audited account). Briefly explain what is meant by those terms.

Solution

Five different terms by which expenditure can be captured when preparing an Insurance Company's income and expenditure statement (management report or audited account, with a brief explanation on each are:

- Net Claims:** this is total amount of all claims in the purview of the insurance company i.e. both paid claims and outstanding claims less all recoveries
- Reserves and Related Expenses:** this is to total claims and its related expenses in the insurance company's books as last the date of preparing the account

iii) **Reinsurance Premiums:** this is the premium paid to reinsurers on all ceded businesses to them. It give the insurance company “comfort” that they are adequately protected in the face of any crisis.

iv) **Acquisition Costs:** are costs incurred in the day-to-day running of the sales of insurance products

v) **Operating Costs/Management Expenses:** these are all other costs incurred by the insurance company apart from the acquisition costs.

(1 mark each for mentioning and 1 each for correct explanation) – 10 marks in all

20. The process of budgeting brings about many incidental advantages for any organization. Mention and briefly explain any five of these advantages.

Solution

The process of budgeting brings about many incidental advantages for any organization. Some of these are mentioned and briefly explained below:

i) **Unification of Effort:** budgeting unifies all employees’ activities within an organization e.g. it will highlight whether the quantities of products the sales team thinks it can sell can be produced by the production department in the required period.

ii) **Planning:** it encourages planning as without predicting where the organization is heading, managers cannot tell what resources they will need to get there.

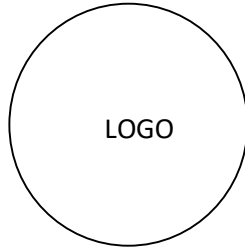
iii) **Motivation:** it promotes motivation as each person in the organization has a target to achieve or exceed.

iv) **Control:** it provides a benchmark for measuring the actual performance of each department against the predicted performance because without a budget there might not be a standard which performance can be measured – month-in-month out; year-in-year-out.

v) **Financial Awareness:** it makes everyone in the organization to be aware that as the end of the day, costs matter and that individual and group performances is likely to be reflected in the financial outcome.

vi) **Basis of Comparison:** it introduces a common basis and discipline for predictions and the measures of the results, which will apply throughout the organization thereby avoiding a situation where departments have their own measures of activity which may not be compatible with those in other areas.

(1 mark each for mentioning and 1 each for correct explanation. . Maximum of 5 to be graded. Total: 10 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D05
INSURANCE LAW**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D05 - INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Summarized Report

Pass Rate:	32%
Highest Score:	67%
Lowest Score:	2%
Average Score:	36%

Breakdown Updates

Question 1

The question was intended to test the candidate's knowledge of a branch of law being introductory aspect of the course. It was a compulsory one and a majority of the candidates answered it with the general performances being above average while some others performed poorly. Reasons for poor performance might be lack of adequate preparation. Adequate preparation is recommended.

Question 2

This was meant to test candidate's knowledge of courts method of interpretation of laws and documents. The question was unpopular even though it was straight forward. It was poorly attempted; performance was poor also. Candidates should know that every topic in the course book is important. Proper tutorial is recommended in the hope that candidates will be thoroughly prepared.

Question 3

This was meant to test candidates' understanding of the concept of personality in law. The question was well understood and attempted. Performance was above average.

Question 4

This was meant to test if the candidates had understanding of the concepts of "tort" and "crime". Being a compulsory question, most candidates attempted it but only few had a good understanding of the requirements of the question: the meanings of tort and crime; and the differences between the concepts. Proper tutorial is recommended for students who intend to write the examination.

Question 5

This was meant to test the candidates' knowledge of the tort of trespass and relevance of insurance to it. It was a practical question, well attempted but students could not link nuisance to insurance. Tutorial in preparation for the future exams is crucial. Every topic is important and should therefore be taught by tutors and read by the candidates aspiring to write the examination.

Question 6

The question was meant to sensitize candidates to methods of preparing contracts with unschooled clients. Understanding and attempts were good.

Question 7

The question was designed to test candidate's knowledge of how a typical insurance contract could be made. Performance was poor. Basic instructions were not followed. Candidates did not demonstrate understanding of the question. Lack of preparation might be responsible for this. Adequate preparation is recommended to candidate for future examination to undergo tutorial classes related to a basic concept in insurance.

Question 8

Candidates did not understand the question which was straight forward and a textbook one. Adequate preparation is required and demanded from future candidates.

Question 9

This was meant to test the concepts of warranty and condition in insurance and their applications. Performance was poor; candidates did not prepare enough for the question. Majority performed averagely. Adequate preparation is key and it is therefore recommended for future examination.

Question 10

This was a practical question –knowledge of transferability of insurance policy in the classes of contracts listed. The question was well attempted and performance was a little above average. There is a room for improvement.

Question 11

The question was intended to test some major components of the stated concepts. Candidates showed good understanding of the part (a) but performed below average with respects to part (b). Performance was above average. A thorough preparation is required.

Question 12

Practical question. It was very popular with the students. The performance was excellent.

Question 13

It was meant to test candidates knowledge of the implications or consequences of acting without authority. Understanding of the question was poor. Performance was also poor. Adequate preparation is recommended.

Question 14

The question was aimed at knowing the level of candidates' knowledge of the tort of nuisance and the relevance of insurance to the tort. Poor understanding demonstrated by candidates. No topic in the course book should be underrated. Adequate tutorial is recommended.

Question 15

As a major question attracting 30marks, it was designed to be a practical question which was to test the legal significant of the document called insurance policy. Understanding of it was poor and the performance was also poor. Adequate tutorial is recommended for future examination.

Question 16

This was on the concept of subrogation. Being an optional question, many candidates did not attempt it. For those who did, 10% success was recorded. Adequate preparation by students is recommended. Tuition centre should also prepare them well.

Question 17

This was also a popular concept in insurance- Insurable interest, how it could be acquired in business and property matters. The attempts were good. Performance was also above average.

Question 18

This was a popular question with the candidates. The reason must be that it is because it was a textbook question. Performance was good.

Chief Examiner's Comments on Overall Performance:

Less than 25% pass was recorded. There is a lot to be done to correct this; students need to know that the course is not meant to make a lawyer out of them; they should therefore have no fear. They should also prepare under the guidance of person(s) who is/are knowledgeable on the course and prepare in earnest for the examination.

Chief Examiner's Suggestions on Improvement:

None

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1(a) Briefly explain public law and give its three (3) commonest examples.

Solution

Public law has to do with legal structure of the state and relationship between the state and individual members of the community. **(2 marks)**

Its most common examples are constitutional law, administrative law and criminal law. **(1 mark for each correctly stated example. Total: 3 marks)**

(b) List five (5) matters to which “administrative law” relates.

Solution

Five (5) matters to which “administrative law” relates to are:

- questions of local rating and levies
- taxation and compulsory acquisition of land
- the powers of local boards and authorities in relation to highways
- health and education
- the granting of licenses to various trades and professions

(1 mark for each correctly stated matter. Total: 5 marks)

2. Apart from the common law and statutory aids to interpretation, which have been developed, Courts do apply some presumptions when called upon to resolve disputes relating to the meaning of some words contained in a statute.

(a) Give at least six (6) of such presumptions. **(6 marks)**

Solution

The presumptions are that statute:

- is not intended to create a strict criminal offence (i.e. liability without criminal intention or fault)
- is not intended to oust the jurisdiction of court
- is not intended to have a retrospective effect
- is not intended to infringe the requirements of international law
- binds both government and citizens of Nigeria
- is not to interfere with vested rights
- is not to allow confiscation of property without compensation

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

- (b) Give three (3) broad examples of the common law rules of statutory interpretation. (4 marks)

Solution

Three broad examples of the common law rules of statutory interpretation are:

- Literal Rule
- Golden Rule and
- Mischief Rule

(1 mark for the preamble before stating the points. 1 mark for each correctly stated point. Total: 4 marks)

3. State and explain the two (2) classifications of persons in law.

Solution

Two classifications of persons in law are:

- Natural Persons and
- Juristic Persons (or Corporations)

(1 mark for each correct answer. Total: 2 marks)

- **Natural Persons:** these are human beings upon whom the law confers rights and imposes duties. The rights are conferred upon conception and some are rights attached to dead people. Some of the rights are limited in case of some categories of natural persons – the minor, insane people, bankrupt and aliens. Natural persons have status which varies with their position in life and capacity – what a person is legally entitled to do.
- **Juristic Persons (or Corporations):** these are artificial entities upon whom the law has deemed it necessary to confer legal personality. They are called corporations and they are of two sets: corporation sole and corporation aggregate. Corporations are subject to the law in much the same way as natural legal persons except where their very nature demands a different kind of treatment. Corporations have legal duties e.g. payment of company tax.

(1 mark for each correctly stated point. Maximum of 4 points to be graded under each classification. Total: 4 marks. Grand Total: 8 marks)

4. Define a tort. (2 marks)

Solution

A tort is a breach of a duty primarily fixed by the law, such duty is towards persons generally and its breach is re-addressable by an action for unliquidated damages (2 marks)

- (b) Distinguish tort from:

- i. Crime (4 marks)
- ii. Breach of Contract. (4 marks)

Solution

i) **Crime & Tort:** Tort is a branch of civil law. Crime has to do with criminal law, a branch of public law. The purpose of tort is compensation whilst the purpose of crime is punishment. The victim of a tortious wrong sues by himself or attorney or next friend, the state prosecutes offender in criminal law. **N.B.:** The same wrongful may constitute both a tort and crime at the same time e.g. assault, stealing and conversion.

ii) **Breach of Contract and Tort:** both tort and breach of contract are civil wrongs. However, tort is a breach of the duty fixed by law once it is owed towards all persons. Breach of contract is a breach of duty agreed and fixed by parties themselves. **N.B.:** A single act may also constitute both as a tort and breach of contract e.g. a taxi driver who through careless driving injures his passenger could be sued in tort for the injury and for breach of contract.

(1 mark for each correctly stated point. Maximum of 4 points to be graded under each classification. Total: 4 marks. Grand Total: 8 marks)

5(a) What is trespass to land? (5 marks)

Solution

Trespass to land is direct interference with land which is in possession of another (**2 marks**). It takes the forms of:

- unlawful entry on the land of another
- unlawfully remaining on the land of another after permission/license to enter has expired and the person refuses to seek permission to remain there afterwards
- unlawfully placing or throwing away any material/object upon the land of another.

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

(b) Discuss the relevance of Insurance to the tort of trespass to land. (5 marks)

Solution

Trespass is a deliberate act and insurance is known to cover unforeseen or fortuitous or accidental events or occurrences (**2 marks**). However, some insurance policies are designed to specifically cover the risk of trespass to land or goods. The public liability policies issued to contractors often cover the risk of trespass to the property of third parties although they would not cover damage caused deliberately or where the insured is sued for a trespass that is actionable per se (i.e. without proof of damage). (1½ marks per each point. Maximum of 2 points to be graded. Total: 3marks)

6. Mrs. Smith is a formally-unschooled customer of Indemnity Insurance Company Limited. As a formally-unschooled person, she could not read the proposal form and the policy document given to her but these were read over to her wrongly and thereafter, she thumb-printed. When she had a claim, she was told by the Company that she was not entitled to any claim under the policy for breach of fundamental terms, she then renounced the documents as hers. Mrs. Smith is contemplating taking a legal action against the Company. Offer your candid legal advice to her.

Solution

A person is bound by the content of the document to which he appends his signature **(2 marks)**. Signature could be a mark of his or her thumbprint. The above stated principles of law poses a problem for formally-unschooled signer of document like Mrs. Smith in the hypothetical question. **(2 marks)**

Therefore, the courts have worked out a safeguard for people like her. For a formally-unschooled person to successfully avoid such a document and plead non est factum**(2 marks)**, he MUST establish three facts **(2 marks)**, which are:

- the signer must have “no real understanding” of the document because of defective education or illness, e.t.c. **(2 marks)**
- there is a fundamental difference between the document actually signed and the one which the signor believed is to be signed **(2 marks)**
- the signer has to show that she was not careless in signing the document. **(2 marks)**

Given the circumstance of the facts in the question, Mrs. Smith is most likely to succeed in court. **(2 marks)**

(Maximum of 5 points from any of the above to be graded. 2 marks per point. Total: 10 marks)

7. With respect to formation of insurance contract, what constitutes
- (a) An invitation to treat? **(2 marks)**
 - (b) Communication of acceptance? **(4 marks)**
 - (c) An offeror and offeree? **(4 marks)**

Solution

a) **An invitation to treat:** this means invitation to others to make an offer or enter to negotiation. For insurance contracts, a prospectus published by an insurance company which contains details of cover and standard rates of premium will represent invitation to treat. **(1 mark for each point. Maximum of 2 points to be graded. Total:2 marks)**

b) **Communication of acceptance:** in general law of contract, there must be a communication of acceptance for the contract to be valid. However, this is not the case with formation of insurance contract. It seems sufficient if the proposer relies

on an offer made by the insurer. For example, when a motor policy is renewed, a renewal notice containing a temporary certificate and cover note granting 15 days limited cover will be sent to the insured. If he does not receive the renewal notice, he cannot accept the offer of temporary cover which it contains (see *Taylor v. Allon* 1966) If he receives it, the insured is deemed to have accepted the offer.

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

(c) **An offeror and offeree:** any of the parties to an insurer contract could be an offeree or offeror depending on how the facts and circumstances develop. For example, the proposal form submitted by the insured may serve as the offer and the insurer will accept it by confirming the cover or issuing the policy. In other cases, the insurer quotes a premium based on information supplied in the proposal form and by so doing, the insurer makes an offer for the insured to accept.

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

8. Why is the "Positive Duty of Disclosure" important to both the Insured and the Insurer?

Solution

The positive duty of disclosure is important to the insured for the following reasons:

- the insurance is an intangible service, it cannot be tested before hand before being bought
- the insured will have to trust the insurer to pay claims properly, when the time comes
- also, the insured does not know the details of the cover he will receive unless the insurers make the information available to him. The duty of full disclosure is therefore important to him.

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

To the insurer, the duty of full disclosure by the insured is important for the following reasons:

- it is on the insured who has full knowledge about the subject matter of the proposed insurance contract
- the insurer will only know what the insured tells him. It is therefore important that the insured discloses the whole truth.

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

9(a) Define "warranty" and "condition" in an insurance contract. (2 marks)

Solution

"Warranty" in insurance is a promise made by the insured relating to facts or to something which he has agreed to do (1 mark) while "Condition" is a term in an

insurance contract that imposes an obligation on the insured other than warranty
(1 mark)

- (b) Explain the “Special Rules” relating to breach of warranty or condition in compulsory insurances especially, “Motor Insurance” and “Employers’ Liability” Insurance. (8 marks)

Solution

The “Special Rules” relating to breach of warranty or condition in compulsory insurances especially, “Motor Insurance” and “Employers’ Liability” Insurance are:

Motor Insurance: this is a compulsory insurance governed by the Road Traffic Act of 1988 in the UK. Its purpose is to ensure that no victim of a road accident is left without compensation to injury sustained. So, where the wrongdoer, the insured, is unable to pay the compensation, his insurer will do. Therefore, an insurer cannot rely on any breach committed by the insured to avoid the claim of the victim

Employers’ Liability Insurance: the rules above apply similarly to employers of labour. The operative law is the Employers’ Liability (Compulsory Insurance) Regulations 1998. The Act prohibit certain five types of conditions which prevent the insurer from repudiating liability claims on grounds of late notification, non-compliance with policy condition by the insured and use of policy excess (deductibles) is also prohibited. (2 marks for each point. Maximum of 2 points to be graded. Total: 4 marks per class of insurance. Grand Total: 8 marks)

10. Personal Contracts are not freely assignable. Explain with respect to:
- (a) Motor Insurance Policy (4 marks)
 - (b) Property Insurance Policy (4 marks)
 - (c) Liability Insurance Policy (2 marks).

Solution

Many insurance contracts are of a personal nature, as a result, they are not freely assignable. This is because the underwriting considerations are peculiar to the individual insured as explained below:

a) **Motor Insurance Policy:** an insurer’s willingness to provide motor insurance cover and the terms of the cover granted depend not only on the vehicle to be insured but also on the particular use he makes of it, his age, occupation, experience and driving record of the insured and any other person who may drive the vehicle. Therefore, were the insured to sell the vehicle, the cover granted him cannot avail the buyer. The buyer will have to agree a new cover with the insurer. An example here is the comprehensive motor policy.

(1 mark for each point. Maximum of 3 points to be graded. 1 mark for a correctly cited example. Total: 4 marks)

b) **Property Insurance Policy:** most property insurances are also of a personal nature. The risk is likely to depend partly on the nature of the person who controls and manages the property and the particular use he makes of it. For example, if the ownership changes hands, the standard of housekeeping may decline making the fire risk worse e.g. Fire and Special Peril Insurance.

(1 mark for each point. Maximum of 3 points to be graded. 1 mark for a correctly cited example. Total: 4 marks)

c) **Liability Insurance Policy:** here too, most claims arise from the carelessness of the insured and not that of the third party. This makes the business rating to be done more on the life/lives of the insured/business owners or management thereby making it highly personal in nature. For example, public liability.

(1 mark for each point. Maximum of 1 point to be graded. 1 mark for a correctly cited example. Total: 2 marks)

11. Briefly explain the following with regards to the doctrine of causation in insurance:

- (i) Proximate Cause (2 marks)
- (ii) Remote Cause (2 marks)
- (iii) Concurrent Cause. (2 marks)

Solution

i) **Proximate Cause:** generally, there is no standard legal definition of proximate cause. However, in insurance, it is the cause identified as the most powerful in bringing about the loss no matter how complicated the matter or situation is. Insurance also takes the view that there would be not more than one proximate cause of in the chain of event.

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

ii) **Remote Cause:** this may be causal factors that are minor or indirect causes of a loss. They play only small part in bringing about the loss. Court will normally disregard remote causes.

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

iii) **Concurrent Cause:** this occurs when two or more perils operate concurrently to bring about a loss e.g. a building might be damaged by a fire that was raging and a storm that was battering it at the same time.

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

(b) Explain the significance of the case of "*Leyland Shipping v. Norwich Union Fire Insurance Society Limited (1918)*" on the doctrine of Proximate Cause.

(4 marks)

Solution

The significance of the case of “Leyland Shipping v. Norwich Union Fire Insurance Society Limited (1918)” on the doctrine of Proximate Cause: this is a leading case on the doctrine of proximate cause. Before the decision, the law on “chain of events” was that the last event to occur was the proximate cause. The case changed the position of the law in English law. In the case, a ship was insured against perils of the seas but the policy excluded war risks. It was hit by an enemy torpedo (a war risk which was excluded). The ship managed to sail to port where repair work was commenced. A storm blew and the ship eventually sank. The question was what was the proximate of the loss – the torpedo or the storm? The House of Lords held that it was NOT the storm (the last operative cause) but the torpedo which was prominent all through and chain of causation was therefore not broken. This changed the law from then on.

(1 mark for each point. Maximum of 4 coherent and relevant points to be graded. Total: 4 marks)

12(a) Insurance Policies are “contracts of indemnity”. Discuss. (2 marks)

Solution

Insurance Contracts are “contracts of indemnity”. By this, it is meant that the contracts are intended to provide financial compensation for a loss which the insured has suffered and put him in the position after the loss as he enjoyed immediately before it.

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

(b) State four (4) methods of providing Indemnity. (8 marks)

Solution

Four (4) methods of providing Indemnity are:

- i) Cash Payment
- ii) Reinstatement
- iii) Repair
- iv) Replacement.

(2 mark for each correct method stated. Total: 8 marks)

13(a) Define “Agency by Estoppel”. (4 marks)

Solution

“Agency by Estoppel” is an **agency relationship** that **arises when a person holds out another person as being his agent**, when **the latter has no authority at all**, with **the result that a third party is deceived**.

(1 mark for each bolded point. Total: 4 marks)

(b) Miss. Sandra is a freelance insurance marketer who mostly hung around the office premises of ABC Insurance Incorporated and often gave business to the

insurance company. She created the impression to outsiders that she was a staff of the company and the company did not refute this. Miss. Sandra collected a premium of ₦1,000,000.00 from Chief Benson who is a neighbor of the company, issued and gave a fake policy to Chief Benson and thereafter disappeared into the thin air. A “claim” occurred and Chief Benson wants the insurance company to settle the claim that has arisen over the supposed policy. The insurance company wants to avoid liability. Advise the Company. (6 marks)

Solution

This is agency by estoppel. ABC Insurance Incorporated, by allowing Miss. Sandra to hang around its office and even taking business from her has “held-out”, the lady as its agent having authority to effect the company’s right viz-a-viz a third party.

In *Freeman & Locker v. Buckhurst Park Properties Limited (1964)*, the Board of the defendant allowed one member, Mr. K, to act as if he were the Managing Director although the said Mr. K had never been so appointed. The Board had previously honoured contracts made by Mr. K. the defendant sought to disclaim the contract made by Mr. K with the claimants. Court held that the defendant were liable and estopped from denying that Mr. K was the Managing Director. Therefore, by the authority cited. ABI Insurance Incorporated cannot be allowed to repudiate the contract.

(1 mark for each relevant point. Maximum of 6 correct and coherent points to be graded. Total: 6 marks)

14(a) Define the tort of nuisance and state the forms it may take. (3 marks)

Solution

Nuisance (the tort of nuisance) is an unjustifiable interference with use and enjoyment of land (1 mark). The form it may take can be either private nuisance (1 mark) or public nuisance (1 mark). **Total: 2 marks**

(b) Briefly discuss the components of the tort of private nuisance that must be present before liability can arise. (2 marks)

Solution

The major components or elements of the tort of private nuisance that will give rise to liability are:

- damage must result from the unjustifiable interference
- the interference must be unreasonable. In deciding the unreasonableness of the defendant’s interference, the following factors will be key: continuity of the interference act, the locality and the sensitivity of the claimants.

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

- (c) How relevant is insurance to the tort of private nuisance? Support your answer with a decided case. (5 marks)

Solution

Majority of Liability Insurance claims are based mainly on the tort of negligence. However, because the work of builders and other contractors do sometime cause damage to adjoining property, it can lead to a claim in nuisance and therefore becomes insurable. A decided case is *Gold v. Patman & Fotheringham (1958)* where nuisance arose from noise pollution or unpleasant smells may not be insured.

(1 mark each for any correctly stated points. Maximum of 3 to be graded. 1 mark for the decided case stated and 1 mark for the brief explanation of the stated decided case. Total: 5 marks)

Part II

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

Each question carries 30 marks.

- 15(a) Define standard terms contracts. (4 marks)

Solution

Standard Terms Contracts are contracts whose terms are drawn up by one of the parties without input from the other side. They are usually in printed forms which are used in dealings with all customers who want the same type of services or goods. Insurance policies (personal lines insurance – motor and household) are often standard terms contracts.

(2 marks for each point. Maximum of 2 coherent and relevant points to be graded. Total: 4 marks)

- (b) What are the advantages and disadvantages of using standard terms contracts? (4 marks)

Solution

The advantages of using standard terms contracts are that it saves time and it simplifies dealings of a day to day nature. The disadvantages are that there is the risk of abuse. Customers have little or no chance of negotiating any changes in the written or printed contract presented to them and often do not bother to read what the content is. The writer or drafter may include exclusion clauses e.t.c. that work hardship or injustice against the other party.

(1 mark for each correctly stated coherent point. Maximum of 2 per advantage and 2 for disadvantage. Total: 4marks)

- (c) What are the common law and statutory safeguards that the Courts have developed to prevent the abuse of the use of standard terms contracts?

(22 marks)

Solution

Some safeguards have been developed by the courts to prevent possible abuse. The legislature has also intervened by way of Legislation.

Common Law Rules:

- **Signing of Written Documents:** a signer of a document is bound by its content even where he did not read it - *L'Estrange v. Graucob Limited 1934*
- **Notice:** where there is no signed contract, exception clauses may be contained in a notice, receipt or air ticket which may be given by one person to the other contracting party. To rely on such exception clauses, the party to take the advantage must establish such notice, receipt, e.t.c are contractual documents and also the clauses were brought to the attention of the party to be bound by them
- **Course of Dealing:** where exception clauses have been regularly used in past dealings between parties and the party seeking to take advantage of exception clauses had always excluded his liability, the court will allow such exclusion clauses to stand.

(2 marks for correctly stating the main point. 2 marks for stating coherently the explanation. Total: 4 marks per point)

Statutory Instruments: this is seen in the:

- **Unfair Contract Terms Act of 1977** Section 2: no party may by contractual term exclude liability for death or injury arising from negligence and Section 3: no contractual term can be used to exclude liability for breach of contract
- **Sale of Goods and Hire Purchase Act** Section 6 no contractual terms can be used to exclude the implied terms as to title.

(3 marks for correctly stating the main point. 2 marks for stating coherently the explanation. Total: 5 marks per point)

16. "Subrogation is a doctrine in favour of the underwriters or insurers in order to prevent the insured from recovering more than a full indemnity. The effect of the doctrine is to pass to the insurer a right to recover from a third party who is legally responsible for the loss suffered by the insured." Discuss fully how the rights passed to the insurer may be modified or denied the insurer.

Solution

The following factors will affect the way of modification or denial of the right that an insurer has under the doctrine of subrogation:

i) **Market Agreements:** Insurers do sometimes agree amongst themselves to waive the rights of subrogation against third parties. This usually happens where the third party is himself insured. Insurers do this to avoid “pound swapping”. Commonest example of waiver is in the field of motor insurance in the UK and other countries where a network of knock-for-knock agreements have developed. The effect is that where for example there is a motor accident involving two insured policies, each insurer will pay off its policyholder.

ii) **Contractual Waiver of Subrogation:** at other times, insurer do agree with a particular insured that they will not exercise subrogation rights against certain other parties or persons who are associated with the insured, this will be captured by the “subrogation waiver clause” in the policy document. In some cases, where there is no such clause in the policy, a business contract between the insured and another may be construed to bar insurer’s right of subrogation. Also, the way parties have arranged their contract may persuade the court that there should be no subrogation right.

(Correctly stating the two points above - 10 marks each. Then 1 mark each for correct coherent explanation. Maximum of two points to be graded. Making a sub-total of 2 marks here. 3 marks for one correct example. Making a total of 15 marks per point) Grand Total: 30 marks.

17. Explain fully how the following factors may give rise to insurable interest:

- (a) Business Relationships
- (b) Interests in Property.

Solution

Insurable Interest is the legal right to insure arising out of a financial relationship recognized at law between the insured and the subject matter of insurance. **3marks**

a) Many **business relationships** may give rise to such legal right to insure to parties in the business relationship. Examples are:

- **Partnership Partners** have insurable interest in each other’s lives up to the amount of any loss or expense that might arise from death of a partner.
- **Employer and Employee:** an employee can insure the life of his employer regarding his wage or salary for the minimum period of notice under his contract of employment or the remaining portion of a fixed term contract. Similarly, an employer has insurable interest in the life of his employee in

respect of the sum representing the value of the work to which the employer is entitled.

- **Creditor and Debtor:** a creditor had insurable interest in the life of his debtor so as not to lose financially should the debtor dies before the money owed is repaid e.g. *Hebdon v. West* (1863).

(Correct definition = 3 marks. Correctly stating each sub-heading/point = 2 marks. 1 mark for each correctly explained/stated point. Maximum of 2 points to be graded per sub-heading. Sub-Total: 2 marks. Total per sub-heading/point = 4 marks. Total: 15 marks)

Interests in Property: these may be in the following forms:

- Outright ownership of property
- Part or joint ownership
- Mortgagees and Mortgagors
- Executor and Trustees
- Landlord and Tenant
- Bailees viz-a-viz “bailed goods”
- People living together
- Finders and people in possession: a finder of an article has the right to keep it against the world except the true owner. Therefore, he can insure such a found article.

(Correctly stating any of the points = 3 marks. Maximum of 5 to be graded. Total: 15 marks)

18(a) Briefly explain the operation of the doctrine of contribution at common law. (15 marks)

Solution

The operation of the doctrine of contribution at common law are stated below:

- at common law, an insured whose loss is covered by two or more policies cannot recover more than an indemnity.
- however, he may proceed against the insurers in any order and for such proportion of the loss as he thinks fair or he may claim from one only in full; the insurer who pays in full will now be left to recover from other co-insurers.
- this position was untidy and unacceptable to the insurers and therefore came up with some clauses to remedy such situations.

(Correctly stating any of the points = 5 marks. Maximum of 3 to be graded. Total: 15 marks)

(b) How has the operation of the doctrine of common law been affected by any three (3) of the following:

- i. Escape Clauses (5 marks)
- ii. Other Non-Contribution Clauses (5 marks)
- iii. Rateable Proportion Clauses (5 marks)

iv. More Specific Insurance Clauses?

(5 marks)

Solution

The operation of the doctrine of contribution at common law have been affected by the following clauses as explained below:

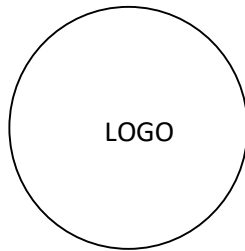
i) **"Escape Clauses"**: insurers could insert these as a condition to prevent the insured from taking out another policy without the consent of the insurers in the policy.

ii) **Other Non-Contribution Clauses**: clauses like these may be in the policy. they do not forbid taking out of another policy without the consent of the insurers but simply state that there will be no liability for any loss which is insured by another policy.

iii) **More Specific Insurance Clauses**: the clauses may state that where a loss is covered by another more specific insurance, the policy will respond only when the cover provided by the more specific insurance has been exhausted.

iv) **Rateable Proportion Clauses**: such clauses state that the insurers will be liable for a rateable proportion only for any loss that is also insured by another policy. The effect is to prevent the insured from recovering in full under a policy that includes the condition.

(2½ marks for each explicitly and correctly stated point. Maximum of 2 points to be graded per clause. Total 5 marks per clause)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D10
COMMERCIAL INSURANCE PRACTICE**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D10 - COMMERCIAL INSURANCE PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Summarized Report

Pass Rate:	50%
Highest Score:	56%
Lowest Score:	41%
Average Score:	49%

Breakdown Updates

Question 1

This question tested candidates on the knowledge of the cover under Employers' Liability Insurance Act 1969. Candidates could not quote the Act correctly. However, they have a fair understanding of the Act. The average score was 40%.

Question 2

This question tested the candidate's knowledge on Reinsurance Covers. It is a straight forward question. The candidates that attempted it got the answers correct. It recorded 100% score.

Question 3

This question was not a popular one, it aimed to test candidates on the exclusion under typical "All Risk "policy. Fairly enough, the two candidates that attempted the question did very well. The question recorded 100%.

Question 4

The question was on Asset Protection Policy that required candidates to state three (3) parties usually involved when completing an insurance contract. The candidates did not show knowledge of the question.

Question 5

This question was well answered by the candidates that attempted it. The question was on "Contractors All Risks".

Question 6

This is not a familiar question. It on cover for Art works. Candidates that attempted it did woefully. The question recorded 30%. It is recommended for a repeat.

Question 7

This question was also not popular. It was aimed to test the candidates on Hire Plants. The performance of the candidates was very bad. 0% success was recorded.

Question 8

This question was on commercial motor policy. Candidates did not understand the question, hence, the performance was low. Only 20% pass was recorded.

Question 9

This question was also on commercial motor policy but the examiner required the candidates to state some exclusion under the policy. The question recorded 100% pass.

Question 10

This question was on the general reasons for exclusion in an insurance policy. The candidates that attempted the question showed the knowledge of it. 90% pass was recorded.

Question 11

This question was on standard business interruption. The examiners wanted to test candidates' knowledge on sections of BI. The performance was not encouraging. The question recorded only 40% pass.

Question 12

This question recorded only 40% attempt. Candidates did not understand the cover under public liability insurance.

Question 13

Credit insurance is not common in the insurance market, hence, the candidates lack full knowledge of the policy. None of the candidates that attempted the question scored any mark. The performance was bad. 0% pass.

Question 14

This question was on loss of use as an extension to the motor insurance cover. As popular as the question is, the question recorded less than 20% pass rate.

Question 15

This question falls under part 2 question and carries 30marks. It requires candidates to state the requirement for anybody using motor vehicle on the public road. The candidates did not understand the question. The question recorded less than 20% pass rate.

Question 16

This question is part of part 2 question with 30marks. The examiner aimed to test candidates on commercial insurance market. Candidates exhibited good understanding of the question. It recorded more than 50% pass.

Question 17

This question was still part of part 2 question that carries 30marks. This question was set under liabilities insurance. No candidate attempted it.

Question 18

The question carried 30marks too. All the candidates that sat for this diet avoided the question. It was on "Latent Defects" policy which is not common in the Nigerian insurance market.

Chief Examiner's Comments on Overall Performance

None

Chief Examiner's Suggestions on Improvement:

The overall performance of this subject is not encouraging. Only 2 (two) candidates sat for the subject and we recorded 50% pass.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. What are the insurance requirements laid down by the Employers' Liability (Compulsory) Insurance Act 1969?

Solution

The insurance requirements laid down by the Employers' Liability (Compulsory) Insurance Act 1969 are that: every employer must **insure against liability** for **bodily injury or disease sustained by an employee arising out of and in the course of their employment** in the business.

(Each bolded point to have 2 marks. Maximum of 5 to be graded. Total: 10 marks)

2. Excess of loss treaties has three (3) major types. Name them.

Solution

The three major types of excess of loss are:

- risk or per risk excess of loss treaty
- catastrophe excess of loss treaty
- stop loss treaty

(Opening Sentence - 1 mark; each correctly stated type = 3 marks. Total 10 marks)

3. "Gradually Operating Clause" is an exclusion under a typical all-risks policy. List any three (3) of the exclusions under this clause.

Solution

The exclusions under the "gradually operating clause" are:

- wear and tear; corrosion; rust; pollution; shrinkage; dampness and mould.

(Opening Sentence - 1 mark; any 3 of the correctly stated type = 3 marks each. Total 10 marks)

4. Asset Protection Policy has a wider cover with many additional clauses. State any three (3) of those clauses.

Solution

The additional clauses on an asset protection policy are:

- temporary removal clause; construction and the heating of the building; change of occupancy; automatic reinstatement of the sum assured.

(Opening Sentence - 1 mark; any 3 of the correctly stated type = 3 marks each. Total 10 marks)

5. Under Contractors' Insurance, suffering damage could result in reduction of the contractor's income but only in two major locations. Mention the two locations.

Solution

The two locations are (i) own premises & (ii) contract sites
(5 marks each for correct location stated. Total 10 marks)

6. Fine Art Cover is a special policy that is not common among insurance products in the Nigerian Insurance Market. Name three groups that do require fine art cover.

Solution

The groups that require fine art cover are:

- Libraries; heritage group; specialist collectible; orchestras; fine art storers; shippers.
- (Opening Sentence - 1 mark; any 3 of the correctly stated group = 3 marks each. Total 10 marks)

7. The insured has two options to arrange insurance cover for "Hired-in-Plant" to protect his or her plant for a period. List out the two (2) periods option available to the Insured.

Solution

The two periods' options available to an insured on an hired-in-plant cover are:

- Cover can be arranged as an annual policy covering a variety of hired-in-plant
 - Cover can be arranged on a short-term-basis for a one-off.
- (5 marks each for correct period stated. Total 10 marks)

8. The commercial motor policy under damage section has some exclusions. Mention any three (3) of those exclusions.

Solution

The exclusions under the damage section of the commercial motor policy are:

- Consequential loss; wear and tear; electrical or mechanical breakdown; computer failure; loss of value; betterment; freezing; tyres; sonic bangs; and loss by deception.
(Opening Sentence - 1 mark; any 3 of the correctly stated type = 3 marks each. Total 10 marks)

9. There are various exposure measures that are available when considering rating of liability insurances. State any three (3) of those exposures.

Solution

The following are the exposure measures available when considering the rating of liability insurances:

- Wage Roll; Turnover; Per Capita; Per Premises and "Unit" Consideration
(Opening Sentence - 1 mark; any 3 of the correctly stated type = 3 marks each. Total 10 marks)

10. Insurance Company will not issue a policy without a section for an "exclusions", in other words, exclusions are normal part of any insurance policy. State the reasons for the inclusion of exclusions in the insurance policy.

Solution

The reasons for the inclusion of exclusions in the insurance policy are that:

- exclusions state the risks that the insurer does not wish to cover
- exclusions state the risks that are more traditionally insured under more specific cover
- exclusions state the risks that the insurer may be prepared to insure but with further investigation and at an additional premium

(Opening Sentence - 1 mark; any 3 of the correctly stated type = 3 marks each. Total 10 marks)

11. Name five (5), out of several sections, that a standard business interruption policy will contain.

Solution

The sections that a standard business interruption policy will contain are:

- Basis of Cover; Business Activity; Declared Values; Income; Machinery; Premises: Stock; Workforce, e.t.c.

(Any 5 of the correctly stated sections =2 marks each. Total 10 marks)

12. What does a public liability insurance policy cover?

Solution

A public liability insurance policy covers an indemnity in respect of **legal liability to third parties in respect of accidents causing bodily injury or illness or loss of or damage to material property at insured premises or in the course of work away from their own premises.**

(Any 5 of the bolded points above = 2 marks each. Total 10 marks)

13. Some insurance prospects usually require Creditor Insurance Policy. Mention two (2) types of cover that creditor insurance policy provide.

Solution

Two types of policy available to the prospect who desires to purchase a creditor insurance policy are:

- the whole turnover policy against the risk of debtors defaulting
- the specific account policy for those accounts that, for one reason or another, are felt to be at risk.

(5 marks each for correct type stated. Total 10 marks)

14. "Loss of Use" is an extension to the Motor Insurance Covers. What is the usefulness of this extension?

Solution

The usefulness of the "loss of use" extension to Motor Insurance covers are:

- it provides **indemnity for the policyholder** on any **reasonable expense incurred on leasing or hiring/replacement vehicles if the insured** is without the insured vehicle **following an insured loss** which can be damages, or stolen or burnt. It **usually cover a part or 100% of the cost** of hiring the vehicle and **it is subject to insurers stated terms and conditions.**

(Any 4 of the bolded points above = 2½ marks each. Maximum of 4 to be graded. Total 10 marks)

Part II

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

Each question carries 30 marks.

15. Road Traffic Act has been amended many times before the current Road Traffic Act 1988. This Act stipulated some requirements that "any person using a motor vehicle or causing a motor vehicle to be used on the roads or other public place" must do. State and explain those requirements.

Solution

The requirements that “any person using a motor vehicle or causing a motor vehicle to be used on the roads or other public place” must do are:

i) **have a valid certificate of motor insurance:** this means that for anybody driving a vehicle on the roads or other public places, such a person must possess and make a visible copy of the valid motor insurance certificate. The purpose of this is to have something that will be used to compensate the victims for the negligence of the person driving the vehicle as at the time of the accident when (and if) it occurs.

(4 marks for stating the requirement. 2 marks for each correctly stated explanation. Maximum of 2 points to be graded. Total: 8 marks)

ii) **issued by an authorized insurer:** this means the valid certificate of motor insurance in the possession of anybody driving the vehicle on the roads or other public place must be issued by the insurer licensed by the government authority. This will enable law enforcement agents to trace and ensure adequate compensation to the victims of road accident.

(3 marks for stating the requirement. 2 marks for each correctly stated explanation. Maximum of 2 points to be graded. Total: 7 marks)

iii) **insuring their legal liability to pay damages in respect of the death of, or bodily injury to, any person:** this means the liability to death or bodily injury to any person including other persons in the vehicles e.g. passenger but the driver is excluded. Liability for death is unlimited but reasonable.

(4 marks for stating the requirement. 2 marks for each correctly stated explanation. Maximum of 2 points to be graded. Total: 8 marks)

iv) **insuring their legal liability to pay damages in respect of loss or or damage to the property of any person:** this means legal liability to indemnifying any person for the damage to their property to a certain limit. Liability here is currently limited to ₦1m although same can be extended on the payment of an additional premium by the insured.

(3 marks for stating the requirement. 2 marks for each correctly stated explanation. Maximum of 2 points to be graded. Total: 7 marks)

16(a) In the commercial insurance market, three (3) main parties are involved. Name them. (5 marks)

Solution

The three main parties involved in commercial insurance market are:

- buyers – the commercial clients 1 mark
- sellers – the insurance companies 1 mark
- brokers – the insurance intermediaries. 1 mark

(Opening Sentence – 2 marks; others are 1 mark each. Total: 5 marks)

- (b) From the question (a) above, what role does each of the party play in the commercial insurance market? (15 marks)

Solution

The following are the roles each party play in the commercial insurance market:

- **buyers (the commercial clients):** play the role of prospects when they are yet to be insured; they pay the role of clients when insured and they become insurance companies' customers when they are regular buyers of the insurance products

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

- **sellers (the insurance companies):** the sellers are the insurance companies that sell various products of insurance. They charge equitable premium to buyers and promise to compensate them should an insured loss occur. The sellers also prospect Brokers for insurance businesses and pay brokerage in return to the Brokers for services rendered.

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

- **brokers (the insurance intermediaries):** the Brokers in the commercial insurance market play the role of the middle men between the buyers and the sellers in the transaction of insurance business. Brokers go out to prospect the buyers and bring the risks of the buyers for sellers to provide cover. Brokers reward for the service rendered is called brokerage.

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

- (c) Under business interruption policy, what does the material damage warranty/proviso stipulate? (10 marks)

Solution

Under business interruption policy, the material damage warranty/proviso stipulates that for there to be a valid claim under business interruption policy,

- there must be a material damage in place and
- liability must be admitted for the property damage claim.

(5 marks each for correct proviso stated. Total 10 marks)

- 17(a) What are the additional costs that insurance company may incur in fulfillment of indemnity under Employers' Liability Policy? (5 marks)

Solution

The additional costs that insurance company may incur in fulfillment of indemnity under Employers' Liability Policy are:

- costs and expenses incurred in defending the claim
- cost of representing the insured anywhere for the purpose of the insured's claim

(2½ marks for each correctly stated point (claimants' cost and expenses are the usual costs and not part of the answer) Total: 5 marks)

- (b) There is no liability insurance cover without indemnity limits, what is the limit of indemnity on each of the following covers:
- Employers Liability?
 - Public Liability?
 - Product Liability? (15 marks)

Solution

The limit of indemnity on each of the following covers are:

i) **Employers Liability:** indemnity level is expectedly around GBP10m (or equivalent in Naira value) as learnt from the coursebook on any one insured event and unlimited in the year. **5 marks**

ii) **Public Liability:** indemnity is based on the sum insured decided but ranges between GBP2m to GBP5m or equivalent in Naira value depending on how large the risk is and unlimited in the year. **5 marks**

iii) **Product Liability:** the insured selects an adequate sum for any one insured event and on the aggregate over the year. The figures here determine the indemnity level to be provided. **5 marks**

- (c) Under commercial vehicle insurance, state four (4) special types of vehicle. (10 marks)

Solution

The following are types of vehicles under commercial vehicle insurance:

- Agricultural Vehicles
- Forestry Vehicles
- Buses and Coaches
- Cranes
- Mobile Shops
- Mobile Plant
- Ambulances
- Bulldozers
- Hearses.

(2½ marks for each correct type mentioned. Maximum of 4 should be graded. Total - 10 marks)

18. The building cover under "latent defects" policy has some main elements. State three (3) of such main elements.

Solution

The main elements for the building cover under the “latent defects” policy are:

- Structural defects; ingress of water; subsidence; landslip or heave; threat to imminent collapse requiring immediate remedial work to prevent damage.

(Opening Sentence - 1 mark; any 3 of the correctly stated type = 3 marks each. Total 10 marks)

- (b) Mention any two (2) causes of defect in the building cover under latent defects policy.

Solution

The causes of defects in the building under latent effects policy (i.e. defects that are not discovered before the inception of the cover) are:

- Defect in design
- Workmanship
- Defect in the material used.

(5 marks each for any two causes from the above. Maximum of 2 to be graded. Total = 10 marks)

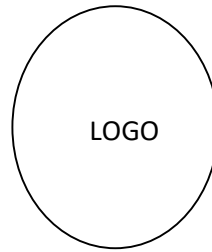
- (c) A commercial business have various options to deal with the main risks to which it is exposed. List out three (3) of those options.

Solution

The options that commercial business have to deal with the main risks to which it is exposed to are:

- To avoid the risk
- To prevent the risk
- To limit the risk
- To transfer the risk through insurance.

(Opening Sentence - 1 mark; any 3 of the correctly stated type = 3 marks each. Total 10 marks)



**CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA**

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D11
PERSONAL INSURANCE PRACTICE**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

D11 - PERSONAL INSURANCE PRACTICE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Summarized Report

Pass Rate:	41%
Highest Score:	61%
Lowest Score:	15%
Average Score:	38%

Breakdown Updates

Question 1

Question was very uncommon. Most candidates did not perform well, pass rate was about 40%.

Question 2

The cheapest question and nearly all of them scored high. Pass rate was about 80%.

Question 3

Attempt on this was very low. Candidates generally were not familiar with legal cases. Candidates performed woefully. Pass rate was about 5%.

Question 4

Popular question. All the candidates attempted but many could not explain into details as required.

Question 5

Candidates were struggling despite the popularity of this question. Surprisingly, most candidates could not remember compulsory insurance as applied to personal insurance practice.

Question 6

Nearly all the candidates answered the question correctly. Only few scored average marks.

Question 7

Majority of the candidates answered well. Few did not understand the application of indemnity to building, content and new for old.

Question 8

Nearly all the candidates got close to 100%. It was a very popular question.

Question 9

Majority of the candidates could not understand liability aspect of a typical household policy narrowing down to content. Few candidates mentioned occupier, tenant, personal and employers' liability to domestic staff.

Question 10

Poorly answered. Few candidates mentioned limits on stamp collection and money. Candidates were familiar with single article limits and valuable items.

Question 11

Question was answered by majority correctly (say 60%) while the others were blank.

Question 12

Most candidates did not get the definition rightly. They were only dancing around the answer. Candidates should pay more attention to definitions in future.

Question 13

70% of the candidates were able to answer the question and explains well. This appears like bonus.

Question 14

Almost all the candidates did not understand the question. Only 10% could come up with some relevant answers.

Question 15

Candidates avoided this question. Candidates could not detail exclusions on travel insurance policy.

Question 16

Candidates rushed the question but could not meet the examiners standard. Surprisingly, candidates could not detail what motor third party covers.

Question 17

Many candidates did not attempt this question. They displayed poor knowledge of reinsurance. Not up to 10% could explain catastrophe cover as a solution to loss accumulation.

Question 18

Question well answered but candidates should deepen their knowledge in the areas of NAICOM functions.

Chief Examiner's Comments on Overall Performance

As stated in the questions above.

Chief Examiner's Suggestions on Improvement:

As stated in the questions above.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks

1. Explain three (3) factors that should be considered when indemnifying customers' needs.

Solution

The three factors that should be considered when indemnifying customers' needs are:

i) **The Product:** a broader range of products will meet the needs of the personal insurance customers. For example, household policy has developed to include cover for cycles and sport equipment. Today, you can see cover for extended warranty insurance.

ii) **The Price:** some insurers remain convinced that price is a major factor for customers having personal lines insurance as evidenced by a marketing campaign "quote me happy" in UK where customers considered good price as happy price.

iii) **Delivery:** customers enjoy flexible delivery in terms of time and medium. Many insurers have 24hours helplines.

(Opening Sentence - 1 mark; 2 marks for correctly stated point; 1 mark for any correct explanation under each point. Total of 3 marks per point. Grand Total: 10 marks)

2. The micro environment consists of the participants in the immediate environment that affect the insurance company's ability to serve the market. Name the participants.

Solution

The participants in the immediate environment that affect the insurance company's ability to serve the market are:

- the company itself
- reinsurers
- intermediaries
- customers
- competitors
- the public.

(Opening Sentence - 2 marks; 2 marks for correctly stated point; Maximum of 4 participants should be graded. Grand Total: 10 marks)

3. State the facts of the case in *Total Broadhurst Lee Co. Ltd. V. London and Lancashire Fire Insurance Company (1904)* and the insurance principle behind the case.

Solution

The the facts of the case in *Total Broadhurst Lee Co. Ltd. V. London and Lancashire Fire Insurance Company (1904)* are:

- a fire occurred in a building following an earthquake
- the fire resulted from the spillage of oil from an oil stove
- which overturned during an earthquake
- Heat was transmitted from the building to a neighbouring building by radiation
- Spark and members from the second building started fire in nearby building
- Some of the wheels were also set alight by radiated heat from surrounding building
- Eventually a building 500 yards from the first building was set alight
- It was held that the proximate cause of the fire in the last building was earthquake.

(1 mark for each correctly stated fact of the case. Eight facts to be graded. Total= 8 marks)

The insurance principle behind the case is proximate cause. (2 marks)

- 4(a) Define subrogation. (2 marks)

Solution

Subrogation 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.

(2 marks)

- (b) Explain the special position of ex-gratia payment in insurance policies. (8 marks)

Solution

Ex-gratia payments in insurance is any payment made on an insurance claim where liability was not engaged. The special position of ex-gratia payment on insurance policies are:

- If insurers make an ex-gratia payment, they are thereby deprived of any subrogation right to which they would otherwise have been entitled
- Ex-gratia payments are made when insurers wishes to do so for various reasons and to be able to make some contributions to a loss
- The decision could be done for commercial reasons
- The decision could be done for reputation

(Opening Sentence – 2 marks; 2 marks for correctly stated point; Maximum of 3 participants should be graded.
Grand Total: 8 marks)

5. State and briefly explain the compulsory insurances in Nigeria that are under personal insurance practice.

Solution

The compulsory insurances in Nigeria that are under personal insurance practice are:

- **Motor Third Party only Insurance:** it provides cover for liability for death or bodily injuries to third party arising from the use of the vehicle on a Nigerian road. Section 68 of the Insurance Act 2003 extended it to cover liability to third party to the tune of N1,000,000.00 for property damage.
- **Health Care Professional Indemnity:** National Health Insurance Scheme Act of 1999, Section 45 required every licensed health care provider to have professional indemnity policy. Private healthcare practitioners are included in the definition of healthcare providers
- **Insurance of Public Buildings:** owners or occupiers of every public buildings should insure against loss or damage to property or death or bodily injury caused by collapse, fire, earthquake, storm or flood.
- **Insurance of Building Under Construction:** Section 64 of Insurance Act of 2003 requires every owner or contractor of any building under construction with more than two (2) floors must take out an insurance policy to cover liability against construction risks caused by his negligence or that of his servants, agents, or consultant which may result in death, bodily injuries or property damage to workers on site or member of the public.

(1½ marks for stating the insurances. 1 mark for explaining. Total 2 ½ per type of correct insurance stated. Grand Total: 10 marks)

6. What are the specific questions an insurer will ask a proposer who intend to buy building insurance cover?

Solution

The specific questions an insurer will ask a proposer who intend to buy building insurance cover are:

- the value of the building
- construction of the building
- condition of the building
- age of the building

- ownership of the building
 - location of the building
- (2½ marks each for correctly stated question. Maximum of 4 to be graded. Total: 10 marks)

7. In Personal Insurance, how can you apply indemnity to building, content and “new for old”?

Solution

In Personal Insurance, indemnity can be applied to building, content and “new for old” as follows:

- **Application of Indemnity to Building:** calculating the value of loss can be complicated by the age and condition of the property damaged or destroyed. Indemnity is better calculated as the cost of repairs or reconstruction at the time of loss, less an allowance for wear and tear; a deduction is made for improvement which may result from the repairs.
 - **Application of Indemnity to Contents:** in general, indemnity is based on the cost of repairing or replacing the items at the time of loss, subject to wear and tear deduction.
 - **Application of Indemnity to “New for Old” Cover:** household policies are better arranged on “new for old” cover basis. For this type of policy, no deduction is made for wear and tear thus extending the principle of indemnity where repair is possible, the cost of repair is paid in full. When property is lost, an equivalent new replacement will be provided, however, insurers retain the deduction for wear and tear in respect of items of clothing and household linen.
- (2 marks each for correctly stated sub-point. 1 mark for all correctly stated explanation. At least one point per sub-point. Maximum of 4 points to be graded. Total: 10 marks)

8. The term “building” is specifically defined in the policy wording of a typical household building policy or under the building section of a combined policy and will typically include main structure of the insured’s home. What other things will be included in the definition?

Solution

The other things included in the definition of “building” in the policy wording of a typical household building policy or under the building section of a combined policy are:

- Swimming pools, tennis courts, garden walls, patios, fences, gates, oil & gas tanks, septic tanks, out-buildings used for domestic purposes, fixtures, fittings and decorative finishes.
- (2 marks each for correctly stated answer. Maximum of 5 points to be graded. Total: 10 marks)

9. What liability cover is provided under the contents section of a typical household policy?

Solution

The liability cover provided under the contents section of a typical household policy covers:

- legal liability incurred by the insured as occupier of the premises
- personal liability as a private individual
- liability as the employer of a domestic servant
- liability as a tenant for loss or damage to your home by a peril insured under the building section
- unrecovered damages
(2½ marks each for correctly stated answer. Maximum of 4 points to be graded. Total: 10 marks)

10. In contents insurance, insurers usually state limits on valuable items. Mention and briefly explain these typical limits.

Solution

The limits that are usually stated in contents insurance are as briefly explained below:

- **Single Article Limit:** no one valuable item to be greater than 5% of the content sum insured. Insurers are prepared to include items of greater value provided they are specified and evidence of value provided.
- **Valuable Items:** the total value of valuable items not to exceed one third of the content sum insured unless specifically agreed.
- **Stamp Collections:** some policies include specific limits for stamp collection
- **Money:** money is usually for a limit under a household policy.
(1½ marks each for correctly stating the sub-point. 1 mark for each explanation per sub-point. Total per sub-point = 2½ marks. Total: 10 marks)

11. Travel delay and loss of passport are part of the extensions under a typical travel insurance policy. Explain them.

Solution

Travel Delay: it is the part of the extension in travel policy that provides cover for delay of aircraft, sea vessels or publicly licensed conveyance in which the insured has arranged travel for at least twelve hours from the departure time indicated by the carrier due to strike, industrial action, adverse weather condition, mechanical breakdown or structural defect affecting the aircraft, vessel or conveyance.

Loss of Passport: here, cover is provided for additional travelling and accommodation cost to obtain a replacement passport following loss or theft. Cover also include the cost of temporary replacement passport. This cover is an extension available under travel policy.

(2½ marks each for correctly stated point. Maximum of 2 points to be graded per sub-topic. Total per sub-point = 5marks. Total: 10 marks)

12(a) What is the definition of “personal effect” under the personal possession/all-risk extension to a typical household policy?

Solution

The definition of “personal effect” under the personal possession/all-risk extension to a typical household policy are:

- all risks/personal possessions
- money and credit cards
- legal expenses
- pedal cycles
- sport equipment
- frozen food

(1 mark each for correctly stated point. Maximum of 5 points to be graded. Total per sub-point = 5marks. Total: 5 marks)

(b) What are the two types of policies that are available in travel insurance?

Solution

The two types of a typical travel insurance policy available are:

- single trip policy and
- annual policy.

(2½ marks per correctly stated type. Total: 5 marks)

13. What do you understand by permanent partial disablement and temporary total disablement?

Solution

Permanent Partial Disablement: means disablement that is not total but permanent in nature say, the loss of one limb or one eye. Some insurers are ready to provide benefit for this type of disablement but it will be for a percentage of the capital sum paid e.g. insurers pay 15% for an index finger and 10% for other fingers. The level of cover provided is usually specified in the policy.

Temporary Total Disablement: covers temporary total disablement from engaging in usual occupation due to accident or sickness. What constitute a total disablement? The insured or the claimant must not be able to perform his or her task as required by the employer. A supervisor that is in the hospital but can still sign documents and function in his capacity as a supervisor can be difficult to define as being temporarily and totally disabled. Compensation is in form of weekly benefit and payable for the maximum of 104 weeks.

(2½ marks per correctly stated point. Maximum of 2 points to be graded. Total: 5 marks per sub-topic. Total = 10 marks)

14. The financial services compensation scheme (FSCS) is to protect the insured against the possibility of a valid claim not being settled following the winding up of an authorized firm. How will the FSCS arrange to make these payment?

Solution

FSCS arranges to make these types of payment to insureds in the following ways:

- in the case of compulsory insurances, such as third party motor insurance, a sum equal to the full liability of the company subject to policy terms and conditions
- in case of non-compulsory general insurance such as home contents, the policy is protected in full with 90% of the remainder of the claim or value of unused premium also being met.

(5 marks per correctly explained. Maximum of 2 points to be graded. Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. What are the main exclusions in a travel insurance policy?

Solution

Travel insurance is cover taken before the commencement of a journey by an insured to cover certain risks (subject to policy terms and conditions). The main exclusions in a travel insurance policy are:

- death, bodily injury or sickness:
 - caused by drugs (unless medically prescribed)
 - caused by intoxicants
 - contributed to by insanity, venereal disease, pregnancy (some policies states not more than 7 months), childbirth
 - gradual operating cause
 - consequent upon any physical or mental defect, diabetes
 - whilst taking part in hazardous pursuits

- suicide or self-afflicted injury
- loss of
 - luggage caused by confiscation
 - baggage or personal belongings whilst untended
 - corneal caps, micro lenses, stamps, manuscript or documents
 - company equipment
 - cash/cheques, unless reported to the police within 24 hours
- damage to fragile articles

(3 marks for explanation/definition of travel insurance. 3 marks each for correctly stated exclusion. Maximum of 9 points to be graded. Total: 27 marks in all. Grand Total = 30 marks)

16(a) What does a Motor Third Party Insurance only cover? (25 marks)

Solution

A Motor Third Party Insurance is cover purchased by an insured, as required by law, to provide cover for liability to third parties when the insured vehicle is in use, subject to policy terms and conditions.

The cover only covers:

- legal liability for death or bodily injury to third parties, including passengers
- damage to other vehicles and property belonging to others up to N1,000,000.00 arising out of the use of vehicles on a road
- emergency treatment and hospital charges
- claimant's cost and expenses of handling a claim
- cover for vehicles anywhere within Nigeria
- indemnity for accidents which occur whilst the insured is driving another vehicle
- indemnity to anyone who is driving, or using the vehicle on the insured's order or with their permission
- indemnity to passengers, employers or business partners
- legal cost incurred in the defence of a claim
- limited cover for legal representation cost following prosecution
- for any offence which might give rise to claim

(5 marks for explanation/definition of motor insurance. 2½ marks each for correctly stated cover. Maximum of 8 points to be graded. Total: 20 marks in all. Grand Total = 25 marks)

(b) Explain the term "Sonic Bang" as applicable in personal insurance policies.

(5 marks)

Solution

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 this is unnecessary exclusion therefore omit it from their policy wording.

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

17(a) If you are the reinsurance manager of an insurance company that sells personal accident products, how will you reinsure those products?

(12 marks)

Solution

As the reinsurance manager of an insurance company that sells personal accident products, I will reinsure the products as follows. Reinsurance of personal accident business falls broadly into two divisions:

i) **reinsurance required in respect of the known exposure** i.e. the sum payable under one policy for one person or several persons injured or killed in the same occurrence. These type of risks/exposures will commonly be covered under a **quota share or surplus treaty** with the insurer's retention being fixed at an acceptable level.

ii) **reinsurance relating to protection of unknown exposure** i.e, where the insurer is faced with several claims arising out of the same occurrence, in circumstances where it would have been impossible to foresee the accumulation. An example of thus situation would be an airline crash where several of the passengers may hold separate travel policies with the same insurer. This second type of risk/exposure will be covered by **excess of loss protection** on an occurrence basis.

(2 marks each for the bolded points above. Total: 8 marks in all. 1 mark each for other 2 explanations per sub-topic. Sub-Total:4 marks. Grand Total: 12 marks)

(b) What are the things that a motor insurance underwriter will consider when underwriting a private motor insurance? (14 marks)

Solution

The following are the things that a motor insurance underwriter will consider when underwriting a private motor insurance:

- **type of vehicle**
 - the performance of the vehicle through its power to weight ratio
 - the likely cost of repairing accidental damage 'the age of the vehicle
 - the age of the vehicle
 - the value of the vehicle
- **cover required**
 - the wider the cover, the more premium the insured will pay

- **details of the insured and any other regular driver(s)**
 - their age(s)
 - their occupation
 - their license details
 - the accident and the loss history
 - their conviction history (except spent conviction)
 - their disability
 - insurer will also like to know who is the main user out of the country
- **use to which the vehicle is put**
 - social use
 - domestic use and
 - pleasurable use
- **district where the vehicle is used and garaged**
 - heavily populated area stand the chance of collision even where the policyholder is not at fault
 - theft risk also differ from location to location

(2 marks each for the bolded points above. Total: 10 marks in all. 1 mark each for other explanation per sub-topic. Maximum of 1 per sub-topic. And maximum of four sub-topic to be graded. Sub-Total:4 marks. Grand Total: 14 marks)

- (c) If you are confronted with the possibilities of “accumulation” and you are to arrange reinsurance, briefly explain loss accumulation and the type of reinsurance you will arrange on the accumulation possibilities. (4 marks)

Solution

Loss accumulation is the losses cumulated when natural perils such as storm, flood and earthquakes cause damage to a number of properties resulting in claims being made under several policies at almost the same time from the same incidence. **2 marks**

Such protection can be provided by a catastrophe excess of loss treaty written on an occurrence basis. **2 marks**

18. Write short notes on number (i) and any other four (4) of the following:

- | | | |
|------|-----------------------------|------------|
| i. | NAICOM | (10 marks) |
| ii. | Young Additional Driver | (5 marks) |
| iii. | Contractual Liability | (5 marks) |
| iv. | Family Policies | (5 marks) |
| v. | Breakdown Recovery | (5 marks) |
| vi. | Untraced Drivers Agreement. | (5 marks) |

Solution

i. **NAICOM:** known as National Insurance Commission. It was established in 1997 with the responsibility of regulating and supervising insurance in Nigeria. It replaced the previous regulatory organization called the Nigerian Insurance Supervisory Board. Prior to 1992, the Federal Ministry of Finance licensed and supervised insurance companies. It was established by National Insurance Commission Act No 1 of 1997.

Functions of NAICOM are:

- to ensure effective administration, supervision and regulation of insurance business in Nigeria as well as regulate transactions between insurers and reinsurers within and outside Nigeria
- it is charged with inspectorate powers by establishing the standard for the conduct of insurance business in Nigeria
- it approves rates for premiums and commissions in the Insurance Industry and protect policyholders and other beneficiaries of Insurance contracts
- it protects government assets and advises the federal government on insurance issues
- it also contribute to insurance education programmes of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute.

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

ii. **Young Additional Driver:** insurers are always weary of young driver who is shown as a member of the family who may drive, but who in fact is the main driver. If insurer discovers this, they will suggest that the driver takes out a policy in his name so that the driver will be able to earn claims discount on his own names. However, if a young driver (say under 21) is truly an additional driver, then most insurers will charge additional premium. There may be exclusion of other young drivers or policy could be restricted to named persons.

(2½ marks each for any correctly stated points from above. Maximum of 2 points to be graded. Total: 5 marks)

iii. **Contractual Liability:** this is an exclusion in liability policies. It states that an insurer is not involved in claims arising from agreement they knew nothing about and could not, therefore, have taken into account when assessing the premium. It rarely arises in motor insurance and does not cause problems.

(2½ marks each for any correctly stated points from above. Maximum of 2 points to be graded. Total: 5 marks)

iv. **Family Policies:** many insurers now offer policies that provide personal accident and or sickness cover for the insured and all members of their family. Demand for this type of cover has increased as individuals have become more aware of the cost of employing a home help and the cost of nursing and attending to an injured child. Alternatively, some policies are available only to cover children for personal accident, it does not provide cover for weekly benefits.

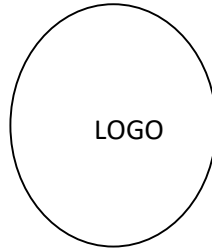
(2½ marks each for any correctly stated points from above. Maximum of 2 points to be graded. Total: 5 marks)V.V

v. **Breakdown Recovery:** a car owner may find out that his car breaks down unexpectedly. If they are members of one of the motoring organization, they will usually be able to call on it for assurance. However from the 1980s, a number of insurers started selling this cover as addition to comprehensive cover under private policy where the insurer will have an arrangement with a specialist breakdown recovery firm.

(2½ marks each for any correctly stated points from above. Maximum of 2 points to be graded. Total: 5 marks)

vi. **Untraced Drivers Agreement:** this agreement covers “hit and run” cases where the negligent driver remains unidentified. The agreement applies to compensation for death, personal injury and property. Under this agreement, Motor Insurers’ Bureau (MIB) nominates one of its members, on a rotational basis, to negotiate settlement of claim on its behalf, the cost being met by way of the levy imposed on MIB members.

(2½ marks each for any correctly stated points from above. Maximum of 2 points to be graded. Total: 5 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D12
LONG TERM BUSINESS**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA**D12 - LONG TERM BUSINESS****INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	50%
Highest Score:	52%
Lowest Score:	17%
Average Score:	35%

Breakdown Updates

Question 1

Of the two candidates who sat for the paper, one had a fair knowledge of the objectives of FSA but the other just gambled with explanations that is not related to the question. Students should be encouraged at the point of registrations to read their course book and other recommended materials.

Question 2

This was to elicit formation from candidates on who MLRO is and the responsibilities. Knowledge was fair but not deep. Reading of course materials should be encouraged.

Question 3

Candidates were tested on their understanding of surrender value of various policies of assurance. Surrender values of unit linked policies was not well addressed, while there were good attempts on term and endorsement policies. Truth be stated, students are not preparing hard enough and this has shown in their answers.

Question 4

Candidates were tested on the activities of assurer and insurer where policy gets lost. It was well answered and candidates obtained good marks. Studying hard for examination is recommended.

Question 5

Candidates did not understand required covers other than IPI and critical illness. Explanation of these two was even poor. Candidates are advised to adequately prepare for exams.

Question 6

We tested the candidates' knowledge of the current threshold before reporting cash transaction as suspicious. The threshold and stages involved in money laundering were well understood.

Question 7

This was answered well and full marks obtained by all who attempted the question.

Question 8

Candidates were tested on their knowledge regarding conditions insurance companies placed while granting group life cover without request for medical test. Their understanding was poor and marks obtained not good at all.

Question 9

There was poor understanding of the questions and answers were equally poor. Marks obtained were low. We recommend serious course book study as well as other recommended materials.

Question 10

Candidates did not explain very well what joint life is and were limited in stating death benefits payments under the policy. Marks obtained were low.

Question 11

Part A of the question was not answered indicating that candidates lack knowledge of the frequency loading while part B was attempted with good marks obtained. Studying the course book fully is recommended.

Question 12

None of the candidates could state examples of why insurable interest is not necessary at the time of loss. Marks were lost in the process.

Question 13

Candidates were tested on their knowledge of premium calculation; it was a relatively straight forward question. Response was very disappointing as they could not calculate simple life premium.

Question 14

The answers were not good enough as candidates failed to explain the difference between medical and non-medical proposals. Marks obtained were low.

Question 15

There was a good demonstration of knowledge of annuity. Marks obtained were impressive but there is still room for improvement.

Question 16

This question was fairly answered as candidates obtained average marks.

Question 17

Candidates that attempted this question did poorly as there was a poor grasp of cancellation notice.

Question 18

This question was not attempted by any candidate at all.

Chief Examiner's Comments on Overall Performance

We recorded 50% overall performance.

Chief Examiner's Suggestions on Improvement:

There is no gain saying the fact that candidates need to be serious with studies. We appeal for a short note from the institute encouraging students to read their course book and other materials while registering for examination to ensure good results at the end of the day.

PART I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. State the objectives of Financial Services Authority.

Solution

The objectives of Financial Services Authority are:

- To build market confidence
- To create public awareness
- To protect insurance consumers
- To prevent and reduce financial crimes.

(2½ marks each for each correctly stated points from above. Total: 10 marks)

2(a) Who is a Money Laundering Reporting Officer (MLRO)? (2½ marks)

Solution

A Money Laundering Reporting Officer (MLRO) is a senior employee of a firm appointed to work with the firm's internal control and the Money Laundering Authorities as regards money laundering regulation.

(2½ marks)

(b) State the roles/duties of a Money Laundering Reporting Officer MLRO.

Solution

The roles/duties of a Money Laundering Reporting Officer (MLRO) are:

- He must establish internal procedures for identifying and reporting suspicious transactions
- He must ensure that risk advisors receive training on money laundering issues
- He must ensure that staff and advisors are trained on how to recognize symptoms of suspicious transactions or money laundering
- He must train them on the procedure for reporting suspicious activities
- He himself must be given adequate authority to enforce compliance of regulation
- He must ensure that he investigates all reported cases and then pass information to Nigerian Financial Intelligence Unit or EFCC.

(2½ marks each for any correctly stated points from above. Maximum of 3 points to be graded. Total: 7½ marks)

3. Explain the surrender value of:

- (a) Term Assurance Policy (2 marks)
- (b) Endowment Assurance Policy (6 marks)

- (c) Unit-Linked Policy. (2 marks)

Solution

(a) **Term Assurance Policy:** this policy provides for the payment of death benefit only if death occurs within the term of the policy and therefore has no surrender/investment value.

(1 mark each for any correctly stated point from above. Maximum of 2 points to be graded. Total: 2 marks)

(b) **Endowment Assurance Policy:**

- the surrender value of the policy or the sum assured is a portion of that sum assured normally increasing as the policy continues to be in force
- the actual value on surrendering the policy will depend on the length of time the policy has been in force
- reversionary or terminal bonus may be allowed on surrender of the policy depending on the policy terms and conditions on surrender
- some insurers do not factor reversionary or terminal bonus when calculating surrender value irrespective of the number of years that the policy was in force before surrendering

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

(c) **Unit-Linked Policy:**

- the surrender value of a unit linked policy will depend on the price of the units held on the day of surrender
- early surrender will attract penalty which affect the size of the amount payable/available as surrender value.

(1 mark each for any correctly stated point from above. Maximum of 2 points to be graded. Total: 2 marks)

4. When a policy is reported lost, what actions are to be taken by:

- (a) The Assured/Insured (4 marks)
(b) The Insurer. (6 marks)

Solution

When a policy is reported lost, the actions to be taken are:

(a) **by the Assured/Insured:**

- inform the insurer in writing that the policy (document) is lost
 - swear to an oath (affidavit) that the policy is actually lost
 - publish the loss in a national newspaper publication stating that the policy is actually lost
 - pay replacement fee as may be required by the insurer to have it reissued.
- (2 marks each for any correctly stated point from above. Maximum of 2 points to be graded. Total:4marks)

(b) **by the Insurer:**

- be on the alert as the non-production of the policy (document) could be a constructive notice of a third party interest/involvement in the policy

- check the record to ascertain whether or not notice of assignment was earlier received on the policy
- conduct a proper search and make enquiries to those who might know the policy's whereabouts e.g. the assured's bank
- ask the assured to execute a statutory declaration as to the loss
- ask the assured to complete an indemnity form against any probable future re-occurrence of another "legal" claimant on the policy to avoid any future re-payment on the policy

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

5. Outline under which cover, will a claim due to incapacity, be made. Explain how the claim can be paid.

Solution

The cover under which a claim due to incapacity can be made are:

- Income Protection Insurance (IPI)
- Critical Illness Insurance (CII)
- Waiver of Premium Cover (WP)
- Disability Cover.

The claim can be paid as explained below:

- **Income Protection Insurance (IPI):** once the insurer is satisfied that the claim due to incapacity has been established successfully by the assured, it will commence paying the benefit on weekly or monthly basis according to the contract.
- **Critical Illness Insurance (CII):** once the insurer is satisfied that the claim due to critical illness as covered under the policy has been established, it will make the payment - usually in a lump sum and for those that are in installments, it will ensure that the medical status is checked regularly before making any future payments
- **Waiver of Premium Cover (WP):** once the insurer is satisfied that the assured for reasons covered by the policy is unable to continue with the regular premium remittance, the waiver of premium terms will be invoked and the insurer will continue to remit the premium on behalf of the assured until the reason is overcome or the policy expires/matures (whichever is earlier)
- **Disability Cover:** once the insurer is satisfied that the claim due to disability (as covered by the policy) has been established successfully by the assured, it will commence paying the benefit on weekly or monthly basis according to the contract and will stop upon cessation of incapacity.

(2 marks each for any correctly stated point from above. Maximum of 2 points to be graded under each sub-topic. Total: 8 marks).

- 6(a) What is the current cash transaction threshold after which a report to Nigerian Financial Intelligence Unit (NFIU) is required to be sent?

Solution

The current cash transaction threshold after which a report to Nigerian Financial Intelligence Unit (NFIU) is required to be sent is:

- Individuals - N5,000,000.00
- Companies - N10,000,000.00

(3½ marks each. Total: 7 marks)

(b) State the stages involved in money laundering activity.

Solution

The stages involved in money laundering activity are:

- Placement
- Layering
- Integration.

(1 mark each. Total: 3 marks)

7. Enumerate the various bodies a dissatisfied insurance consumer can go to in order to be able to seek redress against an insurance company arising from their contractual relationship.

Solution

The various bodies a dissatisfied insurance consumer can go to in order to be able to seek redress against an insurance company arising from their contractual relationship are:

- Nigerian Insurers Association
- Consumer Protection Council
- Complaint Bureau of National Insurance Commission
- Public Complaints Bureau
- Association of Nigeria Insurance Consumers

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

8. Insurance Companies are known to grant substantial amount of group life assurance cover to their clients without evidence of insurability, that is, evidence of health, provided certain conditions are fulfilled. Carefully state those conditions.

Solution

The conditions that are required to be met before Insurance companies provide substantial amount of group life assurance cover to their clients without evidence of insurability, that is, evidence of health, are:

- Individual employees must be at work on the day they become eligible for membership
- The group of lives to be assured must exist for some legally recognized purpose other than insurance
- The minimum number or percentage of those eligible to join at inception must be met
- Employees on a bonafide holiday must be named and covered

- All lives eligible for membership must be physically and mentally capable of working.

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

9(a) When a proposer is required to undergo medical examination in a life assurance contract, what exactly is the underwriter looking out for?

Solution

When a proposer is required to undergo medical examination in a life assurance contract, the underwriter is looking out for medical factors that affect longevity i.e. factors that will reduce the expectation of life. (5 marks)

(b) Specifically in the case of income protection proposal, what medical conditions are insurers looking out when the proposer is requested to undergo medical examination?

Solution

In income protection proposal, the medical conditions are insurers looking out when the proposer is requested to undergo medical examination are that insurers are concerned with those conditions that will cause the proposer to be off work for a prolonged period. For example, when the proposer states on the proposal form that (s)he has a recurring back strain. (5 marks)

10. Carefully explain the payment of death benefits under a joint-life policy.

Solution

Joint-Life Policies is any life policy taken out on the lives of two or more persons against death and/or any other insured peril. The payment of death benefits under such policies could be:

- The payment will be made on the basis that the assureds were joint tenants
- If it is an own life joint second death policy, payment will be made to the estate of the second assured to die
- If both (or all) lives assured died in the same accident, for example in a car crash, the older will be deemed to have died first and therefore, payment will be made to the estate of the younger
- The provision was established in law of Property Act 1925 and in the case of *Hickney V. Peacey*.

(2 marks for explanatory note/definition of joint-life policy. 2 marks for any correctly stated point from above. Maximum of 4 points to be graded. Sub-Total: 8 marks. Grand Total: 10 marks)

11. Write short notes on:

- (i) Frequency Loading (6 marks)
- ii) How ownership of a life policy changes hands. (4 marks)

Solution

(i) Frequency Loading:

- premiums are always usually calculated on yearly basis
- the actuary's calculations assumed that premium will be available for investment at the start of the year
- yet payments are done on installmental basis – which could be monthly, quarterly, or even half-yearly
- these payment patterns defeats the assumption made by the actuary on the initial calculation hence a loading has to be made to reflect the payment frequency
- the loading helps to recover investment returns that would have been made if the premium were annually paid

(1 mark each for correctly stated points from above. Maximum of 5 points to be graded. 1 mark for correct sequential ordering of the points. Total: 6 marks)

ii) How ownership of a life policy changes hands. (4 marks)

Solution

A life policy changes ownership as a result of:

- Absolute assignment
- Mortgage
- Trust
- Bankruptcy

(1 mark each. Total: 4 marks)

12. Why is proof of Insurable Interest not necessary at the time of loss in life assurance contracts? Give at least three (3) examples to back up your points.

Solution

Insurable Interest is not necessary (or required) at the time of loss in life assurance contracts because:

- Life assurance contracts are not contracts of indemnity
- Therefore insurable interest need not be proved at time of loss
- Since ownership can also change hands before the claims crystalizes or are paid

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

Examples are:

- The original owner may assign the policy to another. The new owner need not have insurable interest in the life assured
- The original owner can sell the life policy to another
- A life policy could be effected to repay a loan and then the loan is repaid before the end of the contract. The policy is allowed to continue
- A key person policy could be effected by an employee on the life of a key individual and the life assured leaves the company. The policy could be allowed to continue.

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

13. Suppose you receive an application, today, 5th October 2018, from a proposer whose date of birth is 1st January 1974, who is an accountant in a telecoms company, requesting for an endowment assurance basic cover of ₦20,000,000.00 with a 15-years duration, and an extension of waiver of premium only. Calculate the monthly premium using the following information.

Extract of a Mortality Rate Table of an Endowment Contract

Term/ Age	9	12	15	20	25
20	26.00	26.95	26.99	27.05	28.00
28	30.15	30.35	30.55	30.85	31.09
39	39.99	40.01	40.25	40.77	40.92
45	44.00	44.45	44.69	45.21	45.99
52	60.11	60.12	60.19	60.73	60.89
63	62.25	62.35	62.83	63.01	65.95

- Double Accident Benefit (DAB) Rate: 2.01 per mille
- Waiver of Premium Rate: 2.25 per mille
- Occupational Hazard Rating: 3.09 per mille
- Policy Administration Fee: ₦500.00
- Monthly Conversion Factor: 75.25

Solution

Proposer's Age Next Birthday:	45 years	(1 mark)
Sum Assured:	₦20,000,000.00	
Duration:	15 years	
Admin Fee:	₦500.00	
Occupational Loading:	Nil (as an accountant)	
Waiver of Premium Rate:	2.25 per mille	
Life Rate:	44.69	
Monthly Conversion Factor:	75.25	

Annual Premium = $\frac{\text{Sum Assured}}{1000} * \text{Rate on the Proposer's Age}$ (1 mark)

1000

Plus admin fee (1 mark)

Plus loading for waiver of premium loading (1 mark)

= $\frac{20,000,000.00}{1000} * 44.69 = \text{N}893,800.00$ (1 mark)

1000

Waiver of Premium Loading = $\frac{20,000,000.00}{1000} * 2.25 = \text{N}45,000.00$ (1 mark)

1000

Annual Premium = $\text{N}893,800.00 + \text{N}45,000.00 + \text{N}500.00 = \text{N}930,300.00$ (1 mark)

Monthly Premium = $\frac{\text{Annual Premium}}{1000} * \text{Conversion Factor}$ (1 mark)

1000

= $\frac{930,300.00}{1000} * 75.25 = \text{N}70,682.33$ (2 marks)

1000

(Marking guide as shown above. Total: 10 marks)

14. Write short notes on:

(a) Medically Underwritten Life Assurance Proposal.

(b) Non-Medically Underwritten Life Assurance Proposal.

Solution

(a) **Medically Underwritten Life Assurance Proposal:**

- this is a life assurance proposal where the proposed life assured will be required to undergo medical examination because of the size of the sum assured and before acceptance can be made
- medical examination will produce reports as evidence of health
- age is a factor as the size of the sum assured is
- the tests are to be taken every two years
- some specified blood tests are compulsory for all sum assured above the insurers' retention limit or free cover limit in a group life scheme
- there is a lifestyle questionnaire to be completed as well

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

(b) **Non-Medically Underwritten Life Assurance Proposal.**

- this is a life assurance proposal where the proposed life assured is accepted at the insurers ordinary rate without evidence of insurability, that is, without medical examination
- the proposed life is accepted on the basis of the completed information on the proposal form

- there is usually an age limit after which medical examination will be required no matter the sum assured
- there is also usually a limit placed on the sum assured as well above which medical examination will be required
- the limit of the sum assured relates to the total sum assured for the life assured and not just the current proposal being assessed

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

Part II

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

Each question carries 30 marks.

15. Write short notes on
- a. Deferred Annuity
 - b. Personal Pension
 - c. Share Price Movement.

Solution

a) Deferred Annuity:

- this is an annuity contract that starts payment of benefits at a future date
- payments are made on installment basis
- there is an accumulation phase and there is a payment phase
- there is a deferred period (this is the period between the date of the contract and the date on which the annuity is to commence)
- there is a return of premiums paid if the annuitant dies before the commencement of the annuity
- it can be purchased by the payment of single premium or by the regular premium throughout the deferred period
- the annuitant may be allowed to collect cash instead of annuity

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

b) Personal Pension:

- this is a policy arranged by individuals in order to make provisions for their retirement
- it is available for self-employed and those in non-pensionable employment as well as everyone without earnings
- it is an investment contract under which at least 75% of the sum available at maturity must be used to purchase a pension

- it can be arranged as a
 - * a with-profit policy from an insurer
 - * a unit-linked policy from an insurer
 - * a deposit account from a bank
 - * a unit trust
- the contract cannot be surrendered for cash
- it is a retirement contract/policy

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

c) Share Price Movement:

- it is the movement of the prices of share prices of quoted companies on the stock exchange
- in the long run affected by general economic and political climate
- it is in the short term affected by investors' sentiment
- it can be influenced by events specific to the company in particular or to the business sector in general

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

16. In Nigeria, Group Life Assurance Policy is compulsory for employers to take out on the lives of their employees. Despite this, the employer is still required to establish that insurable interest exist in the relationship. Explain the need for insurable interest in this regard.

Solution

Group Life Assurance Contract is a life assurance contract taken out on the lives of two (2) or more members of a group recognized at law for other purposes other than insurance.

Notwithstanding the fact that it is compulsory for employers to take out the policy on the lives of their employees in Nigeria, if the employees are more three (3) or more; the employer must still establish that insurable interest exist in the relationship for the following reasons:

- No insurance contract can be taken out without the existence of insurable interest
- A life policy without insurable interest is void
- Insurable interest exist where there is a potential financial loss, which in the case of Group Life, the potential loss is to the named beneficiary of the individual employee

- The loss must arise from death because of the legal obligation/liability and the relationship
- The assured cannot recover premium paid if both parties have been ignorant of the law
- The assured may however recover the premium if there is no insurable interest on the lives covered by the contract.

(5 marks for the preamble/opening response explaining what Group life means and the implication for Nigerian Employers. 5 marks for each correctly stated point. Maximum of 5 points to be graded. Sub Total: 25 marks. Grand Total: 30 marks)

17(a) What is the purpose of “cancellation notice”?

Solution

Cancellation Notice is a document issued by the insured (usually the policy document) informing the policyholder of their rights to have the policy terminated/cancelled and at what terms.

The purpose of the cancellation notice is to **draw the policyholder’s attention to the facts that they have the rights to change their minds and that they can withdraw from the contract.**

(5 marks each for the bolded points above. Total: 15 marks)

- (b) The Financial Services Act states that a cancellation notice must be issued for all long term insurance policies. State in details, the contents of the cancellation notice.

Solution

The contents of the cancellation notice are:

- the party cancelling the contract (i.e. either the insurer or the insured) must give notice as to why it is cancelling the policy
- the notice must be sent by post or electronically to the other party
- the notice must be sent within 14days after the commencement of the policy or within 8 days if it is a single premium policy
- for varied policy, there must be cancellation notice if the premium increases by 25%
- the policyholder can cancel the policy anytime within the first two years if the insurer fails to state a cancellation notice
- the notice must incorporate such details as the right to cancel, when the right begins and ends, steps the policyholder will take to cancel the policy, consequences of cancellations and any shortfall costs to the policyholder.

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

18(a) The Federal Government of Nigeria believes so much in bond and has consistently promoted National Savings Bond through the Debt Management Office (DMO). Explain what National Savings Bond is.

Solution

National Savings Bonds are bonds which are guaranteed by the Federal Government (**5 marks**) and on which:

- interests are paid to the investors periodically and regularly
- interest is taxable
- bonds can be cashed/redeemed at any time at the purchase price
- it is risk free
- it is sold by stockbrokers and selected Government agencies

(2½ points for any correctly stated point above. Maximum of 4 points to be graded. Sub-Total: 10 marks. Grand Total: 15 marks)

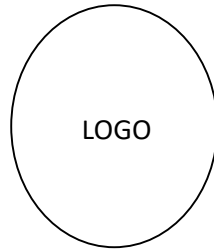
(b) Outline at least five (5) insurance bonds that are used in investment. Write very briefly on the stated bonds.

Solution

The following are the insurance bonds used in investment:

- **Guaranteed Income Bond:** A guaranteed income bond is an investment tool that provides income in the form of interest over a specified time period, usually between 6 months and 10 years.
- **High Income Bond:** A high income bond is a high paying bond with a lower credit rating than some other types of bonds like investment-grade corporate bonds, treasury bonds and municipal bonds.
- **Guaranteed Growth Bond:** A guaranteed growth bond is also an investment tool that provides income in the form of interest over a specified time period, usually between 6 months and 10 years.
- **Unit-Linked Bond:** A unit linked bond is like a unit linked product which is a product offered by insurance companies that, unlike a pure insurance policy, gives investors both insurance and investment under a single integrated plan.
- **With-Profit Bond:** A With Profits Bond is a form of life insurance based investment, and usually requires lump sums to be paid in. The amount of life cover is normally only minimal.

- **Offshore Bond:** an offshore bond is an investment wrapper set up by a life insurance company in a jurisdiction with a favourable tax regime that offers tax-efficient planning.
- **Personal Portfolio Bond:** is a policy of life insurance, contract for a life annuity or capital redemption policy that meets some two conditions.
- (2 points for any correctly stated bond type. 1 mark for correct brief explanation. Total: 3 marks per example. Grand Total: 15 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT D13

MARINE AND AVIATION INSURANCE

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA**D13 - MARINE AND AVIATION INSURANCE****INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Summarized Report

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

Breakdown Updates

No candidate sat for the course during this diet.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

- 1(a) What are the degrees of the limits of the movement of the overhead sun in the North and in the South?

Solution

The degrees of the limits of the movement of the overhead sun in the North is **23.5 Degrees North** and in the South it is **23.5 Degrees South**.

(2 ½ marks each. Total: 5 marks)

- (b) What time does it take the earth to rotate through 360°.

Solution

It take the earth **24hours** to rotate through 360°.

(5 marks)

2. Name five (5) specialist vessels.

Solution

Specialist vessels are:

- Passenger Ships
- Container Ships
- RoRo (roll-on, roll-off)
- Car Carriers
- Reefer Vessels
- Log/Timber Carriers

(2 marks each. Any five from the above should be graded. Total: 10 marks)

- 3(a) Why is the concept of “distance and speed” more important to marine matters than to aviation travel?

Solution

The concept of “distance and speed” is more important to marine matters than to aviation travel because of the potentially and significantly longer journey times in Marine matters. **(5 marks)**

(b) What dangers do Icebergs pose to ship’s navigation?

Solution

Icebergs are floating ice with only about one-eighth of it visible on the water surface and seven-eighth submerged, which have irregular shapes and are prone to overturning at any time. **(1 mark)**

The dangers they pose to ship’s navigation are that:

- ships have to avoid colliding with them to avoid overturning **(2 marks)**
- this leads to the ships having to move with caution in areas of icebergs resulting in loss of speed and time **(2 marks)**

(marking guide is as detailed inline above)

4. List five (5) types of Marine Policy that can be deduced from policy wordings

Solution

The five (5) types of Marine Policy that can be deduced from policy wordings are:

- Time Policy
- Voyage Policy
- Mixed Policy
- Construction Policy and
- Open Policy.

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

5. What constitute the “International Status” requirement in the Carriage of Goods by Road Act 1965?

Solution

The following constitute the “International Status” requirement in the Carriage of Goods by Road Act 1965:

- The **place of taking over the goods** and **that of delivery** are **to be situated in two different countries**, one of which needs to be a **contracting country**
(1 mark for each bolded point; Total: 5 marks)
- When a **combined transport is involved**, the **goods should not be unloaded** from **the carrying vehicle**. The vehicle **in its loaded state** should be **carried as it is by the ship or train**.
(1 mark for each bolded point; Total: 5 marks)

6. How is contract of carriage performed under the “Carriage of Goods by Rail”?

Solution

Contract of carriage is performed under the “Carriage of Goods by Rail” in the following manner:

- The forwarding railway accepts the goods with the consignment for carriage
- The goods are loaded by the railway or the consignor in accordance with the provisions in force at the forwarding station or as otherwise agreed
- Where the consignor loads the goods, they shall be liable for the consequences of defective loading
- The railway shall deliver the goods with the consignment note at the destination station or the address of the consignee against the receipt and payment of the amounts chargeable to the consignee by the railway

(2 marks for the opening sentence. 2 marks for each correctly stated point. Maximum of 4 to be graded. Total: 10 marks)

7(a) What is the advantage of INCOTERMS over the Conventional Delivery Terms? (4 marks)

Solution

The advantage of INCOTERMS over the conventional Delivery Terms are that INCOTERMS are **designed to standardize the contract terms** and thus **makes it easier to follow what obligations, expenses, risks and other elements of the export contract affect the invoice.**

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

(b) Explain the following terms:

- i. E-Terms
- ii. F-Terms
- iii. D-Terms

(6 marks)

Solution

- i. **E-Terms:** where the seller makes the goods available to the buyer at the seller’s own premises.
- ii. **F-Terms:** where the seller is called upon to deliver the goods to a carrier appointed by the buyer.
- iii. **D-Terms:** where the seller has to bear all costs and risks needed to bring the goods to the country of destination.

(2 marks each. Total: 6 marks)

8. State any five (5) implied obligations and immunities applicable to contracts of affreightment.

Solution

The following are the implied obligations and immunities applicable to contracts of affreightment:

- 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 must proceed on her voyage without deviating from her proper course
- the shipper undertakes not to ship dangerous goods without notice
- the carrier's rights to freight is implied by a lien on the goods
- if after the formation of a contract of affreightment, it becomes impossible to keep the contract, the parties are released.

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

9. Why are statistics derived from the past merely used as a guide in Aviation underwriting?

Solution

The reasons why statistics derived from the past are merely used as a guide in Aviation underwriting are because:

- they are obtained over only a restricted proportion of aircraft operating and therefore do not show an accurate overall picture
- the introduction of a new aircraft or any alteration to the basis of risk can affect the experience
- even with aircraft in current use, risks can vary substantially over a relatively short period
- available market capacity will also affect the rating structure (i.e. the principle of demand and supply)

(1 mark for the opening sentence. 3 marks for each correctly stated point. Maximum of 3 to be graded. Total: 10 marks)

10. Explain Section Two (2): Mixed Sea and Land Risks, in Marine Insurance Act 1906.

Solution

Section Two (2): Mixed Sea and Land Risks, in Marine Insurance Act 1906 says that:

- a contract of marine insurance may, by its express terms, or by usage of trade, be extended so as to protect the assured against losses on inland waters or on any land risk which may be incidental to any sea voyage
- where a ship in the course of building, or the launch of a ship, or any adventure analogous to a marine adventure, is covered by a policy in form of a marine policy, the provisions of this Act, in so far as applicable shall apply thereto; but except as by this section provided, nothing in this Act shall alter or affect any rule of law applicable to any contract of insurance other than a contract of marine insurance as by this Act defined.
- With the present day development, land risk only, or sending by air, can fall within an adventure analogous to a marine adventure if covered by a marine policy

(2 marks each for any explanation/correctly stated point. Maximum of five (5) points to be graded. Total: 10 marks)

11. What is International Civil Aviation Organization ICAO and its relevance in international air navigation?

Solution

International Civil Aviation Organization ICAO is an aviation association **created in 1944 by delegates from 52 nations who signed in Chicago, the convention on International Civil Aviation.** (1 mark for each bolded point. Total: 4 marks)

The relevance of this organization on international air navigation are:

- It came into force in 1947 and has not been ratified by 185 nations
- The main thrust is to achieve the agreement of its Member States on the necessary level of standardization for the operation of a safe, efficient and regular air services
- Member States are encouraged to adopt the International Standards and Recommended Practices forming 18 Annexes to the Chicago Convention
- A “standard” is a specification whose uniform application is recognized as necessary for the safety or regularity of international air navigation while recommended practice is one agreed to be desirable but not essential. Member States must collaborate in securing the highest practical degree of uniformity in regulations.

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

12(a) How are the amounts of compensation stated in “Special Drawing Rights (SDR)” under Montreal Convention 1999 converted to the local currency of the claimants? (6 marks)

Solution

The amounts of compensation stated in “Special Drawing Rights (SDR)” under Montreal Convention 1999 is usually converted to the local currency of the claimants in the following way.

- The value of a National Currency in terms of the Special Drawing Rights, of a State Party, which is a Member of the International Monetary Fund, shall be calculated in accordance with the method of valuation applied by the International Monetary Fund, in effect at the date of the judgement, for its operations and transactions.
- For a State Party which is not a Member of IMF the value of national currency shall be calculated in a manner determined by that State:
- Non-members of IMF, without provisions for the calculation of Special Drawing right may use the fixed sums of monetary units for their calculation.

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

- (b) What aspects of International Carriage does the Warsaw Convention 1929 apply to? (4 marks)

Solution

The following are the aspects of International Carriage that Marine Convention 1929 apply to:

- all international carriage of persons, luggage and goods performed by aircraft for reward
- gratuitous carriage if performed by an air transport undertaking

(2 marks each for any correctly stated point. Total: 4 marks)

13. State the names or titles of the following Aviation Policy Forms:
- AVN 1C
 - AVN 16
 - AVN 20 and
 - Ariel.

Solution

- AVN 1C: Hull and Liability Insurance (used worldwide except in USA)
- AVN 16: US General Aviation Hulls
- AVN 20: US General Aviation Liability
- Ariel: Airport Owners and Operators Liability.

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

14. What additional cover do Institute Cargo Clauses (B) provide than Institute Cargo Clauses (C)?

Solution

The following are the additional covers that Institute Cargo Clauses (B) provide than Institute Cargo Clauses (C):

- earthquake, volcanic eruption or lightning
- washing overboard
- loss of, or damage to, the subject matter caused by entry of sea, lake or river water into the vessel, craft, hold, conveyance, container, liftvan or place of storage
- total loss of any package lost overboard whilst loading onto, or unloading from the vessel or craft.

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

Part II

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

Each question carries 30 marks.

- 15(a) As with hull insurance, cargo insurance rating will be on the basis of an agreed insured value. In assessing a risk and setting a rate, the underwriter's experience and current trends will be taken into consideration. State and

explain any five (5) factors taken into consideration when setting a rate for a cargo risk. (20 marks)

Solution

Some of the factors taken into consideration when setting a rate for a cargo risk are:

- Types of Risk Involved
 - Packing
 - Vessel to be used
 - Assured
 - Insurance
 - Brokerage
- (2 marks for each fully correctly stated risk. Maximum of 5 to be graded. Total: 10 marks)

The explanations are:

- **Types of Risk Involved:** the exact cargo type or goods to be carried must be disclosed and will be considered and rated appropriately by the underwriter. For example, glass is subject to breakage, sugar is subject to damage by humidity, e.t.c.
- **Packing:** the underwriter will consider whether or not the packing is
 - Conventional or containerized
 - Whether professionally packed
 - Whether carried under or on the deck.
- **Vessel to be used:**
 - the method of transport will also be considered - whether by road, rail, sea, air or a combination
 - particular problems at ports or other transit stages.
- **Assured:**
 - Age, tonnage, quality of equipment, classification
 - Type and suitability to carry the cargo
 - Tramp or liner
 - Whether or not it complies with the minimum standard set out by the Institute Classification Clause
- **Insurance:**
 - Controls, financial probity, any moral hazard
 - Previous record or claims experience
- **Brokerage**
 - Extent of cover
 - Deductible or excess
 - State of market, quoting a competitive rate
 - Underwriters only receive net premiums, so where they consider total discounts to be above normal, they will adjust the gross rate appropriately

(1 mark for each fully correctly stated point. Maximum of 2 points to be graded per risk. Sub Total: 2 marks per point i.e. 10 marks in all. Grand Total: 20 marks)

(b) Write a detailed note on warranties in marine and aviation insurance.

Solution

- A warranty is a promise by the assured to the underwriter, which usually implies the maintenance or improvement of the risk
- Underwriters use warranties to ensure that the risk is exactly the one they intend to accept
- Warranties must be exactly complied with, whether or not material to the risk
- Failure to comply will discharge the underwriters from liability as from the date of the breach, subject to some exceptions
- Statutory excuses for non-compliance include: "warranted armed" would not need to carry armament after cessation of hostilities. "Warranted under-deck" and an Act is subsequently passed to prohibit the carrying of such goods below hatches
(2½ marks for each fully correctly stated point. Maximum of 4 points to be graded. Total: 10 marks)

16(a) What are Charter Parties? (12 marks)

Solution

- Charter parties is probably derived from two Latin words "**carta partita**" meaning "**contract dividend**" (2 marks each for the bolded points. Total: 4 marks)
- It is suggested that the contract itself was halved or duplicated so that both parties to it possess some evidence of the terms (4 marks)
- The charter party embodies the terms and conditions of the contract between the ship-owner who leases the vessel and the charterer who engages the vessel for carriage of goods (4 marks)
(Marks are as allocated above. Total: 12 marks)

(b) Describe the three (3) subdivisions of "Charter Party Contracts" which may be encountered in practice. (18 marks)

Solution

The three sub-divisions of charter party are:

- **Voyage Charter Party:** where vessel is engaged to carry a particular cargo from one or more loading ports to one or more discharging ports. This could be more correctly called a voyage/community charter.
- **Time Charter Party:** the ship-owner hires out the vessel to the charterer at an agreed rate per day or for so much per ton per month
- **Charter Party by Way of Demise:** the charterer equips the vessel themselves with their own stores, crews, etc. The master and crew are their servants, The charterer is responsible for insuring the vessel.
(2 marks for each correctly stated sub-division. 2 marks each for each correct descriptive point (or its equivalent). Maximum of 2 points to be graded per sub-division. Sub Total: 6 marks per sub-division. Grand Total: 18 marks)

17. State what is required to be completed in each of the following items on a Marine Broker's Slip:
- i. Type
 - ii. Form
 - iii. Assured
 - iv. Period
 - v. Interest
 - vi. Sum Insured/Value
 - vii. Situation
 - viii. Conditions
 - ix. Premium and
 - x. Brokerage.

Solution

The following are what is required to be completed in each of the following items on a Marine Broker's Slip:

- i. **Type:** whether total loss, partial loss, all risk, etc
- ii. **Form:** the policy form to be used with appropriate clauses
- iii. **Assured:** name, address and/or business occupation
- iv. **Period:** the term of insurance
- v. **Interest:** subject matter e.g. hull, cargo or freight
- vi. **Sum Insured/Value:** the value of the subject matter
- vii. **Situation:** the trading area of the vessel or the voyage to be made
- viii. **Conditions:** usually a number of Institute Clauses e.g. Institute Cargo Clauses A, Institute War Clauses (Cargo), etc
- ix. **Premium:** the rate percentage of the sum(s) insured or value to be charged
- x. **Brokerage:** a percentage of total gross premium by Brokers which may or may not be varied by underwriters.
(3 marks for each correct explicit information stated under each term. Total: 30 marks)

18(a) How is facultative reinsurance used in Aviation market? (20 marks)

Solution

- This is generally an arrangement whereby reinsurance is on a risk basis as decided by the underwriter on the aspects he wishes to reinsure
- On an airline risk, the underwriter may choose to reinsure all aircraft with value above a certain amount
- The underwriter may also reinsure values below a certain amount in cases of small aircraft that he is not comfortable with
- The small aircraft may be offered to another reinsurer who may charge a loading or give a discount depending on his assessment of the specific risk
- The latter reinsurance is a non-original reinsurance where the underwriter has accepted a higher participation on the original desirable risk. He may reinsure the entire risk on original basis

- The premium will be a percentage of the original premium less a small over-rider
 - It has the advantage that the original underwriter can accept an otherwise desirable risk and reinsure out the part they wish not to retain
 - Its disadvantage is that it is cumbersome to place
- (4 marks for each fully correctly stated point. Maximum of 5 points to be graded. Total: 20 marks)

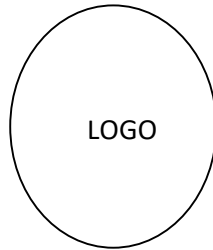
(b) How is an “Over-placed Slip” treated in Aviation Insurance? (10 marks)

Solution

An “over-placed slip” is treated in the following manner in aviation insurance:

- Upon discovering that the acceptances given by underwriters total up to more than the sum at risk i.e. the various percentages acceptances add up to more than 100%
- Each underwriter’s acceptance is therefore reduced proportionately to add up to 100% of the sum insured. The final percentage of each underwriter being known as “signed lines”.

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D17
OPERATIONAL MANAGEMENT**

- Three hours are allowed for this paper.
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CHARTERED INSURANCE INSTITUTE OF NIGERIA

D17 - OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

Summarized Report

Pass Rate:	17%
Highest Score:	86%
Lowest Score:	12%
Average Score:	33%

Breakdown Updates

Question 1

Question was fair and unambiguous. Candidates need to study harder. Three of the sixteen candidates fared very well.

Question 2

This question was better attempted. There was a 67% pass rate.

Question 3

This question was poorly attempted. There was a 33% pass rate.

Question 4

This question was fairly attempted. The pass rate was 50%. The question was fair and unambiguous.

Question 5

The question was poorly attempted although fair and explicit. Candidates need to study harder.

Question 6

Only one candidate passed this question out of the six who attempted it.

Question 7

There was an 83% pass rate. The question was popular and well attempted.

Question 8

Though question was popular, the performance was poor. The pass rate was 17%.

Question 9

There was a 50% pass rate. It was a fairly attempted question

Question 10

The question was poorly attempted; and the pass rate was 17%.

Question 11

The question was fairly attempted. Candidates relied more on personal experience over tutorial proscriptio/course-book contents. The candidates need to study harder.

Question 12

There was 0% pass rate on this. Without studying, question will appear unfriendly.

Question 13

It was a poorly attempted question. The pass rate was 33% pass rate.

Question 14

The question was fairly attempted. It also appeared popular enough for good performance.

Question 15

4 of the 6 candidates attempted the question. The pass rate was 25%.

Question 16

The question appeared unfriendly. Only two candidates attempted it with a 0% pass rate.

Question 17

There was a 0% pass rate for the three candidates that attempted the question. The question was fair and unambiguous.

Question 18

It was a fairly attempted question and the pass rate was fair.

Chief Examiner's Comments on Overall Performance:

There was a poor overall performance. The only candidate outside Lagos performed excellently well. There was no ground(s) for suspicion. Generally, candidates need to study harder as questions appeared direct enough.

Chief Examiner's Suggestions on Improvement:

None

Answer ALL questions in Part I.
Each question carries 10 marks.

1. Mention four (4) principal roles of the facilitator under facilitative leadership.
Solution

Four (4) principal roles of the facilitator under facilitative leadership are:

- **Teacher:** shows how things are done
- **Guide:** provides wise counsel and advice
- **Coach:** provides direct instruction to fine-tune individual performance
- **Leader:** leads by exemplifying the values of the organization and the team.
(2½ marks per point (1½ for the stated role; 1 mark for the explanation). Total: 10 marks)

2. Name five (5) barriers to effective communication in an organization.
Solution

Barriers to effective communication in an organization are:

- The problem of size
- The problem of time
- Natural reserve/fear/lack of confidence
- Training
- Knowledge
- Language Problem
- Inability to listen
- Grapevine
- Failure to recognise the need to tell
(2 marks per point. Maximum of 5 points to be graded. Total: 10 marks)

3. Mention four (4) methods a manager may communicate face-to-face with individuals.

Solution

Methods a manager may communicate face-to-face with individuals are:

- Walking the job/talk
- Coaching
- Counselling
- Operating an open-door policy
- To be visible

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

4. List five (5) key areas that business plans should cover.

Solution

Key areas that business plans should cover are:

- Setting objectives
- Creating appropriate organizational structure

- Agreeing and maintaining a consistent management style
- Agreeing on staff incentives
- Setting timelines and deadlines
- Allocating management duties
- Setting budgets
- Setting sales targets
- Identifying contingency plans

(2 marks per point. Maximum of 5 points to be graded. Total: 10 marks)

5. Call Centre Management is the ability to deliver quality service to customers. Mention four (4) component parts to the role of the “Call Centre Manager”.

Solution

Four (4) components parts to the role of the call centre manager are:

- Meeting the business strategic and budgeting requirements
- Ensuring delivery of excellent customer service
- Managing the call centre workload
- Managing the call centre people

(2½ marks per point. Total: 10 marks)

6. According to a research conducted by Henley Centre, customer expectations with regard to telephone service cover three (3) broad areas – convenience, cordiality and consistency. Mention the five (5) issues under “convenience” which is one of the broad areas.

Solution

The five (5) issues under “convenience: are:

- To be answered quickly
- To get through to someone who could help
- To be transferred only once, if at all
- To have no need to repeat themselves
- An informative queuing system

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

7. Mention five (5) recruitment sources that can be used to fill an existing vacancy.

Solution

Recruitment sources that can be used to fill an existing vacancy are:

- Graduate Recruitment
- Recruitment Agencies
- Advertising
- Selection Agencies
- Search Agencies
- Personnel Recommendations
- Internal Promotion

(2 marks per point. Maximum of 5 points to be graded. Total: 10 marks)

8. "Performance Appraisal Process" is broken down into four (4) distinct phases. Name them.

Solution

The four (4) distinct phases in performance appraisal process are:

- Assessing the individual
- Communication of the assessment
- Identifying training and developmental needs
- Setting objectives

(2½ marks for every correctly stated point. Total: 10 marks)

9. After the training of a staff, there should be a briefing session, between the trainee and his Manager, if training should be regarded as an investment. Identify five (5) areas the briefing should centre on.

Solution

After the training of a staff, the five (5) areas of briefing between the trainee and his Manager, if training should be regarded as an investment, that should be centred on are:

- what was learnt from the training program
- how the learning will improve performance
- what opportunities the trainee needs to enable performance
- what assistance the trainee will need and from who
- how the trainee and manager will measure how well the trainee puts his learning into practice

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

10. Influence is about getting people to listen to, respect and support you. Mention five (5) tactics that will help one succeed in influencing.

Solution

The tactics that will help succeed in influencing people are:

- understand the other person's point of view
- choose an approach that is appropriate to the situation
- show that your ideas will be of benefit to others
- demonstrate and assure people that you are not manipulating them
- endeavor to make people feel good
- appreciate other people's point of view and demonstrate that you understand them

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

11. What is stress? Briefly explain the three (3) stages of stress according to Dr. Hans Selye.

Solution

Stress is the reaction of the body to changes or threats as a result of external or internal pressures. (4 marks)

The three (3) stages of stress according to Dr. Hans Selye are:

- **Alarm:** i.e. the state of increased heart rate, sweating, shallow breathing
- **Resistance:** i.e. when the body prepares to resist the potential threats
- **Exhaustion:** i.e. where there is prolonged or excessive threat. This is a danger stage. Stress management approach will be required to bring the body back to normal.

(1 mark each for correct name of stage mentioned. 1 mark each for explaining per point. Total: 6 marks)

12. Briefly explain four (4) nature of the differences between conflicting parties while diagnosing the situation of conflict.

Solution

The four (4) nature of differences between conflicting parties while diagnosing the situation of conflict are:

- **Goals:** differences in what the parties would like to achieve
- **Methods:** differing views on the best methods to achieve the goals
- **Facts:** each party may have different facts or different perceptions of the same facts
- **Values:** sometimes differences are more deeply rooted in the beliefs and personalities of the parties.

(1½ marks for correctly stating the nature. 1 mark correct explanation. Total: 2 ½ marks per nature. Grand Total: 10 marks)

13. According to Kaplan and Norton, there are four (4) perspectives to Balanced Scorecards. Name the four (4) perspectives.

Solution

The four (4) perspectives to having a balanced scorecard according to Kaplan and Norton are:

- Financial Perspective
- Internal Perspective
- Customer Perspective
- Learning and Growth Perspective

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

14. Define “outsourcing”. Mention three (3) factors that motivate outsourcing.

Solution

Outsourcing is the **use of a skilled resource outside the company to handle work that was previously performed by an in-house staff.**

(1 mark each for the bolded phrases. Maximum of 4 bolded phrases to be graded. Total: 4 marks)

Three factors that motivate outsourcing are:

- The perceived cost benefits
- The access it provides to a wider skills base
- The need to survive the effects of fast-changing technology, narrow margins and fierce competition

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

Part II

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

Each question carries 30 marks.

15(a) Mention the eight (8) team roles of an effective team.

(8 marks)

Solution

The eight team roles of an effective team are:

- Coordinator
- Planner
- Implementer
- Team Worker
- Sharper
- Monitor Evaluator
- Resource Investigator
- Completer

(1 mark for each correctly stated point. Total: 8 marks)

(b) Group the roles mentioned in (a) above under “outward looking” and “inward looking” roles.

(2 marks)

Solution

Outward Looking

- Coordinator
- Planner
- Resource Investigator
- Shaper

Inward Looking

- * Implementer
- * Monitor Evaluator
- * Team Worker
- * Completer

(0.25 (i.e. 1/4) mark for each correctly stated point. Total: 2 marks)

(c) Discuss four (4) areas team meetings can support an effective team performance.

(20 marks)

Solution

The four (4) areas that team meetings can support effective team performances are:

- The Meeting Room:
 - Comfortable upright chairs and large table
 - Square, round or oval table rather than the rectangular tables
 - Flipcharts
 - Ensure there are no disturbances during meeting
- Maintaining Momentum

- Take short mid-breaks at regular intervals
- Use creativity techniques such as brainstorming
- Change the norm that people should sit down during meetings
- Have cold drinks available
- Use Outside Resources
 - Invite important user to attend your meetings
 - Invite outsiders when the team is trying to think of alternative ways
- Keep Meetings Short
 - Hold frequent short meetings rather than infrequent long ones
 - Set a time limit for the meeting and allocate time to each agenda
 - Appoint someone as timekeeper.

(3 marks each for correctly stating the areas. 1 mark for each point under each area. Maximum of 2 to be graded. Total: 5 marks per point. Grand Total: 20 marks)

16. Peter Drucker described objective setting as necessary to the successful achievement of organizational goals.

(a) Outline five (5) requirements for effective objective setting. (10 marks)

Solution

Five (5) requirements for effective objective setting are:

- Each job is directed towards the same organizational goals
- Each Manager's targeted performance must be derived from the organization's target
- Each Manager's results must be measured in terms of their contributions to the business as a whole
- Each Manager must know what their targets of performance are
- A Manager's superior must know what to demand from the Manager, and how to judge the Manager's performance

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

(b) State five (5) advantages of Management-by-Objective (MBO) and five (5) disadvantages. (20 marks)

Solution

Advantages of MBO are:

- Better managing through better planning and control
- Clarification of organisational goals
- A way of converting strategic plans into management action plans and budgets
- Coordination of individual targets into overall target ensures that each Manager knows what is expected of him/her
- It commits individual Managers to their targets
- Encourages better communication and coordination within the organization

- It helps to identify the needs for change
(2 marks for each correctly stated point. Maximum of 5 to be graded. Total: 10 marks)

Disadvantages of MBO are:

- Not effective if strategic plans have not been established
- Danger of inflexibility in objective settings
- Time consuming exercise that may not justify benefits
- Requires interpersonal skills to set objectives and manage performance of subordinates
- Emphasis on individual achievement as at the expense of team work.
(2 marks for each correctly stated point. Maximum of 5 to be graded. Total: 10 marks)

17. The concept of “quality phone call” can be defined as “what customers want” and “what customers do not want” during a phone call conversation. List five (5) elements under each of the two expectations. (10 marks)

Solution

What Customers Want	What Customers Do Not Want
To feel that the call is important/necessary	To receive “busy” signals
To be treated courteously	To be transferred around
To be listened to	To be placed “on hold” for too long
To be treated with empathy	To deal with poorly trained and ill-informed employee
To receive prompt action	To feel it is necessary to call back.
To be sure promises are kept	
To be satisfied after the call	

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

- (b) The induction training program for a new agent in a call centre is aimed at acquiring some basic skills needed to start work as a call centre reception agent. Mention ten (10) of those skills. (20 marks)

Solution

The following are the basic required skills of a new agent in a call centre during the induction program before eventually taking up the job:

- Company history and culture
- Call handling techniques
- Positive language
- Handling irate customers
- Product knowledge
- Processes
- Procedures

- Systems training
 - Managing work priorities
 - Using on-line database
 - Using on-line resources
 - Up-selling and
 - cross-selling
- (2 marks for each correctly stated point. Maximum of 10 to be graded. Total: 10 marks)

18(a) State the ten (10) stages of recruitment process showing how they follow step-by-step. (10 marks)

Solution

The ten (10) step-by-step stages of recruitment process are:

- 1st – Determine the Business Needs
- 2nd – Determine the job description, competencies and person specification
- 3rd – Decide Recruitment Sources
- 4th – Do screening
- 5th – Assessment of Applications/CVs
- 6th – Decide Interview Approach and Structure
- 7th – Interview and Selection Process
- 8th – Selection Decision
- 9th – Offer and Confirmation
- 10th – Evaluation

(½ mark for each correctly stated point. ½ mark for correct sequential number. Total: 2 marks per point. Grand Total: 10 marks)

(b) Mention seven (7) reasons why we carry out 'Job Analysis': (14 marks)

Solution

The seven (7) reasons why "job analysis" are carried out are to determine the:

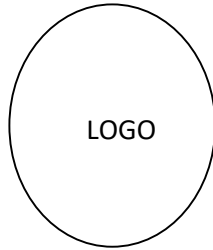
- skills needed for the job
 - knowledge requirements of the job
 - competencies required for the job
 - attributes of the successful candidate
 - requirements for retaining information
 - procedures within the job
 - task areas within the job
- (2 marks for each correctly stated point. Maximum of 7 to be graded. Total: 14 marks)

(c) Define "Competency" and "Job Description" to show the difference. State an example each. (6 marks)

Solution

The main difference between “competency” and “job description” is that a job description entails what activities a job holder gets involved in while the competency describe how individuals should behave in order that the job is done correctly. For example, part of the job description for a motor insurance underwriter is to determine the effective rate on all issued motor policies while for the same person, the applicable competency will be ability to use the Microsoft Office Suite software package.

(1½ marks for each explanation on the two words. 1½ marks on each cited example. Maximum of 1 example per word. Total: 6 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

**SUBJECT D18
PROPERTY CLAIMS HANDLING**

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA**D18 -PROPERTY CLAIMS HANDLING****INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

PART I

Summarized Report

Pass Rate: 51.53%

Highest Score: 76%

Lowest Score: 17%

Average Score: 47%

Breakdown Updates

Question 1

A part of this question "proximate cause" was well answered. Part B was misunderstood by almost all the candidates while part C was excellently answered.

Question 2

Majority of the students answered the question. However, it appears that most of them do not have a command of the academic answer to it. They answered obviously based on practice knowledge.

Question 3

This is a well attempted question. The candidates show a very resounding understanding of the question with resultant high marks.

Question 4

The candidates did not show enough understanding of the question. Hence, it was not very well answered.

Question 5

A well-attended question by the candidates but almost all the candidates got the question wrong. It is either the candidates did not understand the question or it was outright carelessness. Overall performance was poor.

Question 6

The general observation is that most of the candidates failed to study the course book and failed the question woefully except few.

Question 7

The question was popular with candidates and were well answered. Most obtained good grades.

Question 8

Many candidates did not understand this question especially the B part; some muddled up the answers for the two parts. B part recorded a generally poor performance. Some were not specific enough in answering the A part.

Question 9

A well-attended question with an average performance from the candidates. Performance was average.

Question 10

Majority of the candidates did not answer the question specifically. They were either explaining the Rehabilitation of Offender Act generally.

Question 11

This is a poorly answered question. The candidates could not define the role of proposal form in relation to offer and acceptance in the contract of insurance.

Question 12

Majority of the candidates attempted the question but sadly almost all the candidates got it wrong as majority of them went on to define non-disclosure instead. It was poorly attempted question.

Question 13

This was a very popular question which candidates scored good marks. Many scoring the whole examiner's mark. However, very few did not grasp it still. On the average, there was good performance.

Question 14

This was a straight forward question but responses from candidates vary. Performance was average.

Question 15

Candidates were tested on the consequences of breach of warranty, effect of the breach of conditions precedent and subsequent to contract as well as further action to be taken on each breach but the outcome was very poor as candidates lacked understanding of the question. Mark obtained were low.

Question 16

Safe for few, almost all the candidates answered this question. However, majority did not give the correct answer in part B while fair attempt was made on part A.

Question 17

A good number of the candidates avoided this question. Many had basic knowledge of part A. Part B was well answered and good marks were scored there. The examples were fairly known except for few people.

Question 18

Well answered question by almost all the candidates who attempted it.

Chief Examiner's Comments on Overall Performance:

Overall performance was above average. Candidates could have scored high marks if only they were dedicated and committed to their studies.

Chief Examiner's Suggestions on Improvement:

We suggest that the Institute should emphasise the importance of reading course-books and other approved materials to study before examinations. Poor performance has been traced to too much reliance on office practice rather than information and guide from the course books.

Answer ALL questions in Part I.
Each question carries 10 marks.

1. It was reported by one of your valued clients that his car has suffered a total loss. On enquiry, you discovered that the client (policyholder), in the process of invoking the common law duty placed on him to mitigate any loss that might occur, put the car in further danger.

What happened was that, on the day of the accident, a tanker spilled its combustible contents on the road, your client's car was at a distance from the actual spot but the spilled contents were advancing towards the car. In a bid to reduce the loss (if any), he switched off the ignition and started pushing the car to safety.

With help from bystanders, the car was successfully pushed to the other side of the road and out of the initial danger but unfortunately, an on-coming trailer rammed into it just as they were about to make final parking. Your client and his helpers survived by hair's breadth but the car was a total wreckage.

You are required to demonstrate your skills in claims handling by:

- (a) Defining "proximate cause" as found in the case of *Pawsey V. Scottish Union and National Insurance Company (1908)*. (6 marks)

Solution

Proximate cause was defined in *Pawsey v. Scottish Union and National Insurance Company (1908)* as: "the **active efficient cause** that **sets in motion** a **train of events** which brings about a result, **without the intervention** of any **force started and working independently** from a **new and independent source**".

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

- (b) How would you compensate the client (if any)? (3 marks)

Solution

The policyholder has lost his car and has therefore suffered a total loss. The remote cause was the spilled contents of the tanker. There was no intervention of any other force. The policyholder will be compensated, if the policy is comprehensive, based on the value of the car at the time of the accident, less applicable excess (if any). The policyholder may have nothing to collect from the insurer if the car in question is on third party but the policyholder is free to claim from the negligent third party who caused the loss.

(1 mark each for mentioning total loss, comprehensive cover and third party)

- (c) Did the policyholder act in accordance with policy conditions? (1 mark)

Solution

Yes (1 mark)

2. If a claim is found to be fraudulent, what should the insurer do to the claimant and the claim itself?

Solution

If a claim is found to be fraudulent, the following are permissible to be done, since fraud is a major issue for insurers and it must never be condoned:

- If a claim is fraudulent in any respect or fraudulent means were used by the policyholder, the entire claim and not just the fraudulent part, should be repudiated by the insurer
- The policy/cover should be cancelled
- Some insurers will also put the insurer on their “hotlist” for close monitoring and possible blacklisting

(5 marks each for any two correct points stated. Total of 2 points to be graded. Total: 10marks)

3. During claims processing, the claims handler would usually start examining the policy from the operative clause. State four (4) reasons why this is always the case.

Solution

Four (4) reasons why the claims handler would usually start examining the policy from the operative clause are:

- whether or not premium has been paid
- determine whether the damaged or destroyed property is/was one listed on the policy schedule
- determine whether the damage arose from a peril insured by the policy
- determine whether the loss occurred in line with the policy terms

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

- 4(a) Define Money laundering. (2 marks)

Solution

Money Laundering is the process whereby money obtained illegally is converted into “legitimate/clean” money.

(1 mark each for the bolded points. Total: 2 marks)

- (b) How can a person launder money? (4 marks)

Solution

A person can launder money as explained below:

- when a criminally minded person sets up a business with money sourced/ got from illegitimate means, probably insure such business against the risk of

“fire and special perils” and then set it on fire. The indemnification proceed will be legitimate thereafter and the money would come out as clean

- the criminally minded person can also buy a life assurance with a large single premium sourced/got from illegitimate means, then cancel it and request for a refund – almost immediately. The insurer pays and the money become legitimate.

(2 marks each for any two correct points stated. Total of 2 points to be graded. Total: 4marks)

(c) How is money laundering activity monitored? (4 marks)

Solution

Money Laundering activity is monitored by:

- The Police
- The Banks
- The Economic & Financial Crime Commission (EFCC)
- Insurance Companies
- Financial Regulators – CBN & NAICOM

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

5. How is indemnity by replacement advantageous to:

- i. The Policyholder
- ii. The Insurer.

Solution

Indemnity by replacement is advantageous as follows to the:

i. **Policyholder:**

- Saved the trouble of finding builders
- Saved the trouble of finding replacement
- Saved the trouble of paying for it until reimbursed by the policy
- Knows the likely amount to contribute to the replacement when he requests for an upgrade.

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

ii. **Insurer:**

- Enjoys the benefit of a substantial discount from the replacement vendor
- Repairs are restricted to the work required
- Work are undertaken at a reasonable cost

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

6. Identify the damage that can happen to the following and state whether or not such damage could arise from an insured peril:

- i. Window
- ii. Chimney
- iii. Frost
- iv. Gutter.

Solution

The damages that can happen to the following and the type of perils are:

i. Window:

- Damage by moisture
- Damage by water penetration
- Damage by corrosion

All the damages are NOT as a result of an insured perils.

(1/2 mark each. Total 2 marks)

ii. Chimney

- Damage by storm
- Damage by frost
- Damage by sulphate attack

Damage by storm is an insured peril

(1/2 mark each. Total 2 marks)

iii. Frost

- Damage by Freezing of Water Pipes
- Damage to pipes by wear and tear
- Damage by gradual deterioration

Damage by freezing is an insured peril while others are not

(1/2 mark each. Total 2 marks)

iv. Gutter

- Damage caused by fixing failure
- Damage rust because of poor painting
- Damage caused by deformation by strong sunlight

Storm can cause damage to gutter, therefore storm is an insured peril.

(1/2 mark each. Total 2 marks)

7. As a claim handler, you are always on the lookout for red-flags or triggers for fraudulent claims on any notified claim. Carefully enumerate ten (10) fraud indicators on your watch-list.

Solution

Red-flags or triggers for fraudulent claims on any notified claim are:

- Incident within first month or year of policy
- Incident immediately before renewal
- Notification following cancellation
- Claims before premium is paid
- Several claims within a short period
- Small claims followed by a large one
- Absence of policy history or details of previous insurance
- Delay in premium payment
- Non-disclosure of previous claims or conviction
- Unusual knowledge of cover
- Property only recently occupied
- Withdrawal of claims, e.t.c.

(1 mark each for correctly stated point. Total of 10 points to be graded. Total: 10marks)

8(a) List the various intermediaries that interact in the property market as far as insurance claims are concerned.

Solution

The various intermediaries that interact in the property market as far as insurance claims are concerned are:

- Insurance Brokers
- Lloyds' Brokers
- Independent Agents

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

(b) Apart from the traditional intermediaries, list five (5) other channels used in distributing insurance products.

Solution

Apart from the traditional intermediaries, five (5) other channels used in distributing insurance products are:

- Chemist
- Supermarkets
- Travel Agents
- Banks
- Stockbrokers
- Telcos
- Cooperatives
- Associations
- Schools

(1 mark for each correct answer. Maximum of 5 to be graded. Total: 5 marks)

9. Enumerate the Trade Associations in Nigeria Insurance Market Space.

Solution

The Trade Associations in Nigeria Insurance Market Space are:

- Nigeria Insurers Association (NIA)
- Professional Reinsurers Association of Nigeria (PRAN)
- Association of Registered Insurance Agents of Nigeria (ARIAN)
- Institute of Loss Adjusters of Nigeria (ILAN)
- Consumer Protection Council
- Nigerian Council of Registered Insurance Brokers (NCRIB)

(2 marks for each correct answer. Maximum of 5 to be graded. Total: 10 marks)

10. What is the relevance of the Rehabilitation of Offenders Act 1974 when a prospect is completing a proposal form?

Solution

The relevance of the Rehabilitation of Offenders Act 1974 when a prospect is completing a proposal form are:

- It provides that certain convictions need not be disclosed after a rehabilitation period following expired period on the offence
- It also requires the rehabilitated person not to provide any information regarding criminal history if not specific question was asked on the proposal form.

(5 marks for each correct answer. Total: 10 marks)

11. What is the difference between a blank proposal form given to a prospective policyholder and the completed proposal form returned by the prospective policyholder as regards legal principles of offer and acceptance?

Solution

The difference between a blank proposal form given to a prospective policyholder and the completed proposal form returned by the prospective policyholder as regards legal principles of offer and acceptance are that:

- A **blank proposal form is regarded as an invitation to treat and not as an offer**, while the **returned completed proposal form is regarded as the offer and not the acceptance**.

(5 marks for each correct answer (bolded above). Total: 10 marks)

12. Explain the effect of non-disclosure of material facts in a property insurance policy.

Solution

The effects of non-disclosure of material facts in a property insurance policy are that:

- It makes the policy voidable at the option of the aggrieved party i.e, it can be either insurer or insured
- The policy can be avoided by the insurer and treated as if it never came into effect
- Premium will/should be refunded to the policyholder by the insurer
- Claims already paid (to the policyholder will/should be refunded or returned to the insurer)

(2 marks for all correctly stated points. Maximum of each correct answer. Maximum of 5 to be graded. Total: 10 marks)

13. Enumerate four (4) types of average available in the property insurance market.

Solution

The four (4) types of average available in the property insurance market are:

- Pro-rata Average
- Reinstatement Average
- Day One Average
- Public Authorities Clause Average

(2½ marks for each point. Total: 10 marks)

14. State the contents in the schedule of a typical property insurance policy. (10 marks)

Solution

The contents in the schedule of a typical property insurance are:

- Name of the Insurer
- Address of the Insurer
- The Premises Covered
- The Perils Covered
- Sum Insured
- Any Excess or Franchise
- Period of Insurance
- Details of the Premium

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

Part II

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

Each question carries 30 marks.

15(a) Your policyholder manufactures cement. Some of the raw materials used are easily affected and destroyed by water or flood water. Part of the terms, conditions and warranties of the policy is that he must store raw materials in pallets or racks standing at 40cm above floor level. The manager of the biggest part of the policyholder's warehouse ignored this condition. A night of heavy rain ensued and flood water entered into the warehouse where the raw materials were kept, destroying the raw materials which became caked.

How would you handle the claim if and when reported? (20 marks)

Solution

As the claim personnel, I will handle the claim as follows:

- The policy was warranted to store raw materials on pellets above 40cm floor level
- This warranty was ignored by the biggest part of the warehouse, which led to a loss
- Since there was a breach of a warranty, all the claim resulting from the breach, should not, and will not, be entertained
- The claim/liability will be repudiated for non-compliance to warranty condition
- Since breach of warranty entitles insurers either to avoid the claim, or avoid the policy from the date of breach or from the inception date i.e. abinitio
- The final decision will be made by top management as required by regulation.

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

(b) Explain the effect of a breach of the following to an insurance claim:

- i. Condition Precedent to the Contract (2 marks)
- ii. Condition Subsequent to the Contract (2 marks)

Solution

i) The effect of a breach of a condition precedent to the contract, following an insurance claim, is that the insurer will avoid the policy abinitio i.e. from inception.

ii) The effect of a breach of a condition subsequent to the contract, following an insurance claim, is for the policy to remain in force except in respect of the particular item affected by the breach.

(c) What further action can be taken in respect of each breach stated in (b) above? (6 marks)

Solution

The further action that can be taken in respect of **the breach of a condition precedent to the contract is that the premium paid will be returned to the policyholder.**

While in respect of a **breach to a condition subsequent to the contract is that there will be no refund of premium.**

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

16(a) Explain the following terms used in property insurance:

- i. Tort
- ii. Contra Preferentum Rule
- iii. Ejustem Generis Rule. (15 marks)

Solution

i. **Tort:**

- Tort is a civil wrong. (2 marks)
- Tort or tortious liability arises from the breach of duty fixed by law. (1½ marks)
- It include negligence, nuisance, trespass and defamation. (1½ marks)

ii. **Contra Preferentum Rule**

- This rule says that in a case where the policy wordings are ambiguous, the ambiguity should be construed against the party that draw up the wordings (i.e. the insurer) in favour of the policyholder (3 marks)
- For example, if the insurer writes in the policy wording that excess is N10,000.00 or 10% (WIG) and at a claim occurrence of N850,000.00, the insurer now applies an excess of N85,000.00 with the insured contesting it back that the excess should be N10,000.00 as stated on the policy where-after the insurer then explains that the WIG means whichever is greater. If the insured does not agree but claim that he assumed the WIG meant a hair WIG which had no bearing to the insurance contract, the interpretation will be to the advantage of the policyholder (all other things being equal) (2 marks)
(Total: 5 marks)

iii. **Ejustem Generis Rule:**

- This applies when a list of items is encountered, some of which are specific and some of which are general unless specifically defined, the items of a collectible nature will be regarded as similar in character (3 marks)
- Majority of claims are likely to be specific items but there may be instances when usual items are included and it may be necessary to classify whether it was intended as part of the policy (2 marks - or if a correct example is stated, maximum of 2 marks can be awarded for this instead of the stated point here.)
(Total: 5 marks)

(b) Outline five (5) risks that form the exclusion clause in any standard property insurance policy. (15 marks)

Solution

The following are some risks that form the exclusion clause in any standard property insurance policy are:

- war risk
- terrorism
- sonic bangs
- radioactive contamination
- deliberate acts
- pollution and contamination.

(3 marks for each point. Maximum of 5 to be graded. Total: 15 marks)

17. Contribution arises when there is more than one policy or when there is an overlap in properties or perils covered.

- i. State concisely, the definition of contribution in property insurance. (5 marks)

Solution

Contribution in property insurance is the **term** used to describe the **situation that arise** when there is **more than one policy covering property or perils**, insurers will wish (and **to share the claim proportion in equitable proportion**).

(1 mark each for all bolded points. Total: 5 points)

- ii. What conditions are necessary, at common law, for contribution to apply in this regard? (10 marks)

Solution

The conditions necessary, at common law, for contribution to apply in property insurance are:

- there are two or more policies of indemnity at the date of the loss
- these policies cover a common insurable interest
- these policies cover a common peril which gives rise to the loss
- these policies cover a common subject matter
- each policy is liable for the loss arising

(2 marks each for all bolded points. Total: 10 points)

- iii. State any three complete example of how there could be contribution involving a common insurable interest. (15 marks)

Solution

Examples of how there could be contribution involving a common insurable interest are:

- under a worldwide all risk policy where there is also a home contents policy and the loss occurs at home

- under a household policy with an all risk extension and a motor policy with a personal effects extension if the loss is of personal effects from the car
- under a contents and a travel policy
- where a policy has been effected with one insurer at the behest of a mortgagee and the insured decides to effect a second policy with another insurer to cover the difference between the amount lent and the value of the property
- where partners have not realized that the other party has effected a policy and duplicate covers are arranged covering the same interests
- where holding and subsidiary companies effect insurances without realizing the other had done so. There could only be contribution at common law if the policy effected by the holding company is in the name of the subsidiary since different companies are separate legal entities.

(5 marks for each completely stated point or example. Maximum of 3 points to be graded. Total: 15 points)

18. A claim was reported by a policyholder. After receipt of the notification and during the claim adjustment, it was discovered that the said property was also insured by another insurer. Here are the details of the overlapping policies:

Your Company (XA)	₦110,000.00
The Other Company (WB)	₦125,000.00
Value at Risk (VAR)	₦130,000.00
Adjusted Loss:	₦108,000.00

Using the independent liability method, calculate what each insurer will contribute to each loss.

Solution

Using Independent Liability, the adjusted loss is the sum payable to the policyholder after all adjustments have been made.

$$\text{Independent Liability of Insurer (XA)} = \frac{\text{Sum Assured}}{\text{Value at Risk}} * \text{Adjusted loss} \quad (5 \text{ marks})$$

$$= \frac{110,000.00}{130,000.00} * 108,000.00 \quad (2 \text{ marks})$$

$$= 91,384.62 \text{ (approx. N91,385.00)} \quad (1 \text{ mark})$$

$$\text{Independent Liability of Insurer (WB)} = \frac{\text{Sum Assured}}{\text{Value at Risk}} * \text{Adjusted loss} \quad (5 \text{ marks})$$

$$\text{Value at Risk}$$

$$= \frac{125,000.00}{130,000.00} * 108,000.00 \quad (2 \text{ marks})$$

$$= 103,846.00. \quad (1 \text{ mark})$$

$$\text{Independent Liability of Both Insurers} = 91,385.00 + 103,846.00 \quad (2 \text{ marks})$$

$$= 195,231.00 \quad (2 \text{ marks})$$

$$\text{Therefore, policy XA pays} = \frac{\text{Independent Liability XA}}{\text{Total Independent Liability}} * \text{Adjusted Loss} \quad (2 \text{ marks})$$

$$= \frac{91,385.00}{195,231.00} * 108,000.00 \quad (1 \text{ mark})$$

$$= 50,553.00 \quad (1 \text{ mark})$$

$$\text{Therefore, policy WB pays} = \frac{\text{Independent Liability XA}}{\text{Total Independent Liability}} * \text{Adjusted Loss} \quad (2 \text{ marks})$$

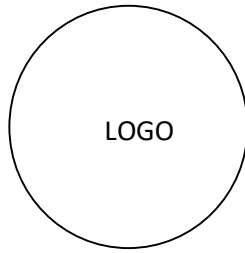
$$= \frac{103,846.00}{195,231.00} * 108,000.00 \quad (1 \text{ mark})$$

$$= 57,447.00 \quad (1 \text{ mark})$$

$$\text{Total paid by both policies: } 50,553.00 \quad (1 \text{ mark})$$

$$\frac{50,447.00}{108,000.00} \quad (1 \text{ mark})$$

(Total: 30marks - as shown above)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
DIPLOMA

OCTOBER 2018 EXAMINATION PAPER

SUBJECT D19
SUBSIDENCE CLAIMS HANDLING

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall. Failure to do this may result in your paper not being assessed and marked.

CHARTERED INSURANCE INSTITUTE OF NIGERIA**D19 - SUBSIDENCE CLAIMS HANDLING****INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Summarized Report

Pass Rate:	0%
Highest Score:	38%
Lowest Score:	38%
Average Score:	38%

Breakdown Updates

Question 1

The candidate understood the principle to which the question was intended to test. The points were well explained.

Question 2

The candidate did not actually understand the principle to which the question is intended to test. The explanation of the points was very poor.

Question 3

The candidate understood the principle to which the question was intended to test. The performance was okay.

Question 4

The candidate was able to mention the points but explanation on the points was poor.

Question 5

The candidate understood the principle to which the question was intended to test. The question was fairly answered.

Question 6

The candidate could not give explanation to the points required.

Question 7

The candidate did not attempt the question.

Question 8

The candidate maintained the points however he could not give proper explanation to justify his understanding of the question.

Question 9

The candidate did not attempt the question.

Question 10

The candidate did not understand the principle to which the question was intended to test. He failed to highlight the points and give proper explanation.

Question 11

The candidate understood the principle to which the question was intended to test, however explanation of points were bad. The candidate did not mention the Act that supported the question (Unfair Contract Term Act).

Question 12

The question was fairly answered by the candidate however the understanding of tort or nuisance was not properly explained. The general performance was fairly okay.

Question 13

The candidate did not attempt the question.

Question 14

The principle/practice to which the question was intended to test was fairly answered by the candidate, but the highlighted points were explained properly.

Question 15

The candidate did not attempt the question.

Question 16

The candidate did not attempt the question.

Question 17

The candidate did not understand the principle/practice to which the question was intended. The performance was bad and the candidate could not explain the points very well.

Question 18

The candidate could not mention the various methods by which insurers retain customers. Though few points were highlighted; the candidate could not give proper explanation.

Chief Examiner's Comments on Overall Performance:

None

Chief Examiner's Suggestions on Improvement:

The candidate need to study and prepare very well ahead of the examination. The performance indicate that the candidate need better understanding of the course.

D19 - SUBSIDENCE CLAIMS HANDLING

PART I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. Explain the role played by Adjusters in the process of handling subsidence claims.

Solution

Adjusters play the following role in subsidence claim handling process:

- i) they respond promptly to notification of claim
- ii) they advise whether cover exists under the policy or not
- iii) give customer reasonable guidance in the process of getting claim
- iv) give explanation as to why insurer refused to settle claim or why the settlement is not the amount claimed
- v) ensure prompt settlement of claim, once the amount is agreed

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

2. Explain the term “Rebuilding Cost Guarantee” which is usually incorporated in subsidence policy.

Solution

The “rebuilding cost guarantee” if incorporated in modern subsidence policy means that: **even if rebuilding costs exceed the sum insured, the full cost of repair will be paid at the time of claim, no deduction for wear and tear, provided the building are in good repair or the sum insured is not sufficient to allow complete rebuilding.**

(2 marks to any five bolded points above. Maximum of 5 points to be bolded. Total: 10 marks)

3. Describe the circumstance where loss of rent and alternative accommodation cover is granted under subsidence.

Solution

Loss of rent is granted under subsidence cover which relates to the period during which the property is rendered uninhabitable by either the damage or during repair or both cases. Similarly, **alternative accommodation cover is granted under subsidence policy** whilst the property is rendered uninhabitable as a result of damage covered under the policy and cover is limited to 20% of sum insured.

(5 marks each to the full explanation on each term. Total: 10 marks)

4. Explain the main key phrases in the life cycle of subsidence claim.

Solution

The key phases in the life cycle of subsidence claim are:

- i) notification
- ii) visit

- iii) appraisal
- iv) investigation
- v) mitigation
- vi) monitoring
- vii) repair

The insurer needs to give detailed explanation to the policyholder or the claim process, and what investigations involves, how data collated will be interpreted, the purpose of monitoring and scope of any remedial work will be determined. However, if the adjuster handling the property explain the reasons for the various stages, and the likely time span, and has good confidence of the policyholder, this will facilitate the claim smoothly.

(1 mark each of the stated phases. Sub-Total: 6 marks. 2 marks each for any explanation.
Maximum of two explanations to be graded. Sub-Total: 4 marks. Grand Total: 10 marks)

5. The investigation of “drain” involves at least two separate approaches. Explain briefly these approaches and what they should reveal after the inspection.

Solution

The two separate approaches are:

- i) Placement of CCTV camera down the drain with a video recording taken (**3 marks**). This approach will reveal any dislodged joints and cracks plug any tree root intrusion (**2 marks**).

(Total: 5 marks)

- ii) Water Volume Test (**3 marks**) i.e. the lower manhole is bunged and the rain filled with water; the level of water is then monitored for any reduction and this will indicate the length of drain under observation (**2 marks**).

(Total: 5 marks)

6. Explain the methods of monitoring in subsidence claim process.

Solution

The methods of monitoring in subsidence claim process are:

- Fitting of gauges across the principal cracks, and two such systems are, two plastic slips lying over each other with the end of each slip fitted side of crack
- Fitting of studs either side of crack, and being stuck, to the wall with adhesive.

(5 marks for each correctly explained method. Total: 10 marks)

7. Mention and explain four repair techniques carried out during reinstatement of damaged building in subsidence claim.

Solution

Four repair techniques carried out during reinstatement of damaged building in subsidence claim are:

- i) **Stitch Bonding:** building of brickwork as bond with the joints between the bricks staggered, and if any crack passes through the buckwork, this means the affected bucks can be cut out, and new brickwork toothed back in. this is referred to as stitching.
- ii) **Strapping:** this is an alternative way of re-uniting affected corners avoiding cutting into the walling is the provision of surface stainless steel straps.
- iii) **Bed Joint Reinforcement:** this is where bricks walls have cracked then an alternative method to stitching or resin bonding is the introduction of steel rods into the bed joints of the brickwork.
- iv) **Mass Concrete Underpinning:** this is the transfer of load of the building to a new depth unaffected by whatever caused the subsidence at the original bearing level.

(1½ marks for correctly stated techniques. 1 mark for explanation. Subtotal: 2½ marks per point.
Grand Total: 10 marks)

8. Describe the three areas of law in which a third party liability can arise for subsidence damage.

Solution

The three areas in which a third party liability can arise for subsidence claim are:

i) **Liability Under Statute:** e.g. Defective Premises Act. This is an Act of Parliament which places responsibility on a party, the breach of which causing loss gives rise to statutory liability for the loss. An example is a builder constructing a property for their client and where subsidence ensues due to the quality of the building

ii) **Liability Under Contract:** where there is a contract between two or more parties and there is a breach by one of the parties giving room for liabilities of the breach subject to a loss having been suffered. For instance, between a landlord and a tenant.

iii) **Liability under Tort:** this arises from a breach of duty by one party to another or others at common law. The determining factor is whether there is first a duty of care, secondly whether it has been breached and thirdly whether there has been loss in consequence.

(1 mark for introductory sentence. 1 mark for correctly stated area. 1 mark for correct explanation. 1 mark for correct example. Subtotal: 3 marks per stated area. Grand Total: 10 marks)

9. Explain the main provision of Defective Premises Act 1972 as it relates to subsidence claim handling.

Solution

The provision of Defective Premises Act 1972 states that a person taking on work on a house which may include alteration or enlargement has a duty to see that the

work is carried out in a proper manner so that the resultant dwelling is fit for human habitation. (3 marks)

Also, the duty also attach to the employer who commissioned the work (2 marks) and the duty is also owed to subsequent owners of the property (2 marks) subject to the normal limitation period of six (6) years from the date of work (1 mark).

However, if the work is defective and causes subsistence in the property which renders the property itself unfit for human habitation, subject to limitation, a case can be made against contractor/employer. (2 marks)

(Total: 10 marks)

10. Describe the provision of Misrepresentation Act, 1967, as it relates to ownership of property.

Solution

The provision of Misrepresentation Act 1967 states that a purchaser of property is deemed to take the property as they find it and this doctrine is known as *caveat emptor*. (4 marks)

However, a prudent purchaser accordingly can have a survey of the property undertaken prior to commitment to purchase. If a vendor conceals a defect so that it is not discoverable during survey, then the vendor has a legal liability to the purchaser. (3 marks)

The Act also states that a vendor cannot be liable to disclose defects, patents or latent of which they have no knowledge but if they do, and conceals it, they are liable. (3 marks)

11. Explain the circumstance in which the doctrine of caveat emptor is replaced by liability resting with the vendor and not the purchaser.

Solution

The circumstance in which the doctrine of caveat emptor is replaced by liability vesting with the vendor and not the vendor is:

- Under the Unfair Contract Term Act 1977: the vendor of a property is required by law to disclose to the purchaser the existence of any defects upon which the vendor has knowledge of. (3 marks)

However, if he fails to do so, or conceals the defect during negotiation of the contract, the vendor has misrepresented the position, and falsely induced the purchaser into the contract. (3 marks)

Therefore, under the Misrepresentation Act 1967, a statutory liability attaches to a vendor in such circumstances overruling the doctrine of caveat emptor. (4 marks)

(Total: 10 marks)

12. Explain the circumstance where subsidence claim is valid even where there is breach of tort of nuisance.

Solution

The circumstance where subsistence claim is valid where there is a breach of tort of nuisance is:

- Where there is negligence/nuisance and the surveyor fails to discover subsistence in a building during pre-survey. This constitute negligence to the purchaser and liability in tort.
- Also in a case of tree root trespass where damage is occasioned to a property. This constitute nuisance for which liability in tort arises.

(5 marks for mentioning any of the circumstance. 5 marks for explaining the mentioned circumstance. Only 1 circumstance should be graded. Total 10 marks)

13. How has the Latent Damage Act 1986 affected the historic position of limitation with regards to recoveries?

Solution

The Latent Damaged Act 1986 has affected the historic position of Limitation with regards to recoveries in the following ways:

- under the Limitation Act 1980, a party claiming off another has six (6) years to commence proceeding under contract or common law (5 marks)

however, if the contract is under seal, the party has twelve (12) years depending on when the damage came into existence. (5 marks)

(Total: 10 marks)

14. Mention the requirements attached to Insurers with regard to the recording of complaints in subsidence claim process.

Solution

The requirements attached to insurers regarding complain in subsistence claim process are:

- delays in progress
- lack of communication from insurer or appointed agents
- scope of work of the workers
- quality of the completed works.

(2½ marks each. Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. Explain in details the purpose and objective of site investigation in subsidence claim process.

Solution

The purpose and objective of site investigation in subsidence claim process are:

- assist in assessing the topography and tree locations of the area
- assist to show the drains and proximity to other property
- reveal whether the property is in a risky area for subsidence
- assist to gain confidence of the policyholder and put them at ease
- reveals the nature of damage, pattern of damage and reason for the damage; and consequent advise given to the policyholder for remedies
- identifies the nature of foundations and susceptibility of the ground to shrinkage or movement

(6 marks for each correctly stated point/explanation. Maximum of 5 to be graded. Total: 30 marks)

- 16(a) A builder has negligently constructed a house with an absence of foundation in one part that seven years later caused subsidence damage to the house. Give your advice, with explanation, whether a recovery can be brought against the builder. (20 marks)

Solution

In the circumstance of the case, the absence of foundations would constitute negligence (4 marks) and with a duty of care to the subsequent occupiers of the property (2 marks). However, a valid claim in this circumstance is subject to limitation against the builder (2 marks).

Since the damage, which is a latent damage, (2 marks) occurred after the expiration of the six (6) years limitation period (Limitation Act 1986), (2 marks) and the Latent Damage Act provides a further three (3) years beyond the normal limitation period of six (6) years (2 marks) from the Limitation Act 1986, then, the builder has a liability after seven years (2 marks) and can bring a recovery against the builder notwithstanding the seven (7) years (3 marks). That will be my advice (1 mark).

(Total: 20 marks)

- (b) Explain the options available to insurers for reinstatement in subsidence claim handling process. (10 marks)

Solution

The options available to insurers for reinstatement in subsistence claim handling process are:

- to monitor the repair
- to ensure that the foundation are standard
- to conduct the repair with acceptable stability
- where instability exists, then insurers are faced with options of regular visits and to effect superstructural repairs
- the insurers will also determine the extent of underpinning that is warranted - where one part of the building is subsided and has remained unstable, while the rest part of the building remain stable, then underpinning the whole building is not warranted under the policy
- insurers will therefore limit its liability to underpinning only the damaged portion of the property

(2 ½ marks for every correctly stated point. Maximum of 4 points to be graded. Total: 10 marks)

17(a) Define the following terms (using applicable critical terms as studied in the course):

- i. Reportable Complaint (6 marks)
- ii. Surge Plan under the ABI/CILA Protocol (6 marks)
- iii. Water Level Table. (6 marks)

Solution

- i. **Reportable Complaint:** is defined as an expression of dissatisfaction – oral or written, justified or not, for or on behalf of the policyholder (2 marks) which is alleged to have financial loss, material distress or inconvenience (2 marks) that is impossible to resolve within 24 hours (2 marks).
- ii. **Surge Plan under the ABI/CILA Protocol:** is defined as a written contingency (2 marks) plan reviewed annually (2 marks) detailing the extent to which service provision can be escalated (2 marks).
- iii. **Water Level Table:** is defined as the level whereby the natural water (1 mark) which usually lies within the ground (1 mark), having risen and fallen at various times of the year (2 marks) have reached a certain depth (and maintains this depth) (2 marks) whereby it can and is usually (or will be) found (1 mark).

(Sub-Total: 6 marks per point. Grand Total: 18 marks)

- (b) Complaints on a claim, leaving declination aside, mainly come up in respect of four (4) elements of the claim handling process. Briefly explain what these elements are. (12 marks)

Solution

Apart from declination, the following are elements of a subsistence claim that leads to complaints on a claim:

i) **Delays in Progress:** when the policyholder holds the view that notwithstanding the fact that subsidence claim takes long to process, that in this particular instance, there is a seeming unnecessary delay in the progress of the claim

ii) **lack of communication from the insurer or an appointed agent:** when the policyholder is not being daily and fully briefed on the scope of the claim adjustment

iii) **quality of the completed work:** where the policyholder is of the belief/opinion that the quality of the completed work falls below the acceptable standard with him/her

iv) **scope of the repair/work to be carried out:** when the policyholder is not in agreement with the scope of repair works or liability that the insurer have communicated will be carried out on the claim and is of the opinion that it should be wider or more.

(1½ marks each for correctly stated point; 1 mark for each correct explanation. Total: 2½ marks for each point. Grand Total: 10 marks)

18(a) Describe the method by which Insurers retain customers in subsidence claim handling process. (20 marks)

Solution

Insurers retain customer in subsistence claim handling process by:

- ensuring that customers claims are handled fairly and promptly making the customers to be well satisfied
- duly explaining to the customers in the event that a claim is declined the reasons why such claim is declined e.g. maybe it was discovered that the cause of damage is not covered by the policy after due investigation had been carried out. To retain customer confidence, insurers invest in the development of great interpersonal skills to explain the reasons for any such declination
- considering additional technical opinions before declining a claim in order to justify the reason for the declination
- ensuring that the lifecycle of a claim is rigidly monitored and kept to the barest minimum
- providing careful explanation to the policyholder throughout the claim duration.

(5 marks for each described method. Maximum of 4 points to be graded. Total: 20 marks)

- (b) Differentiate between claim handling process in Fire Insurance and in subsidence. (10 marks)

Solution

S/No	Subsistence Claim	Fire Claim
1	At the claim onset, the cause is not fully known or even suspected	Cause of loss is usually "suspected" and is classified as known at the onset
2	Scope of appropriate repairs is also not fully known initially	Scope of appropriate repairs are known at initial stages
3	Time scale for adjustment/investigation is hugely large	Time scale for adjustment/investigation is not hugely large
4	Claim adjustment is very closely monitored by the insurer	Claim adjustment is not usually very closely monitored by the insurer
5	Explanation is provided to the policyholder at each point of the claim	Explanation is provided to the policyholder after the claim adjustment

(1 mark for every correctly stated point. Maximum of 5 comparisons to be graded. Total: 10 marks)