



*Chartered Insurance  
Institute of Nigeria*

*Chief Examiners' Report*

*April 2018 Examination*

*Advanced Diploma in Insurance (A510 – A945)*

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

<p>SUBJECT A510 RISK, REGULATION AND CAPITAL ADEQUACY</p>
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INSTRUCTIONS

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

## CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A510 – Risk, Regulation and Capital Adequacy

## INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected	102 marks

You are advised to spend not more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

1. What are the characteristics of normal distribution?

**Solution No. 1**

The main features of the normal distribution are

- ✓ It is a theoretical distribution
- ✓ It is systematical
- ✓ The main lies at the point under the peak of the curve
- ✓ The two tails of the curve theoretical never torch the horizontal axis
- ✓ It is used in much of the statistical work concerned with sampling
- ✓ Specific areas deviations above and below the mean

2. Briefly identify and explain three (3) express conditions that an underwriter might apply to make a risk more manageable. Give examples.

**Solution No. 2**

There are a number of express conditions that an underwriter might apply to make a risk more manageable. Examples:

- ✓ **Deductible:** the insured is required an insured to play the first part of any claim. A deductible can be adjudged to be large express
- ✓ **WARRANTY:** A warranty requires an insured to do or not to do certain things and is often linked to a specific trade. A breach of warranty makes the policy voidable.

Exclusion: Most policies carry standard exclusion. E.g War risks, nuclear risk

3. Give your understanding of the following acronyms:

- (a) CIIN
- (b) NAICOM
- (c) NIA
- (d) EML
- (e) ILAN
- (f) NCRIB

**Solution No: 3**

The Acronyms means:

- a) Chartered insurance institute of Nigeria
- b) National insurance commission
- c) Nigeria insures Association
- d) Estimated maximum Loss
- e) Incurred but NOT REPORTED
- f) Arithmetic Means

4. From the following data, calculate the medium claim cost

Claim Cost	Frequency
100 - 149	15
150 - 199	22
200 - 249	26
250 - 299	48
300 - 349	38

**Solution No: 4**

	F	CF	
100 - 149	15	15	
150 - 199	22	37	
200 - 249	26	63	
250 - 299	48	111	- Median Class
300 - 349	38	149	

$$= Li + \left( \frac{\frac{N}{2} - F_1}{F_i} \right) C$$

$$= 250 + \left( \frac{\frac{149}{2} - 63}{48} \right) 49$$

$$= 250 + \left( \frac{74.5 - 63}{48} \right) 49$$

$$= 250 + \left(\frac{11.5}{48}\right)49$$

$$= 250 + (0.23958)49$$

$$= 250 + 11.74$$

$$= 261.74$$

Note: L1 = Lower Class Boundary of median class

N = Total number of items in the Data set

F1 = Summation of frequency before median Class

Fi = Frequency of the median class

C = median class size of interval

5. The amounts of fund needed by eleven (11) students studying insurance in a higher institutions in Nigeria are given below (₦)  
78, 76, 71, 73, 75, 3000, 7000, 69, 72, 78, 78

Find:

- (i) The Arithmetic mean.
- (ii) The Mode

**Solution No. 5**

- (iii) The arithmetic means for the Data means
- (iv) E.g.
- (v) i.e.  $78+76+71+73+75+3000+7000+69+72+78+78$
- (vi)  $=10,670$
- (vii)  $N = 11$
- (viii)  $= 10670/11 = 970$
- (ix) (ii) The mode is the data that appears the highest number of times in the array of Data.
- (x) In this case, the mode is 78

6. Explain the 'hard' and 'soft' risk control measures. Give two (2) examples of each in relation to public liability risks.

**Solution No. 6**

Hard risk control measure:

These are physical measures that alter the risk by physical means. Examples are Locks and Bolts, fire escape and safety goggles.

Soft risk control measure:

These are organizational and procedural measure that are aimed to ensure that people act in the appropriate way to reduce the risk. Example: safety committee, permits to work, security patrols, no smoking rules.

7. What is your understanding of MPL? What are the factors to be taken into consideration in arriving at EML of a particular risk?

**Solution No. 7**

Meaning of MPL OR EML

- MPL means Maximum Probable Loss
- EML Means Estimated Maximum Loss

This is the maximum that the risk survivors below will be subjected to of a loss

Factors taken into consideration are

- No Division
- Division with wall separating each unit
- Presence and absence of fire wall
- Impact of good features example: fire distinguish apparatus of various kinds.

8. List six (6) items which are regarded as Admissible Assets under the solvency margin rules.

**Solution No. 8**

Admissible assets under the solvency margin rules

- Cash and bank Balances

- Quoted investment at market value
- Unquoted stock at loss
- Land and building
- Furniture and fittings
- Office equipment
- Motor Vehicles
- Claims receivable
- Staff loans and advances
- Prepaid expenses map to member of staff.

## Part II

9. Melbourne Life Assurance Plc has analyzed proposals received in a month by age next birthday of proposers with the following results.

Age Next Birthday	No. of Proposers
20 - 29	2500
30 - 39	4000
40 - 49	2000
50 - 59	1250
60 - 65	250

- (a) Calculate the average age of the proposers.
- (b) Comment on whether you think this is a good estimate or not. Silver life Assurance claims that the ages next birthday of proposers as 30 years, a standard deviation of 11 years and median age of 35 years. Silver life Assurance claims that the ages next birthday of their proposers are less varied than those of Melbourne Life Assurance.
- (c) Do you agree with the claim? (Show your calculations)
- (d) Comment on the skewers of the distribution of Melbourne Life Assurance and Silver Life Assurance. Support your answers with appropriate working.

Note: (Please ignore half values at the midpoint)



### **Solution No: 9**

Students are expected to set up a table as follow

Age Net Birthday	Midpoint (X)	Frequency	FX	Fx <sup>2</sup>
20 – 29	24	2500	60,000	1,440,000
30 – 39	34	4000	136,000	4,624,000
40 – 49	44	2000	88,000	3,872,000
50 – 59	54	1250	67,500	3,645,000
60 – 65	62	250	15,500	961,000

$$(Fx^2 = X^2 \times FX)$$

(a) The average age of the proposer is equal to the mean of the proposers

That is

$$\begin{aligned}\text{Mean} &= \frac{\Sigma FX}{\Sigma F} = \frac{367000}{10,000} \\ &= 3,670\end{aligned}$$

(b) A mean calculated from group data can be quite reliable provided the intervals are fairly small. In this case, the group in interval is rather large but the mode, mean and median are in the same group interval and the estimate is probably quite good.

For Melbourne PLC

The deviation

=

$$\sqrt{\frac{\Sigma FX^2}{\Sigma F} - \frac{\Sigma FX^2}{\Sigma X}}$$

$$= \sqrt{\frac{14542000}{10,000} - \frac{13468900}{100,000}}$$

$$= \sqrt{107.31} = 10.36$$

The coefficient of variation

$$\frac{S.D}{Mean} \times 100$$
$$\frac{10.36}{36.70} \times 100\%$$

$$= 28.23$$

For silver life Assurance PLC

Coefficient of variation

$$\frac{S.D}{Mean} \times 100\%$$

$$= \frac{11}{30} \times 100\%$$

$$= 36.70$$

(c) The ages of proposers of silver life Assurances are infact more varied than the ages of proposer of Melbourne Assurance PLC. The claim by silver Assurance that the ages of their proposers are less varied than those of Melbourne is therefore not correct.

(d) As far as skewness is concerned, we shall use pearson's coefficient of skew  
Pearson's coefficient skew

$$\frac{3(\text{Mean} - \text{Median})}{\text{Standard Deviation}}$$

For Melbourne Assurance PLC

We shall take 5000<sup>th</sup> proposer which talk in the interval of 30 – 39 and is 2500 into interval

Median therefore

$$=$$
$$= \frac{2500}{4000} \times 10 + 29$$
$$= 35.25$$

Note E = 10 is the loss interval

29 is the preceding upper interval

Therefore coefficient of Skewness

$$\begin{aligned} &= \frac{3(36.70-35.25)}{10.36} \\ &= 0.420 \end{aligned}$$

For Silver Life Assurance PLC

Coefficient of Skewness

$$\begin{aligned} &= \frac{3(30-35)}{11} \\ &= \frac{-15}{11} \end{aligned}$$

$$= -1.346$$

Therefore Melbourne Assurance is fairly symmetrical but silver life is negatively skewed.

### **Part III**

- 10(a) Briefly explain the structure and administration of Risk Management. (14 marks)
- (b) Identify and explain briefly Insurance made compulsory in Nigeria. (10 marks)
- (c) Discuss the advantage and disadvantage of check list method of risk identification. (10 marks)

### **Solution No: 10 (a)**

The structure and administration could be discussed as follow:

- To be effective, the process needs commitment from the chief executive.
- An organization should have a risk management policy setting out its approach to risk and its management.
- The Board has responsibility for creating an appreciate environment and structure for risk management to operate effectively
- Business unit have the main responsibility for Day to Day management of risk.

- The risk management function which may range from a large department down to single person has an advisory coordination and reporting risk. It should not have the main responsibility for managing the risk.

**Solution No: 10 (b)**

Compulsory insurances in Nigeria: The insurance make compulsory by law in Nigeria are as follows.

- Third part insurance
- Public building insurance
- Buildings under construction

Professional indemnity insurance (insurance broker health care providers

Group life Assurance

Student should be able to explain and illustrate these with example:

- Motor Party Insurance: this lower risk of death of or boding injury to any person and damage to third party property.
- Building under construction: Any building of more than two floors under construction must be insured with an authorized insurance in respect of construction risk caused by negligence of the building or negligence of his servant, agents or consultant which may result in body injury or loss of life or damage to property of any workman or the site or of any member of the public.
- Public Building Insurance: Every public building must be insured with an authorized insurance against hazard of collapse, Fire, earthquake, storm and floor.
- Professional indemnity insurance: An insurance broking firm is to maintain a professional indemnity cover of not less than 10m or 15% of its annual brokage income for the preceding year to increase is greater
- Group life Assurance: Employer are to main life assurance policy in favour of their employers for a minimum of three times the annual total emolument of the employee

**Solution 10 (c)**

Advantage of check list as a method of risk identification

The basis intention of the check list is that a preform is sent to the site for completion by someone there. The check list acts as the source information about risk. It has to be carefully drawn.

#### Advantage

They can be a quick and effective mean by which risk are identified.

- The cost is kept very low, as people on site are doing the bulk of the work
- They allow for easy comparison of risk by year or by unit
- They can be adopted very easily to changes in the make-up of a business
- They encourage others to get involved in the job of risk identification

#### Disadvantage

- The information which comes to the risk identified is passive.
- There can be low response rate to the check lists
- The forms can contain ambiguities there questions and terms are misunderstood.
- The results may be unreliable.

11. Distinguish and describe three (3) main categories of liability insurance and specific risk control measures that can be applied to each category. (34 marks)

#### **Solution No: 11**

Liability risks are generally more difficult to control than those associated with property. This is because they may arise through the organization's many faceted relationship with employees, customers, intermediaries, suppliers and the public at large.

It is clearly impossible to eliminate liability risks entirely, but some of the measures highlighted below can significantly reduce the problem.

##### (1) Employer's liability risk control

This is centered on the subject of health and safety at work. It involves measures to protect employees from dangerous machinery, toxic chemical, dust, noise and the many other hazard that arise in the workplace. Some of the more common measure are: guarding machines and providing protective clothing. These and many other measures are specified by legislation.

Equally important are the supporting soft measures, such as clear lines of responsibility, safety training, regular inspections, safety committees and effective accident reporting. Since the most common of all industrial accidents are falls, one of the most effective risk control measures is simply good housekeeping.

(2) Public Liability risk control

The protection of members of the public who come into contact with the organization requires a similar approach to those highlighted under employer's liability-keeping them away from dangerous area, maintaining good housekeeping etc.

One area that does merit distinct consideration is that of environment pollution. Industry has polluted the air, water and land for centuries. Changing public attitude have led to more litigation and more legislation. Some hard measures include air filters and bonding for storage tanks. There is also a wide range of procedures such regular monitoring of emission, effective methods of removing toxic waste and contingency planning for when an event does occur.

(3) Product liability risk control

The move towards stricter liability for manufacturers for any injury or damage caused by their products has had an impact on product liability risk control. It has gone beyond quality control system designed to prevent faulty products getting into the market.

A manufacture must also consider how the product could be misused. The packaging and instruction leaflet could give rise to liability actions. Risk control needs to be considered at every stage of the design, manufacturing and marketing of products.

12(a) How do the characteristics of Fundamental risk differ from those Particular risks? Give relevant examples of each. (14 marks)

(b) Discuss the components which make up life assurance pricing. (20 marks)

**Solution No: 12**

(a) Fundamental Risk Characteristics

- They arise from causes outside the control of any individual or a group of individuals

- The effect of fundamental risk is felt by a large number of people.
- The examples are: earthquakes, floods, famine, volcanoes and other natural disasters.
- Social change, political intervention, terrorism and war are also example of fundamental risks.

#### Particular Risk Characteristics

- They are more personal in their cause and effect
- Examples are: fire, theft, work related injury and motor accidents.
- These risk arise from individual causes and affect individual in their consequences
- Risk is dynamic concept and particular classification of risk can move to fundamental. An example is unemployment.

(b) The components that make up life assurance pricing include:

- Mortality
- Expenses
- Investments
- Contingencies

Mortality is concerned with the risk of death. Actuarial table tell us the expected number of people in a group who will survive for give number of years.

Expenses the life assurer must also cover its expenses. Expenses include: salaries, office cost, provision of IT system and services, advertising and commission. These must be recovered.

Investments an estimate of investment income that will be generated in years to come is a major factor in determining premium.

Contingencies the final component of the premium is a form of reserve for unexpected contingencies. The contingency factor provides this safety margin.

13(a) Outline and give examples of the types of measures that might be used to control fire risk (24 marks)

Enumerate five (5) functions undertaken by the National Insurance Commission (NAICOM). (10 marks)

#### **Solution No: 13(a)**

Measures used to control fire risks

Fire resistance construction

- Structural protection against the spread of fire, once it has started, is critical for effective risk control.
- Buildings should be designed, and fire resistant materials used, to ensure that the main structure is not weakened by a fire.
- Any damage is limited to finishing that can be made good at a fraction of the cost of the building structure.
- The construction should confine a fire starting within a building to the originating compartment, and any fire starting outside the building from damaging the contents.
- Typical measures therefore include:
  - o The use of party walls;
  - o Fire resisting floor and roofs;
  - o Fire doors;
  - o Insulating linings
  - o The protection of stairwells.
- The degree of fire resistance should be related to the type and intensity of fire which may be expected from the nature of the occupation of the building and its surroundings.
- There are various relevant statutory requirements relating to building construction. These naturally concentrate on the safety of life rather than protection of property.
- These are broadly based on sufficient fire control for complete evacuation of the premises within, usually, only a few minutes.
- Maximum protection of the property itself requires much tougher standards and could demand the bricking up of party wall linings.
- Potential conflicts with the interests of the safety of life must then be resolved.

#### Fire extinguishing

- The key decision in fire extinguishment is whether to rely on hand-held equipment, or have some sort of automatic system.
- This will depend on the degree of risk.
- Manual firefighting may involve extinguishers, hose reels and hydrants (in ascending order of effectiveness, but also with each stage require more expert handling for the equipment. Extinguishers themselves may use water, foam, dry powder, vaporizing liquid or carbon dioxide.



- Automatic systems are very expensive, require careful maintenance and may well introduce new risks. The most common system is the sprinkler, where heads in the ceiling open automatically when exposed to fire. In areas where valuable equipment must be protected but could be damaged by water, an inert gas system might be considered. This in turn represents a risk of suffocation for the staff who work there.
- Automatic Fire Alarm  
Automatic alarms, such as smoke detectors, are designed to indicate the presence of fire as soon as an outbreak has occurred. They perform no role in extinguishing the fire, and their success depends on the efficiency of the fighting teams summoned.
- Soft measures  
There are many procedural measures that may form part of the fire risk control.  
These include:
  - Good housekeeping;
  - Regular maintenance of equipment;
  - Regular disposal of combustible waste;
  - No smoking rules;
  - Electric wiring inspections; and
  - Fire fighting training.

**Solution No: 13(b)**

Functions undertaken by the National Insurance Commission (NAICOM):

The functions include;

- To approve rates of insurance premiums to be paid in respect of all classes of insurance business;
- To approve rates of commission to be paid in respect of all classes of insurance business;
- To ensure adequate protection of strategic government assets and other properties;
- To regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria.
- To act as adviser to the federal Government on all insurance related matters;

- To approve standard, conditions and warranties applicable to all classes of insurance business;
- To protect insurance policyholders and beneficiaries and third parties to insurance contracts;
- To publish for sale and distribution to the public, annual report and statistics of the insurance industry;
- To contribute to the educational programme of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute.

14(a) Describe three (3) forms of data presentation now commonly used in Nigerian companies annual reports and accounts. What are the advantages of such forms of representation?

(b) The following table shows the production figures of a new insurance company by class during the first 3 years of operation (figures in ₦ million).

Class of Nigeria	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year
MOTOR	9	13.5	15
MARINE	18	20	21
FIRE	12	15	18
GENERAL ACCIDENT	13.5	16	16

Over three year period, total management expenses were given as ₦90m of this, ₦18m relates to accommodation and travelling while the expenses for each class of insurance is taken as being proportional to the total production in that class.

Using a pie chart, show the allocation of expenses over the three-year period, after subtracting the management expenses (including accommodation and travelling) on the four classes of business.

#### **Solution 14**

- a. Forms of Data Presentation.
  - i. Text Presentation.
  - ii. Tabular presentation.
  - iii. Diagrammatical Graphical presentation

## **TEXT**

This is the main method of conveying information as of it used to explain results and trends, and provide contextual information. Data are fundamentally presented in Paragraphs or sentences.

Text can be used to present data, provide interpretation and also emphasize certain data.

## **TABULAR PRESENTATION**

Tables convey information that has been converted into words or numbers in rows and columns.

Essential features of a table are:

- ✚ Title to give adequate information about it.
- ✚ Column and Row caption for identification.
- ✚ Source i.e origin of figures and
- ✚ Foot note: to give some details information of some figures in the table.

## **DIAGRAMATIC/GRAPHICAL PRESENTATION**

This involves the use of diagrams/graphs/charts to present information. It reflects the relationship, trend and compares' among variables presented. Furthermore, graphs simply complex information by using images and emphasizing data pattern or trends, and are useful for summarizing, exploring or exploring quantitative data. Examples of Diagrammatic graphical presentation include: Bar charts, pie charts, Histograms, olive, Pictograms etc.

### **Advantages of Text Presentation.**

- i. It is relatively causes to understand.
- ii. It is very good for emphasis.
- iii. It is relatively appropriate when Data to be presented are few.

### **Advantages of Tabular Presentation.**

- i. It can accurately present information that cannot be presented with a graph.
- ii. It can present information with different units together.
- iii. It is useful for summarizing and comparing quantitative information of different variables.

### **Advantages of Diagrammatic/ Graphical Presentation.**

- i. It is effective for presenting large amount of data.
- ii. It is flexible i.e can be used for both grouped and ungrouped data.

- iii. It is easier to identify trends and comprise is easier on a diagrammatic presentation.

B.

Class of operation	1 <sup>st</sup> yr	2 <sup>nd</sup> yr	3 <sup>rd</sup> yr	Total
Motor	9	13.5	15	37.5
Marine	18	20	21	59
Fire	12	15	18	45
General Accident	<u>13.5</u>	<u>16</u>	<u>16</u>	<u>45.5</u>
Total	52.5	64.5	70	187

Total management Expenses	90 million
Less Accommodation & Travels Expenses	<u>18 million.</u>
	<u>72 million</u>

Allocation of production Expenses based in insurance class operation class of operation.

**SOLUTION 14B**

Class of operation	1 <sup>st</sup> yr	2 <sup>nd</sup> yr	3 <sup>rd</sup> yr	Total
Motor	9	13.5	15	37.5
Marine	18	20	21	59
Fire	12	15	18	45
General Account	<u>13.5</u>	<u>16</u>	<u>16</u>	<u>45.5</u>
Total	52.5	64.5	70	187

Total management Expenses =	90 million
Less Acc. And Travelly Exp:	<u>18 million.</u>
	<u>72 million</u>

Allocation of production Expenses based on the incurable class.

Class of operation	Pre chart. proportion	ratio
Motor	$\frac{37.5 \times 360}{187}$	= 72.19
Marine	$\frac{59 \times 360}{187}$	= 113.58
Fire	$\frac{45 \times 360}{187}$	= 86.63
Lien. Accident	$\frac{45.5 \times 360}{187}$	= 87.60
Motor 72%	marine 113.58	

Gen. Acct 87.60                      fire 86.63  
PIE CHART OF the proportion of Management .\expenses Excluding  
Accommodation and Travels  
Expense over a period of 3yrs

**SUMMARY**

Pass Rate:                      47.9%

Highest Score:                84%

Lowest Score:                 12%

Average Score:               52.4%

**ADVANCED DIPLOMA**  
**APRIL 2018 EXAMINATION PAPER**

<p>SUBJECT A520 COMPANY AND CONTRACT LAW</p>
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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A520 – Company and Contract Law

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You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

1. What is Tort? Give an example of a situation where a wrong may be a breach of tort and contract.

### **SOLUTION TO QUESTION 1**

Tort is a breach of duty fixed by law to all persons, such breach give rise to a possible civil action by the victim of the tortfeasor's action.

It is a civil wrong not arising out of contract, the damages are usually liquidated i.e. not ascertained or fixed before the incident.

Example

Mr. A hires uber car and in the course of the journey the driver drove negligently which injures him he can sue either for tort of negligence or sue for breach of contract as the driver has a duty to carry him safely to his destination.

2. What are the remedies open to a beneficiary in the event of a breach of trust?

### **SOLUTION TO QUESTION 2**

The remedies open to a beneficiary in the event of breach of trust are as follows

- a. A personal action against the trustees.
  - b. A right of recovery of the trust property from any person into whose hands the property has passed or a right to sue in conversion if the trust property has been converted.
  - c. In certain situations the beneficiaries can institute criminal proceedings against the trustees.
3. Mr. Ben visited a store picked a handful of toiletries, approached the cashier and at the point of payment remembered he had no sufficient money, went back to his car to pick some money but before his arrival the cashier had sold the toiletries to another customer. Mr. Ben threatened to sue the supermarket. Is there a contract in place, if no, at what point will the situation crystallize into a contract? If yes give your reasons.

### **SOLUTION TO QUESTION 3**

A contract is yet to take place between both parties as consideration which is the money for the toiletries has not exchanged hands. A contract will take place at the point & payment for the goods

4. State the five (5) rules for Consideration.

### **SOLUTION TO QUESTION 4**

The five rules for consideration are;

- i. **Consideration must be Real or Genuine**



The courts will not enforce vague promises or ones which there is no real benefit or detriment at all – White V Bluett (1853).

- ii. Consideration need not be adequate though consideration must have some value, its general adequacy is irrelevant if one party makes a bad bargain the court will not step in to mend it.
- iii. **Consideration must not be Past**  
Consideration must be given for the promise which it supports there must be a causal connection between the two.
4. **Consideration must move from the Promisee to the Promisor**  
A person cannot enforce a promise even though it was made to him, if the consideration for which it was supplied was wholly by some other person.
5. What is Ultra Vires and which purpose does it set out to serve?

#### **SOLUTION TO QUESTION 5**

Ultra vires means beyond the powers as opposed to intra vires which is within the power.

Its purpose is to ensure the company does not act beyond the powers for which it was established.

6. What is Anticipatory breach?

#### **SOLUTION TO QUESTION 6**

It is a breach which takes place before the date for performance has arrived. e.g where a party indicate he may not be able to perform his part of the bargain before the date of performance.

7. What is an Unliquidated damages?

#### **SOLUTION TO QUESTION 7**

The action for breach of contract is usually an action for unliquidated damages i.e. the amount of damage to be considered is fixed by the courts i.e unspecified.

8. What is misfeasance?

#### **SOLUTION TO QUESTION 8**

Misfeasance is the wrongful acts not involving misapplication of funds or all wrongful acts in the nature of breach of trust e.g. giving a creditor fraudulent preference

## Part II

- 9(a) What is Frustration and what are the essential provisions of Law Reform (Frustrated Contracts) Act 1943.
- (b) State the conditions that must be met before contributions can arise.
- (c) Define Abandonment.
- (d) Name and explain the three (3) parties involved with a trust.

### **SOLUTION TO QUESTION 9**

- a. Frustration is an event which renders a contract incapable of performance e.g. death, illness in personal contracts. It automatically bring the contract to an end.

The essentials elements of Law reform (Frustrated contracts) act 1943.

- ✚ All sums paid before frustration can be recovered.
- ✚ Money payable before frustration ceases to be payable.
- ✚ A party may claim or retain from what he has already been paid reasonable sum for any expenses he has incurred before frustration.
- ✚ Where one party has conferred a benefit (other than money payment) on the other prior to frustration he may recover a reasonable sum in compensation.

The effect of the Act is to restore parties to their previous positions as far as possible

- b.
- i. Two or more policies of indemnity
  - ii. The policies cover a common interest.
  - iii. They cover a common peril which gave rise to the loss
  - iv. Cover a common subject matter
  - v. Each party must be liable for the loss.

The policies do not have to cover the same interests as perils or subject matter or insurance provided there is an overlap between one policy or another.

- c. Abandonment applies in marine in the event of constructive total loss the assured is entitled to abandon all rights in the subject matter to the assurer and claim for a total loss.

Constructive total loss in a situation where the property is not destroyed completely as in the case of a total loss but is as good lost as far as the insured is concerned e.g in case of a ship which runs aground on a sand bank and cannot be rebated.

- d.
- i. The settlor (or testator where the trust is made by will) He is the person who creates the trust.
  - ii. The Trustee – the party to whom the property is conveyed to be held on trust.

iii. The Beneficiaries – The party for whose benefit the property is held on trust.

However, it is possible for the same person to be either settlor or trustee & beneficiary

### Part III

10(a) When is a claim statute barred?

(b) State the three (3) instances when the limitation may be modified.

(c) What is Privity Contract support with a decided case?

### **SOLUTION TO QUESTION 10**

a. A claim made too late is statute barred.

✚ 3yrs for personal injuries or libel or slander

✚ 3yrs for most other tort actions (property damage claim)

✚ 12yrs on a specialty contract (deed)

Limitation of actions may be modified in the instances below:

b. Fraud / Mistake

Where action is based on fraud of the defendant time does not begin to run until the plaintiff has discovered the fraud or the mistake or could with reasonable diligence have discovered it.

✚ Plaintiffs who are under a disability where the injured party is under a disability e.g minor or unsound mind time does not run until the disability ceases or dies but if he falls victim after time has started to run, no extension of the limitation period.

✚ Acknowledgement or part payments of debts.

Such acknowledgement must be made within 6yrs period but when a right of action has accrued to recover a debt of fixed sum of money and the debtor acknowledges the claim or pays a part of the sum the limitation period begins anew from the date of acknowledgement or part payment.

c. Privity is a doctrine which captures the rights and duties created by a contract to the persons who originally made it. A contract between A & B cannot confer legally enforceable benefit on a third party & cannot impose any duty on the 3rd party. Dunlop V selfridge (1915)

11(a) Distinguish between a choose in action and choose in possession.

(b) What are the liabilities of the Agent to the principal?

(c) Bonnyface is the Agent of CIIN instructed to deliver Insurance textbooks to Ahmadu Bello University. On getting to Abuja, Fulani herdsmen blocked the road

and Bonnyface returned to Lagos and went through alternative route but incurred extra expenses to achieve the objective.

- (d) What is the position of the law on the extra expenses. Give reasons.

### **SOLUTION TO QUESTION 11**

- a. Chose in action – Is a valuable but intangible piece of property that cannot be physically seized but only enforced through an action in court. Whereas a chose in possession is a piece of tangible property which can be sized or physically controlled.
- b. Liability of the Agent to Principal
- i. **Liability in Tort**  
An agent may be liable to the principal in tort if he has acted negligently, what is negligent will be by reference to the degree of skill which the agent appears to have. If the agent has authority to collect money due to the principal and fails to remit same, he is liable to the principal in conversion.
  - ii. He is liable for breach warranty of authority if he purports to act where he has not be given authority he is liable to compensate the party to whom he contracts
  - iii. Liable for breach of contract
- c. The position of the law is that where the agent incur extra expenses in the performance of the agency duties. They have a right to be indemnified by the principal unless the agency agreement provides otherwise.

It is one of the two rights of the agents viz right to remuneration and right to indemnity.

- 12(a) What is Agency of Necessity?. State the features which must be present to establish the Agency.
- (b) State six (6) clauses found in the Memorandum of Association.
- (c) What is Reinstatement Memorandum?

### **SOLUTION TO QUESTION 12**

- a. An agency of necessity may arise if an agent is compelled by some emergency to exceed his authority, it is an extension of an existing agency relationship & a person without such a relationship cannot be an agent of necessity.

The following features must be present

- ✚ There must be a pre-existing agency relationship.

- ✚ It must have been impossible for the agent to communicate with his principal.
- ✚ The agent must show he acted in what he believed to be the principal's best interest.
- ✚ The situation called for immediate action to protect the principal's goods or property.

b. Six (6) Clauses In Memorandum Of Association

i. **Name of Company**

Any name may be chosen but subject to the following instructions

- End with Limited or Plc.
- No name which the CAC or DTI considered undesirable.

ii. **Registered Office**

The memo must state the location of the company.

iii. **Object of the Company**

The objects determine the power of the company. The company cannot do anything outside the powers given in the memorandum but the object can be altered by special resolution to enable the company to carry on business more efficiently.

iv. **Limitation of Liability**

The statement that the liability of members is limited by shares is usually inserted. This means limited by share and no member can be called upon to pay more than the nominal amount of his shares which remains unpaid.

v. **Capital Clause**

This states the amount of nominal capital, the number of shares and the amount of each share.

vi. **Association /Subscription Clause**

The subscribers declare that they must be formed into a company, it is followed by a tabular form which shows the names, addresses and description of subscribers together with numbers of shares taken by each.

c. **Reinstatement Memorandum**

This is a method of statement which provides the insured with an amount that has been calculated without deduction for wear, tear and depreciation. The insurers agreed to pay the full cost of reinstatement at the time of reinstatement.

It means the settlement includes indemnity + wear and tear + depreciation + effects of inflation between date of loss and eventual date of reinstatement.

13(a) Distinguish Remote causes from Concurrent causes.

(b) Is there any liability incurred when the sequence of a loss starting with an insured peril and an excepted peril joined the chain of events?

- (c) An insured who has a personal accident cover missed his step on the balcony and fell on the road sustaining fractures, lying critically ill and unable to get up, a negligent driver who was drunk ran over him and eventually killed him.

What is the proximate cause of death, support this with a decided case.

### **SOLUTION TO QUESTION 13**

a. **Remote Cause**

There are inactive and non-efficient causes associated with a loss as opposed to active, efficient causes an example will survive.

- It was war time
- A ship was hit by an enemy torpedo
- She badly holed and in danger of sinking.
- The master manage to reach the port
- Repair work was started
- a storm blew it up
- The ship was still in danger of sinking this risk being aggravated by the storm
- To save the harbour from being blocked by the ship if she sank the harbour master ordered her out of port.
- She succumbed to the storm outside port.

The danger of sinking had never been removed war was deemed to be the proximate cause-Leyland shipping company V , the storm is the remote cause.

a. **Concurrent causes**

There are situations where two causes which are independent of each other it may occur at the same time and each contributes to the loss e.g a fire may break out during a riot but independent of it.

- b. All the losses traceable to an insured peril will be covered up to the occurrence of the exception peril after which no losses will be covered.
- c. The proximate cause of the death is the fall from the balcony which resulted into fractures not the accident by the negligent driver Etherington V Lancashaire and Yorkshire accident Insurance (1909)

Mardof V Accident Insurance (1903)

- 14(a) State three (3) major differences between representation and warranties.
- (b) State five (5) duties of an Agent to his principal.
- (c) What is the difference between an Offer and a Counter Offer.

## **SOLUTION TO QUESTION 14**

### a. **Representation**

- Need only be substantially correct
- Allow repudiation only if a breach (misrepresentation) is material.
- Do not normally appear on the policy

### **Warranties**

- Must be strictly and literally complied with
- Give the right to repudiate on any breach
- Written into the policy except for implied warranties

### b. **Duties of Agent to his Principal**

- Due care and skill for that class of agent
- Personal performance to comply with delegatus non potest delegare
- Not to make secret profit, account to principal for all monies received
- Act in good faith, disclose all material facts
- Act according to the terms of his agency contract which may be oral, written or implied.

### c. **Difference between an Offer and Counter Offer**

An offer is a definite undertaking made by one party (offeror) to the other (offeree) which is capable of binding the offeror if he accepts it.

A Counter Offer is a variation or modification of the terms of the original offer, its effect is that it cancels the original offer – Hyde V Wrench (1840).

## **SUMMARY**

Pass Rate:	84%
Highest Score:	72%
Lowest Score:	30%
Average Score:	58.8%

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**APRIL 2018 EXAMINATION PAPER**

**SUBJECT A530  
BUSINESS AND ECONOMICS**

- Three hours are allowed for this paper, which is in two parts.
- Fill in the information requested on the answer booklet and on form B.
- Do not write on the question papers.

The answer booklet must be handed in personally by you to the invigilator before you leave the examination hall. Failure to do this may result in your paper not being marked and graded.



CHARTERED INSURANCE INSTITUTE OF NIGERIA

A530 – Business Economics

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer **ALL** questions in Part I and **four** (4) out of the six (6) questions in Part II

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

Part I	48 marks
Part II	152 marks

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

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 should cross through these notes before you hand in the booklet.

Answer each question on a new page. If a question has more than one (1) part, leave several lines blank after each part.

- Fill in the information requested on the answer booklet and on form B.
- The answer booklet **MUST BE HANDED IN PERSONALLY BY YOU** to the invigilator before you leave the examination Hall. **FAILURE TO COMPLY WITH THIS REGULATION MAY RESULT IN YOUR PAPER NOT BEING MARKED.**

1. State six (6) factors that can affect the demand for non-life insurance.

### **SOLUTION TO QUESTION 1**

Factors affecting the demand for non-life insurance are:

- + Price/premium charged
- + Mode of premium payment
- + Income of the insured
- + Taste and preference of the insured
- + Economic situation of the country
- + Product awareness (Advertising)
- + Legal requirement

- 2(a) Establish the links between shareholders' funds, sales and profits.
- (b) Mention three (3) ratios commonly used to analyze the performance of insurance companies.

### **SOLUTION TO QUESTION 2**

- a. Shareholders' funds are used for production of goods and services/ to buy equipment.  
The goods and services are sold.  
Profits are made from the sales of the produced goods and services
  - b. Ratios used in the insurance company are
    - + Claims ratio
    - + Expenses ratio
    - + Commissions ratio
    - + The solvency margin
    - + Return of shareholders' fund
    - + Operating ratio
3. Mention three (3) sources each of
    - (i) Short-term finance
    - (ii) Long-term finance

### **SOLUTION TO QUESTION 3**

- a. The sources of short-term
  - + Overdraft
  - + Trade credit
  - + Selling off surplus stock
  - + Selling fixed assets
  - + Encouraging debtors to pay
- b. The sources of long-term financial are:

- ✚ Long-term loans
- ✚ Debentures
- ✚ Share capital
- ✚ Retained profit

4. Explain the three (3) types of profit for an organisation.

**SOLUTION TO QUESTION 4**

- a. The three types of profit are
- ✚ Gross profit – centres around the sales and cost of sales
  - ✚ Operating profit – is gross profit less operating expenses
  - ✚ Net profit – is operating profit less tax and exceptional items.

5. Mention the three (3) types of budget a government can set.

**SOLUTION TO QUESTION 5**

- ✚ Balanced Budget
- ✚ Budget Deficit
- ✚ Budget Surplus

6. Aside from selling insurance, list six (6) reasons that an insurer might have for developing a website.

**SOLUTION TO QUESTION 6**

Reasons for developing a website by an insurance company

- ✚ Improving the image of the company
- ✚ Products and services are advertised.
- ✚ Gives education and enlighten about the company
- ✚ Give details about the company profit
- ✚ Performance of the company in terms of its operation can be published on the web.
- ✚ Comparison of the company's performance of the company over years can be known
- ✚ Performance of each season/dept. can be shown
- ✚ Performance of the company could be compared motion other companies

7. List six (6) core elements of Insurance Industry Code of Conduct.

**SOLUTION TO QUESTION 7**

CII code of conduct

All CII members should

- ✚ Behave with complete integrity in their professional life
- ✚ Comply with the law and with the best principles and practice relating to insurance

- ✚ Conduct themselves in a professional and honorable manner towards those with whom they are in contact in business life.
- ✚ Observe and apply the guide to good practice
- ✚ Give due and proper consideration to the requirement and interests of clients and respecting their confidentiality of information.
- ✚ Ensure that names of those who do not possess the professional qualification publish their names as so
- ✚ Ensure that they do not put the name of the Institute into disrepute.

8(a) State the importance of liquidity for the financial well-being of an insurance company. (2 marks)

(b)(i) What is meant by 'Gearing'? (2 marks)

(ii) What are the advantages and disadvantages of a high level of gearing? (2 marks)

### **SOLUTION TO QUESTION 8**

- a. An insurance company must have enough cash to pay creditors at the right time. If its liquidity is insufficient, it may not be able to pay its bills on time, which may lead to its being declared insolvent.
- b.i. Gearing indicates the extent of debt financing. A highly geared company has a lot of debt.
- ii. The higher the level of gearing, the more volatile the profitability of the company will be over time.

### **Part II**

**Answer FOUR (4) of the following SIX (6) questions.**

**Each question carries 38 marks.**

9(a) The function of an economic system is to provide solution to the basic economic problems of how to distribute limited resources to the unlimited human needs. Identify the three (3) types of economic systems and explain the characteristics of each system. (18 marks)

(b) In what way does the Nigeria Insurance industry contribute to the national economy? (20 marks)

## **SOLUTION TO QUESTION 9**

The three (3) economic systems are:

- i. Free market economy
- ii. Planned economy
- iii. Mixed economy

i. **Characteristics of Free Market**

- ✚ The resources used to produce goods and services are owned by private individuals.
- ✚ Factories are owned and run by entrepreneurs
- ✚ The entrepreneurs determine who hire and what to pay while individuals determine who to work for.
- ✚ Entrepreneurs produce goods and services for the society because they are motivated by the desire to make profit for themselves.
- ✚ Decision-making is decentralized.
- ✚ Consumers spend their income on goods and services. Access to goods and services is determined by individual ability to pay market prices.
- ✚ The market work best when there is competition.

ii. **Characteristics of the Planned Economy include**

- ✚ Factories are owned and run by the government
- ✚ Decisions are centrally planned.
- ✚ Prices within the planned economy are not determined by market forces. Instead, the government sets them from the centre i.e prices set by planners.

iii. **Characteristics of the Fixed Economy**

- ✚ There is the existence of natural monopolies
- ✚ Private sector are driven by profit motive
- ✚ A public sector exists for the "less-well-off"

b. Way by which insurance industry contributes to the national economy include:

- ✚ Insurance releases internal funds used for self-insurance.
- ✚ They invest premium funds in industry via equity or bonds, thus financing industrial production.
- ✚ They invest premium funds in government gifts, thus financing infrastructure within the economy.
- ✚ Insurance companies promote saving which again are invested in the stock markets and company bonds.
- ✚ They encourage entrepreneurs to take on the business risk and leave the insurable risk to insurance companies – risk transfer mechanism.
- ✚ The insurance transactions lead t both inflows and out-flows of money for the economy in the areas of:

- Premium paid
- Claims paid
- Investment in Assets
- Brokers commission

- 10(a) Explain the concept of 'Balance of Trade'. (5 marks)
- (b) Mention the main causes of current account deficit/surplus. (15 marks)
- (c) State the factors that affect a floating exchange rate. (12 marks)
- (d) Distinguish between Trade Surplus and Trade Deficit. (6 marks)

### **SOLUTION TO QUESTION 10**

- a. Balance of Trade measures how much the country is paying for international goods and services and how much it is earning abroad from selling Nigerian goods and services. The figure include all items, from an insurance policy to crude oil.
- b. the main causes of current account surpluses and deficits are:

#### **✚ International Competitiveness**

This is the most important factor that determines a country's balance of payment position. Countries that struggle to compete internationally trend the rum current account deficits. On the other hand, a country that has a strong and highly competitive economy may have a balance of payment surplus. Consumers have always sought to spend their incomes wisely seeking out products that give maximum value for money. When consumers have a choice firms that are uncompetitive will struggle. If foreign consumers find Nigeria products less appealing, our export earnings will fall. It import expenditure rises whilst export earnings fall, the balance of payments will move towards a deficit.

#### **✚ Exchange Rate**

The value of the naira can affect the international competitiveness. The high exchange rate of the naira will make import value high while export value low i.e. a high naira will lead to increased expenditure on imports and a balance of payments deficit.

#### **✚ Trade Cycle**

The position of the economy in its trade cycle can have a pronounced effect on the balance of payments position. During a recession, the balance of payment usually improves and the level of domestics demand falls- fewer people buy expensive consumer durables. Many of these durables are imported so the amount spent on imports in a recession will usually fall.

During a brown the reverse is true. During a brown the reverse is true. The high levels of domestic demand create a situation where expenditure in imports recreates e.g. Idoji Audred in the 1970s.

c. The factors that affect a floating exchange rate include:

- + Balance of payments
- + Difference in inflation rates between various countries
- + Interest rate differentials
- + Confidence in economic
- + Speculation levels
- + Amount of government intervention

d. Trade surplus implies running a current account surplus and it is an indication of running a wealth economy whereas a trade deficit is normally indicative of a weak economy.

If a country has a current account deficit its export income will be insufficient to pay for its import expenditure. Running a trade deficit reduces a country's long-term wealth.

Or

Trade surplus increases foreign assets or reduces foreign liabilities whereas Trade deficit decreases foreign assets or increases foreign liabilities.

11(a) Which organ is responsible for the election of Directors to the Board of Directors in a limited company? (2 marks)

(b) Distinguish between Executive Directors and Non-Executive Directors. (8 marks)

(c) Explain two (2) ways in which non-executive directors can contribute meaningfully to the success of the company (6 marks)

(d) Explain the three (3) broad types of organizing insurance companies. (12 marks)

(e) Identify jobs that are associated with Head Office or Regional office of an Insurance Company. (10 marks)

### **SOLUTION TO QUESTION 11**

- a. The shareholders are responsible for the election of Directors
- b. Executive Directors are full-time employees of the company. Each executive director is responsible for running a specific department or division within the company. Each can have input into any decisions made by the board.

Whereas a non-executive director is not an employee of the company. Instead, they tend to be seasoned managers who have valuable experience or contacts with other companies or organisation.

- c. Non-executive directors can contribute to the success of the company as follows:
- ✚ They should be able to contribute knowledge and experience from a wider area.
  - ✚ They can be a sharp independent external critics of the firm's management and its strategies, ensuring that the needs and requirements of the shareholders are never allowed to come second to the personal interests of the directors.
- d. The three (3) broad types of insurance companies are:
- ✚ A composite company an insurance company that can transact all or several of the major classes of insurance, including long-term businesses and general business.
  - ✚ A life-company is only able to transact long-term business.
  - ✚ A general insurance company-companies that are only able to transact general business.
- e. The job of those working in the head office or regional office include:
- ✚ To communicate strategies decided by the Board down to branch level
  - ✚ To set and monitor performance targets for the organisation at branch level
  - ✚ To make day –to-day operational decisions.
  - ✚ To provide the branches with support in the field e.g. training.
  - ✚ To achieve the objectives set down by the head or regional office
  - ✚ To collect performance data which are then communicated back up the hierarchy.

- 12(a) Explain the term Electronic Data Interchange (EDI). (4 marks)
- (b) List four (4) primary benefits of EDI (8 marks)
- (c) List and discuss five (5) areas of use of Information Technology in insurance marketing and distribution. (20 marks)
- (d) Give two (2) examples of network used in the insurance industry.



(2 marks)

- (e) For what types of industry is EDI most suitable? (4 marks)

**SOLUTION TO QUESTION 12**

- a. EDI involves the direct transfer of business data between the computer applications of two or more trading partners (e.g a Broker and an insurer).
- b. Primary benefits are:
- ✚ Increased speed of processing
  - ✚ Increased accuracy (no errors in re-keying data)
  - ✚ Reduced administration costs (since there is no human activity involved)
  - ✚ Improved customer service/due to all of the above.
- c. Area of use of IT in insurance marketing and distribution include
- ✚ **Decision free analysis:-** it is a quantitative technique which assesses alternative courses of action, whilst applying probability value to elements such as profit and sales. This the course of action leading to maximum profit or sales can be found.
  - ✚ **Modelling:-** Software exists to assess many combinations of constraints such as that where a given set of resources exists. This statistical technique can be applied to see how the best option scenario. This is a tool for us in say, assessing investment options.
  - ✚ **Trend Analysis:-** This is short-term quantitative statistical technique used for forecasting future activity based on the assumption that past trends will continue to apply to future business.
  - ✚ **Sales Trend/Analysis:-** the I.T can be used to analyses sales figures into various territories and do a cost/sales ratio analysis.
  - ✚ **Behavioural Analysis:-** An organisation can feed into its database details of past responses to initiatives to market key persons insurance to medium – size organisations. The details of a prospective client organisation can be entered and a report generated such as likely reactions to the service being offered.
  - ✚ **Return on Investment:-** Large insurance companies will seek to invest funds for profit, but must balance the decision to do so against likely returns on underwriting business. Computer analysis will provide a thorough report on the best option for a given period, taking into account as many variable and constraints as may be needed.
  - ✚ **Impact:-** If a new company invents a marketing slogan which is launched nationwide on radio and television a computer analysis will be able to report on the success of the new slogan by age group, region social-economic classification and so forth.
- d. Examples of network used insurance industry are:

- ✚ The London Insurance Market Network (LIMNET)
  - ✚ Reinsurance and Insurance Network (RINET)
- e. The type of industry for which EDI is most suited are those characterized by large volumes of routine business data which flows in predictable patterns between a relatively limited set of trading partners.

13(a) List the four (4) factors of production. (4 marks)

(b) Discuss fully the factors mentioned in (a) above in relevance to the insurance industry. (34 marks)

**SOLUTION TO QUESTION 13**

a. Factors of production are:

- ✚ Land
- ✚ Labour
- ✚ Capital
- ✚ Entrepreneurship

b. i. **Land:-** includes everything that is usually referred to as natural resources, including land itself. It also includes the other resources provided by nature that may be needed to produce a particular product or service.

For the insurance industry, the only land required is the physical space to build an office block. This can be very expensive as insurance companies are usually forced into locating in central business districts where land prices are high.

ii. **Labour:-** To produce goods and services, the economy requires a workforce. The amount of labour an economy has at its disposal is dependent on the following three (3) factors:

- ✚ The size of the population
- ✚ The proportion of the population that are of working age and
- ✚ The number of those of working age who wish to work.

Insurance is labour intensive when compared with manufacturing. Advances in information technology have reduced the demand for less skilled administrative labour demand for skilled underwriters and brokers remains high as ever.

Controlling wages costs is vital to any insurance company's

competitiveness as the labour intensive nature of the business means that wages represent a high proportion of total costs.

- iii. **Capital:-** as anything used in the production process that is man-made, capital can be machinery, tools, computers or even road.  
In Insurance, finances is acquired to purchase the following capital items
- ✚ An office block
  - ✚ Fixtures and fittings
  - ✚ Computers
  - ✚ Infrastructure
- iv. **Entrepreneurship:-** Land, Labour and capital all cost money. Entrepreneurs are individual who obtain the initial finance for setting up the business. They then organize production, coordinating the use of land, labour and capital within the production process so that output from a given resources input is maximized.

An entrepreneur is both a manager and a financier. In the insurance industry, there is a divorce between ownership and control. The insurance companies are owned by individuals or corporate bodies who provide the majority of the funds (finance) required for the underwriting services. The companies are run by managers appointed by the board of directors, who may not be involved in the administration of the company.

- 14(a) Explain the term 'Budget'. (4 marks)
- (b) State four (4) reasons for the preparation of a budget. (12 marks)
- (c) Identify the steps involved in the setting out of a budget for business purposes. (18 marks)
- (d) Explain in details what you understand by the term 'Variance' in relation to budgets. (4 marks)

#### **SOLUTIONS TO QUESTION 14**

- a. Budget is a plan expressed in financial or quantitative form. A budget is active in that it is something to be achieved. It will be prepared in advance of activity and will relate to a specific time period.
- b. Reasons for preparing budgets
- ✚ To provide a financial statement of objectives.
  - ✚ To identify claims upon and the availability of resources.
  - ✚ To reveal future risks, such as potential cash-flow problems.

- ✦ To provide a measure for actual performance.
  - ✦ To motivate staff to achieve budgeted objectives.
- c. Steps involved in budgeting
- ✦ Define objectives
  - ✦ Make specific employees responsible for the achievement of those objectives.
  - ✦ Determine the strategies and policies to ensure the achievement of objectives
  - ✦ Prepare the budget
  - ✦ Obtain approval for the budget and connect resources
  - ✦ Implement the strategies and
  - ✦ Conduct variance analysis this is a process of measuring actual performance against budget performance.
  - ✦ Draw up strategies and policies in the light of the results of the variance analysis
  - ✦ Adopt strategies to manage achievement of budget despite variances.
- d. A variance is the difference between actual and budgeted performance and must be expected unless the budget was remarkably accurate. The variance may be positive (budget exceeded) or negative budget not met)

**SUMMARY**

Pass Rate:	86%
Highest Score:	84%
Lowest Score:	23%
Average Score:	64.4%

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

SUBJECT A655 RISK MANAGEMENT
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INSTRUCTIONS

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

## CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A655 – Risk Management

## INSTRUCTIONS TO CANDIDATES

Three (3) hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three (3) out of the five (5) questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected	102 marks

You are advised to spend not more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

1. What is the difference between Speculative and Operational Risk?

### **SOLUTION 1**

Speculative Risk is where a director or manager chooses to place money or other resources at risk. The objective of using risk capital in this way would be to make profit or other gain. In doing so, that manager should consider, as part of the decision, what gain could be made and balance this with the 'downside' risk.

Operational risk is where something unplanned and unpleasant hits the organisation itself and causes damage or hurts its people.

2. What sources of information are available to the risk manager from within the organization?

### **SOLUTION 2**

- (a) Existing officials
- (b) Existing documents and
- (c) Material produced by the risk management department.

3. What are the dangers in using only a statistical analysis of risk?

### **SOLUTION 3**

This information is useful but provides only part of the picture. There is a possibility that the input data may be neither complete nor accurate. There are exposures also in that the historical data may not:

- Reflect how the organisation and its environment are currently changing
- Capture the way that loss experience in themselves may changes in the light of recent experiences; and
- Deal effectively with infrequent, possibly catastrophic risk.

4. What are the benefits of an organisation choosing to retain a level of risk?

### **SOLUTION 4**

- Saving risk management expenditure that may not be economic
- Saving the profit and administration costs that would be retained by an insurer
- Avoiding the wastage of administrative and control costs in continually recycling the same monies to and from the insurers.
- Cash is retained and used to produce value within the organization.
- Risk retention shows clearly the ownership risk, especially the ownership that lies in local and group managers. The "local" ownership of risk and its consequences often encourages greater care with an organization's liabilities and assets.

5. Do risk managers set out to remove all risks? Justify your view.

**SOLUTION 5**

No they set out to reduce the probability or severity of risk incidents down to a level that is commercially acceptable to the organization and its stakeholders.

6. What are the three (3) main headings of the "asset" of an organisation that may be at risk?

**SOLUTION 6**

- Human assets
- Physical assets including in all its forms and
- Intellectual assets.

7. How can poor quality products cause significant damage to an organisation?

**SOLUTION 7**

An impaired product may need to be recalled back to the factory for alteration or destruction. The process of recovering a large number of widely distributed products is in itself expensive and damage to relationships.

- Such a product recall can bring long-term damage to the confidence the public holds in the product and the brand name.
- A poor quality product may also cause bodily injury or illness to the consumers and could bring about litigation against the manufacturer.

8. What does the risk manager need to consider when looking at different risk financing options?

**SOLUTION 8**

The potential costs that may be faced within a defined time period

- Whether these estimates are the maximum probable losses or maximum possible losses
- The total possible cost of risk and separately the maximum potential cost of one single loss and
- When such losses would need to be funded.



## Part II

9. You are the Risk Manager of Ikeja Electric Delight. The Managing Director has requested that you address the entire management on how unexpected but damaging incidents can affect the company.

Write out your speech and in conclusion mention what your department is trying to achieve with risk controls.

### **SOLUTION 9**

Write out your speech and in conclusion mention what your department is trying to achieve with risk controls.

Candidate should present their answer in report form stating that Ikeja Electric can have such incidents as:

- Injury to or death to any category of workers
- Lost of revenue and cash flows
- Legal obligations to reimburse customers, staff and or third parties.
- Damage and loss of equipment, building, money and other form of assets/valuables.
- Harm to "off balance sheet assets" such as reputation, intellectual property, distribution and marketing systems.
- Loss of government support and creation of compelling agencies thereby causing shift in customer base.
- Planned programme may be force to stop
- Ability to continue operations as planned may also stop

What risk manager or the department is trying to achieve with risk controls are:

- Reduce the frequency of damaging incidents
- Reduce or remove the chances of targeted risk incident occurring at all
- Reduce or remove the extent of damage that may develop within one incident or over a period of time.
- Prepare beforehand so that an organization can respond quickly and effectively to a damaging incident.

## Part III

- 10(a) How can external threats change? Give five (5) examples.
- (b) Can organizations where there are no competitors for example, a local or national government department still have significant and immediate damage if service users lose confidence?

### **SOLUTION 10 A**

Any five of:

- Climates change year by year and progressively over longer periods
- Politics of countries change as do political attitudes to individuals social factors
- Losses experienced by others and the organization itself, change expectations and likely loss levels.
- Science evolves and brings new knowledge to risk scenarios. This knowledge can identify new threats. Science – especially medical science can reduce or raise the expectation of injury and other loss scenarios.
- Fashion change: items that are attractive to thieves will vary
- Law change, as do legal practices
- Regulators demand new standards
- Wars and civil wars may start, change gear or cease.

### **SOLUTION 10B**

Yes, The lack of confidence may harm relationships with the service user. They can become much more demanding of service and reassurances than usual. This will create additional work pressures.

They may for example have created a call centre or other form of electronic service delivery. If that fails, their people will revert wholesale to older methods of communication (e.g. the telephone, letter, or personal visit) the infrastructure to handle such large scale contact in these ways has most likely been removed during the move to electronic delivery. The chaos caused by such new large – scale demands ones that could not possibly be satisfied – may turn damage into a disaster.

11(a) What aspects of a risk incident can affect the amount of the resultant financial loss?

(b) What are the consequences of risk be transferred to another organisation by the rise of terms within contracts? Give examples.

### **SOLUTION 11A**

Monetary cost:

- The cost of replacing capital assets
- Loss of income, continuing costs and possibly increased costs whilst factories and other assets are being replaced.
- Timing of litigation and other necessary payments
- Repeated incidents within one accounting period
- Critically to the business of the amount of time needed to reinstate services and
- Administration costs and opportunity costs in the diversion of resources from mainstream operational needs.

### **SOLUTION 11B**

A lease for the use of property can establish whether the tenant remains responsible if the property is rendered unusable by fire or by another external cause.

- Delays in delivery of goods can cause financial penalty clauses to be invoked.
- One party may create an individual legal entity for the purpose of the contract in an attempt to limit liabilities and losses to that legal entity alone.
- A contract clause may define the ownership of intellectual property; a very useful classification whenever the relationship is terminated
- Payments may be demanded within a defined period and that credit and other insurance is arranged by one of the parties. A mortgagor, for example will demand that the building that is the security for the loan, is not only insured but that the insurance is endorsed to recognize their contractual interest.

12(a) What needs to be in place before land is said to be contaminated in law?

(b) What challenges can a risk manager face when trying to protect the good name of the organisation in the face of a major media attack?

### **SOLUTION 12A**

- A "pollutant"
- A "receptor" (e.g. human and other ecosystem such as rivers etc)
- A "pathway" between the two.

The "receptor" must suffer "significant harm" or there has to be a significant possibility of such harm being caused. Polluted land therefore may not fall within the Act if it is not possible for that pollution to spread elsewhere, i.e. there is no "pathway"

### **SOLUTION 12B**

The speed needed to respond

- Stopping misinformation (especially from own staff who may not be aware of the whole, or at latest, picture)
- Getting consistent information out to what is sometimes just a scrum of reporters.
- Ensuring that the spokesperson has the latest, trusted, information from within a fast developing situation.
- Providing a base of information that may be consistently valuable to a whole range of different audiences (and by necessity, stakeholders)
- Protecting sensitive information from a resourceful profession.

13(a) What would a risk manager be trying to achieve when establishing a continuity plan?

(b) What risks may an organisation consider to be killer risks?

### **SOLUTION 13A**

A fast, authorized and visible control of the incident and its aftermath.

- Damage containment as far as is possible
- Security and safety is reinstated
- Damage assessments are received with confidence and acted upon
- Financial and operational controls remain in place
- The brand value is protected
- Immediate responsibilities are met and
- The return to "business as usual" is accelerated.

### **13B**

- Brand Value and credibility
- Retention of the customer base
- IT and other facilities management that provides group – wide services
- Retention of an adequate skill base across the organization
- Regulatory and licence approvals
- Business control including financial controls and Solvency

14(a) When agreeing risk tolerance levels for the organisation's risk policy statement, why is there a need to be aware of minority shareholders?

(B) What factors, other than probability and severity could affect an organisation's decision to manage a risk?

### **SOLUTION 14A**

If a large organization feels able to accept a certain level of risk for its own retention it create a situation where the minority shareholders will by definition, be retaining a proportion of that risk themselves.

- The minority shareholder may have quite a different ability to absorb risk. Therefore, they will need to be aware of the potential impact on them and agree to their retention of their proportion of the next exposure.

### **14B**

- The risk of committing illegal acts
- Statutory or regulatory requirements and
- The managements own cultural approaches and preferences.

### **SUMMARY**

- Pass Rate: 6.0%
- Highest Score: 80%
- Lowest Score: 11%
- Average Score: 45.3%

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

SUBJECT A735 LIFE ASSURANCE
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**INSTRUCTIONS**

**Three hours are allowed for this paper, which is in three parts.**

Fill in the information requested on the answer booklet and on form B.

The answer booklet must be handed in personally by you to the invigilator before you leave the examination Hall. Failure to do this may result in your paper not being marked and graded.

**READ THE INSTRUCTIONS OVERLEAF CAREFULLY BEFORE ANSWERING ANY QUESTIONS.**

**CHARTERED INSURANCE INSTITUTE OF NIGERIA****A735 - Life Assurance****INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected from 5	102 marks

You are advised to spend not more than 45 minutes on Part I.

Where a question is split into part (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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

1. What is and the need for Reassurance of life assurance business?

**Solution 01**

The main reasons why life offices reassurance are for:

- The maintenance of financial stability and
- To meet the requirements of the National Insurance Commission (NAICOM) that adequate reassurance arrangement must be in force for both new and existing members

4 Marks

Other reasons are:

- Technical assistance by way of training
- Underwriting advise and
- Product development advice

2 Marks

2. Describe the features of a Guaranteed Annuity.

**Solutions 02**

A guaranteed Annuity is an immediate Annuity which is guaranteed for a minimum period regardless of when the annuitant dies

For example: an annuity guaranteed for 10years will be payable for ten years or for life whichever is longer. If the annuitant dies during the guaranteed period, the balance of the guaranteed installments will be payable to their estate or a commuted cash sum may be paid instead.

2 Marks.

3(a) State five (5) requirements that must be complied with for a life assurance contract to be legally valid.

(b) What form does 'Consideration' take in Life Assurance?

**SOLUTION 03**

a) The five (5) requirements are:

- Offer and Acceptance
- Consideration
- Capacity to contract
- Insurable Interest and
- Consensus adidem (Complete agreement of the mind)

b) Consideration takes the form of the premium payable.

(1 Mark each)

4. List three (3) circumstances in which Life office does not have to send a 'Cancellation Notice' when it issues policy to a customer.

**SOLUTION 04**

A cancellation Notice must be issued for all Life Assurance policies and Life Annuities except for:

- Term Assurance for less than 10 years or not running after 70 years where there are no conversion or extension options
- Conventional Income Protection Insurance
- Life Policies for 6 months or less.
- Policy holders usually resident outside U.K. but in another European Union (EU) area country.

(02 Marks)

5. How does a with Profit life policy work?

**SOLUTION 05**

Annually, a valuation is made of the life fund's assets and liabilities as a result of which a surplus may emerge. Some of this surplus is allocated to the with-profit policies in the form of bonuses thereby increasing the sum assured. There is also usually a terminal bonus payable on maturity or death claims.

(6 Marks)

6. What is a Settlement Trust?

**SOLUTION 06**

Settlement is a trust where there are succession of interests such as "to my wife for life and thereafter, our children in equal shares "

- The wife is the life **tenant** and is entitled to the income from the trust property, but cannot touch the capital.
- The children do not get their share of the capital until their mother dies.
- The term "settlor" is the name given to the person creating a settlement as well as the person creating a simple trust.

(06 Marks)

- 7(a) What does P.I.A. stand for?

- (b) State four (4) businesses regulated by P.I.A for products providers.

**SOLUTION 07**

- a) - P.I.A. means Personal Investment Authority



- It is self-regulatory organization (SRO) which regulates long-term Insurance business and unit- trusts.

(02 Marks)

b) The Investment business regulatory by P.IA. are:

- Life Assurance
- Unit Linked Income Protection Insurance
- Unit Trusts
- Annuities

(04 Marks)

8(a) Describe underwriting and state the benefits to the life office.

(b) State four (4) avocation or hobbies with higher risks of death.

### **SOLUTION 08**

- a) Underwriting is the process of assessing a proposal and deciding whether to accept the risk or not and if so, at what rates of premium.

The advantages to the life office include:

It ensures:

- (i) An equitable evaluation of a proposer
- (ii) Appropriate premium for cover provided is changed
- (iii) Insurer will be financially strong to fulfill its obligation to all stakeholders

b) Avocations or hobbies/sports with higher risk of death includes:

- Motor racing
- Mountaineering
- Boxing
- Diving
- Parachuting
- Hang-gliding

02 Marks

### **Part II**

9(a) Mr. Justus Musa Oguns, the owner of 'Shop Well', a multi million consumer goods store has approached you as the manager of a life office as to how to minimize his financial losses through the death of some of his customer on hire purchase arrangements.

- (i) What products will you recommend to Mr. Oguns.?
- (ii) Describe the features of the product recommended and

- (iii) State the documents that are usually required at the time of a death claim.
- (b) List five (5) main sets of circumstances that may require Life Assurance Policies.
- (c) Explain the features of Income Protection Insurance and State how it differs from Life Assurance Contract.

**SOLUTION 09a**

- 1) The Product recommended for Mr. Justus Musa Oguns circumstances is Group Credit Insurance

10 Marks

- 2) The Recommended Products features includes:
- Group Credit Insurance provides cover for an outstanding debts on the hires' or debtors' death
  - Premium are charged on the basis of a decreasing term assurance
  - Policy does not cover arrears of unpaid debt
  - Loan agreement's duration must not exceed 3 years
  - There is a limit of liability on any one life,
  - The Lenders (Mr. Oguns ) will be the policy holder and then pays the premium
  - The borrowers/ customers on hire purchases agreement are not party to the contract
  - The policy is suitable for hire purchase and credit sale of customer goods.
- 3) At the time of a claim, the life office requires the production of the death certificate of the debtor together with the credit agreement

**SOLUTION 09 b**

The main set of circumstances that requires Life Assurance policies includes:

- Premature death
- Education
- House Purchase
- Inheritance tax
- Savings for retirement
- Savings for investment
- Provision for pension
- Income in old age (Annuities)

- Terminal illness
- Critical illness
- Partnership

10 Marks

**SOLUTION 09C**

1) Basic Purpose: Cover against inability to earn income due to sickness or accident

Insured Event: Inability to work after the expiry of an agreed deferred period

Event must occur: before retirement age at which time cover will automatically cease

Surrender Value: Usually none, but sometimes available with unit linked permanent Health Insurance

Common Variations: Increasing benefits (unit linked) for as long as the insured keeps paying premium and complies with any relevant policy conditions, the insurer cannot cancel the policy or increase the premium no matter how many claims made. Income protection Insurance (IPI) is classified as a long term insurance under the FSMA 2000.

08 Marks

2) Income Protection Insurance (Permanent Health Insurance) differs from Life assurance in that it pays out only when the insured is unable to work due to illness or accident. It provides a regular income (usually monthly) when the insured may no longer be able to work normally,

The office is insuring a person's health rather than their life, whereas, life assurance pays out a lump sum at death of the policyholder

(07 Marks)

**Part III**

10(a) Explain Polarization, stating the legal differences between a company Representative and an Independent Financial Advisor (IFA).

(b) State four (4) categories of individual that can be appointed as company representative.

**SOLUTION 10**

a) Polarization requires that in order to sell or advise on life assurance, a person must be either a representative of life office or an independent intermediary.

- i) - No one individual can be a representative as well as an independent intermediary.
  - An independent intermediary can sell the contract of any company
  - The duty of a life office's representative is to choose the best contract for their clients from the company's range
  - Whereas, the independent intermediary has a duty to choose the best contract for their clients from all the companies in the market

10 Marks

- ii) The difference in the legal status is that:
- A company representative is the agent of his company whereas an independent intermediary is the agent of his client. He is also known as an independent financial Advisor (IFA).

4 Marks

- b) The (4) four categories of individual that can become company representatives include:
- An employee of the life office
  - A self-employed agent of the life office
  - An employee of an appointed representative
  - A self-employed agent of an appointed representative

11. The duty of the claims department of a life office is to pay valid claims efficiently and promptly.

- (a) State five (5) requirements that need to be available for claims payment.
- (b) What procedures are taken to settle a claim where the life assured has been declared to have disappeared?
- (c) Where the proposer of a life assurance contract is unable to provide an original Birth Certificate what alternative evidence of age may be acceptable and what evidence is required from a married woman or a widow.

### **SOLUTION 11**

- a) Valid claims payment under life assurance contract is subject to:
- Payment of all due premiums
  - Production of policy document
  - The claimant must produce proof of title
  - Proof of death in the case of death claim
  - Proof of age for death claim.
- b) Disappearance is not the same as death, hence life office is usually cautious about such a claim especially where no human body is found and no death certificate is issued.
- Death may be difficult to prove where the life assured died in an airliner that crashed into the sea unless through a written confirmation that the aircraft that crashed may be adduced as evidence
  - It is also possible for the claimant to apply to the court for an order presuming Death if life assured has disappeared and not found for 7year.

- The court must be satisfied that all necessary measures have been taken to check if the life assured was not alive
  - It may not be necessary to wait for 7 years before making a claim after the court has given them leave to swear to the death - presumption of death.
- c) The life office may accept copy of any of the following:
- Baptismal, adoption and naturalization certificate
  - School records if they contain evidence of age,
  - International travel passport
  - Statutory declaration of age,
  - A married woman must provide copy of her marriage certificate as further proof of identity
  - Any evidence of date of birth supplied must be the original copy
  - Photocopies are not acceptable.

09 Marks

- 12(a) What is IFA?
- (b) List ten (10) purposes for which computer can be used by IFAs.
- (c) State and comment on five (5) practices that are deemed unethical in business of insurance.

**SOLUTION 12**

- a) I. F.A – stands for Independent Financial Advisor example: Banks' Life Offices

04 Marks

- b) Computers are typically used by Independent Financial Advisors (IFA) to do some of the followings:
- Maintain a client data base
  - Produce quotations
  - Produce a range of standard Administration Letters
  - Keep tracks of commissions received from life offices
  - Produce sales figures for individual advisor
  - Produce and issue reasons why letters and execution only confirmations
  - Maintain training and competence records for advisors
  - Produce accounts
  - Produce management statistic and records
  - Administer staff wages and PAYE
  - Operate point of sale systems
  - No mailshots

- Operate E-mails

2 Marks each =20 marks

- c) Unethical practices in Insurance Include:
- i) Overselling: selling more insurance than the clients actually needed.
  - ii) Buy now whilst stock last: selling a product that is not really suitable with the hope of withdrawal in future
  - iii) Over-charging: fees being charged must be explained in advance to enable the client knows the total cost of services provided. E.g. Mortgage Fee.
  - iv) Churning: Arranging a new policy whereas an existing one could be used
  - v) Selling in disguise: Agents must explain clearly to the clients the real purpose of the product and or the call 10 Marks

13(a) Describe the procedure usually followed by the life office for the conduct of Medical examination.

(b) What are the rights of the Life Proposed under the Access of Medical Reports Act 1988.

(c) State the factors usually considered by the underwriter in medical examination.

### **SOLUTION 13**

- a) - Most life office has lists of Medical Doctors who are willing to carry out Medical examination requirements on purpose. One of the doctors in the proposer's area will be requested to conduct the medical examination
- The proposer will contact and book an appointment with the doctor who will then conduct the specified medical examination and complete the standardized medical examiner's reports
  - The first part of the report completed is based on the information given by the proposer. The second part is from the results of the medical texts.
  - The life office will pay the doctor's fee for medical examination.

12 Marks

b) i) the life office reserves the right to apply for the medical reports from the doctor who has attended to a proposer for life assurance.

ii) Under the Access to medical reports Act 1988, life proposer has the right to refuse to allow a life office to obtain report of medical tests conducted on him.

iii) The demerit of this right if exercised is that the life office would be unable to process and accept the application.

iv) If the proposer consents to the life office's request and the medical report is to be obtained, he can also indicate whether or not he would wish to see the report.

v) If the proposer does not wish to see the report, the doctor can then return it to the life office.

vi) The act allows the proposer to change his mind and request to see the report at any time within six (6) months and if the doctor has already forwarded the report to the life office, a copy of the report can be made available to the proposer within 21 days.

vii) if the proposer indicates at the onset that he wishes to see the medical report, this may delay processing the application since the doctor will need to give an appointment of 21 days to arranged to see it.

viii) The doctor is allowed to charge the proposer a fee to cover the cost of supplying the report

16

Marks.

c) The Factors are:

i) The size of the sum assured.

The larger the sum assured proposed, the higher the risk of loss.

ii) The age of the proposer at entry:

The mortality tables are based on the fact that the risk of death increases with age. Hence the higher the age of the proposer, the higher the premium.

iii) The information on the completed proposal form: may set the underwriter on enquiry for further opinion

06 Marks

14. A proposer aged 42 years requested for an Endowment Assurance with profit for a sum assured of two million, five hundred thousand naira (₦2,500,000). The underwriter has processed the duly completed proposal form and the relevant medical reports to reveal:

- Average Blood Pressure of systolic 190MMH over diastolic 120MMH.
- the class of extra mortality is 100% (Class 4)
- the rate of extra mortality is 9.14% (per mill)

(a) Calculate the Monetary Extra Premium payable.

(B) How does the Monetary Extra method of treating under average lives differ from the Debts or Lien method

### **SOLUTION 14**

- Age of Assured - 42 years
- Average Blood Pressure reading 190/120
- Matured Age: 60 years
- Term of years: 18 years
- Sum assured: ~~N~~2,500,000 (Two Million, Five Hundred Thousand)
- Class of Extra Mortality - 100% (Class 4)
- Rate of Extra Mortality - 9.14% (Per mill)

The Monetary Extra premium chargeable:

$$\frac{\text{Sum assured} \times \text{Rate of extra mortality}}{1000}$$

10 Marks

That is:  $\frac{2,500,000 \times 9.14}{1000} = 22,850$

Monetary Extra Premium chargeable = ~~N~~22,850

### **SOLUTION 14b**

#### Monetary Extra

The monetary extra is the extra premium expressed in terms of a specific amount over N1,000 sum assured.

The extra may be payable throughout the policy or only for a limited period, especially where the extra risk is heavy and immediate, e.g. Aviation (where the bulk of flying is done in the early years) or where the risk will decrease with time (e.g. cured tuberculosis)

#### DEBTS

Instead of increasing the premium by some form of monetary extra, a debt can be imposed on the sum assured where the proposer disagrees with the extra premium quote by the underwriter and wishes to proceed on ordinary premium.

- The usual type of debt is the decreasing type
- The debt is a deduction from the sum assured
- The sum assured is reduced by a percentage of debt (say 90) if death occurs in the first year of the policy and the debt further reducing by 10% per annum for 10 years.
- After 10 years, if the policy holder is alive, the sum assured will be payable in full.

### **SUMMARY**

Pass Rate:	32.5%
Highest Score:	85%
Lowest Score:	18%
Average Score:	54.7%



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

SUBJECT A745 PRINCIPLES OF PROPERTY INSURANCES
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**INSTRUCTIONS**

- Three (3) 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 papers.
- **The answer booklet must be handed in personally by you to the invigilator before you leave the examination Hall. Failure to do this may result in your paper not being marked and graded.**

**CHARTERED INSURANCE INSTITUTE OF NIGERIA****A745 - Principles of Property Insurances****INSTRUCTIONS TO CANDIDATES**

Three (3) hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II, and three (3) out of the five (5) questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected from 5	102 marks

You are advised to spend not more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

1. Explain the scope and nature of Professional Indemnity Insurance.

**SOLUTION 1**

1. Unlike general liability, professional indemnity insurance is not predominantly concerned with liability for bodily injury or damage to property, although these circumstances are rarely excluded from the policy cover. The policy is primarily intended to cover liability for financial or economic losses i.e. those losses unaccompanied by physical damage or bodily injury.

2. Describe briefly the two (2) main parties to a construction Contractor.

**SOLUTION 2**

The two main parties to a construction contract are the **EMPLOYER** who commissions the work, and the main **CONTRACTOR**. The main contractor will employ sub-contractors to do other areas of their specialization.

3. Explain the term 'Proximate Cause'.

**SOLUTION 3**

. Proximate Cause is:

- ✚ The active efficient cause
- ✚ Which sets in motion a chain of events
- ✚ Which brings about a result
- ✚ Without the intervention of any force starting and working independently from a new and independent source.

4. Name four (4) versions of the average (clause underinsurance) .

**SOLUTION 4**

- ✚ Pro rata average
- ✚ 85% reinstatement average
- ✚ First loss average (or declared value clause)
- ✚ Two conditions of average
- ✚ 75% condition of average
- ✚ Day one average.

5. What are the items covered under a combined policy?

**SOLUTION 5**

- ✚ Fire and Special Perils or "all risks"
- ✚ Business Interruption
- ✚ Theft
- ✚ Money
- ✚ Glass
- ✚ Liabilities.

6. Explain the following terms:
- (i) Gross Premium;
  - (ii) Net Premium;
  - (iv) Earned Premium.

**SOLUTION 6**

- a) Total of premium paid by the insured
- b) Gross premium less commission paid to intermediaries
- c) that proportion of the net premium which relates to the time which has elapsed from inception (or last renewal date) of policy currently in force, to the date which the earned premium is required to be calculated.

7. Explain the phrase 'Existing Structure'.

**SOLUTION 7**

"Existing Structures" refers to the employer's property already on site before the works commence. The exiting features are inextricably tied into the works and care must be taken in negotiating the contract works exclusion.

8. What is the 'Burning Cost' of an account for a class of business?

**SOLUTION 8**

$$\text{Burning Cost} = \frac{\text{Total of all claims paid in the class}}{\text{Total Sum insured written in that class}} * 100\%$$

**PART II**

- 9(a) Use the following information to calculate the loss payable following a recent fire incident in a Trading company.

Show all your workings.

- (i) Cover is written on a sum insured basis and a 12 months indemnity period. N1,500,000
  - (ii) Additional increase in cost of working item N220,000
  - (iii) Turnover in the last financial year prior to the loss N5,000,000
  - (iv) Gross profit in the last financial year prior to the loss N1,670,000
  - (v) Standard turnover N3,500,000
  - (vi) Turnover achieved during the indemnity period N2,700,000
  - (vii) Additional cost incurred during the indemnity period  
Which avoids N900,000 reduction in turnover N400,000
  - (viii) Savings made during the indemnity period N60,000
- (30 marks)

- (b) The following figures were supplied by an insured's Chief Financial Officer.

The policy is written in a standard sum insured basis and is based on a 12months maximum indemnity period.

The business is expected to grow by 10% next year and 15% the following year.

Inflation is thought to be in the region of 5%.

<u>Trading Account</u>			
	N		N
Opening Stock	400,000	Turnover	5,340,000
Opening WIP	200,000	Closing WIP	650,000
Purchases	3,000,000	Closing stock	357,000
Sub-contract cost	648,000		
Direct wages	826,000		
Power cost	147,000		
Packing materials	428,000		
Carriage	58,000		
Gross Profit	<u>640,000</u>		
	<u><u>6,347,000</u></u>		<u><u>6,347,000</u></u>

#### Profit and Loss Account

Salaries/Indirect wages	139,020	Gross Profit (from trading account)	640,000
Rent & rates	200,000	Discount	43,000
Advertising	25,000		
Postages/Telephone	12,000		
Lightening /Heating	22,000		
Insurance	24,000		
Bank Charges	9,000		
Net Profit	<u>251,980</u>		
	<u><u>683,000</u></u>		<u><u>683,000</u></u>

Determine the gross profit sum insured.

Show all your workings.

#### **SOLUTION 9**

- a) Rate of Gross Profit =  $\frac{GP}{\text{Turnover}} \times 100$   
 $= \frac{1,670,000.00}{2,500,000.00} \times 100$   
 $= 33.4\%$
- ii) Reduction in Turnover = Standard Turnover – Turnover Achieved  
 $= N3,500,000.00 - N2,700,000.00$   
 $= N800,000.00$   
 $= N800,000.00 \times 33.4\% = N267,200.00$
- iii) Increase in Cost of working Item  
 N400,000.00 increased costs which avoided a reduction in turnover of N900,000.00  
 Apply rate of gross profit to turnover avoided =  $N900,000.00 \times 33.4\% = N300,600.00$

iv) Adjusted Loss before the application of average

Reduction in turnover	N267,200.00
Increased Cost	<u>N300,600.00</u>
Sub-Total:	<u>N567,800.00</u>
Less Saving	N 60,000.00
Balance:	N507,800.00

v) Application of Average

$$= \frac{\text{Sum Insured}}{\text{Rate of Gross Profit} * \text{Annual Turnover}} * \text{Loss}$$

$$= \frac{1,500,000.00}{33.4\% * 5,000,000.00} * N507,800.00$$

$$= \frac{1,500,000.00}{1,670,000.00} * 507,800 = N456,108.00$$

vi) Application of the additional increase in the cost of working item.

Cost Incurred:	N400,000.00
Amount Covered	N300,600.00
Difference not Economical	N 99,400.00

vii) Total Adjusted Loss

$$N456,108.00 \text{ less } N99,400.00 = N555,508.00$$

b)

		Trading Account	
Opening Stock	N400,000.00	Turnover	N5,340,000.00
Opening W.I.P.	N200,000.00	Closing W.I.P.	N650,000.00
Uninsured Variable Cost:		Closing Cost	N357,000.00
ie. Purchases Less <b>DIC</b>			
ie. (N3,000,000.00 – 43,000.00)	N2,957,000.00		
Sub Contract Cost	N648,000.00		
Packaging Materials	N428,000.00		
Carriage	N58,000.00		
Gross Profit	N1,656,000.00		
	N6,347,000.00		N6,347,000.00

Therefore,

$$N1,656,000.00 + 10\% + 15\% + 5\% + 5\%$$

$$= N1,656,000.00 * 10\% = N1,821,600.00$$

$$N1,821,600.00 * 15\% = N2,094,840.00$$

$$N2,094,840.00 * 5\% = N2,199,582.00$$

$$N2,199,582.00 * 5\% = N2,309,561.00$$

### **PART III**

- 10(a) Explain what is meant by a First Loss Policy and identify what items it may be applied in property policy.
- (b) (i) What is a Floating or Blanket Policy?
- (ii) How are they used and what are the benefits to an insured?

### **SOLUTION 10**

10. a) A first loss policy is where an insured believes any loss they may incur from a given peril cannot amount to more than a small proportion of the value at risk. In essence, the sum insured is set at much smaller amount than the full value.

It applies to the following: Theft, Storm, Flood Impacts or Certain Fees.

The insured insures only for the maximum they believe could be at risk. But insurers charge higher rate than they would for a full value cover as the risk of paying out the sum insured is greater.

Insurers may use this type of policy to control open ended covers such as professional fees or property in a catastrophe perils areas such as earthquakes and then grant a discount to the Insured.

b)i) Floating and Blanket Policy is a term used to describe an insurance of stock which belongs to or is the responsibility of the Insured but which are at various locations. It is used where there is difficulty of ensuring the correct values of properties particularly where property are constantly moving from one site to the other e.g. stock.

Floating covers were originally designed for stock where one sum insured was given to apply over a number of premises.

Blanket cover is where one sum insured covers all buildings and another all machinery across premises. This is without identifying separate sums insured for each building or items of plants again per building.

ii) The benefit to the insured of insuring stock on a floating basis is that they do not have to monitor stock levels at each premises in order to prevent underinsurance. Provided that the overall sums insured is adequate.

Similarly, a blanket basis deals with the problems of fluctuating values for buildings and machinery across large sites by accepting one overall sum insured for each.

- 11(a) As an underwriter of repute, can you describe the extensions of cover that can be provided in a Contractors' All Risk (CAR) cover.

(B What are the major differences in cover between Contractors' All Risks Policy (CAR) and Erection All Risks Policy (EAR)?

## **SOLUTION 11**

- a) **Maintenance:** includes damage to the permanent works occurring during any maintenance or defective liability period.
- i) **Offsite Storage:** the cover provided is extended to include damage occurring whilst such property is temporarily held in a secured store, away from the contract site.
- ii) **Professional Fees:** including consulting engineers, architects or surveyors fees or other professional fees necessarily incurred in the reinstatement of the policy.
- iii) **Debris Removal:** including disposal, dismantling and demolition, sharing up or propping up, cleaning and repairing drains and service mains on site.
- iv) **Principal Clause:** insurance extends to indemnify any employer or principal
- v) **Public Authority**
- vi) **Escalator Clause**
- vii) **Constructional Plants, Tools and Equipments**
- viii) **Cover for Damage to hired in property** on the event of an insured loss, you are covered for the value of the property destroyed and continuing hiring charges
- ix) **Employees' Tools and Effects.**

b) The major difference between CAR and EAR policy is the Testing and Commissioning Items in an EAR Policy.

The Subject matter of a CAR policy is the civil structures, whereas an EAR policy deals with machinery roles which need to undergo testing and commissioning.

The risk of breakdown needs a specific consideration at the commissioning stage in view of the interaction of parts with one another.

Testing and Commissioning includes:

- ✚ Testing of various kinds, hydraulic electrical, mechanical, pneumatic
- ✚ Commissioning the initial operation
- ✚ Maintenance – rectification of any defects manifested during the maintenance period
- ✚ Staff training
- ✚ Construction of the completed works. Works may be undertaken during the construction phase and also during the phased handovers. Testing usually ceases when commercial operation begins.

12. A galvanizing iron sheet manufacturer has approached your broking outfit for an advice for their various insurance need. As a broker, what advice would you give for their insurance needs for full protection? They have a sprinkle red warehouse.

Discuss the various Property Insurance you would recommend.

## **SOLUTION 12**

### **Covers to be Recommended**



- ✚ **Fire and Special Perils Policy** will cover stock of raw materials and finished products, office contents, building comprising of the factory warehouses and offices.

The policy will cover fire, lightening, explosion, storm, tempest, flood and earthquake.

- ✚ **Sprinkler Leakage Insurance** since the factory is sprinkler protected, the cover is necessary or the fire policy may be so extended. The policy cover destruction or damage by water accidentally discharged or leaking from the sprinkler but not damage to the sprinkler itself.

- ✚ **Theft Insurance:** it provides cover for theft involving forcible and violent entry and exit. It will cover the content including damage to the building in an attempt to steal.

- ✚ **Engineering Insurance:** it will cover machinery breakdown due to damage to the plant and machinery the Insured uses arising out of collapse or explosion.

- ✚ **Glass Insurance:** if the office is the modern type having substandard area of glass, this cover will avoid serious potential loss.

- ✚ **GPA:** Group Personal Accident for the employee who may be injured or dies whilst on duty.

- ✚ **Group Life Assurance:** if the organization has more than five employees, there is need for a Group Life Cover for the employees. Courtesy of the Pension Reform Act 2017.

13. A broker has approached your company for the underwriting of a risk in the broking slip. As an underwriter of repute, give step by step approach you will take to underwrite the risk.

### **SOLUTION 13**

#### **Task of Risk Underwriting:**

- Identify the perils presented
- Check the general acceptability of the proposer and risk
- Identify the underwriting factors and estimated maximum loss
- Establish type of risk and acceptance limit for the class
- Utilize such automatic reinsurance as are available
- Identify the premium/rating factors for the risk
- Calculate terms
- Make an offer to the proposer/Broker

14. XYZ Insurance Plc insured a Non-Governmental Organisation (NGO) against fire. When the proposal form was being completed, the insured failed to disclose that there was a previous fire in the immediate vicinity of the insured property.

Do you consider the withheld information material to the contract? What advice do you have for the insurer who discovered the non-disclosure shortly after the policy has been issued?

What would be your position if after the discovery that the insurer continued to accept premiums from the insured?

### **SOLUTION 14**

#### **Material Facts Case**

- + Highlighting the importance of duty of disclosure
- + Explaining the phrase material facts
- + Stressing the consequences of non-disclosure of material facts
- + Non-disclosure of a previous fire is concealment of a material fact even though it might be unintentional
  
- + This renders the policy invalid i.e. XYZ Insurance Plc has the option of avoiding the contract
  
- + Since premium have been collected from the insured XYZ Plc cannot plead non-disclosure at the time of claim

#### **SUMMARY**

- + Pass Rate: 55%
- + Highest Score: 90%
- + Lowest Score: 17%
- + Average Score: 53.5%

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**APRIL 2018 EXAMINATION PAPER**

SUBJECT A755  
LIABILITY INSURANCE

**INSTRUCTIONS**

- Three (3) 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 papers.
- **The answer booklet must be handed in personally by you to the invigilator before you leave the examination Hall. Failure to do this may result in your paper not being marked and graded.**

## CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A755 - Liability Insurance

## INSTRUCTIONS TO CANDIDATES

Three (3) hours are allowed for this paper. You should answer **all** questions in Part I, the compulsory question in Part II and **three (3)** out of the five (5) questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected	102 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.

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

It is important to show all steps in a calculation, even if you have used a calculator.

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

1. Mention and Explain two (2) general defences to an action in Tort.

**SOLUTION 1**

General defences to an action in tort are:

- ✚ Inevitable accident
- ✚ Vis-Major – Act of God
- ✚ Violenti Non Fit Injuria
- ✚ Contributory Negligence
- ✚ Emergency/Necessity
- ✚ Remoteness of Damage
- ✚ Statutory Authority
- ✚ Accord and Satisfaction ETC

NOTE: Students are expected to explain any two (2) of their choice.

2. What is the significance of 'Arbitration' in the settlement of liability claims?

**SOLUTION 2**

Arbitration is intended to settle disputes that may arise between the Insurer and the Insured as regards claim settlement.

Arbitration condition requires such dispute to be referred to Arbitrators instead of legal proceedings.

Arbitrators are to deal with any dispute that may arise as to the quantum of a claim with the view to arrive at amicable settlement between the two parties.

3. What is the object of Public Liability Insurance?

**SOLUTION 3**

The object of public liability insurance is to indemnify the Insured for their legal liability to third party for bodily injury, death and damage to property arising in connection with the insured business and occurring during the period of insurance.

In addition, public liability policy provides indemnity against legal cost and expenses incurred in defending the claim on behalf of the Insured.

4. Explain the principles established by Headly Byrne V. Heller and Partner 1963.

**SOLUTION 4**

In Headley Byrne V. Heller and Partner (1963), it was established that duty of care is owed to avoid negligent misstatement and advice. The case further established that these will be liability for negligent advice or careless statement which result in financial loss.

5. Briefly explain what you understand by the following:
  - (a) Limitation of Actions
  - (b) Territorial Limit

## **SOLUTION 5**

Limitation of Actions: it imposes a time limit within which a plaintiff must bring his action and this is to avoid the court having to deal with stale claims where the parties memory of the events is vague and witness are reliable. It is also to safeguard the defendant from the problem associated with defending a claim based on an incident which occurred a long time ago.

b) Territorial Limit: territorial limit refers to the geographical area where cover granted by liability policies will operate. In United Kingdom for instance, territorial limit will stipulate that the bodily injury, death, illness, etc. must be sustained in Great Britain, Northern Ireland, Isle of Man or Channel Islands. In Nigeria on the other hand, liability policies issued will operate within the Federal Republic of Nigeria.

6. In relation to Employers' Liability Claims, explain what you understand by the following:
- (a) Total Temporary Disablement (TTD)
  - (b) Minimum Indemnity Limit

## **SOLUTION 6**

Total Temporary Disablement: this is one of the benefits of employer's liability insurance. An employee in the course of his/her duty may be involved in an accident resulting in bodily injury. The injury sustained may result in temporary disablement and could not attend to his/her usual occupation during the period of disability. For example, if the employee injury prevented him/her from his duty post for six weeks, then he/she has suffered temporary disablement and it is total. If he/she can attend to his/her duty partially during the same period, then it is partial temporary disablement.

- (B) Minimum Indemnity Limit: the Employer's Liability (compulsory insurance) Regulations 1998 came into force in 1999. Regulation No. 3 requires the minimum sum insured in respect of any claim by one or more employees arising out of one occurrence to be Five Million Pounds (GBP5million). This amount is inclusive of costs and expenses incurred in relation to any such claim

7. Mention and explain two (2) defences to an action in defamation.

## **SOLUTION 7**

Defences to an action in defamation are:

- ✚ Justification
- ✚ Consent
- ✚ Fair Comment
- ✚ Privilege
- ✚ Innocent Dissemination, etc

NOTE: Students are required to mention and explain any two (2) of the defences.

8. Blyth V. Birmingham Waterworks Co. 1856 is very significant in Negligence. Explain.

**SOLUTION 8**

Blyth V. Birmingham Waterworks Co. 1856 gave a classical definition of Negligence as follows: "

"negligence is the omission to do something which a reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs, would do, or the doing something which a prudent and reasonable man would not do".

NOTE: Students are required to know and recite the definition of negligence.

**Part II**

**Compulsory question.**

**This question carries 50 marks**

- 9(a) (i) What is the requirement of Employers' Liability (Compulsory Insurance) Act 1969. (10 marks)
- (ii) List the sources of liability of an employer to their employees. (5 marks)
- (b)(i) A public liability underwriter will review many factors before he/she will accept to underwrite the risk. Mention and explain five (5) of such factors. (10 marks)
- (ii) List five (5) exclusions of Public Liability Insurance. (5 marks)
- (iii) Give reasons why prompt notification of claims is important in liability insurance. (5 marks)
- (c) Briefly explain what you understand by the following:
- (i) Liability of an Hotel proprietor. (5 marks)
- (ii) Frequency and Severity of risk. (5 marks)
- (xi) Negligent Misstatement (5 marks)

**SOLUTION 9**

- a)i) The requirements of Employers' Liability (compulsory insurance) Act 1969 are:
- ✚ introduce compulsory insurance
  - ✚ all Employers are to insure their legal liability for bodily injury, death or disease of their employees

- ✦ the limit of liability must be at least two million pounds (GBP2million) any one occurrence
- ✦ certificate of insurance to be displayed at each place of work
- ✦ the policy must be issued by authorized insurers
- ✦ the policy must be "approve policy" not subject to any prohibition conditions
- ✦ some categories of employers e.g. nationalized industries, police authorities are exempted.

a)ii) Sources of liability of an employer to their employees are:

- ✦ personal negligence
- ✦ duty to select competent employees
- ✦ duty to provide and or maintain:
  - safe place of work
  - Safe and suitable plant
  - A safe system of work
- ✦ Vicarious liability for the negligence of fellow employees
- ✦ Breach of statutory duty.

b)i) A public liability underwriter will review many factors before accepting the risk. The factors are:

**The Insured:** it is important to know the insured i.e. the identity of the insured, the owners and the management. How the Company is structured, the makeup of the company i.e. partnership, limited or enterprises, with or without associated company. The date the insured commenced business may be important to determine their experience and competent.

**Occupation:** the occupation of the insured is very important to determine the level of their exposure to risk. The occupation shows how hazardous the business of the insured i.e. whether the business involve high, moderate or low risk. The occupation of the insured is a good factor in rating to determine the premium payable.

**Multi-Tenant Premises:** liability risk may be very high in multi-tenanted premises because of various business operations with various degrees of hazards. The risk of fire spreading is eminent and this increases the potential liability to third parties.

**Nature of Surrounding Property:** it is important for the liability underwriter to ascertain the business processes carrying on in the surrounding premises. The main risk to surrounding property is that of spreading fire and explosion. It is also important to ascertain the use or storage of flammable or explosive material in the surrounding property.

**Visitors:** visitors to the insured premises is very important underwriting factor. The extent to which visitors (third parties) will be on the premises and the parts of the premises to which they will have access need to be considered.



**Passers-by:** it is important to consider the potential liability for bodily injury to passers-by. This is possible in a construction site. Besides, where loading and unloading take place close to the public pavement, falling load can cause injury to pedestrians.

**Custody or Control of Property:** the insured may have property belonging to third parties in his/her custody and control. The nature of such property should be considered as this may increase the potential liability to third parties.

**Work Away Risk:** the operations of the insured away from their business premises should be considered. In work away, the employees of the insured are working in an environment over which the insured has no knowledge or control.

b)ii) Exclusions on public liability insurance includes the following:

- ✚ Injury to employees where cover is provided by an employers' liability policy
- ✚ Ownership, possession or use of motor vehicle
- ✚ Liability from advice given
- ✚ Damage to property of the insured
- ✚ Aircraft liability.

b)iii) **Importance of Prompt Notification of Claims are:**

- ✚ Enables the insurer to conduct investigation when the matter is fresh
- ✚ Enables insurer to get good information from an eye witness of the incidence
- ✚ It helps insurer to make adequate reserve for the claim
- ✚ It helps insurer to notify their reinsurers on time
- ✚ Enables early processing and settlement of the claim.

c) i) **Liability of an Hotel Proprietor:** at common law, Hotel Proprietor has a strict liability for the safety of his guest and their personal effects. This is contained in the Hotel Proprietor Act 1956. The Act imposes monetary limit of GBP50 for any one article of a guest up to an aggregate of GBP100. The Proprietor must display statutory notice of the Act in a conspicuous place in their premises.

c) ii) **Frequency and Severity of Risk:** Frequency is concerned with how often a given event will occur. Organizations are faced with many loss exposures. While some of the loss exposures occurs very often, some occurs occasionally. Severity is the impact which the occurrence or happening of an event will have on the Company. In other words, severity is the financial impact of an occurrence on the company.

c) iii) **Negligent Misstatement:** legal liability now attaches for negligent misstatement which results in financial loss. A person who gives advice whether verbal or in writing will be liable if another person relies or acts on the advice which results in financial loss, in Hedley Byrne V. Heller and Partners 1963, the court ruled that a duty of care is owed to avoid negligent misstatement and advice.

### Part III

Answer three (3) of the following five (5) questions.  
Each question carries 34 marks.

10(a) Professionals such as Architect, Engineer, Medical Doctor etc are exposed to various risks. Describe their risk exposures and explain how liability insurance could help them mitigate such risk exposures.

(20 marks)

(b) Some liability policies are issued subject to 'Premium Adjustment'.

(i) Mention two (2) of such policies.

(5 marks)

(ii) Explain why the premium charged on them are subject to adjustment.

(10 marks)

### SOLUTION 10

a) Professionals are exposed to many professional risks while practicing their profession. Such professional risks are error, omission, wrong advice, mistake, etc. a professional person is holding himself/herself out as an expert in their chosen profession and they owe duty of care to their clients to exercise that degree of skill and competence which is to be expected of a person in that particular profession. If they are found wanting in these things, they are open to a charge of professional negligence. When a professional person is guilty of professional negligence, they will be liable for legal liability to pay damages to persons who have sustained financial loss arising from their own professional negligence.

Professional Indemnity Insurance was designed to mitigate the risk exposure of people in professional practice. It is expected that a person or a company in professional practice will effect a professional indemnity insurance to protect them against professional negligence. Therefore, the purpose of professional indemnity insurance is to protect or indemnify the professional person against their legal liability to pay damages to third parties arising from their professional negligence. The policy will also cover the professional negligence of employees of the insured and his/her partners in the conduct of their business.

b)i) Liability policies that are issued subject to "premium adjustment" are:

- ✚ Employers' Liability Insurance
- ✚ Public Liability Insurance
- ✚ Product Liability Insurance
- ✚ Professional Indemnity Insurance.

b)ii) Premium Charged in these policies are subject to adjustment because the premium is based on "estimated figure" at inception. For example, the premium

charged on employers' liability and product liability is based on estimated annual earnings and estimated product turnover respectively from inception. Therefore, at expiring of the period of insurance, the insured is expected to make declaration of actual earning and product turnover and the initial premium will be adjusted accordingly. The premium adjustment may result in payment of additional premium by the insured or return of part of the initial premium by the insurer to the insured.

11. Write short notes on each of the followings:

- (a) Product Recall Insurance.
- (b) Inevitable accident.
- (c) Bailee.
- (d) Date of Knowledge in Personal Injury.
- (e) Fair Comment.

(7 marks each)

### **SOLUTION 11**

a) **Product Recall Insurance Policy:** a product liability policy may be extended to cover recalling of product already put on the market.

After the product has been put on to the market, it may be discovered that it has a dangerous fault. It may be necessary to withdraw the product from the market completely and replace it or to recall it to have the fault or defect corrected. Insurance of product recall covers the expenses incurred by a supplier in recalling the product or arranging its destruction.

b) **Inevitable Accident:** this is one of the defences to actions in tort most of which relate to negligence. In a case of negligence, which resulted to bodily injury or death, the defendant's act may be seen as inevitable i.e. he/she could not be faulted and hence liability does not attach. This was the decision in *Stanley V. Powel* 1891.

c) **Bailees:** bailee is a person who has custody of the property of another on the understanding that it is to be eventually returned to that person. Examples of bailees are pawnbroker, drycleaner, motor mechanic (motor garage proprietor). Bailees owe duty of care to owner of property in their care and they may be liable for loss or damage of property in their custody.

d) **Date of Knowledge in Personal Injury:** the law imposed a time limit within which a plaintiff must bring his action. This is to avoid the courts having to deal with stale claims. These rules are now contained in the Limitation Act 1980. Section II of the Limitation Act provides that the limitation period for actions which include damages for personal injury is three (3) years from:

- ✚ the date at which the cause of action accrued or
- ✚ the date of knowledge.

The concept of date of knowledge was introduced to deal with cases of latent injury or disease where the plaintiff has no knowledge of his/her injury until sometime after the incident occurred.

Section 14 of the Act defines date of knowledge as the date on which he/she first had knowledge of the injury and the identity of the defendant.

e) **Fair Comment:** this is one of the defences to an action in defamation, this defence is very popular with newspapers which consists of the argument that the defamatory statement was fair comment honestly made without malice, based on true facts, and that it was a matter of public interest.

12. Consider the following terms, explain what you understand by them with particular reference to liability insurance policies where they are relevant:

- (i) Statutory liability.
- (ii) Negligent act of predecessor in business.
- (iii) Work away risk.
- (iv) Prohibited conditions.
- (v) Incorrect labeling. (7 marks each)

### **SOLUTION 12**

i) **Statutory Liability:** this is a form of liability formed or created by statutes i.e. Acts of parliament. Statutory liability are laws created and passed by legislators in the parliamentary setting of a state.

Statutory liability is very relevant in Employers' Liability insurance and they are for the protection and welfare of employees and provide remedy to workers in civil law for damages.

Examples of statutory liability are:

- ✚ Factories Act 1961
- ✚ Health and Safety at Work Act 1974
- ✚ Employers Liability (Defective Equipment) Act 1969, e.t.c.

ii) **Negligent Act of Predecessor in Business:** a predecessor in business is the former partner in a firm. Professionals such as Engineers, Architects, Accountants, etc usually operates as partnership and the professional negligence of each partner is binding on the firm. A partner who has left the company notwithstanding, the firm is still liable for his/her negligent act of error, omission, mistake, etc committed during his/her active days in the firm. This is relevant in Professional Indemnity Insurance.

iii) **Work Away Risk:** in public liability insurance, the risk or the liability of the insured attaches on their business premises or elsewhere i.e. away from their business premises where their business activities operates.

In work away, the employees of the insured are working in an environment over which the insured has no knowledge or control. The number of locations where the insured business activities operates away from their premises increases the potential liability of the insured.

iv) **Prohibited Conditions:** The Employers' Liability (Compulsory Insurance) Act 1969 introduced compulsory insurance and require all employers of labour to insure their legal liability for bodily injury, death or disease to their employee with a minimum of two million pounds as limit of indemnity.

The purpose of the Act is to provide security for employees if they meet with an accident or incur an illness in the course of their employment and their employer is responsible.

In view of the compulsory nature of the Act, Regulation 2 prohibits any policy terms and conditions that may exclude or limit the insurers' liability in the following areas:

- ✚ Breach of claim notification condition
- ✚ Lack of reasonable care or precaution
- ✚ Failure of the insured to keep adequate record
- ✚ Imposition of excess or deductible in respect of a claim.

iv) **Incorrect Labelling:** in product liability insurance, legal liability for bodily injury or death may arise in several ways, for example, liability may arise through:

- ✚ Defect in the product manufactured
- ✚ Defective container of the product
- ✚ Wrong packaging and
- ✚ Incorrect or wrong labelling.

Legal liability may arise from incorrect or wrong labeling of the product. Incorrect labelling can cause the incorrect dosage on medicines to be stated. Inks or food wrappings can migrate contaminating the contents.

13. Distinguish between the following terms:

- (a) Bodily injury and personal injury.
- (b) Physical hazard and moral hazard.
- (c) Torts and Contract.
- (d) General damages and Special damages.
- (e) Re-insurance and Co-insurance.

(7 marks each)

### **SOLUTION 13**

a) **Bodily Injury and Personal Injury:** Bodily injury refers to physical hurt ie. Physical injury suffered by an individual in event of an accident. Most liability policies e.g. employers' liability and public liability will provide indemnity for bodily injury sustained by employees or third party arising from the Insured's negligence. The term bodily injury has now been extended to include psychological injury such as mental anguish, stress and shock.

Personal Injury on the other hand are not physical injury. They are non-injurious torts to a person such as wrongful arrest, malicious prosecution, discrimination and defamation. In defamation, an individual may suffer personal injury when their reputation is damaged and they are subject to public hatred or ridiculed.

b) **Physical Hazard and Moral Hazard:** Physical hazard relates to the physical or tangible aspect of the subject matter of insurance which are likely to influence the occurrence and/or severity of loss.

Moral hazard is concerned with the attitudes and conduct of the people which is capable of influencing the occurrence and/or severity of loss. Moral hazard is much more difficult to assess compared with physical hazard.

c) **Tort and Contract:** A tort is a civil wrong ie. breaches of rights owed to people as a whole. It is the breach of a duty which a person owes to his fellow man in general. A tort must be capable of giving rise to an action for unliquidated damages.

Contract on the hand is an agreement between two or more persons recognized by law and enforceable. Entering into a contract is voluntary which the parties recognize shall give rise to legal obligation enforceable at law.

d) **General Damages and Special Damages:** General damages are damages which the law expects the plaintiff to prove specifically to succeed. Examples are pain, suffering, future loss of earnings, etc.

Special damages are damages which the plaintiff need not to prove because their are capable of evaluation and assessment. Examples are loss or damage to clothing, vehicle building, machinery, e.t.c.

e) **Reinsurance and Co-Insurance:** Reinsurance is the system whereby one insurer shares (reinsure) with another part of the risk accepted. The Company which reinsure thus reduces its possible liability. Reinsurance is an essential tool of risk spreading. It offers a means of sharing risk to lessening the result of catastrophies.

Co-insurance is a process where two or more insurers share a risk on percentage basis. The lead insurer will issue the policy document and each insurer will sign against their proportion of the risk.

- 14(a) Explain what you understand by the term 'Risk Improvement'. (10 marks)
- (b) What does the term NOVUS ACTUS INTERVENIENS mean? (10 marks)
- (c) An Employer may be liable to their employees for NOISE-INDUCED INJURY. Discuss. (7 marks)
- (d) What is the effect of the INSOLVENCY ACT 1986 on a company's Director. (7 marks)

## **SOLUTION 14**

a) **Risk Improvement:** Risk is inherent in the operation of an organization and occurrence of risk exposure in terms of frequency and severity may cause interruption in the interest of the insured to reduce the number and cost of accident by putting in place effective and efficient risk improvement measure or strategy. Expenditure on risk improvement should be seen as a good investment because it will reduce the frequency and severity of loss.

A company can achieve risk improvement in many ways. Examples are:

✚ **Housekeeping:** this involves:

- Good management of the insured's premises
- Proper training of the employees on safety procedures
- Safe working method
- Good supervision of employees
- Good communication at all levels, e.t.c.

✚ **Labour Relations:** this involves

- Cordial relationship between employer and the employees
- Giving employees a sense of belonging will create good labour relations
- Good communication between management and employees.

b) **Novus Actus Interveniens:** in order to succeed in an action in tort, the plaintiff must show that their injury or damage was proximately caused by the activities of the defendant, in other words, there must be a direct link between the act of the defendant and the result i.e. a chain of causation exists from the event to the result. This means there is no intervening cause (novus actus interveniens) between the occurrence of the event and the result. When there is an intervening cause, it is possible for the defendant to escape liability.

c) **Noise Induced Injury:** an employer may be liable to their employees for noise-induced injury if any of the employer's activities involve exposure to noise levels exceeding 90 decibels. Long term exposure to excessive noise can cause permanent hearing damage. Excessive noise is usually in excess of 90 decibels although lower levels can also be harmful.

The fact that an employee alleges deafness as a result of excessive noise in their employment does not give them an automatic right to compensation. It depends on when the reasonably careful employer ought to have become aware that if their employees were exposed to a high level of noise, they may be at risk and there might be steps which could be taken to reduce or eliminate the hazard. For example, provision of protective devices such as ear muffs or plugs.

d) **Effect of Insolvency Act 1986 on a Company's Director:** The Insolvency Act 1986 is a major source of claims against a director of a company. Section 214 of the Insolvency Act makes a director liable if he/she indulges in wrongful trading by permitting their insolvent company to continue trading until liquidation becomes inevitable.

A director of a company is expected to take reasonable steps with a view to minimizing the potential loss of their insolvent company. When a director failed to act wisely, the Act permits the liquidator of an insolvent company to seek a personal contribution from the negligent director toward the deficiency of the Company's assets. The extent of the contribution required from a director is a matter for the court's discretion in the light of all the circumstances.

**SUMMARY**

Pass Rate:	38.5%
Highest Score:	71%
Lowest Score:	33%
Average Score:	52.0%



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

Subject A765  
MOTOR INSURANCE

INSTRUCTIONS

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

**CHARTERED INSURANCE INSTITUTE OF NIGERIA****A765 - MOTOR INSURANCE****INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three out of the Five questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected from 5	102 marks

You are advised to spend not more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

## **PART I**

**Answer ALL questions in Part I.**

**All questions carry equal marks.**

**Spend not more than 45 minutes on Part I questions.**

1. What was the main reason for developing the ABI Statement of General Insurance Practice?

### **SOLUTION TO QUESTION 1**

To put into practice a set of guidelines for insurers in the conduct of their business following their philosophy embraced by the Unfair Contract Terms Act. The statement is voluntary and is not legally enforceable

2. What are the three (3) possible statuses of an insurer when considering liability under the terms of the Uninsured Drivers' Agreement?

### **SOLUTION TO QUESTION 2**

- ✚ Contracting insurer where the policy is fully in force
- ✚ RTA Insurer where a policy has failed and liability arises from part VI of the RTA 1988
- ✚ Domestic regulations insurer if there is any evidence of insurance but neither contracting nor RTA status.

3. What are the essential features of a Flat Scheme?

### **SOLUTION TO QUESTION 3**

Flat premium scheme: a few insurers offer this sort of pricing schemes, where the flat premium are issued, legibility depends upon

- ✚ The insured's age
- ✚ The driving and insurance experience
- ✚ The type of cars
- ✚ Restriction of the use of the car to class "A" purposes

4. What is the difference between Agreed Value Policies and other types of Motor Policies?

### **SOLUTION TO QUESTION 4**

Agreed value policies differ fundamentally from other types of motor policies in that the basis of settlement is fixed, sum agreed in advance between the parties if the vehicle is rendered beyond economical repair. The principle of indemnity is maintained by ensuring that the agreed sum is a fair reflection of the vehicle's value. However, if the vehicle is capable of repair, then the normal principles of claims settlement would apply. Even if a car were to be damaged beyond economic repair, then the policyholders would often wish to retain the salvage, in order to attempt a rebuild. This could result in the insurer contemplating a cash in lieu of repair settlement.

5. Outline the different schemes under which motor traders could affect Road Risks Policies.

### **SOLUTION TO QUESTION 5**

There are three (3) different schemes under which motor traders could effect Road Risks Policies as follows:

- ✚ Named Driver Basis
- ✚ Trade Plate Basis
- ✚ Points Basis

6. The Motor Insurers Bureau operates under two (2) separate agreements. Name them and the mode of operation of these agreements.

### **SOLUTION TO QUESTION 6**

The two (2) Agreements are:

a. **Uninsured Drivers**

The MIB undertakes to satisfy judgement against motorists concerned within seven (7) days. In practice, case is handled. "Insurer concerned" who bears the costs if drivers responsible for accident held a policy which was valid at time of accident for some reasons. If there is no insurer concerned" or insurer is in liquidation, MIB allocate the claim to a member company and the cost is recovered by a levy on members.

b. **Untraced Motorists**

MIB meets claims for compensation if there is no doubt motorist would have been held responsible had he been traced. MIB then recovers outlay from member companies.

N.B Please note that in respect of "Uninsured Driver" cases, MIB or insurer concerned has right of recovery from motorist involved. If recovery unsuccessful, outlay covered by ley on members companies.

MIB undertakes to satisfy judgment in respect of liabilities required to be covered by law, currently third party bodily injury only and not property damaged.

7. What is 'Constructive Total Loss' in Motor Insurance Claim Administration?

### **SOLUTION TO QUESTION 7**

Constructive Total Loss arises when a vehicle is involved in an accident and the estimate of repairs presented by the insured approaches a very high percentage (say 60% and above) compared to the insured value. In this regard, such a vehicle is "not economical" to repair. It is therefore declared or regarded as constructive Total Loss rather than a partial loss when viewed in relation to the sum insured.

For example, a vehicle insured for ₦500,000 may be involved in an accident and the estimate of repairs may be ₦450,000 or ₦550,000. This it is more economical to settle the claim as if the vehicle is a total loss than engaging in repairs.

8. What happens if two policies that
- (a) Would otherwise contribute to a loss each has a non-contributing clause?
  - (b) How is this varied if only one policy has a non-contribution clause?

**SOLUTION TO QUESTION 8**

- a. Contribution applies to each – effectively, the clauses cancel each other out.
- b. The policy that does not contain Non-contribution clauses will pay in full

**Part II**

Answer question 9 which is compulsory,

- 9(a) M/s Jogson Limited bought a Toyota Saloon car and insured same with Honesty Insurance Co. Ltd. Shortly, the vehicle was hijacked by a rival-union mob at a notorious bus stop, the driver was beaten up and seriously injured. The insured vehicle was later found along Badagry-Seme Road terribly damaged as a result of an accident when the vehicle somersaulted, perhaps as a result of over speeding.

However, found in the damaged vehicle was the corpse of a light-complexioned young man. The matter was reported to the police. The relations of the dead young man, however, insisted that the insured and or its insurance company would have to be responsible for the compensation to the dead.

As the claim manager, how would you handle this claim?

- (a) How would you have handled the claim if the insured's policy was not so extended to cover Strike, Riot and Civil Commotion (SRCC)?
- (b) 'Days of Grace is not applicable to Motor Insurance'. Explain the reason(s) behind this statement vis a vis other classes of insurance.
- (c) State the usual wordings of a market value.

**SOLUTION TO QUESTION 9**

- a. The Insured's car having been insured on comprehensive basis and the policy extended to cover Strike, Riot and Civil Commotion (SRCC) the insurers – HONESTY INSURANCE CO. LTD is liable to meet the material damage claim i.e damage to the insured vehicle subject to the limit on the policy. Otherwise the damage to the vehicle would not be covered.

So long as the matter was reported to the police, and death of a light-complexioned young man was involved police report must be obtained.

As for the dead young man, we need to find out his identity. Is he one of the perpetrators of the mob-actron? Is he a police officer? Is he a staff of the insured? Is he an outside? Who is he and how did he get into the vehicle? Was he also hijacked by the perpetrators of the mob actron and put into the care before the accident or could he have just been dumped into the car by unknown person after the accident.

Whatever angle we look at it, the dead man is a Third party and we may have to look at it from the angle of the RTA provisions in respect of death and injury to Third Party.

### **The vehicle itself**

Since the vehicle is comprehensively insured, the insurer would be responsible for the materials damage aspect of the claim.

### **The light complexioned Youngman**

The insurer may not be liable to compensate such dead man, taking into consideration the circumstance that the insured vehicle was hijacked from driver – by force. The mob's use of the vehicle was illegal and no legal right can result from an illegal action.

### **Police Officer**

The police officer had on duty and in course of unemployment which should be a subject of Workmen's Compensation Insurance or Employer's Liability Insurance. His employers should take care of his compensation.

### **Staff (of the Insured)**

Private car policy excludes liability for death or injury to any person arising out of and in course of his employment by any person insured under this policy. The staff died in course of employment and should for compensated his employer's liability insurance policy or better still, by his Employers.

### **As a Passenger**

A passenger could either be for hire or reward. The passenger is a Third party who is disowned compensation by the insured's motor policy. In this instance, the dead young man, as a passenger, who constitutes a third party should be compensated by the insured's motor vehicle insurer to third party resulting from accident to the insured vehicle. The insurer may have to meet this third party liability claim. On the other hand, where insurer refuses, perhaps because of the circumstances involved, the motor insurers Bureau (MIB) should take up the matter where relevant compensation would be paid in respect of the death of the third party.

### **IF THE POLICY WAS NOT EXTENDED TO COVER STRIKE RIOT AND CIVIL COMMOTION**

Damage to the vehicle would not be met at the proximate cause of the accident was Riot, which was an exclusion (or exception) of the policy.

As for the dead young man, the insurer would be responsible for the claim in satisfaction of the RTA regarding Death and Injury to Third party. Where the insurer refuses, the MIB may take the matter up and compensate the third party.

- b. An Insurance policy is usually issued to last a period of one (1) year after which it becomes renewable. Take for example, a policy issued effective 1<sup>st</sup> January, 2010 would expire by 31<sup>st</sup> December, 2010 and renewable effective from 1<sup>st</sup> January, 2011.

For one reason or the other, the insured may not be able to renew. This may be due to oversight, forgetfulness or non-receipt of the Renewal Notice. To take care of this lapses, insurers usually grant days of Grace within which insurers could still come to renew their policies and should a claim arise during the period the policy would pay. Such Days of Grace varies depending on the insurer concerned, but 15 or 30 days are not usual.

However, application of Days of Grace is not applicable to motor insurance because of the statutory provision that a certificate of Insurance must be carried at all times and in addition, cover cannot be back-dated.

To this end, when Renewal Notices are sent usually a 15 – days cover Note is attached. This provides only the RTA cover and it take care of the structure whereby the insured could fight to renew at the right time.

- c. A typical wordings of a market value is as follows  
“The maximum the company will pay is the market value of your car, accessories and spare parts at the time of the loss or damage or the insured value, whichever is less”.

### **PART III**

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

Each question carries 34 marks.

- 10(a) Describe the basic rating factors in common use for:
- (i) Private motor
  - (ii) Commercial vehicles (Goods carrying vehicles)
  - (iii) Private and Public Hire cars
- (b) Define Reinsurance.

## **SOLUTION TO QUESTION 10**

### **i. Private Motor**

- + Vehicle
- + Proposer and other Drivers
- + Geographical Area of use and/ or parking
- + Use to which the vehicle is put and cover required.

### **ii. Commercial Vehicle (Goods Carrying Vehicles)**

- + Use
- + District
- + Type/Size of vehicle (plus trailers)
- + Policy cover
- + Drivers

### **iii. Private and Public Hire Car**

These are both rated on a district basis, loading the premium for private car hire. In addition, the rating will be affected by the cubic capacity of the vehicle engine. Where the value exceeds a certain value, an excess charge will be made for the additional value. There will also be a substantial vehicle excess where the cover is comprehensive as with other type of passengers carrying vehicle, the principal rating factors are:

- + The type of vehicle
- + Use
- + Area/District
- + Policy cover
- + Driver

- b. Reinsurance is a means by which motor insurers insure against risks that are originally insured with them. This could be done by way of facultative treaty arrangement. This is to ensure that the risk is well spread and in the event of loss, the reinsurer also indemnifies the insurers.

11(a) 'The experience of a private motorist would always reflect on his net premium'

In the context above, what are the underwriting measures to take in respect of the following:

- (i) Bad Driving Habit
- (ii) Drunkenness and Intoxication
- (iii) Young and inexperienced driver
- (iv) Old drivers
- (v) High rate of accident

(B) Who is an Insurance Broker?



### **SOLUTION TO QUESTION 11**

- a. The experience of a motorist would normally reflect in the amount of premium. Relevant underwriting measures to take as an follow:

✚ **Bad Driving Habit**

A driver who frequently involves in an accident because of his bad driving habit could have his premium loaded or policy excess increased.

✚ **Drunkness and Intoxication**

Where it is discovered that an insured makes frequent claims as a result of accident emanating from drunkness or intoxication, clauses to the effect that the policy would not pay as a result of accident on drunkness etc. could be imposed similarly the policy excess could be increased.

✚ **Young and Inexperienced Driver**

Relevant Excess (i.e Young Drivers Excess) could be imposed where driver is young (say under 21).

✚ **Old Drivers**

Where a driver is very old, say 70 and above, such a driver could be referred to the Doctor for medical examination to ascertain the position of his driving ability. The policy excess could also be increased.

**High Rate of Accidents**

- ✚ Reduction of cover to say, "Third party only" "Act only, or total declinature.

- b. An Insurance Broker is an "Agent" or intermediary between the insured and the insurer. Unlike an ordinary Agent, he is a specialist or professional and more technically sound.

- 12(a) (i) Why do Insurers need to establish a renewal review system?
- (ii) State, at least, two (2) reasons (or situations) why insurers may not wish to offer renewing on automatic basis.
- (b) Oluchi was involved in an accident with her new Peugeot Saloon car and the accident was duly notified to the insurers. Consequent upon which a claim was promptly registered. Thereafter, an Accident Report Form was forwarded to her for completion. She however refused to complete the form claiming that she was not under any obligation to complete any form before her claim is settled.
- (i) Advise Oluchi on the relevance and main purposes of obtaining an 'Accident Report Form'.
- (ii) List five (5) of the main questions contained in the 'Accident Report Form'.

### **SOLUTION TO QUESTION 12**

- a. i. To establish the validity of continuing to apply special terms that may already have been applied to the policy in the light of current experience.

- ii. To review particular risks that either fall into a non-preferred category or have developed a claims experience that moves the risk outside that expected for that insurer.
- b. There are a number of reasons why an insurer may not wish the offer of renewal to be an automatic process. Consider the following situations.
- i. When a risk originally proposed, there was a history of motoring convictions. There were unconnected with claims incidents however, the underwriter felt it prudent to impose a substantial own-damage excess and a modest premium loading. Two years have now passed without any claims incident and no further convictions.
  - ii. A very large third party personal injury claim has arisen under a motor policy three (3) months before renewal. The claim is still outstanding.

N.B

In the first situation, if the insurer takes no action (other than allowing originally proposed terms to stand) it risks losing the business to a competitor, more so that the risk is improving in terms of convictions.

In the second situation, the very large third party claim does not paint the picture of a critically examined by insurers before embarking on renewal.

- b. i. The main purpose of obtaining an "Accident Report Form" are to:
- ✚ Provide the policyholder with a convenient medium through which to advise claim details.
  - ✚ Ensure that all the information that is generally felt to be pertinent to claims handling is obtained early and accurately
  - ✚ Enable "validation" the claim i.e. that is properly covered under the policy, that indemnity can be provided and to what extent.
  - ✚ Assist in dealing with the claim quickly and efficiently.
  - ✚ Provide the policyholder's current details in order to update underwriting records.
  - ✚ Check to ensure that the information disclosed at inception and/or renewal was accurate and full.
  - ✚ Assist in dealing with liability issues
- ii. The main questions contained within the "Accident Report Form" centers on the following.
- ✚ Policy details
  - ✚ Policyholders details
  - ✚ Driver
  - ✚ Vehicle
  - ✚ Use

- ✚ Damage to own vehicle
- ✚ Details of accident
- ✚ Other parties involved
- ✚ Declaration and signature

13(a) Define 'Special Types' Vehicles and enumerate five (5) vehicles that may be considered as 'Special Types' for insurance purpose.

(b) What are the main additional benefits normally included in a private motor policy?

**SOLUTION TO QUESTION 13**

a. "Special Types" vehicle are vehicle of special construction. These are vehicle specially constructed to meet specific purposes and operations.

Vehicle that may be considered on "Special Types" for insurance purposes are:

- ✚ Cranes
- ✚ Ready-mixed concrete carriers
- ✚ Tankers
- ✚ Tippers
- ✚ Mobile retails vehicles, such as ice cream fans Shops and mobile canteens, fish fryers, shops srofibies libraries etc.
- ✚ Agricultural and forestry vehicles such as trailers, Balees etc
- ✚ Dumpers
- ✚ Ambulances
- ✚ Hearses
- ✚ Road Rollers
- ✚ Trolleys (not constructed for general road use)
- ✚ Mechanizing navies and other mobile plants

b. The main addition of benefits included are:

- ✚ Personal Accident Benefits cover for the policyholders and spouse (usually capital benefits only) and
- ✚ Medical expenses of up to say, £250

14(a) There is usually a Third Party Property Damage limit under a Standard Motor Policy. What can the insured do if he feels that such standard limit may be inadequate for him?

(b) A Bedford lorry was recently bought from UTC Motors Ltd by Engineer Adenuga who insured the vehicle with CONCEPT INSURANCE CO. LTD. The vehicle was involved in a ghastly motor accident along Sango-Abeokuta Express road, damaging extensively a brand new Toyota Saloon car valued at about ₦4,000,000.00.

Liability is not in doubt but the third party property damage limit is only ₦750,000.00 .

Mr. Dada, the owner of the Toyota Saloon car made a claim on Engineer Adenuga, who in turn passed the claim to CONCEPT INSURANCE CO. LTD.

As the claims manager of CONCEPT INSURANCE CO. LTD what will you do in the settlement of this claim?

**SOLUTION TO QUESTION 14**

- a. Some insurers do insert on their proposal forms a question like this: "do you wish the policy to extend to cover damage to third party property in excess of the standard policy limit of N.....? if so, please indicate indemnity limit required".

If the answer is in the affirmative, the insurer would after a quotation for the limit selected and if accepted, the cover on the selected limit would be granted.

Even if there is no question like this on the proposal form, any enquiry from the proposer, agent or brokers would be given similar attention.

Since liability is not in doubt notification of the accident was prompt, and company CONCEPT INSURANCE COMPANY LIMITED received all relevant and convincing documents, the claim manager will settle the claim with their won insured, engineer Adenuga for ₦750,000 (Seven hundred and fifty thousand naira only) being the policy limit under Engineer Adenuga' policy. It is then left for Engineer Adenuga to arrange to settle Mr. Dada's claim of ₦4m. The underwriter may however look into this clean if the tipped limit had easily been increased to N4m and relevant endorsement issued.

**SUMMARY**

Pass Rate:	63.0%
Highest Score:	78%
Lowest Score:	39%
Average Score:	55.1%

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

SUBJECT A770  
PRINCIPLES OF MARINE INSURANCE

INSTRUCTIONS

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

A770 - Principles of Marine Insurance

INSTRUCTIONS TO CANDIDATES

Three (3) hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three (3) out of the five (5) questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected	102 marks

You are advised to spend not more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

**Answer ALL questions in Part I.**

**Each question carries six (6) marks.**

**Note form is acceptable where this conveys all the necessary information.**

1. What six (6) principal factors are considered by underwriters in charging the rate per cent per annum on a vessel for hull time risk?

(6 marks)

**SOLUTION 1**

Any six of the following:

- The valuation of the vessel.
- Management and ownership with their corresponding claims experience.
- Consideration of the type, trade, age, tonnage, all aspects of the machinery, whether main, auxiliary and refrigerating.
- If entered with a classification society for hull and machinery that dates of survey related to each aspect have been carried out to maintain class.
- Conditions of insurance being offered.
- Repair costs, and
- Underwriting experience of similar risks.

2. The Institute Cargo Clauses are grouped under eight (8) main headings, state any six (6) of them.

(6 marks)

**SOLUTION 2**

Any six of the following:

- Risk covered.
- Exclusion.
- Duration.
- Claims.
- Benefit of Insurance.
- Minimising Loss.
- Avoidance of delay.
- Law and practice.

3. Is claim recoverable where:

- (i) Loss or damage results from two or more perils insured against?
- (ii) One of the causes is not mentioned, in the policy both others are mentioned, and
- (iii) One of the causes is specifically excluded and the assured cannot separate the loss or damage between the various causes?

(6 marks)

### **SOLUTION 3**

- I. The claim is recoverable.
  - II. The claim is recoverable.
  - III. The claim is not recoverable.
4. List six (6) headings of potential claims under Offshore Operations. (6 marks)

### **SOLUTION 4**

- Actual total loss.
  - Constructive total loss.
  - Removal of wreckage and/ or debris.
  - Cost of redrilling.
  - Loss of production.
  - Liabilities for loss of life and injury.
  - Pollution liability.
  - Cost of control.
5. What are the six (6) important elements of MAR 91 Policy Form, popularly used in the London Market for Marine Hull? (6 marks)

### **SOLUTION 5**

- A statement that the underwriters agree, in consideration of payment of premium, to insure against loss damage or liability or expense in the manner provided in the policy.
  - A statement that each insurer is liable only for his own share.
  - A statement that the insurance shall be subject to the exclusive jurisdiction of the English courts except as may expressly be provided otherwise.
  - A signature of the General Manager of the Lloyd's signing office or the General Manager and secretary of the ILU as the case may be.
  - A schedule detailing the policy number, the assured, vessel, voyage, subject matter and agreed value, if any.
  - A list of insurers subscribing to the policy.
- 6(a) What is meant by Direct Market in Reinsurance? (3 marks)
- (b) Who is a Lead Reinsurer? (3 marks)



### **SOLUTION 6A**

- These are reinsurers that deal with the cadent through their own account executives.
- They do not go through intermediaries.

B.

- This is the reinsurer who negotiates the terms, conditions and premium rates, and first signs on the slip.
- Reinsurers who subsequently sign on the slip under those terms and conditions are considered following reinsurers.

7. State six (6) fundamental facts that an underwriter would require in cargo premium appraisal. (6 marks)

### **SOLUTION 7**

Any six of the following facts:

- Name and address of the assured.
- Business.
- Subject matter to be insured.
- If containerized, the type of shipment- LCL or FCL?
- Whether self-packed or the name of the professional packers used.
- Value of the interest and sum to be insured.
- Voyage, including connections, land transit and/ or transshipment.
- Storage if specifically arising.
- Name of vessel or shipping line to be used.
- If the vessel is to be chartered, the terms of the charter party.
- Insurance conditions required.

8. What three (3) legal costs does an insured incur in obtaining collision claims? (6 marks)

### **SOLUTION 8**

Legal cost in:

- I. Determining and contesting liability;
- II. Drawing up their claim against the other side,
- III. Examining the claim of the other side.

## Part II

### Compulsory question

This question carries 50 marks.

- 9(a) What coverage does the Institute Cargo Clauses (A) provide, giving examples of goods for which the clauses are usually preferred?
- (b) What are classification Societies?
- (c) Mention four (4) types of offshore units.
- (d) A vessel in a part of distress sold the badly damaged cargo as salvage loss, to avoid the cargo being completely lost, which was accepted by the insurer as the insured put up a Constructive Total Loss Claim. The insured value of the cargo is ₦100,000, it was sold for ₦15,000 at a sale charge of ₦1,000.

Adjust the claim.

(10 marks)

### **SOLUTION 9A**

The (A) Clauses insurers against all risks of loss or damage arising from fortuitous causes which would include breakage, scratching denting, chipping, theft, pilferage, non-delivery, contamination as well as all types of water damage, including rain water.

The cover is preferred for:

- All consumer goods and finished products.
  - All goods of high intrinsic value and quality such as textiles, precious metals, chemicals etc, and
  - High valued and sensitive commodities like coffee, cocoa, beans, tea, refined sugar, refined oils, both vegetables and minerals.
- B.
- They are organisations which supervise the construction of vessels or survey constructed vessels which are to be classed with them to ensure that they meet the criteria laid down in the societies' rules for vessels carrying their classification notation.
  - Ship owners are required to have parts of the hull and machinery surveyed periodically by surveyors appointed by the society.
  - Lloyd's Register of shipping is the UK classification society.
  - Other classification societies operate in other Maritime countries.
  - Classification surveyors are situated in all parts of the world and are instructed to carry out damage and maintenance surveys and report back to societies head office and ship owners.
  - Underwriters place great importance on vessel being classed, to ensure high standard of their maintenance during the insurance period.

C.

- The Jack-up Units
- The semi-submersible unit.
- The ship-shape Unit.
- The fixed structure unit.

D.

- Value of cargo = ₦100,000
- Proceeds (gross) ~~₦~~15,000
- Less sales charges. 1,000

CLAIM = 14,000  
~~₦~~86,000

### Part III

**Answer THREE (3) of the following FIVE (5) questions.  
Each question carries 34 marks.**

10(a) Why does a Marine Insurer reinsure? (18 marks)

(b) How are proportional reinsurance claims settled? (16 marks)

#### **SOLUTION 10**

- To obtain extra capacity which will enable the insurer accept large shares of business.
- To obtain cover for components of risks which they are unwilling to insure.
- To obtain protection against catastrophic losses.
- To utilize the experience of reinsurers.
- To stabilize the insurer's underwriting results.

B.

- The reinsurers normally follow the fortune of the reassured.
- Ex-grating settlements by the reassured are binding on the Reinsurer.
- Reinsurers are also liable for all costs, expenses or other payments for which the reassured may become liable accept office expenses and salaries.
- Reinsurers shall participate likewise proportionally in all refunds and/ or salvages received by the Reassured.

11(a) What are the objectives of the Association of Average Adjusters and how is its membership constituted? (16 marks)

(b) What are 'Forwarding Charges Clause' and 'Constructive Total Loss Clause'? (18 marks)

**SOLUTION 11A**

- The promotion of correct principles in the adjustment of averages.
- To ensure uniformity amongst average adjusters.
- To provide a forum for discussion on matters of mutual interest to the marine insurance market and maritime community.
- Candidates wishing to be members of the Association must go through a period of service in an adjuster's office.
- They are required to sit a very stringent qualifying examination set by a committee of the association.
- Those successful candidates wishing to practice are then granted practicing certificates and become members of the association.

B

- Forwarding charges clause is to the effect that where the insured risk is terminated before the destination insured, as a result of a risk covered, the underwriter's will reimburse the assured for any extra charges properly and reasonably incurred in unloading, storing and forwarding the subject-matter to the destination insured.
- Constructive Total loss clause is to the effect that constructive Total loss shall only be recoverable where the subject-matter is reasonably abandoned either on account of its total loss appearing to be unavoidable or because the cause of recovering, reconditioning and forwarding the subject matter to the insured destination would exceed its value on arrival.
- It is normal to consider the estimated costs of forwarding so that it does not become greater than arrival's value before embarking on forwarding the damaged goods to the destination when it might not be recoverable. The option of the constructive Total loss might be better in such circumstance.

12(a) What defences are available to a private carrier against his liability for general goods lost, damaged or misdelivered during transit? (20 marks)

(b) What is 'Salvage Proper'? (14 marks)

### **SOLUTION 12A**

- Act of God.
- Any consequence of war, invasion, act of foreign enemy, hostilities etc.
- Seizure or forfeiture under legal process.
- Error, act, omission misstatement or misrepresentation by customer.
- Internet liability to wastage in bulk or weight.
- Insufficient and improper packing.
- Insufficient and improper labelling and addressing.
- Riot, civil commotion, strike, lockout.
- Consignee not taking or accepting delivery within a reasonable time after the consignment has been tendered.

B.

Salvage proper.

- Salvage charges means charges recoverable under maritime law by a salvor independent of contract.
- Salvage proper occurs where a master requests assistance and his vessel is towed into port without any agreement as to payment for the services rendered and no sum is earned unless the property is saved 'no cure- no pay'
- On arrival in port, the salvors have a maritime lien to enforce their claim against the salvaged property and each interest is individually liable for the amount of salvage awarded against it.

13(a) How does Jettison of Cargo relate to General Average? (18 marks)

(b) A vessel valued at N100,000 was carrying three different cargoes A, B and C, each cargo valued at N100,000. During the voyage, the vessel sustained a hole in a collision and the whole of cargo C was jettisoned to save the adventure.

State the contribution of each of the four different interests to this General Average sacrifice. (16 marks)

### **SOLUTION 13**

- No jettison of cargo shall be made good as general average unless such cargo is carried in accordance with the recognised custom of the trade.
- As deck cargo is more likely to be jettisoned; only cargo that is properly carried on deck are admitted in General Average.
- Goods improperly carried on deck, which should have been stowed under deck are excluded as General Average loss when jettisoned.

B.

Total value of the four interests = ₦400,000

Value of cargo 'C' to be made good = ₦100,000

Contribution of each of the four interests =

$$\frac{\text{₦100,000}}{4} = \frac{100,000 \times 100,000}{400,000 \times 1} = \text{₦25,000.}$$

The adjustment is as follows:

Ship	N100,000	N25,000
Cargo A	N100,000	N25,000
Cargo B	N100,000	N25,000
Cargo C	N100,000	N25,000
(Made good)	<u>400,000</u>	<u>N100,000.</u>

14(a) In what ways can the Time Charterers of a vessel be liable? (14 marks)

(b) For loss prevention purposes, list the stages of a typical cargo transit. (20 marks)

#### **SOLUTION 14**

Charterers can be liable to:

- Third parties.
- Ship owner for damage to the vessel.
- Indemnify the ship owner for their liability to third parties resulting from the Fault of the charterer, and
- Liability in General Average and salvage (time charterers only).

B.

- Preparation and packing at the outset.
- Loading.
- Land transport (and grouping when applicable)
- Unloading, port storage and handling, export clearance.
- Loading on the carrying vessel or aircraft.
- Carriage.
- Transshipment when applicable.
- Unloading, storage and handling, import clearance.
- Loading on next and final stages of transport.
- Arrival at destination, unloading and checking.

#### **SUMMARY**

Pass Rate:	100%
Highest Score:	60%
Lowest Score:	57%
Average Score:	62.0%

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**APRIL 2018 EXAMINATION PAPER**

**SUBJECT A780  
AVIATION INSURANCE**

**INSTRUCTIONS**

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

## CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A780 - Aviation Insurance

## INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected	102 marks

You are advised to spend no more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.



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

1. List six (6) functions of Lloyds Policy Signing office. (6 marks)

**SOLUTION 1**

Any six of the following:

- Check and numbers transaction.
- Sign or produce policies.
- Provide a service to Lloyd's market for the operation of special schemes or facilities.
- Develop improvements in quality and time lines in respect of insuring documentation for Lloyd's.
- Operate central accounting scheme.
- Provide additional services derived from one activity including reporting on insurance premium tax and terrorism premium.
- To provide advice and research on technical insurance matters, central accounting requirements, Lloyd's policy signing office procedures and statistical requirement.
- To provide the necessary statistical and taxation data for insurance legislators and taxation authorities worldwide.

- 2(a) State the four (4) types of pilot referred to in Annex 1 of the Chicago Convention. (4 marks)

- (b) Outline the medical requirements for pilots. (2 marks)

**SOLUTION 2A**

- Student Pilot
- Private Pilot
- Commercial Pilot
- Air transport Pilot.

- b. 12 monthly medical assessment required for air transport/commercial pilots but 6 monthly if over age 40.

Class 2 medical assessment required for private pilots but 12 monthly if over age 40

3. List three (3) out of the four exclusions found in a typical loss of licence policy. (6 marks)

**SOLUTION TO QUESTION 3**

Any three of the following:

- ✚ War between major powers.
- ✚ War in which any of five major power involved.

- ✚ Intentional self-injury/suicide/fighting.
- ✚ Intentional exposure to exceptional danger (other than to save life or valuable property).
- ✚ Criminal act where liable to imprisonment.
- ✚ Venereal disease.
- ✚ Insanity.
- ✚ Withdrawal of license because of age.

4. Briefly explain the differences between Insured Value and Agreed Value base.

**SOLUTION TO QUESTION 4**

If an aircraft is covered on an insured basis, the amount that the insured will receive in the event of a total loss will be the market value at the time of loss which whilst it will not exceed the value declared at inception, could well be less. Also insurers have the right to replace the aircraft with one in a similar condition to the aircraft prior to the loss.

An aircraft insured on an agreed value basis fixes at inception the value that will be paid in the event of a total loss.

5. List at least six (6) of the main civilian uses for Satellites. (6 marks)

**SOLUTION TO QUESTION 5**

Any six of the following;

- ✚ Telephone communications.
- ✚ International video conferencing.
- ✚ Weather monitoring.
- ✚ Cartography.
- ✚ Crop monitoring.
- ✚ Geology (including oil and mineral exploration).
- ✚ Environmental management
- ✚ Forestry Monitoring.

6. Explain briefly six (6) of the main changes that the Montreal Convention 1999 made to the existing Warsaw Convention 1929 liability regime.

(6 marks)

**SOLUTION TO QUESTION 6**

Any six of the following:

- a. Under the Montreal convention 1999, the carrier is strictly liable up to 113,000 special drawing rights (SDRs) for the death or bodily injury of a passenger caused by an accident, there is still a defence if the airline can prove that death and bodily injury were caused by or contributed to by the negligence or wrongful act of the claimant.
- b. For damages above 113,100 SDRS, the carrier bears unlimited liability, however, it is not liable if it can prove that the bodily injury or death of the passenger was not due to the carrier or its agents negligence or other wrongful act or omission or was solely due to the negligence or other wrongful act or omission of a third party.

- c. The baggage liability limit has changed to 1,131SDRS per person for loss, damage or delay to cargo.
  - d. In respect of documentation requirements, any means which preserves the information prescribed for tickets and airway bill is acceptable: the carrier shall offer to deliver written confirmation of this information and must give written notice of limits of liability.
  - d. In death and bodily injury cases only a fifth jurisdiction has been added which in many cases will permit the passenger to bring a claim against the carrier in their home country.
7. Outline three (3) reasons why a direct aviation insurer might buy reinsurance.  
(6 marks)

**SOLUTION TO QUESTION 7**

Reasons will include the following

- i. To create a spread of risk through the portfolio.
  - ii. To allow increased capacity and therefore be able to write larger lines on desired business.
  - iii. To protect the book against a possible major loss which could result in potential accumulation.
  - iv. To enable direct aviation insurer enter new classes or to expand within an existing class
8. Briefly describe three (3) different types of Captive Insurance company.  
(6 marks)

**SOLUTION TO QUESTION 8**

Any three from

- i. **Pure Captive**  
Established only to underwrite the risks of the parent group.
- ii. **Association and Group Captives**  
These are multi parent captives formed by members of a particular association or group.
- iii. **Mutual Structures**  
Sometimes used, premiums are collected from all participants according to the degree of risk ceded. A nonprofit making organisation
- iv. **Rent-a-Captive**  
Typically operated by major insurers. For payment of a fee, clients get access to a captive and its services without the costs involved in setting up their own.

## Part II

### Compulsory question

This question carries 50 marks.

9. As an Insurance broker with one of your major client being a ground handling operating in Nigeria, providing refueling, aircraft towing and aircraft cleaning services.
- (a) Describe the potential aviation exposures that your client will need to consider insuring against and the policy that may be used. (25 marks)
- (b) Outline the coverage issues that may arise in the following scenarios:
- (i) Fuel has leaked from your client's fuel storage facility and has polluted a local water supply. (10 marks)
- (ii) A disgruntled employee of you client deliberately drive a truck into an aircraft that is being serviced. (15 marks)
- (iii) An employee of your client drives his own vehicle airside and is involved in an accident with another vehicle.

### **SOLUTION TO QUESTION 9**

You must obtain all of the facts on the claim and take the hull surveyors report into account.

- a. Companies operating airside can be exposed to significant risk from several areas. This client providing a variety of services to airlines which carry a potentially expensive risk of liability losses.

The main airside risks that may be encountered are vehicles colliding with other vehicles, aircraft or structures whilst airside. Collision especially with aircraft can cause very expensive liability losses.

Damage to aircraft by the employees whilst working on or around aircraft, as well as whilst driving.

One of the highest occupation on an airfield arises through aircraft refueling the potential for a problem is very high if the correct procedures are not followed.

This may involve a mechanical defect or possibly putting the wrong sort of fuel into an aircraft. In this scenario, the engines of the aircraft could fail resulting in a major accident.

Aircraft cleaning companies have a premises liability exposure when accessing aircraft, a hangar keeper's exposure when the aircraft are in their care, custody and control, and they have a product liability exposure due to the cleaning products being used.

The normal policy form that would be used is the ARIEL AIRPORT owners and operators Liability Policy. It contains 3 sections: section 1 is the premises liability which will cover third party liability occurring out of the operations around the airport, section 2 is hangar keepers liability and covers property damage to aircraft in the insured's care, custody and control and section. 3 covers the insured's products liability.

**B.**

- b. i. Initially, it must be proved that the fuel has come from the contractor's facility and that it has caused the damage. Pollution or contamination of any other Perils Exclusion Clause-AVN 46B unless it is caused by or results from a crash, fire, explosion or collision or a recording in Flight emergency causing abnormal aircraft operation.

If it is not caused by an aircraft accident the pollution event will not be covered. In that case, the non-aviation market would have to pick up such an occurrence.

- ii. The Premises Section of the ARIEL Policy normally provides cover for vehicles hitting aircraft. In this case, there is suspicion that the act has been deliberate and could be classed as a malicious act which is excluded by paragraph € of the war exclusion either 10 of the form or the war, Hijacking and other perils Exclusion (either AVN 48B which usually replaces the policy exclusion). Such coverage can be covered under the Extended coverage Endorsement (AVN 52 G) (Aviation liabilities which is usually purchased by companies operation at airports.

**Part III**

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

**Each question carries 34 marks.**

10(a) What is reinsurance? (4 marks)

(b) What are the main methods used by Reinsurers in handling the direct underwriters' risks? (10 marks)

**SOLUTION TO QUESTION 10**

Reinsurance is the practice whereby an insurance company (the cedant/ceding office passes on part of its risk to the other called the reinsurer

Reinsurance can be undertaken in a number of ways viz.

- ✚ Facultative
- ✚ Excess of Loss
- ✚ Quota Share Treaty (surplus lines)
- ✚ Stop Loss

In the vast majority of cases, the reinsurers will follow the fortunes of the direct insurers.

✚ **Facultative Reinsurance**

This is 'one off' specific insurance on a given risk or part of it. Non original insurance is where only parts of the risk are passed on to reinsurers. The reinsurers will state their premium term which could well be an original and would be subject to a further override general spilt between the broker and reinsuring underwriters.

✚ **Quota Share (Surplus Lines)**

The direct insurer will reinsure an agreed proportion of all risks in a defined class of business. This can be arranged on the basis of a fixed or variable percentage of the direct insurer's signed line on a fixed or variable monetary amount. The cessions to the treaty would be proportional to the direct insurers own writings and the reinsurer premiums paid would be the same percentage of the Net premium that equals to the (reinsurance) cession. The direct insurer would generally expect to receive an override. This type of treaty is advantageous to a direct insurer as it allows them to write bigger lines on the original business.

✚ **Excess of Loss**

This type of contract protects a direct insurer for losses above an agreed retention for all amounts they are liable for arising out of one occurrence up to another specific underwriter's entire portfolio in a given class (e.g. hull/liabilities/hull war). Premium would either be expressed as a fixed amount or generally as amount adjustable at a percentage of the direct insurers overall net premium income, for that class of business. The sums insured can be reinstated (each contract will set out the additional premium required, if any). This type of contract is usually purchased in layers (₦25,000 excess ₦50,000/50,000 excess ₦75,000 and so on).

✚ **Stop Loss**

Stop loss protects a direct insurer from losses in excess of their net premium income. Stop loss insurance protects against the aggregation of losses in any given class. The direct insurer will decide their retention (for example 110% of net premium income) for the period insured.

The stop loss reinsurance companies will protect the direct insurer for amounts above the retention up to another set percentage of the net premium income (eg 160%) cover can also be arranged in layers.

11(a) Explain in full, the key factors affecting the setting of a premium rate for hull insurances. (20 marks)

(b) Describe the methods of rating utilized. (15 marks)

**SOLUTION TO QUESTION 11**

a. Insurance will consider several factors when setting a premium rate for hull insurance.

Their key objectives is to set a rate commensurate with the risk. They will also take into consideration level of

- ✚ Competition and capacity available which in recent years have driven rates to uneconomical levels.
- ✚ Level of the deductible will also have a bearing on the premium.
- ✚ As an aircraft ages, care must be taken that a suitable premium is charged.
- ✚ Severity of any given claim will increase as value of the aircraft falls.
- ✚ Sometimes a 70/30 formula is used the idea being to load the premium to reflect the increased chance of a total loss.
- ✚ Profit commissions and no claims bonuses can be used to effectively discount profitable accounts and where these amounts are payable on renewal they can act to discourage competition.
- ✚ For all types of operators, the insurer would wish to take note of statistics whether their own industry wide.

b. Rating methods utilized are.

Large operator.

- ✚ Type and value of aircraft.
- ✚ Training Infrastructure.
- ✚ Loss record.
- ✚ If a regional operator, account will take note of particular hazards.

ii. Small operators, including charter airlines.

- ✚ Type and value of aircraft.
- ✚ Training Infrastructure.
- ✚ Loss Record.
- ✚ How many different types of aircraft utilized.
- ✚ Will pilots switch between types flown?
- ✚ Airfield used.

iii. Industrial Aid Aircraft

- ✚ Types of aircraft.
- ✚ Pilot experience.
- ✚ Value of the aircraft.
- ✚ Loss record.

iv. Flying Clubs

- ✚ Type and value of aircraft.
- ✚ Pilot experience.
- ✚ Number of members.
- ✚ Claims records of club
- ✚ Location (geographical)
- ✚ Utilization.
- ✚ Experience of chief flying instructor.
- ✚ Maintenance provider.

12(a) Describe the extent of war available in the London market. (14 marks)

(b) Describe the development of international Conventions and protocols relating to transportation by air. (20 marks)

**SOLUTION TO QUESTION 12**

Limited cover is available via AVN51. This provides for the write back of paragraphs (c), (e) and (g) of AVN 48B.

This clause provides for the completion of an aggregate limit if there are two or more aircraft on risk, the aggregate will generally be the sum of the two top values at risk. The full extent of war cover available in respect of hull is generally on LSW555B. Covers is provided for losses arising from;

- ✚ War.
- ✚ Strikes, riots or civil commotion.
- ✚ Act of one or more person for political or terrorist purpose.
- ✚ Malicious act or an act sabotage.
- ✚ Confiscation and the like.
- ✚ In jacking.

b. The Warsaw convention (1929) dealt with legal liability of airlines and standardization of documents of carriage, applying to international carriage of person's luggage or goods performed by aircraft for reward and to free transport performed by an air transport organization.

The Hague Protocol (1955) amended Article 3, requiring passenger ticket to contain a notice that Warsaw convention provisions may apply and carrier's liability may be limited.

Other developments are as follows.

- ✚ Guadalajara Convention (1961) protects the position of the contracting and actual carrier.



- ✚ Montreal Agreement (1966) to reach a compromise compensation this prevented USA from withdrawing from the Warsaw convention.
- ✚ Montreal Additional Protocols- The main purpose is to convert limits of Warsaw Convention and Hague to SDRs.

13(a) Give full explanation of the concept of the deep pocket theory. (20 marks)

(b) Outline the main areas of responsibility of the Nigeria Civil Aviation Authority (NCAA) (14 marks)

**SOLUTIONS TO QUESTION 13**

a. The deep pocket theory is defined as “The person with the most funds available pays the most, irrespective of their share of liability.

In product liability cases, there may be a manufacturer which is targeted not because they are responsible but because they have the most funds to meet the claim. This encourages liability claims and eventually pushes up premiums.

b. The Nigeria Civil Aviation Authority (NCAA) is responsible for the following.

- ✚ Safety regulation- All operational aspects including airworthiness of aircraft licensing of personnel and airfields, certificating Nigeria commercial operators and new aircraft types.
- ✚ Economic regulation- Airlines route licenses, approval of airfares and airport charge, regulation of Air Transport organizers’ licensing (ATOL).
- ✚ Air traffic services- Regulation and provision of various air traffic control services.
- ✚ Advising the Federal Government of Nigeria on aviation matters.

14(a) Outline the provisions of four (4) of the following six general conditions contained in the London Aircraft Insurance Policy (AVN IC). (20 marks)

(b) Give the coverage that is provided under loss of use. (14 marks)

**SOLUTION TO QUESTION 14**

Any four of the following

✚ **Subrogation**

As soon as underwriters have made a payment or have given as indemnity under the policy, underwriters will be subrogated to the rights of the insured.

The insured is required to cooperate with insurers and do everything necessary to assist insurers to exercise their subrogation rights.

✚ **Variation in Risk**

Insurers require an insured to give them immediate notice of any change in the circumstances of the risk which are the basis of the contract. If the insured does not advise insurers of such a change or if the change is not agreed by insurers then no claim arising after the change will be recoverable under the policy.

✚ **Cancellation**

The policy can be cancelled by either the insured or insurers giving not less than 10 days notice. If the insured cancels, the return premium is calculated at the discretion of insurers if insurers cancel the return premium is calculated at pro-rata policy terms. No return is payable in respect of any aircraft that has been the subject of a total loss.

✚ **Arbitration**

The standard London Aircraft Insurance Policy (AVNIC) is to be construed in accordance with English law and any dispute or difference between the insured and insurers will be arbitrated in London in accordance with such statutory conditions in force.

✚ **Limit(s) of Indemnity**

This condition means that the policy limit of indemnity shown in the policy will apply irrespective of the number of insured parties named under the policy. The limit will apply equally but will not exceed the stated amount.

✚ **False and Fraudulent Claims**

If the insured makes any claim which they are aware is false or fraudulent as regards the amount or otherwise, the policy becomes void and any claim thereunder are forfeited.

- b. A loss of use policy provides coverage in the event that an aircraft may become unavailable for use due to an accident that is covered under their hull insurance or would have been but for the deductible. This may be a stand-alone policy or, in the case of some major airline policies may be included as part of the main policy package. The coverage excludes when an aircraft has been a total loss and also excludes claims covered under a breach of warranty provision.

A condition will be included that the aircraft should be returned to operation as quickly as possible. The policy will pay but a set sum per day subject to a maximum number of days and generally contains an excess period: the policy limit may also contain an overall aggregate.

**SUMMARY**

Pass Rate:	100.0%
Highest Score:	56.6%
Lowest Score:	56.6%
Average Score:	56.6%

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

SUBJECT A785  
PRINCIPLES OF REINSURANCE

INSTRUCTIONS

- Three (3) 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 papers.
- **The answer booklet must be handed in personally by you to the invigilator before you leave the examination Hall. Failure to do this may result in your paper not being marked and graded.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A785 - Principles of Reinsurance

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected from 5	102 marks

You are advised to spend not more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

**Part I****Answer ALL questions in Part I.****Each question carries six marks.****Note form is acceptable where this conveys all the necessary information.**

1. Why does an insurance company buy reinsurance cover? (6 marks)

**SOLUTION TO QUESTION 1**

- a. The reasons are:

- + Capacity
- + Risk Transfer
- + Stabilization
- + Portfolio Management
- + Investment Protection
- + Taxation
- + Catastrophe Protection
- + Spread of Risks
- + Development of new products

**(6 marks)**

2. What is a Facultative Obligatory Reinsurance Treaty? (6 marks)

**SOLUTION TO QUESTION 2**

Facultative Obligatory Reinsurance is a facility for a substantial number of individual facultative cessions. The details of the contract are concluded in advance in the form of a treaty but the insurer has the option whether to cede a risk to the treaty or not. The obligatory element rests with the reinsurer, who must accept such cession once they have been made to the facility.

**(6 marks)**

- 3(a) The manager of an insurance company has approached you to assist him to explain how burning costs are calculated. Explain to him how burning costs are calculated.

- (b) What formal requirements are necessary for a normal contract? (3 marks)

**SOLUTION TO QUESTION 3**

Burning costs are calculated by taking the aggregate of individual losses to the layer of reinsurance coverage that is being considered, divided by the total rateable income on a per year basis

**(3 marks)**

- b) They are:

- + Offer
- + Acceptance
- + Consideration
- + Certainty
- + Creation of legal relationship

✚ Lack of illegality

**(3 marks)**

4. Explain the following terms:

(i) Slip

(ii) Reciprocity

(iii) Closing instruction

(2 marks each)

**SOLUTION TO QUESTION 4**

"Slip" is a document on which the basic outline of the reinsurance contract is summarized during the negotiation and on which in the London Market, the reinsurer confirms the amount of liability they are prepared to underwrite.

b) "Reciprocity" is the exchange of comparable business on a proportional basis by one company with another.

5(a) Explain the purpose of claims notification and reporting clauses. (3 marks)

(b) What does a Special cancellation clause allow for and why? (3 marks)

**SOLUTION TO QUESTION 5**

a. "Closing Instruction" is the document sent to the reinsured generally by the Broker. It is a summary of the terms and conditions of the reinsurance that has been placed and the details of the reinsurers that have accepted a part of the risk and the amount of their participation. **(6 marks)**

The clauses state what has to be notified to reinsurers and when and also by what period the reinsurance treaty may have to settle. These are numerous and vary quite considerably between business types and covers **(3 marks)**

6(a) What is a Captive?

(b) What are the forms of finite reinsurance?

(c) Discuss the term: Loss portfolio transfer.

(d) What does EDI stand for and what is the name of the EDI used in the reinsurance market? (6 marks)

**SOLUTION TO QUESTION 6**

a. This will allow the reinsurance agreement to be immediately terminated by either party because of a major alteration to the character of either party and hence to the reinsurance agreement or to the commercial and/or political background against which the reinsurance agreement was originally concluded.

**(3 marks)**

They are risk-bearing entities controlled or owned by an organization whose primary business is not that of insurance

b) They are:

✚ Fully funded – one-off premium

- ✚ Fully funded – one-off premium partially withheld by clients
- ✚ Fully funded-regular premiums
- ✚ Contingent capital
- ✚ Partially funded – regular premiums.

c) This relates to situations where the insured (or reinsured) is looking to cap certain past liabilities for a known premium

d) EDI stands for Electronic Data Interchange – the transfer of data electronically between insurers, brokers and reinsurers in order to carry out the reinsurance contract, the ones used in reinsurance are LIMNET, RINET, WIN and WISE.

- 7(a) What is the purpose and function of the hours clause? (3 marks)
- (b) How does the exposure method of rating work? (3 marks)

### **SOLUTION TO QUESTION 7**

a. The "hours clause" is imported into catastrophe treaties in order to avoid confusion or dispute over what constitutes an "event" as in an earthquake. The clause also enables reinsurers to limit their exposures to a catastrophe loss.

**(3 marks)**

b. Exposure rating is used for excess of loss facultative and higher layer or catastrophe treaties. It reflects the reinsurer's exposure or liability to the risk expressed as a ratio of the reinsured's deductible to the value at risk; the lower the ratio of reinsured's deductible, the higher the reinsurance premium.

**(3 marks)**

8(a) What does product recalls insurance cover? (3 marks)

(b) Pollution is excluded from reinsurance treaties, although it can be covered. In which circumstances can an insurer obtain coverage for pollution?

(3 marks)

### **SOLUTION TO QUESTION 8**

Products recall insurance would cover the cost of recalling all products within a particular batch that was found to be faulty. It can be reinsured but is generally excluded from standard product liability reinsurance, as it is not regarded as liability reinsurance per se.

**(3 marks)**

b. In the UK, coverage will be granted under a treaty for pollution if the event is "sudden and accidental". Treaties with US exposure will exclude all pollution – however arising from North America. There are also specific policies to cover pollution clear-up called environmental impairment liability which are underwritten on a claim made basis. **(3 marks)**

## Part II

### Compulsory question

This question is worth 50 marks

9(a) What are the bases of cover under a non-proportional wording? (10 marks)

(b) The Best Insurance Plc arranged the reinsurance cover for its Property Insurance portfolio as follows:

Retention	-	₦25,000
Treaty Surplus	-	40 lines
Reinsurance Commission	-	30%
Profit Commission	-	7.5%

(i) State the maximum amount of risk that the company can cede to the surplus treaty if the company is approached with a risk of a factory with the sum insured of ₦2.5 billion.

(ii) Calculate the possible recovery from the surplus treaty if a loss of ₦1,200,000 is adjusted and paid by the insurer with a salvage recovery of ₦250,000.

(10 marks)

(c) State the main classes of marine reinsurance. (10 marks)

(d) Amiable Insurance Ltd has a maximum fire retention of ₦5,000,000 per risk and has in place a 12-line surplus treaty. The company has an excess of loss for ₦4,000,000 with excess of ₦1,000,000.

Amiable has accepted a risk with the sum insured of ₦80,000,000. If the company retains the sum of ₦4,000,000 and buys additional facultative reinsurance for the proportion of the risk that cannot be ceded to the treaty.

(i) Share the risk between the Surplus Treaty and Facultative reinsurances.

(ii) If a loss of ₦40,000,000 occurs, apportion the loss to all the facilities involved.

(20 marks)

### **SOLUTION TO QUESTION 9**

a. In general, the following are the main basis of cover. However, note that there are many types of phraseology:

✚ "each loss each risk" – risk excess of loss

✚ "each accident" – accident or third party excess of loss

✚ "each loss occurrence" – catastrophe excess of loss

✚ "in the aggregate each annual period" – stop loss and aggregate excess of loss

**(10marks)**



b. The Best Insurance Plc

Retention: N25,000.00  
Treaty Capacity: 40lines  
 $25,000,000 * 40$   
 $= N1,000,000.00$

Therefore, Total Sum Insured of Risk = N2,500,000,000.00 **(2 marks)**

Risk Apportionment

Retention:	N25,000,000.00	- 1.0%
Treaty:	N1,000,000,000.00	- 40.0%
Unprotected:	N1,475,000,000.00	- <u>59.0%</u>
		<u>-100%</u>

i) The Maximum Amount of Risk the Insurer can send to the surplus treaty is N1,000,000,000.00 or 40% of the value of the risk **(4 marks)**

Gross Loss Paid:	N1,200,000.00
Less Salvage Recovery:	<u>N250,000.00</u>
	<u>N950,000.00</u>

ii) Maximum Recoverable Amount from the surplus treaty will be N950,000.00 \* 40% = N380,000.00

**(4 marks)**

c) The main classes of marine reinsurance are:

- ✚ Hull (often called the "time" account)
- ✚ Cargo (often called the "voyage" account)
- ✚ Liabilities
- ✚ Energy (often called the "rig" account)
- ✚ War
- ✚ Assumed reinsurance
- ✚ Incidental non-marine; and
- ✚ Incidental aviation.

**(2 marks each for any five points)**

d) i)	Retention	- N4,000,000.00	-5%
	Surplus Treaty - 12 lines		
		$12 * 4,000,000.00$	
		$= N48,000,000.00$	-60%
	Facultative	$= N28,000,000.00$	- <u>35%</u>
		<u>N80,000,000.00</u>	- <u>100%</u>
	Loss Paid:	$= N40,000,000.00$	

**(10 marks)**

The apportionment of the loss is as follows:

Reinsured Retained Loss:	5%	N2,000,000.00
Surplus Treaty:	60%	N24,000,000.00
Facultative:	35%	N14,000,000.00

### Part III

Answer THREE of the following FIVE questions.

Each question is worth 34 marks

10(a) What is a catastrophe in reinsurance? (10 marks)

(b) In a property account risk excess treaty for ~~N~~200,000 xs ~~N~~50,000 with an event limit of ~~N~~600,000. If four houses were hit by a storm, each loss being over the sum of ~~N~~250,000 total insured limit. Apportion the loss.

(24 marks)

#### **SOLUTION TO QUESTION 10**

a. This is a specific, sudden, unexpected, shocking and external happening that can be located in time and place (10 marks)

b. Total Gross Claim:  $4 \times 250,000.00 = N1,000,000.00$   
Priority Retained by Cedant:  $4 \times 50,000.00 = N200,000.00$   
Risk Excess of Loss Cover:  $4 \times 200,000.00 = N800,000.00$   
As this exceeds the event limit;  
Reinsurers only pay: N600,000.00  
With cedant paying the remaining: N200,000.00

11(a) What does AVN 41 cover? (10 marks)

(b) What are the differences between proportional and non-proportional reinsurance?

#### **SOLUTION TO QUESTION 11**

a. Under AVN 41, reinsurers are able to control claims negotiation and settlements, determine the scope and details with the original policy wordings and most important, find out the original policy rates or premiums.

(10 marks)

b. Features of Proportional Reinsurance:

- ✚ Sharing of original risk, premium, claims and acquisition costs
- ✚ "Follows the fortunes" of original policy
- ✚ Partnership with insurance company
- ✚ Sometimes difficult to administer
- ✚ Large incomes generated but often profit margins are small
- ✚ High loss frequency and sometime by quantum
- ✚ Sometimes contains catastrophe exposure which is difficult to quantify; technically unlimited exposures

Features of Non-Proportional Reinsurance:

- ✚ Retention is a monetary barrier before the reinsurers become involved
- ✚ The relationship tends to be shorter term

- ✦ Excess of loss premium is calculated individually
- ✦ Easy to administer
- ✦ Small incomes but profit margins can be large
- ✦ Loss frequency will vary dependent upon level, but rating and/or reinstatement conditions can be used to "control" exposures and liability, not only by contract but also territory and type of business. **(24 marks)**

12(a) List and discuss four types of clauses that appear in reinsurance contracts. (10 marks)

(b) List specific information that the cedant will provide in proposing a reinsurance cover. (24 marks)

**SOLUTION TO QUESTION 12**

- ✦ A warranty is a contractual promise made by a reinsured either as to an existing state of affairs or as the things that the reinsured will do in the future
- ✦ A condition precedent is a contractual term which must either be performed in order to bring into force a valid policy, or more usually, to make the reinsurer liable under the policy
- ✦ A condition is a promise by which the reinsurer agrees to perform some act but does not make its right to recover dependent upon performance of the act
- ✦ Innominate terms are terms in contracts such as the inspection clause. The consequences of a breach of an innominate term cannot be laid down in advance, but must depend upon the nature and gravity of the relevant breach

**(10 marks)**

b) The specific information are:

- ✦ Class or classes of business to be covered
- ✦ Original policy sum insured
- ✦ Risk profile
- ✦ General experience
- ✦ Claims experience
- ✦ Exclusions
- ✦ Reinsurance preferences

**(10 marks)**

13(a) List the aspects of the market that would affect the purchase of reinsurance. (10 marks)

(b) What are the three (3) main areas of reinsurance that IT has affected?

(c) Outline the disadvantages of Captives. (12 marks)

**SOLUTION TO QUESTION 13**

a. They are:

- ✚ Price
- ✚ Availability
- ✚ Strength of Competition
- ✚ Developments in loss exposure
- ✚ Potential Claims
- ✚ New Products
- ✚ Coverage

**(10 marks)**

b. The three areas are:

- ✚ Data storage and administration
- ✚ Transaction handling
- ✚ Impact on underwriting

**(10 marks)**

c. The disadvantages are:

- ✚ Capital Requirements: the investment funds are tied up in the captive
- ✚ Captive Management Costs
- ✚ Traditional covers are often competitive on price
- ✚ Tying up senior management time

**(12 marks)**

14(a) What exclusions are generally found under Motor treaties? (10 marks)

(b) List twelve (12) risks that are excluded in public liability reinsurance.

(24 marks)

**SOLUTION TO QUESTION 14**

a. The Motor exclusions are:

- ✚ Those which take out dangerous activities
- ✚ Those which take out hazardous cargo
- ✚ Areas not properly covered by motor insurance
- ✚ Exposure to high-value third party property damage; and
- ✚ Exclusions relating to areas of higher risks.

**(2 marks each)**

b) The exclusions are:

- ✚ Aircraft
- ✚ Vessels and anything to do with shipbuilding, docks, etc
- ✚ Motor Vehicles

- ✚ Contractors engaged in building, wrecking, demolition, toxic waste
- ✚ Dams and sub-aqueros work
- ✚ Mining, quarrying and excavating
- ✚ Erection and work on towers, etc
- ✚ Gases and explosives
- ✚ Tobacco
- ✚ Asbestos

Pollution (other than sudden and accidental)

**SUMMARY**

Pass Rate:	30.0%
Highest Score:	58%
Lowest Score:	25%
Average Score:	41.5%

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**APRIL 2018 EXAMINATION PAPER**

<p>SUBJECT A825 APPLICATION OF REINSURANCE</p>
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**INSTRUCTIONS**

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

READ THE INSTRUCTIONS OVERLEAF CAREFULLY BEFORE ANSWERING ANY QUESTIONS.

## CHARTERED INSURANCE INSTITUTE OF NIGERIA

**A825 - Application of Reinsurance**

## INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper. You should answer all questions in Part I, the compulsory question in Part II and three out of the five questions in Part III.

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

Part I	8 compulsory questions	48 marks
Part II	1 compulsory question	50 marks
Part III	3 questions selected	102 marks

You are advised to spend not more than 45 minutes on Part I.

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.

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

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

You may find it helpful in some places to make rough notes in the answer booklet, if you do this, you should cross through these notes before you hand in the booklet.

Part I

Answer ALL questions in Part I

Each question carries six marks.

Note form is acceptable where this conveys all the necessary information.

1. Explain briefly what is meant by the following clauses:
  - (i) 'Follow the Fortune'
  - (ii) 'Claim Control and Claim Cooperation' clause

**SOLUTION TO QUESTION 1**

- + Follow the fortune: The clause is to protect the reinsured. Concept is for reinsurers to follow the fate of the reinsured regarding losses and premium expenses.
- + Claim cooperation and claims control clause: The clause allows the Reinsurer to determine general in conjunction with the reinsured what actions needs to be taken once a claim is notified. This is because the reinsurer could accept more liability for the claim and also because the reinsurer have more experience of how to handle larger claims.

2. What are the sources where statistical data are obtained by Reinsurers?

**SOLUTION TO QUESTION 2**

- + Claims department.
- + Finance Department.
- + Technical department.
- + Reinsurance underwriters.
- + Security department.
- + Retrocession department.

3. Differentiate between Short Tail and Long Tail class of business.

**SOLUTION TO QUESTION 3**

Short tail means that claims are generally reported quickly and settled quickly by the reinsured e.g property insurance.

Long tail means that a sizeable portion of business takes a long time to come to light e.g pollution and asbestos claims.

4. List and discuss briefly types of Liability risks that an underwriting office might wish to provide cover.



#### **SOLUTION TO QUESTION 4**

- Employers Liability.
- Public Liability.
- Professional Indemnity.
- Products Liability.

5. What are the three (3) main ways of collating claims data?

#### **SOLUTION TO QUESTION 5**

- ✚ Losses occurring basis: All claims events occurring in a given period.
- ✚ Risk incepting basic: All claims emerging from policies commencing in a given period.
- ✚ Claims made basis: All claims reported in a given period.

6. Enumerate any six (6) clauses included in a non-proportional liability treaty which might affect Reinsurers liability.

#### **SOLUTION TO QUESTION 6**

- ✚ Acts in force Clause.
- ✚ Applicable Law Clause.
- ✚ Market exclusions.
- ✚ Stability/Indexation Clause.
- ✚ Aggregate deduction Clause.
- ✚ Extra contractual obligation clause.
- ✚ Terms and cancellation.
- ✚ North American Exclusions clause.

7. What are the main sources of investable funds for a reinsurance company?

#### **SOLUTION TO QUESTION 7**

- ✚ Its capital : (or non-insurance funds)
- ✚ Reinsurance Funds: Funds generated by the business written which include reinsurance premium and cost of claims.

8(a) What is Solvency Margin?

(b) State three (3) amounts of Solvency.

#### **SOLUTION TO QUESTION 8**

This is the product of calculation of the company's assets after all its liabilities into consideration. An insurer is said to be solvent if its verified assets are above those required to provide a level of security to policyholders or reinsured/shareholders.

ii.

- ✚ Guaranteed Fund.
- ✚ Minimum guaranteed fund.
- ✚ Required margin of solvency.

## PART II

### Compulsory question.

This question carries 50 marks.

- 9(a) Discuss 'Premium Portfolio Transfer' mechanism.
- (b) As the Reinsurance Manager of Morfat Insurance Plc, you have been given the task of calculating Profit Commission due to your office as at 31/12/2017 using the following information:

Class of Business	General Accident
Treaty Type	Surplus
Deficit carried forward till extinction	
Portfolio:	Premium 35%
	Losses 90%
Profit Commission Rate	15%
Ceding Commission Rate	27.5%
Premium ceded in the current year	2,500,000
Management expenses	7.5%
Premium Portfolio (2016)	400,550
Losses paid in the current year	200,000
Outstanding losses as at 31/12/2017	150,000
Loss Portfolio (2016)	250,000
Deficit as at 31/12/2016	50,200

Calculate the additional premium due to its reinsurer, if any. Base your computation on the above information.

### SOLUTION TO QUESTION 9

- ✚ To transfer unexpired liability under a treaty from one reinsurer to another.
- ✚ It takes place at the anniversary of a treaty programme.
- ✚ It relieves the old reinsurer of any liability in respect of unexpired portion of the risks accepted in the preceding year.
- ✚ The portfolio therefore represents the share of unexpired premium of the old reinsurer subject to deduction of commission.

ii.

#### **Income**

Premium ceded to treaty (2017)	2,500,000
Losses outstanding the previous year	250,000
Unearned prem reserve b/fwd	400,550
Total Income	<b>3,151,050</b>

#### **Outgo**

Claims paid in the current year	200,000
Commission paid in the current year	687,500
Unearned premium reserve 2017	875,000
Management expenses	187,500
Losses outstanding as at 31/12/17	135,000
Loss b/fwd from previous year	50,000
<b>Total Outgo</b>	<b>2,135,200</b>
Balance (income-outgo): 3,151,500-2,135,200	
=	1,015,850
<b>Profit commission rate @ 15% = ₦152,377.50</b>	

### **PART III**

**Answer THREE of the following FIVE questions**

**Each question is worth 34 marks.**

10(a) What are the reasons for claims reserves.

(b) Name three (3) main types of claims reserves with examples.

#### **SOLUTION TO QUESTION 10**

- ✚ It serves in estimating the result of the current year. The gives a clear indication of the profit/loss account.
- ✚ It affects the experience of the reinsurance treaties. The more premium that has to be maintained for loss reserves the lees the available investment income.
- ✚ Claim reserves has serious fiscal consequences if falsely estimated.
- ✚ Claims reserves are entered in the annual account and thereby being reported to shareholders which may have serious effect on profit/loss of the company.
- ✚ It provides a serious signal to underwriting department should adjustment/cancellation policy.

#### **ii.**

- Incurred But Not Reported (IBNR)
- Bulk Reserves: On individual treaties or whole accounts.
- Individual case reserves e.g Excess of loss contracts.

11. What are the factors influencing the choice of Brokers by an underwriting office in arranging its reinsurance programmes.

**SOLUTION TO QUESTION 11**

- + Financial stability and probity of the brokers: Holding on to clients' money for unreasonable length of time likely to cause dissatisfaction.
- + Expertise of the brokers: Knowledge of the business and of the market relevance to Insurer's needs.
- + Ability of Brokers to offer "value added" security vetting of reinsurers.
- + What the Insurer actually require from the Brokers; Risk portfolio analysis; review claim information; partnership/collaborative exercise.

12. A rating agency use various factors to assess a company's claims paying ability which include the financial strength, operating performance and market profile. List and explain three (3) factors from each of these elements.

**SOLUTION TO QUESTION 12**

- + Amount of capital and company's ability to access capital.
- + Quality and effectiveness of its reinsurance programme.
- + Adequacy of technical reserves.
- + Quality and spread of investments.
- + Liquidity

**OPERATING PERFORMANCE.**

- + Profitability
- + Sources of business/investment/income/nature of premium.
- + Management experience and associated objectives.

**MARKET PROFILE.**

- + Exposure to event risk.
- + Underwriting and claims management.
- + General and financial management.
- + Competitive market research.

13. Discuss the main ways by which the profitability of a treaty can be expressed?

**SOLUTION TO QUESTION 13**

- + Ratio of management expenses to net ceded or written premiums.
- + Ratio of gross claims incurred to earned premiums.
- + Ratio of commissions and other costs to ceded or written premiums.
- + Ratio of gross ceded premiums to net ceded/written premiums.

14. As a Reinsurance Manager, discuss six (6) main issues you would consider whilst underwriting a proportional treaty.

**SOLUTION TO QUESTION 14**

- + Commission.
- + Scope of the treaty.
- + Historic results.
- + Retention of the Reinsured.
- + Financial issues concerning settlement of accounts, cash calls, deposit and portfolio transfer.
- + Historic results.
- + Required capacity of the treaty, exposures to catastrophe.
- + Basis of the treaty.
- + Legal issues concerning rights of the insurer and the reinsured.

**SUMMARY**

Pass Rate:	60.0%
Highest Score:	67%
Lowest Score:	40%
Average Score:	53.6%

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**APRIL 2009 EXAMINATION PAPER**

<p>SUBJECT A930 INSURANCE BROKING</p>
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**INSTRUCTIONS**

- Three (3) 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 papers.
- **The answer booklet must be handed in personally by you to the invigilator before you leave the examination Hall. Failure to do this may result in your paper not being marked and graded.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

**A930 - Insurance Broking**

**INSTRUCTIONS TO CANDIDATES**

Three hours are allowed for this paper.

You should answer all questions in Part I, the compulsory question in Part II and **three** (3) out of the five (5) questions in Part III.

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

Part I	48 marks
Part II	50 marks
Part III	102 marks

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

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 should cross through these notes before you hand in the booklet.

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

- Fill in the information requested on the answer booklet and on form B.

## A930 – INSURANCE BROKING

Answer ALL questions in Part I.

Each question carries 6 marks.

Note form is acceptable where this conveys all the necessary information.

1. What are the time cost of a mistake and poor services to a Broker?

**Solution 1**

- Loss of the client
- Reputation
- Litigation risk
- Cost of deference
- Direct cost of a loss
- Impact on PI
- Hidden costs

2. Mention any six (6) techniques involved in sales process?

**Solution 2**

- Prospect generation
- Managing the first meeting/identifying requirements
- Written reports
- Presentations
- Dealing with objection
- Closing

3. Mention six (6) insurance regulatory and trade associations in Nigeria.

**Solution 3**

- NAICOM
- NIA
- NCRIB
- CIIN
- ARIAN
- ILAN
- PRAN etc.

4. Mention six (6) duties owed by Brokers to their clients.

**Solution 4**

- Follow the lawful instructions of their principal
- Exercise reasonable skill and care
- Fiduciary duties
- Conflict of interest



- Secret profits
- Confidentiality
- Personal performance and chains of brokers

5. Sales theory is premised on three (3) ideas. Mention them.

**Solution 5**

- Consumer can be persuaded to buy more through sales techniques
- Customers have a resistance to purchasing and the skilled sales person can overcome this
- The key task of the business is to organize an effective sales effort.

6. Mention three (3) techniques involved in marketing research.

**Solution 6**

- Survey of clients and markets
- Analysis of published information
- Personal interview with clients

7. What factors determine an insurer capacity?

**Solution 7**

- Its perception of the risk
- The risk itself
- The insurers size
- Its willingness to use, and the availability of reinsurance.

8. Mention any six (6) constituent parts of the marketing environment.

**Solution 8**

- The internal organization of the company
- Competition
- Distribution to customers
- The supply chain
- The world and domestic economic climate
- Socio – cultural factors affecting & influencing customers
- The political climate
- Regulation
- Consumerism
- Other global issuing e.g. threat of terrorism etc.
- Issues specific to the insurance sector

Part II

Compulsory question

This question carries 50 marks.

9. Regulation of insurance business is critical to the survival of the insurance industry in Nigeria.
- (a) Mention five (5) areas of insurance brokers regulation by NAICOM.
- (b) (i) As an insurance broker, explain to your client the structure and operators in the Nigeria insurance industry.  
(ii) What are the minimum capital requirements for setting up insurance and reinsurance companies in Nigeria.
- (c) What are the fundamental duties of a broker when placing a risk?
- (d) What are the basic duties of a broker in respect of the negotiation of a claim?
- (e) What advantage has brokerage over free-based remuneration in insurance brokerage business?

**Solution 9A**

- Registration or licensing of a broker
- Premium income
- Commission
- Customer due diligence
- Bank account, etc.

9Bi

- Sellers - Insurers: takaful insurance companies, composite companies, general business, Reinsurers, Life Companies
- Buyers – Individuals, corporate, public sector, Govt.
- Intermediaries – Agents, Brokers, Consultants, Insurance Brokers & Reins Brokers.
- Service providers – Motor engineers, loss adjusters, surveyors, superintending agents

9Bii

- Life Coy - N2billion
- General Business - N3 billion
- Composite Companies - N5 billion
- Reinsurance Companies- N10 billion

9C

- Where necessary, obtaining a completed proposal form
- Obtaining and presenting (authenticated) claims experience
- Obtaining other information, through meetings, questionnaires etc.
- Surveys
- Presenting information to insurers
- Analyzing all of the information gathered
- Analyzing the merits of different terms
- Presenting and explaining terms to the client
- Giving instructions to the insurer
- Dealing with cover notes and policy documentation.

9D

- Giving immediate notification of losses
- Advising the insured of their rights & obligations under the policy
- Arranging for the completion of appropriate claims forms
- Ensuring that, where necessary, adjusters are appointed
- Assisting insured in preparing documents and information in support of the claim
- Collecting claims payments from insurers
- When a major loss occurs, attending site meetings with the adjuster and the insurer's personnel
- Post loss surveys
- Providing staff experienced in the adjustment of complex claims, e.g. biz interruption.

9E

- Simply to operate
- Well understood by all participants & easy to share between Brokers
- Allows Brokers to receive windfall gains when premium rise
- Generally links a Broker's income to economic growth
- Reduces Brokers' need to negotiate income in addition to the cost of premiums
- The Brokers income earns in an apparently painless way for the client
- Pays the Broker for work done for the client as well as done for insurers
- Brokers put in a unique position in that, although for the majority of the things they do they are the agent of their client, they receive their payment from insurers.

10(a) Identify the various intermediaries traditionally involved in placing insurance business.

(b) Identify the role of the broker in risk management.

## **SOLUTION 10**

- Full time insurance brokers, agents and consultants and others
- Part time agents, consultants and others
- Travel agents, airlines and tour operators
- Property companies, landlords and managing agents
- Professionals, such as solicitors and surveyors
- Retailers and motor traders
- Banks, building societies and other financial institutions
- Newspapers and magazines

### 10B

- Risk Identification survey and subsequent discussions
- Property loss prevention and control
- Business interruption analysis
- Product liability hazard analysis
- Employee safety
- Fire engineering design and consultancy
- Loss analysis and projection
- Assessment of maximum possible and probable loss values
- Self-insured fund and captive management
- Contingency planning, programme design
- Programme monitoring
- Crisis management
- Post-Loss surveys
- Innovative risk-transfer programme design.

- 11(a) (i) Define material Fact.
- (ii) Mention the facts that do not necessarily need to be disclosed when proposing insurance business.
- (iii) How is the breach of duty to disclose modified by the Insurance Act 2003
- (b) Apart from the regulatory requirement, what other reasons are there for a broker to deal with a wide variety of market?

## **SOLUTION 11**

a)i) Any fact or circumstance(s) that would influence a prudent insurer in deciding whether a risk is acceptable and, if so, the premium, terms and conditions to be applied.

ii)

- Fact of law
- Fact which the underwriter is aware of

- Fact which lessen the risk
- Fact of public notoriety (knowledge)
- e.t.c.

iii) Insurers should ask for any information they consider to be material in their proposal form. Any information not specifically asked for, should not be held against the proposer.

b)

- Reduce exposure to sudden change in underwriting philosophy
- Reduce exposure to the insolvency of an insurer
- Provide the widest knowledge of what is available
- Ensure the competitive terms are obtained
- Ensure the availability of capacity
- Ensure the ability to deal with unusual risks.

- 12(a) (i) What is Cross-class retention?  
 (ii) What argument are there for and against cross-class retention?

- (b) (i) Mention three approaches to implementing the client money rules.  
 (ii) What information are required to conclude a distance contract?

**SOLUTION 12**

a)i) Cross-Class Retention means mixing short-tail claims e.g. property, with long-tail claims e.g. employers' liability

ii) Argument For:

- The insured only has to worry with two numbers, the retention for each class and the aggregate as opposed to different amounts under different policies
- The cross-class aggregate retention will be less than the sum of individual aggregate
- Provide economy of scale in the cover premium
- Can make retention by a funding vehicle, such as a captive, easier

Argument Against:

- Mixing long-tail and short-tail claims is always problematic
- It means that the insured's retention "account" cannot be closed for many years
- Makes dealing with changes in company structure, acquisitions and disposal more difficult
- Insurers, having suffered through giving combined aggregate that were too low in the past, are now more conservative
- They are difficult to unwind if there is a change in the business or management attitude
- Most insurers have different capacities and treaties for long and short-tail business and this leads to complications

- It often creates “clash” exposures
- They can be inflexible.

b)i)

- A firm can hold money as agent for one or more insurers
- Segregate client money into a trust bank account
- Do both of the above

ii)

- Name of the insurer
- Type of insurance and cover
- Significant features and benefits
- Significant and unusual exclusions and limitations
- The total price to be paid by the retail customer for insurance contract
- Notice of the possibility that other taxes or cost may exist in respect of the insurance contract that are not payable via the insurance intermediary or imposed by law
- The existence of absence of the right of cancellation
- A telephone number or address to which a claim may be notified.

- 13(a) (i) What is the purpose of Financial Ombudsman Service?  
 (ii) Outline the category of people considered by the Financial Ombudsman Service in the discharge of their duties.  
 (iii) How are complaint handled?
- (b) (i) Having a niche market is one of the strategic intents of a forward-looking insurance brokerage firm. Explain what it takes for a broker to be Market-led.  
 (ii) What is White Labelling?

**SOLUTION 13**

a)i)

- To help resolve disputes between consumers and financial firms – without taking sides

ii)

- A private individual
- A business with a yearly turnover of under N1m
- A charity with a yearly income of under N1m
- A trust with a net asset of under N1m
- Employees covered by a group insurance policy that is held in the name of their employer.

iii)

- Decides what is believed is fair and reasonable in the circumstance of each particular case, taking into account relevant laws, codes of practice, regulatory rules and guidance
- Its approach depends on the facts and merit of each individual case. It generally involves mediation and reconciliation
- It can be quicker and more efficient than formal investigation.

b)i)

- Provide a consistent level of good client service and should aim to provide excellent client service
- Build a depth and quality of relationship that enables them to understand the requirements of the client
- Be attentive to price and in particular understand the clients' attitude to price
- Do all of this efficiently in a way that enables them to a reasonable profit.

ii) While labelling describes those circumstances where an insurance product may be designed and negotiated by a Broker working with an insurer but is branded or badged with another name, normally that of a retailer or other distributor of an insurance product. At the moment, this type of activity is largely confined to products aimed at retail customers such as extended warranty for domestic appliances or pet insurance.

14(a) Marketing as defined by the UK Institute of Marketing is the management process which identifies, anticipates and supplies customer requirements efficiently and profitably. Underpinning this simple statement is a number of core principles. Identify them.

- (b)
- (i) What is the market definition of contract certainty?
  - (ii) Proposal forms are required for certain specialized risks and the majority of medium-sized and smaller risks. Identify any five (5) such class of risk.

#### **SOLUTION 14**

a)

- Marketing focuses attention towards the needs and wants of the market place
- Marketing is concerned with satisfying those needs and wants
- Marketing of necessity involves analysis and planning
- Marketing requires that business decisions must be made with a careful and systemic consideration of the customer
- Marketing is about meeting customer needs and wants and responding and reacting to changing trends
- Marketing-led organizations tend to have different systems of management compared to other styles of business

- Marketing is not a specific function, but must be the basis of the underlying philosophy of the business.

b) i) Contract Certainty is achieved by the completion and final agreement of all terms (including signed down lines) between the insured and insurers before inception.

ii) Identify

- Small package risks
- Personal lines such as motor, household and craft insurance
- Fidelity guarantee or "crime"
- Professional Indemnity and errors and omission covers
- Directors' and Officers' Liability and Employment Practices and Pension Trustee Liability

### **SUMMARY**

Pass Rate:	20.0%
Highest Score:	65.0%
Lowest Score:	12%
Average Score:	32.5%



**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**APRIL 2018 EXAMINATION PAPER**

**SUBJECT A935  
MANAGEMENT**

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

**A935 - MANAGEMENT**

**INSTRUCTIONS TO CANDIDATES**

Three (3) hours are allowed for this paper

You should answer all questions in Part I, the compulsory question in Part II and Three (3) out of five (5) questions in Part III

The paper carries a total of 200 marks distributed as follows

Part I	48 marks
Part II	50 marks
Part III	102 marks

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

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

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

## **Part I**

**Answer ALL question in Part I**

**Each questions carries six (6) marks**

**Note form is acceptable where this conveys all the necessary information.**

1. Mention three (3) ways the line Manager can evaluate the effectiveness of training on subordinates.

### **SOLUTION 1**

Training evaluation:

- Asking direct questions before and after training.
- Spot-checking on work done in the new areas of training.
- Observing any increased confidence and use of initiative.
- Checking error-rate before and after training.
- General improvement of relations between stall and supervisors.

2. List four (4) areas of competency requirement for a Manager.

### **SOLUTION 2**

Competency Area for a manager:

- Customer focus.
- Leadership.
- Planning & organisation.
- Developing others.
- Problem solving.
- Charge management.
- Working together.

3. Mention three (3) of the common problems organisations experience in the management of projects.

### **SOLUTION 3**

Common problems in project management;

- Projects completed late.
- Projects running over budget.
- Failure to achieve goals as a result of failure to all parties.
- Results only achieved at the expense of severe disruption to routine operations.

4. Brainstorming as an individual requires three (3) steps. Mention them.

### **SOLUTION 4**

Steps to Individual Brainstorming:

- Write down the problem.
- Write down at least 20 ideas and their opposites.
- Use lateral thinking (looking at things in different ways)

5. Office Notice boards in one of the channels management communicate with staff. Mention six other channels.

**SOLUTION 5**

Channels of communications.

- Bulletin sheets.
- Staff handbook.
- Formal team briefings.
- Informal discussions.
- Audio/ video cassettes.
- Memoranda.
- Staff meetings.
- Electronic mails.
- Company journal.

6. Douglas Migrejour talked about theory X,Y,Z of motivation. Mention four (4) elements of theory Z.

**SOLUTION 6**

Theory Z of Mcgregor:

- Humans are basically rational beings: open to and controlled by reason.
- Humans are inherently neither good nor evil, but are open to both.
- Humans are driver by intellect.
- Humans are basically interdependent with others in interaction.

7. Dr. John Adair talked about action Centred leadership style. Briefly explain the three (3) elements of the style of leadership.

**SOLUTION 7**

Action Centred Leadership:

- Task: The primary need to get the job done.
- Team: The need to build a cohesive unified team.
- The Individual: Integrating the individual needs into team objectives.

8. Financial management is chiefly is chiefly concerned with raising of capital to finance the organisation's operations. Mention four (4) sources of finance.

**SOLUTION 8**

Sources of Finance.

- Share capital.
- Bank Loans.
- Internal Funding.
- Government Funding.

## **PART II**

### **Compulsory Question**

**This Question carries 50 marks**

9. Information within an organisation can be analyzed into three (3) levels.
- (a) Mention and briefly explain the three (3) levels. (18 marks)
- (b) Explain management control and operational control to show their meanings and differences. (20 marks)

### **SOLUTION 9A**

#### **Levels of Information**

- **Strategic**: Used by senior managers to plan the objectives of their organisation and to assess whether the objectives are being met.
- **Tactical Information**: Used by middle- level management to ensure that resources of the business are employed efficiently and effectively to achieve the strategic objectives of the organisation.
- **Operational Information**: Used by front-line Managers such as supervisors to ensure that specific tasks are planned and carried out properly.

### **B.**

#### **Management control:**

- A process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of organisation objectives.
- Only managers are involved.
- Operates within the framework of strategic plans.
- Success of control is indicated by efficiency and effectiveness of resource allocation.

#### **Operational Control:**

- A process of ensuring that specific tasks are carried out effectively and efficiently.
- It focuses on individual tasks.
- Carried out within strictly defined guideline issued by management control.

## **Part III**

**Answer THREE (3) out of the following FIVE (5) question**

**Each question carries 34 marks**

- 10(a) Define marketing mix? (6 marks)
- (b) Explain the six (6) element (6Ps) of marketing mix? (12 marks)

- (c) Explain marketing research and competitor research to show their meanings and differences. (20 marks)

### **SOLUTION 10A**

Marketing mix is a term used to describe the combination of controllable marketing variables used to carry out a marketing strategy in pursuit of the firm's objectives in a target market.

B.

#### **6 Ps of Marketing Mix**

- **Product**: product or service being offered.
- **Price**: Fees charged and the terms associated with its sale.
- **Promotion**: Communication programme associated with marketing the programme.
- **Place**: The distribution and logistics involved in making the product / services available.
- **People**: People are essential elements in the production and delivery of services. The quality of the service is determined by the quality and behaviour of the organisations staff.
- **Process**: The procedures, routines and policies which are used to deliver a service to customer.

C.

#### **Marketing Research:**

- This is focused on customers and customer buying behaviour in an existing market: both existing and potential customer.
- Can be done by in-house staff interviews, questionnaires and surveys.
- It is used for expansion of the organisations market.

#### **ii. .... Competitor Research:**

- It is about competitors.
- It involves discovering as much as possible about the activities of a competitor.
- This can be done through the competitor's literature, financial statements, Industry reviews and the experiences of its customers.

- 11(a) Look into an organisation of your choice and identify the SWOT of the organisation. (Indicate the industry the organisation belongs. (20 marks)

- (b) Explain with examples: fixed cost, variable cost and sunk cost.

(18 marks)

### **SOLUTION 11A.**

Candidates are expected to analyse the acronym SWOT in relation to the organisations they choose.

S – Strength of the organisation (Internal).

W- Weakness of the organisation (Internal)

O- Opportunities of the organisation (External)

T- Threats of the organisation (External)

B.

- **Fixed cost:** Cost that does not vary with the organisation's output e.g. office Rent.
- **Variable Cost:** Cost that varies with the organisation's output e.g Manpower.
- **Sunk cost:** Cost that has no bearing on whether or not the organisation continue to provide its services e.g cost of computing equipment bought last year.

12(a) Give three (3) reasons each on why you think that the following business concepts are gaining popularity:

(i) Outsourcing

(ii) Call Centres (Telephony)

(20 marks)

(b) There are six (6) most important obstacles to international trade. Mention them.  
(18 marks)

### **SOLUTION 12A**

Outsourcing:

- The perceived cost benefits.
- The access it provides to a wider skills base.
- The need to survive the effects of fast-changing technology, narrow margin and fierce competition.

ii. Call Centres (Telephony)

- People now have less time.
- Consumers have found it easier, quicker, and preferable.
- Consumers want quick service and no longer tolerant of poor or slow service.
- Companies have found it to be cost – effective.

**B. Obstacles to International Trade.**

- State intervention aimed at restricting International trade.
- Poor transport services.
- Poor communication
- Non-standardisation of business practices, laws, tariffs and taxes.
- Lack of respect for the rule of law.
- Currency and exchange rate risks.

- 13(a) We might not be able to clearly define future jobs, we may be able to identify skills for a future manager. Name six (6) skills for a future manager.  
(18 marks)
- (b) List five (5) examples each of financial rewards and fringe benefits.  
(10 marks)
- (c) State four (4) reasons why home working (working from home) should not be encouraged.  
(10 marks)

### **SOLUTION 13A**

Skills of the future manager.

- Commercial awareness.
- Flexibility.
- Adaptability.
- Ability to learn rapidly.
- Intellectual dexterity.
- Decisiveness.
- Effective communication.
- Marketing and selling skills.
- Ability to take broad views.
- Skills in interpersonal relationship and technical competence.

### **B.**

- Financial Rewards: Salary, Allowance, Bonuses, Productivity payments, Overtime payments, Profit sharing/ share option schemes.
- Fringe benefits: Holiday entitlement, non-contributory pension, medical Insurance, company cars, subsidized loans, co-ownership schemes, catering, welfare and recreational facilities.

### **C. Problems with Homeworking:**

- The office is a system. The absence of one operator may stall others.
- Health and safety aspects can apply to the home working area.
- There may be computer security issues to overcome.
- Isolation and lack of interactivity may be a problem.
- Communication costs may be expensive.
- Concept subject to above.



- 14(a) Good information flow can be said to be directed towards three (3) main aims. State them. (6 marks)
- (b) Dr. Meredith Belbin has identified eight (8) district team roles. Mention six (6). (12 marks)
- (c) Herzberg has five (5) motivation factors and five (5) hygiene factors:  
(i) State the five (5) motivation factors (10 marks)  
(ii) State the five (5) hygiene factors

### **SOLUTION 14A**

Aims of Good Information Flow:

- To bring about change smoothly.
- To achieve understanding downwards.
- To achieve understanding upwards.

B. **Team Roles:**

- Coordinator, Shaper, Plant, Monitor Evaluation Implementer, Resource Investigator, Team Worker, Completer.

c. **Motivation Factors:**

- Achievement
- Recognition.
- Work Itself.
- Responsibility.
- Advancement.

li **Hygiene Factors:**

- Company policy & administration.
- Supervision.
- Salary.
- Relationships.
- Working Conditions.

### **SUMMARY**

Pass Rate:	42.0%
Highest Score:	70%
Lowest Score:	17%
Average Score:	50.7%

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

APRIL 2018 EXAMINATION PAPER

SUBJECT A940 FINANCE AND ACCOUNTING
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INSTRUCTIONS

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A940 – Finance and Accounting

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer **all** questions in Part I and **four** out of the six questions in Part II

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

Part I	48 marks
Part II	152 marks

You are advised to spend no more than 45 minutes on Part I. You are strongly advised to attempt ALL the required questions to gain maximum possible marks.

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 should cross through these notes before you hand in the booklet.

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

- Fill in the information requested on the answer booklet and on form B.

**Answer ALL questions in Part I.**

**Each question carries six marks.**

**Note form is acceptable where this conveys all the necessary information.**

- 1(a) State the statement of Financial Position (Balance sheet) equation.
- (b) Briefly explain the following terms as elements of Financial Statement:
- (i) Assets
  - (ii) Liabilities
  - (iii) Equity
  - (iv) Income

**SOLUTION TO QUESTION 1**

- a. Statement of financial position (balance sheet) equation:

Assets = Equity + Liabilities

Or

Total Assets = Shareholders Fund + Liabilities

- b. **Technical Definitions**

- i. Assets are resources controlled by an entity as result of past events from which future economic benefits are expected to flow into the entity. e.g land and building, plant and machineries etc
- ii. Liabilities are present obligation of an entity arising from past events, the settlement of which are expected to result in an outflow of resources that embody economic benefits e.g Claim payable. Loans and overdrafts etc
- iii. Equity is the residual interest in the entity after the value of all its liabilities has been deducted from its assets. It can also be referred to as net asset.
- iv. Income is the increase in economic benefit of an entity in the form of inflow of cash, enhancement of assets or reduction of liabilities other than those contributed by the providers of equity it includes Revenue and Gains
- v. Expenses are decrease in economic benefit of an entity in the form of outflow of cash, depletion of assets or increase in liabilities for a particular period other than those with drawn by the providers of capital.

2. Mention three (3) conditions when a subsidiary company need not to be included in the consolidated account of the parent company.

**SOLUTION TO QUESTION 2**

Conditions in which a subsidiary company will not form part of the consolidated account of the parent company

- ✚ Severe long term restriction which substantially hinders the parent company's right over the Assets or Management of the subsidiary.
- ✚ Inclusion is not material for giving true and fair view.
- ✚ Necessary information cannot be obtained without disproportionate expense or undue delay.
- ✚ The Activity of the subsidiary company is so different from those of other group undertakings as to make inclusion incompatible with the true and fair view.
- ✚ Health, safety and welfare at work of employees
- ✚ Involvement of employees in the affairs, policy and performance of the company

3. Briefly explain the following:

- (i) Variable Cost
- (ii) Fixed Cost
- (iii) Sunk Cost
- (iv) Opportunity Cost

### **SOLUTION TO QUESTION 3**

#### ✚ **Variable Cost**

These are costs that varies in direct linear relationship to activity level. For instance if the commission rate is 15% of premium, then for every ₦1 of premium, an insurer pays 15kobo to its intermediary.

#### ✚ **Fixed Cost**

These are costs that remains constant for specified period of time regardless of the level of activity. They are sometimes therefore called period fixed costs because in the long term they vary.

#### ✚ **Sunk Cost**

These are those already incurred in which will be totally unaffected by the proposal alternatives. They are relevant for decision making.

#### ✚ **Opportunity Cost**

These are those costs which measures the sacrifice of choosing one alternative course of action which requires another alternative to be discarded.

#### ✚ **Incremental Cost**

This basically establishes the additional cost or reverses resulting from a decision. It is also referred to as marginal cost

4. List three (3) stakeholders of the insurance company and state their information needs.

### **SOLUTION TO QUESTION 4**

- ✚ Policyholders
- ✚ Shareholders/Investors
- ✚ Regulators

- ✚ Tax Authorities
  - ✚ Credit Rating Agencies
  - ✚ Management
  - ✚ Employees
  - ✚ Brokers and Tied Agents
  - ✚ Re-insurers
- 
- ✚ **Policyholders:** they are interested in the ability of the company to pay claims.
  - ✚ **Shareholders/Investors:** they are interested in the returns on equity and solvency of the company.
  - ✚ **Regulators:** they are interested in the performance and compliance with regulations, policyholder rights and protection and Company's payment of levies due.
  - ✚ **Tax Authorities:** they are interested in the profitability of the insurance company and that pre-tax profits are not understated.
  - ✚ **Credit Rating Agencies:** they are interested in the performance of the company as well as adequate disclosure of relevant information to aid their analysis.
  - ✚ **Management:** they are interested in the solvency as well as profitability of the company, the business variance analysis, forecasts, budget, financing and adequacy of their policies in product pricing and development.
  - ✚ **Employees:** they are interested in the solvency as well as profitability of the company line of business and the going concern of the entity.
  - ✚ **Brokers and Tied Agents:** they are interested in the solvency as well as profitability of the company line of business and the going concern of the entity. And also in the ability of the company to pay legitimate claims.
  - ✚ **Re-insurers:** they are interested in the clients handling procedures as well as the underwriting practices so as not to be exposed to uncalculated risks.

**(Marking Guide: 1 Mark each for 3 correct stakeholders. 1 Mark each for correct information needed/explanation provided.)**

5. Define the term 'Management Account'. Highlight the four (4) components of the definition.

**SOLUTION TO QUESTION 5**

- a. Management accounting is the process of identifying, measuring and communicating economic information to permit informed judgment and decisions by users of the information.
- b.
- Identifying
  - Measuring
  - Communicating
  - Economic Information
  - Informed judgment
  - Decisions
  - Users

6. List three (3) differences between Financial Accounting and Management Accounting.

**SOLUTION TO QUESTION 6**

	<b><u>Financial Accounting</u></b>	<b><u>Management Accounting</u></b>
i.	Financial Accounting is concerned with the provisions of information, to parties outside the organization	Management Accounting is concerned with provisions of information to the parties within the organisation for decision making.
ii.	Financial Accounting is historical in nature.	Management Accounting is Futuristic.
iii.	It is guided by statute as to the format and content of the information to be provided.	It is not regulated by law or statute

7. The annual budgeting process defines long-term plans. In the budget, a typical insurance company will plan for many things. Mention four (4) of the items that appears in their budget.

**SOLUTION TO QUESTION 7**

- ✚ Premium Income
  - ✚ Commission payable
  - ✚ Claims payable
  - ✚ Cost
  - ✚ Profit etc
8. Define the following terms as they relate to Insurance business:
- (i) Ceded Premium
  - (ii) Direct Written Premiums
  - (iii) Incured claims
  - (v) Earned Premiums

**SOLUTION TO QUESTION 8**

- i. **Ceded Premium**  
This is the amount of premium (fees) used to purchase reinsurance.
- ii. **Direct Written Premiums**  
This is the total premiums received by an insurance company without any adjustment for ceding of any portfolio of these premiums to the reinsurer.

- iii. **Incurred Claims**  
These are paid claim plus amounts held in reserve for those purpose that have been incurred (due for payment) but not paid.
- iv. **Risk Based Capital (RBC) Ratio**  
This is calculated by dividing the company's capital by the minimum amount of capital regulatory authorities have deemed necessary to support the insurance operation. It is used to identify insurance companies that are poorly capitalized.
- v. **Earned Premium**  
These are premiums earned in an accounting period to meet the risk exposures of the enterprise during that period and are determined as written premiums adjusted by the unearned premium provisions at the beginning and end of the accounting period.

## Part II

Answer THREE (3) of the following six (6) questions.

Each question carries 38 marks.

- 9(a) Because of the complexity of the insurance market and the uneven balance between the parties to a contract of insurance, the normal rule of caveat emptor (Let the buyer beware) is unsatisfactory. It has become more and more seen as a governmental function to supervise or regulate insurance concerns operating in or from their territory. Mention and explain twelve (12) forms in which the regulations or supervisions may take.  

(24 marks)
- (b) Mention and explain seven (7) Non-life establishment directive and their requirements.

### **SOLUTIONS TO QUESTION 9**

- a.
  - i. Requirements for compulsory insurance
  - ii. Authorization of insurer for some or all classes of business
  - iii. Control of manager etc
  - iv. Regulation of premium rates
  - v. Regulation of policy conditions
  - vi. Limitation of expenses charges
  - vii. Financial requirements – deposit minimum capital, solvency
  - viii. Requirements for annual (or more frequent returns)
  - ix. Powers of direction and other intervention (particularly relating to assets).
  - x. Controls on intermediaries, commission payment etc.
  - xi. Nationalization and the prohibition of overseas competition.
  - xii. Compulsory compensation schemes for affected policyholders and claimants.



- b.
  - i. All direct insurers operating in a member state require official authorization such authorization may be limited to a particular class or classes.
  - ii. Authorized insurers must adopt one of a number of prescribed legal forms e.g incorporated companies, friendly societies etc) and must limit their business to insurance.
  - iii. A scheme of operations must be submitted and a minimum guarantee fund possessed
  - iv. It is the responsibility of the member state in which the head office is situated to verify the state of solvency of the insure.
  - v. The member state in which the head office is situated must ensure that an adequate solvency margin is kept in respect of the insurer's entire business.
  - vi. The member State in which the head office is situated must require annual accounts covering all the insurer's operations and its financial situation and undertakings operating in a territory are to furnish returns and statistical documents necessary for supervision.
  - vii. Powers of intervention including requiring a business plan- are available to authorities where insurers fail to meet margins and ultimately they may withdraw authorization.
  - viii. A section imposes similar rules on agencies and branches operating in a territory where the head office is situated outside the EC
  - ix. An annex to the directive lay down a classification of risk according to classes of insurance.

10. BATA Nigeria Limited is considering a capital investment proposal, where two alternatives involving differing degrees of mechanization are being considered.

	Machine 1	Machine 2
	₦	₦
Cost	2,180,000	8,050,000
Residual value	280,000	1,500,000
Annual cashflows	1,000,000	2,500,000

Both investments would have a five year life span. Depreciation is provided on a straight line basis. The cost of capital is 15%.

You are required to calculate for each alternative:

- (a) Net Present Value
- (b) Pay back period
- (c) Accounting Rate of Return
- (d) Advise the company based on each of the investment appraisal techniques.

**SOLUTION TO QUESTION 10**

a. Calculation of Net Present Value

	Year	Items	Cash Flow (₦)	Discount Factor (15%)	Present Value (₦)
Machine 1	0	Cost	(2,780,000)	1	(2,780,000)
	1 – 5	Inflow	1,000,000	3.3522	3,352,200
	5	Residual Value	280,000	0.4972	139,216

**711,416**

	Year	Items	Cash Flow (₦)	Discount Factor (15%)	Present Value (₦)
Machine 2	0	Cost	(8,050,000)	1	(8,050,000)
	1 – 5	Inflow	2,500,000	3.3522	8,380,500
	5	Residual Value	1,500,000	0.4972	745,800

**1,076,300**

b. Calculation of Payback Period

$$\text{Payback period} = \frac{\text{Initial Outlay}}{\text{Annual Cash Inflows}}$$

	Machine 1	Machine 2
	<u>2,780,000</u>	<u>8,050,000</u>
	1,000,000	2,500,000
=	2 years 9 months	3 years 3 months

c. Calculation of Accounting Rate of Return

$$\text{ARR} = \frac{\text{Average Annual Profit}}{\text{Average Investment}} \times \frac{100}{1}$$

	Machine 1	Machine 2
Annual Depreciation	<u>2,780,000 – 280,000</u>	<u>8,050,000 - 1,500,000</u>
	5	5
=	₦500,000	= ₦1,310,000

Annual Profit	=	Profit - Depreciation	
		1,000,000 – 500,000	2,500,000- 1,310,000
	=	<del>₦</del> 500,000	= <del>₦</del> 1,190,000
Average Investment	=	$\frac{\text{Cost} + \text{Residual Value}}{2}$	
		$\frac{2,780,000 - 280,000}{2}$	$\frac{8,050,000 - 1,500,000}{2}$
	=	<del>₦</del> 1,530,000	= <del>₦</del> 4,775,000
ARR	=	$\frac{500,000}{1,530,000} \times 100$	$\frac{1,190,000}{4,775,000} \times 100$
	=	33%	25%

- d. i. Based on Net Present Value technique: Buhari Nigeria Limited should select machine 2 because it has a higher Net Present Value.
- ii. based on Payback Period technique. Buhari Nigeria Limited should select Machine 1 because it has a shorter payback period.
- iii. Based on the Accounting Rate of Return (ARR) Investment Appraisal technique: Buhari Nigeria Ltd should select machine 1 because it has a higher Accounting Rate of Return.

11(a) The need for special supervision of Insurers cannot be overemphasized because of the nature of its contracts. In the light of this, list and explain three (3) reasons for the regulation and supervision of Insurance business.

(b) List and explain five (5) the duties of supervisory Authorities.

(c) List and explain two (2) tools at the disposal of supervisory authorities for effective discharge of their duties.

### **SOLUTION TO QUESTION 11**

a. Reasons for the regulation and supervision of insurance business

- ✚ Establishment of a sound financial system
- ✚ The protective function of Insurance
- ✚ Protection of Insurance Consumers
- ✚ Use of Insurance fund for Development purposes
- ✚ Development, effectiveness and efficiency of Insurance market

i. **Establishment of Sound Financial System:**

To develop sound financial market which is one of the pillars of modern society a prime prerequisite besides political and economic stability is the establishment of public confidence in the Institutions that constitute the services as promised. One of the duties of governmental Authorities is to preserve the long-term stability of the market (financial system) and the reliability of its components.

ii. **The Protective function of Insurance**

Insurance is a major component of the financial sector it is a risk transfer mechanism, whereby an insured transfers a risk to an insurer in consideration for the payment of premium. This is a tool of prime importance in modern economies. It enables the commercial sector as well as individuals to reduce and better manage the uncertainties of the future.

This means that, first the policyholder pays and then sometime in the future the insurer may be required to reimburse the insured or a third party for a claim. This has several consequences inter alia.

- A long term reliability of an insurer must be beyond trust.
- Funds are entrusted to insurers which in large part constitutes reserve to cover future obligation.

iii. **Protection of the Insurance Consumer:**

A potential imbalance may exist on the contractual relationship between the insured and the insurer. The insured pays his consideration at the very beginning of the contract (payment of premium) but before the insurer is called to perform his part, time may have changed the severity profile of the insurer. In view of the economic importance of insurance, this has led governmental authorities to enact regulations that should guarantee the long term viability of insurers at the service of its consumers.

iv. **Use of Fund for Development Purposes:**

Large fund under the custody of insurers are invested to produce additional returns. Under competitive pressure this additional income may enable the insurer to charge lower rates than would be usual when based on pure underwriting experience or it may improve the overall profitability.

The management of these fund is thus very important both to insurers and insured's and may also play significant role in the national economy. Appropriate regulations to channel these funds so as to target developmental areas of the economy may contribute to the overall economic development of the country.

v. **Development, Effectiveness and Efficiency of Insurance Market**

The development of a sound Insurance Industry is partly in the hands of the legislators and supervisors. They have to establish the framework for the healthy environment and development of the insurance industry to deal with incidences of market failures and imperfection. This should benefit not only consumers but also the economy as a whole through better protection of the existing and future wealth of the country.

Legislators and supervisors should ensure that the market develops towards optimal effectiveness and efficiency. This is usually best achieved in a competitive environment based on the principles of the market economy. Applied to insurance market these principles include:

- Atomicity
  - Transparency
  - Information
- b. Duties of Supervisory Authorities
- ✚ Insurance company formation
  - ✚ Monitoring of legal and statutory requirement
  - ✚ Prudential regulation of financial soundness
  - ✚ Setting and control of rates and tariffs
  - ✚ Transfer of portfolios, mergers and acquisitions
  - ✚ Suspension, termination and liquidation
  - ✚ Cross-Border insurance trades
- i. **Insurance Company Formation**  
The regulatory and registration formalities is an important duty of the supervisory authorities to ensure the legal existence of the firms in the industry.
- ii. **Monitoring of Legal and Statutory Requirement**  
This duty involves the authorities ensuring compliance with all relevant and applicable regulations and rules.
- iii. **Prudential Regulation of Financial Soundness**  
A primordial function of supervisory body is to make sure companies are financially sound and reliable.
- iv. **Setting and Control of Rates and Tariffs**  
In many countries supervisory authorities have right to require information about rate structures in use by an insurance company. This opportunity however should be used to set optimum price for the market transaction.
- v. **Transfer of Portfolios, Mergers and Acquisitions**  
These should be duely authorized and appropriate policy holder consent should be obtained by the supervisory authorities.
- vi. **Supervision Termination and Liquidation**  
These are duties and control tools which is demonstrated by the supervisory or regulatory authorities the ensure sanity in the sector.
- vii. **Cross Border Insurance Trades**  
If is the duty of the supervisory and regulatory authorities to monitor inter casuistry insurance trades. This is to promote operating effectiveness and efficiency while mitigating against its associated risks.
- c. They regulate their members
- ✚ Reporting information requirements

- ✚ Inspection
- ✚ Public Complaints
- ✚ Dynamic role of supervisory Authorities

i. **Reporting Information Requirements**

This is the prime tool for checking compliance with the mandatory returns filled by the Insurance firms.

ii. **Inspection**

This is valuable tool whereby authorities can verify the information and assertions of the firms in the sector.

iii. **Public Complaints**

Where accurate and reliable statistical data can be obtained; public complaints is an effective tool that serve as indicator for regulators to check.

iv. **Dynamic role of Supervisory Authorities**

The soundness of an insurer can in most cases only be established from a variety of sources. The returns results of inspection and public complaints constitutes the factual part of the assessment. In addition supervisory authorities should seek much more informal information possible in the true state of all insurers and on the whole insurance sector's affairs.

Also initiatives for new law and regulations affecting insurance may be suggested by the regulators and supervisory authorities after careful consultations and registration with concerned players.

12. The following list of balances was extracted from the books of ABC Plc as at 31<sup>st</sup> December, 2017.

	N'000	N'000
250,000 ordinary shares of N100 each		25,000
10% long term loan		5,000
Share premium		800
General reserve		1,000
Retained earnings (1 <sup>st</sup> January 2017)		250
Freehold premises	15,000	
Plant and Machinery (Cost N30,000,000)	18,000	
Inventory 1 <sup>st</sup> January 2017	2,380	
Purchases and Sales	28,160	40,964
Returns Inwards and Outwards	1,030	1,735
Discounts allowed and received	645	925
Trade receivable /Payables	3,003	2,002
Provision for bad debt 1/1/2017		90
Wages and Salaries	580	
Internet and telephone	300	
Interest on long term loans	1,560	

Directors' Fees	200	
Insurance expenses	800	
Interim dividends	<u>3,968</u>	
Cash and bank balances	<u>77,766</u>	<u>77,766</u>

#### Additional Information

- Inventory as at 31/12/17 was ₦2,728,000.
- During the year goods worth ₦650,000 were lost to theft. No entry had been made in the books to reflect this.
- Insurance prepaid was ₦20,000
- During the year, a plant originally costing ₦5,000,000 and on which ₦3,000,000 depreciation had been provided was sold for ₦2,200,000. This transaction has been included as sales.
- Depreciation has been and is to be provided on plant and machinery at 10% of cost.
- Provision for bad debt is to be increased to ₦250,000.
- The Directors wish to provide for a final ordinary dividend of 5%.
- The freehold property was revalued at ₦16,000,000 on 31/12/17.
- The liability for the year is estimated at ₦1,000,000.

You are required to prepare for the internal users, the statement of comprehensive income for the year ended 31/12/2017 and a statement of financial position of ABC Plc as at 31/12/2017.

(38 marks)

### **SOLUTIONS TO QUESTION 12**

Statement of Comprehensive Income for the Year Ended 31<sup>st</sup> December, 2017

	₦1,000	₦'000
Sales (Revenue)		38,764
Sales Returns		<u>(1,030)</u>
		37,734
Less Costs of Sales		
Opening Inventory	2,380	
Purchases	28,160	
Return Outwards	(1,735)	
Stolen Inventory	(650)	
Closing Inventory	<u>(2,728)</u>	<u>25,427</u>
		12,307
Gross Profit		925
Other income		200
Discount received		<u>1,125</u>
Profit on disposal of plant		13,432

EXPENSES	
Discount allowed	645
Stolen goods	650
Depreciation	2,500
Increase in provision for doubtful debt	160
Wages and Salaries	2,140
Internet and telephone	580
Interest on loan	500
Insurance	180
Director's fees	1,560
Profit before tax	
Income tax expenses	
Profit after tax	

Other Comprehensive Income:	
Gain on revaluation of premises	<u>1,000</u>
Total comprehensive income for the year	<u>4,517</u>

b. ABC PLC

STATEMENT OF FINANCIAL POSITION AS AT 31<sup>ST</sup> DECEMBER 2017

	₦'000	₦'000	₦'000
ASSETS			
Non-Current Assets			16,000
Freehold Premises at valuation		25,000	
Plant and Machinery at cost		11,500	<u>13,500</u>
Less Accumulated Depreciation (W <sub>1</sub> )			29,500
CURRENT ASSETS			
Inventory		2,728	
Trade Receivables	3,003		
Less provision for bad debts	250	2,753	
Cash and bank		3,968	
Prepayment		20	<u>9,469</u>
Total Assets			38,969
EQUITY			
Share Capital	25,000		
Share Premium	800		
Revaluation Reserve	1,000		
Retained Earnings (W <sub>2</sub> )	2,967		
General Reserve	1,000	30,767	
Non-Current Liabilities			5,000
10% Long-term loan			



CURRENT LIABILITY

Trade payables	2,002	
Fans payable	1,000	
Interest on loan payable	<u>200</u>	<u>3,202</u>
Total Liabilities		<u>8,202</u>
Equity and Total Liabilities		<u>38,969</u>

- i. The theft of goods worth ~~N~~650,000  
This will affect the income statement. It is deducted from total goods available for sales (along with closing inventory) in order to obtain the current cost of sales. This is treated this way because of the goods had not been stolen, closing inventory should have increased by 650,000. However, because goods worth ~~N~~650,000 have actually been stolen they are no longer available aspect of closing inventory and the loss must be charged as an expenses in the income statement.
- ii. Interest on long-term loan- Total amount payable as interest = 10% of ~~N~~5,000,000 = N500,000. This is the amount to be charged as an expenses. However, from the Trial balance only N300,000 has been paid. This means that the balance of N200,000 represents a current liability in form of interest payable.
- iii. Final dividends = 5% of N25,000,000 – N1,250,000 ( to be included as part of notes to the statements)
- iv. Profit on the equipment sold -= Amount sold – Net book value = ~~N~~2,200,000 – ~~N~~2,000,000 = ~~N~~200,000
- v.

Accumulated Depreciation up to 31/12/17 (W <sub>1</sub> )	N'000
Accumulate depreciation up to 31/12/16	12,000
Less: Depreciation on plant sold	<u>3,000</u>
	9,000
Depreciation for the year (10% of N25,000,000)	<u>2,500</u>
	11,500
- vi. Gross sales to be recognized = N40,964,000  
Less value of the plant sold wrongly credited to sales account  
= ~~N~~40,964,000 – ~~N~~2,204,000 = ~~N~~38,764,000
- vii. Revaluation gain on freehold premises = 16,000,000–15,000,000 = 1m
- viii.

	<del>N</del> '000
Retained earnings at 1/1/17	250
Profit for the year	3,517
Interim dividend	<u>(800)</u>
Retained earnings 31/12/17 (W <sub>2</sub> )	<u>2,967</u>

- 13(a) List and explain eight (8) main features of long-term insurance fund (life etc)  
(16 marks)
- (b) List and explain five (5) investment consequences of long-term insurance funds.  
(10 marks)
- (c) Investment policy will differ from that of an ordinary life fund because of the nature of the business. Explain four (4) of the differences.

**SOLUTION TO QUESTION 13**

a. The main features

- ✚ The contracts are long-term ones; lapse involves loss to the insured. This premium income ends to be constraint and reliable.
- ✚ Outgo can be estimated reasonably accurately both as to timing and amount – there are not likely to be sudden calls for funds
- ✚ The catastrophe risks are unlikely to be significant
- ✚ Premium take into account income to be earned over the period of the policy. The life fund relies for its solvency on its investment income as much as the premium stream and then it must earn a rate least equal to that assumed in calculating premiums.
- ✚ Investment policy is as important as underwriting policy. Considerable reserves build up in the life fund, held the trust for policyholders which is thus larger in relation to premium income than is the case with general business.
- ✚ Home business is still much more significant than that transacted overseas.
- ✚ In view of the long term nature of the contract, some account frequently needs to be taken of inflation in assessing benefits ultimately payable.
- ✚ Annuity and bond business with guaranteed surrender values and cash options give rise to somewhat different considerations, notably a greater need for liquidity.

b. **INVESTMENT CONSEQUENCES**

- ✚ Because of the long term nature of the contracts – which could be 60years or more – life funds usually invest in long-term securities
- ✚ Since in the present inflationary are the income of a life off generally exceeds its outgo and all claims expenses etc can be paid out of premium and investment income, there is very little need for, or investment in, short-term securities
- ✚ As a result of studies by actuaries it has generally been concluded that the appropriate policy for a life office is to match the maturity dates of its liabilities under life policies with the maturity dates in its investment portfolio

- ✚ Theory also suggests that it is better to err on the long term side rather than the short-term: most life offices invest medium to long term while pension tends invest long term.
- ✚ With profit funds will need to ensure good profits for bonuses – thus will often indicate investment for growth in equities or property.

c.

- ✚ Benefits are rarely guaranteed
- ✚ Different funds will offer varying degrees of risk-the higher the risk the higher the potential return and vice versa.
- ✚ Competition which is intense, is related to performance the ultimate benefit to policyholders depends on this
- ✚ Where policyholders have an option to switch between funds, investments may need to be sold at short notice and this must be borne in mind
- ✚ Regular valuations of the fund have to be made often daily which tends to restrict underlying investments to those for which a value is readily available.
- ✚ Attainable
- ✚ Practical

The could be determined by answering the following basic set of questions

- ✚ What kind of company are we? Are we an insurance company or an investment company?
- ✚ What is the economic mission of the company? is it to maximize future cash flows and thus maximize share price or is it to dominate a particular market
- ✚ What should our product be? Do we want to specialize in wholesale or retail insurance?
- ✚ Should we serve each market is desired?
- ✚ What are the profit objectives?
- ✚ What rate of growth is required in premium, profits etc.?
- ✚ What solvency margin/liquidity level do we need to maintain to satisfy regulatory bodies, be secured in a financial well-being and yet maximize our use of funds?

b.

Goal congruence means that all departments with their own plans should have common objectives why we budgeting we produce budgets to enable managers to

- ✚ Plan (premium, commission, claims, cost, profit etc.)
- ✚ Co-ordinate
- ✚ Communicate
- ✚ Control
- ✚ Evaluate

c.

The end result of a budget setting process should be a plan which is quantified in monetary terms. The process of budgeting are as stated below:

- ✚ Initial preparation
- ✚ Negotiation
- ✚ Co-ordination and review

- ✚ Final acceptance
- ✚ Budget review

- 14(a) Define and explain the term Capital Market. Explain four (4) groups of institutes that comprises Capital market. (18 marks)
- (b) Explain the five (5) main provisions of Insurance Brokers (Registration) Act 1977. (10 marks)
- (c) Explain five (5) of the functions of BIBA as a trade and professional association. (10 marks)

### **SOLUTION TO QUESTION 14**

- a. i. Capital market are markets whose function is the transfer of capital From those who wish to invest it to those who wish t employ it.
- ii. The London capital market comprises of 4 groups of institutions
- ✚ The specialized institution dealing in short-term capital known as the money market.
  - ✚ A market in which funds available and required for medium period of time are lent and borrowed. This market is a field of activities of the commercial banks.
  - ✚ The market in new securities or new capital consisting of all those engaged in company promotes underwriters and finance houses
  - ✚ Recognized investment exchanges – highly specialized organizations dealing in issued securities this is the transfer of rights to already invested capital.
- b. Five main provisions of Insurance Brokers (Registration) Act 1977
- ✚ The establishment of the insurance Brokers' (Registration) Council (IBRC).
  - ✚ The registration and training of Insurance Brokers
  - ✚ The regulation of conduct
  - ✚ Disciplinary proceedings
  - ✚ Restrictions on the use of titles and description

### **SUMMARY**

Pass Rate:	100.0%
Highest Score:	62%
Lowest Score:	61.5%
Average Score:	62%

**CHARTERED INSURANCE INSTITUTE OF NIGERIA**

**ADVANCED DIPLOMA**

**APRIL 2018 EXAMINATION PAPER**

**SUBJECT A945  
MARKETING**

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

**A945 - MARKETING**

**INSTRUCTIONS TO CANDIDATES**

Three (3) hours are allowed for this paper

You should answer all questions in Part I and four (4) out of the six (6) questions in Part II.

The paper carries a total of 200 marks distributed as follows

Part I            48 marks

Part II           152 marks

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

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

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

## Part I

**Answer ALL question in Part I**

**Each questions carries six (6) marks**

**Note form is acceptable where this conveys all the necessary information.**

1. Whatever the structure, the marketing function must relate to senior management decisions and to other function as ....., ....., ..... and .....

### **SOLUTION TO QUESTION 1**

- I. Production
- II. Operations
- III. Distribution
- IV. Human Resources

2. In addition some provider of goods expand their offerings to buyers by including special 'soft' services such as ....., ....., ....., and .....

### **SOLUTION TO QUESTION 2**

- I. Training about how to use the product
- II. Help with financing the purchase
- III. Delivery
- IV. "No-dispute" product guarantees

- 3(a) There are no obvious organized form if competition for the insurance industry external to the insurance other than ..... and .....

(b) There are various types of reinsurance and other financial products available that offer protection, against the financial risk of unforeseen fluctuations is aggregate claims patterns, severity of individual losses, and world commodity and foreign exchange markets. Mention four (4) examples.

### **SOLUTION TO QUESTION 3**

- (a) Self- Insurance  
No Insurance
- (b) Excess of loss Reinsurance  
Aggregate Excess of Loss Reinsurance  
Financial Reinsurance  
Hedging

4. Like military campaigns, marketing strategies can also fail for certain reasons. Mention four (4) of them.

### **SOLUTION TO QUESTION 4**

- i. Overall Corporate Objective are not Communicated Accurately to those who are supporting the achievement of those objective at an operation level.

- ii. There are insufficient resources to carry out the overall strategy at an operational level.
  - iii. Those who are carrying out strategy at an operational level choose not to follow the guidelines for the overall strategy
  - iv. Changes in the business environment mean that the marketing strategy is no longer relevant.
5. Market research is methodical and typically follows an ordered series of six (6) steps or stages. List the six (6) steps or stages.

**SOLUTION TO QUESTION 5**

- Stage 1 – Identifying the missing information
- Stage 2 – Determining data needs and sources
- Stage 3 – Research Design
- Stage 4 – Design of sample size and characteristics
- Stage 5 – Data Collection
- Stage 6 – Tabulation and Analysis

6. In a world of 'junk' communication (i.e. targeted but unsolicited communication that may have no relevance at all to the receiver) consumers also try to protect themselves from hearing unwanted messages in three (3) main ways. Enumerate the three (3) ways.

**SOLUTION TO QUESTION 6**

- Selective Exposure
- Selective Perception
- Selective Retention

7. Every organisation designs marketing distribution channels to achieve certain main objectives. List four (4) of the objectives.

**SOLUTION TO QUESTION 7**

- I. To make the product or service available to customers
- II. To ensure that promotional effort is devoted to the product or service as close as possible to the customers.
- III. To provide the highest level of customer service.
- IV. To gather feedback from customers and intermediaries about the market.
- V. To take advantage of economies of scale.

8. Three (3) main types of international distribution channel are available to a product or service provider. List the three (3) of them.

**SOLUTION TO QUESTION 8**

- I. a wholly or partially owned joint venture or local subsidiary
- II. domestic - based intermediaries with specialization in the organisations foreign market



- III. overseas-based intermediaries working in the organization is foreign

## **PART II**

**Answer four (4) of the following six (6) questions**

**Each question carries 38 marks**

- 9(a) A developed society cannot reap the full benefits of specialization until it develops a way of exchanging surpluses between its members. May exchanges may be necessary for complete satisfaction, but such exchanges do not happen automatically. List and explain six (6) conditions that must be not before an exchange transaction can take place. (12 marks)
- (b) Write short notes on the following:
- (i) Production-based market (4 marks)
  - (ii) Product-based market (4 marks)
  - (iii) Reluctant market (4 marks)
  - (iv) 'Consumerist' market (4 marks)
  - (v) 'Society first' market (4 marks)
- (c) the most important general function of marketing is that it provides an interactive link between the selling organisation and the world outside it. That link involves the marketing department in a range of marketing activities. Enumerate six (6) of those activities.

### **SOLUTION TO QUESTION 9**

- (a) 6 conditions that must be meet before an exchange transaction can take place
- I. There must be at least 2 parties
  - II. Both parties must offer something of value (e.g. money, goods, services, an idea)
  - III. Both parties must be aware of each other's existence
  - IV. Both parties must be capable of communication and delivery
  - V. Both parties must be free to accept or reject the other's offer
  - VI. Both parties must be willing and able to negotiate terms of exchange that they find acceptable.

### **(b) (i) PRODUCTION - BASES MARKET**

This is a market in which consumers do not discriminate and will buy whatever is available. The focus of the sellers is on efficient production and distribution. This type of market works when demand is greater than supply and goods and services are relatively easy to sell. For the items in this market emphasis is on demand for the good and not marketing e.g. demand for manufactured goods during industrial revolution. Also socialist government that controls the supply of goods.

### **(ii). PRODUCT – BASED MARKET**

This is a market for goods and services which 'sell themselves' usually because of irrelevant quality and performance characteristics in this market all the consumers are well - in-formed therefore sale promotion are not necessary. E.g. specialist computer software which is usually sold based on its reputation as a higher quality, target product etc.

### **(iii). RELUCTANT MARKET**

- A market in which consumer will not buy sufficient goods and service unless they are persuaded to do so by advertising or sales promotion
- Inherent quality and performance of these goods are not sufficient in itself to attract sales.
- Marketing is essential in the market
- Examples are non – essential goods and unsought goods need to be marketed.

### **(iv). 'CONSUMER FIRST' MARKET**

- The market shift attention away from seller and the production to the consumer.
- It involves determination of consumer needs and values.
- It also design and supply of goods and services to satisfy them
- In this market the consumer is the most powerful party in the transaction.
- In this market product must match consumer's specifications.
- There is heavy reliance on market research and communication.

### **(v) SOCIETY FIRST MARKET**

- Is a newly developed type of market
- Take "consumer first" approach a step further
- The assumption here is that consumer's needs are satisfied in such a way as to enhance the well- being of the consumer and society at large.
- The goods and services are expected to be socially acceptable, organize, non-harmful and non- polluting the society
- The First aim is that consumer will be satisfied while the second is that the particular brand will make the world a better place for a

- (C)
- i. Market research
  - ii. Computer
  - iii. Customer profiling
  - iv. Development of strategic marketing plans
  - v. development of operational marketing plans
  - vi. Advertising
  - vii. Media relation
  - viii. Corporate affairs and sponsorship
  - ix. Product development
  - x. product pricing
  - xi. Branding and brand management
  - xii. Sales management
  - xiii. Customer service

10(a) From a marketing perspective, goods have a range of characteristics that differentiate them from services. List and explain six (6) of those characteristics.

(18 marks)

(b) Competition is a state of rivalry between sellers, each of which is trying to gain a larger share of the market and greater profits than the others. List and explain three (3) factors that can influence the amount of competition affecting a given product or service.

(12 marks)

(c) In its early form, developed for retail products rather than services, the marketing mix was said to consist of four (4) variables known as the 4ps. Mention and briefly explain them.

(8 marks)

### **SOLUTION TO QUESTION 10**

(a) Goods are tangible and have a physical dimension

ii. Goods are perishable, consumable or durable

iii. Goods usually conform to a recognizable and consistent specification. This is always subject to official government regulation

iv. To be bought and sold, goods do not rely on personal interaction between the buyer and the producer of the goods.

v. to be attractive to buyers, goods rely significantly more on their inherent qualities rather than internal benefits

vi. Goods require a physical distribution channel to pass from seller to buyer

vii. All other things being equal, the value of goods can be assessed at the time they are bought.

- b) (i) Organization operating in the market
- The number or organizations producing competing goods in the market.
  - The size of those organization relative to our organization
  - The difficulty for new organization to enter the same market ( also referred to as that market's barriers to entry)
  - The amount of collusion between competitors in the market
  - The Amount of knowledge organizations have about their competitors.
- (ii) Consumer interest in buying products and services in The market
- The amount of knowledge that consumers have about the markets offerings
  - The number of buyers and the relative size of their buying requirements
  - The ability of consumers to pay for goods and services
- (iii) Factors external to the market
- The availability and price of raw materials
  - The ease of transporting raw materials and finished goods
  - Government policy on competition and regulation.

**(a) 4P's of marketing mix**

- Product
- Promotion
- Price
- Place

PRODUCT - is a generic term that include services

- The physical or actual items or services the organization is offering to the market
- They often modified, redesigned, repackaged or discontinued during the life of the organization
- E.g. bread, biscuit or insurance policy

PRICE - The recommended or actual price of the product or service in the market

PROMOTION -is the collective word used for all communication with existing and potential customers include advertising, personal selling, public relations, sponsorship, trade exhibition, direct mail, website advertising etc.

PLACE - means the distribution channels for the products or service

- Describes the locations and ways in which the buyers categories it.
- May be retail out let is a mail order catalogue, premises, website's, client office etc.

11(a) In Insurance marketing, the term 'product' is used to denote not only the product itself but also the service factors that may be as important in differentiating one insurance offering from another. List fifteen (15) elements of Insurance offering. (15 marks)

(b) Sales promotion is a specific activity designed to make a featured offer to defined customers within a limited time span. List six (6) objectives for sales promotions and six (6) types of sales promotion. (12 marks)

(c) Formulating and implementing a marketing strategy is a 4-stage process that shares some attributes with developing a business plan for an organisation. Outline the four (4) steps. (11 marks)

### **SOLUTION TO QUESTION 11**

- (a)** - limited or unlimited financial protection in the event of an insured occurrence
- Participation in the risk by the insured via excess and deductibles
  - Loss Prevention advice
  - Premium discounts
  - Discount on loss prevention equipment
  - Discounts on repairs by using the insurers parties
  - Provision of industry information and news
  - Special offers on other insurances
  - Access to affiliated financial service providers such as Banks
    - Loyalty bonuses
    - No claim discounts
    - The insurance contract itself
    - 24 hours emergency claims service
    - Training about insurance offering
    - A comfortable retail outlet where business can be conducted over the counter.
- (a)** 6 OBJECTIVES
- Increase sales
  - Counteract competitor activity
  - Encourage repeat purchases
  - Encourage affiliated purchase ( e.g. special offers for introducing friends)
  - Induce a trial purchase
  - Encourage payment in advance
- (b)** Step 1- establishing the corporate context
- Stating the corporate mission or vision statement
  - Identifying corporate objectives

Step 2 – Analysis of the internal and external Environments

- Carrying out a marketing audit
- Carrying out a swot analysis
- Using research to make some key assumptions

Step 3 – formulating of a marketing strategy

- Establishing marketing objectives
- Establishing marketing strategies
- Predicting expected results
- Identifying contingent and alternative strategies

Step 4 –Implementation, control and evaluation

- Resource allocation
- Budgeting
- Action plans
- Monitoring

12(a) Data can be collected in a variety of ways. However, actual collection of data is vulnerable to dangers that may affect the accuracy of the research. List and explain four (4) ways by which resultant data may be distorted.

(16 marks)

(b) The managers of organizations need to have accurate information about how well or badly their products and services are selling. Market research provides qualitative, scientific and statistical information about the way the organisation customers are reacting to its offering. List and explain five (5) examples.

(10 marks)

(c) Quantitative research typically produces objective facts and figures about sales volumes and revenues, qualitative research investigation the objective views of an organization's customers. This may take the form of a 'customer satisfaction' survey. List and explain six (6) examples.

(12 marks)

**SOLUTION TO QUESTION 12**

- (a)
- interviewers who do not respond at all
  - interviewers who do not respond accurately or respond Dishonestly
  - interviewers who ask questions incorrectly or inaccurately
  - Interviewers who record answers incorrectly or inaccurately

- (b)
- the number of sales made in a given period
  - The value of sales made in a given period
  - The organization's share of the total market
  - The competitor's share of the total market
  - The number and value of sales within different regions of market segments

- (c) - what they like about the product or service
  - What they dislike about the product or service
  - What would make them use the product or service more?
  - What qualities they associate with the offerings brand or image
  - Whether they feel the offering is meeting their needs
  - How the offering compares to those of competitors
  
- 13(a) Messages can be transmitted in a wide range of ways, most of which fall into one of five (5) categories. List and explain the five (5) categories. (10 marks)
  
- (b) Marketing messages may also be categorized into seven (7) according to their objectives and their styles. List and explain the Seven (7) categories. (14 marks)
  
- (c) Advertising can be very effective in breaking down services in the communication process over time. List and explain five (5) ways advertising can be categorized in several ways, but there are two primary differences in emphases. List and explain the two (2) ways. (4 marks)

**SOLUTION TO QUESTION 13**

- (a) - face to face e.g. via personal selling, seminars, conferences and Meetings
  - Using tele-communication media e.g. the telephone, fax, video Conferencing.
    - using printed media e.g. print advertising, brochures, direct Mails, letters
    - using broadcast media e.g. TV and radio advertising Interviews, features.
    - using electronic or new media such as the World Wide Web e-mail.
  
- (b) -connotative
  - denotative
  - rational
  - emotional
  - fear based
  - moral
  - humorous
  
- (c) i. 5 ways
  - unawareness
  - Awareness
  - Comprehensive
  - Conviction
  - Action

- ii. - advertising the product or services  
-advertising the organization
- 14(a) An insurance company design marketing distribution channels to achieve certain objectives. List and explain five (5) of the objectives. (10 marks)
- (b) Service providers have to engage in more and different contacts with their customers than is the case with manufacturing firms. This has important marketing implications. List and explain three (3) of such contacts. (12 marks)
- (c) The development of the internet has revolutionized the way business is done. List and explain the importance of internet to marketing of insurance services. (14 marks)

**SOLUTION TO QUESTION 14**

**(a) 5 Main Objectives**

- To make the product or service available to customers.
- To ensure that promotional effort is directed to the product or Services as close as possible to the customer
- To provide the highest level of customers service
- To gather feedback from customer and intermediaries about the Market
- to make advantage of economies of scale.

- (b) - internal marketing  
- customizing  
- Tangibility

**(c) Importance of internet to marketing of insurance services**

- it has revolutionized the way business is done
- it has made communication between business and consumers faster
- It has made communication between business and consumers more cost-effective
- It has allowed business to be transacted across international boundaries more easily than ever before.

**SUMMARY**

Pass Rate:	49.5%
Highest Score:	83%
Lowest Score:	14%
Average Score:	52.3%