

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

00%	DON'TS Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced) Write after invigilators have declared "time-up"		
Start studying for the next diet early (from November/December for April diets and May for October diets)			
Start each question on a fresh page			
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts		
Master the tricks of answering questions intelligently by following tips leamt before the exams and concentrating on questions that would tetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.		
Attend the Annual Students' Forum	Avoid the Annual Students' Forum		

CANDIDATES SHOULD VISIT & UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS

ETC ON THE FOLLOWING SITES naicom.com (NAICOM), nigeriainsurers.org (NIA); ncrib.net (NCRIB); nigeriailan.com

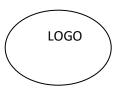
(ILAN); clinigeria.com (CIIN)

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

ANY CANDIDATE CAUGHT AND/OR FOUND TO BE CEHEATING/HAVE CHEATED, WILL BE BARRED FROM PARICIAPTING
IN ANY OF THE INSTITUTE'S EXAMINATION ACTIVITY FOR TWO (2) YEARS AND THE EMPLOYER WILL BE DULY INFORMED

OF ANY SUCH INCIDENCE(S).

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A510

RISK, REGULATION AND CAPITAL ADEQUACY

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A510 - RISK, REGULATION AND CAPITAL ADEQUACY INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This is a compulsory question attempted by almost all the candidates. Close to 55% of the candidates scored above average of the total marks allocated. Those not knowledgeable in median, scored low marks.

Question 2

The question is common and foundational. It was attempted by over 98% of candidates. 65% of the candidates that study and prepared for the examination gave good definition/features of risk and scored pass mark.

Question 3

100% of the candidates attempted the question. Close to 40% of the total candidates demonstrated good understanding of Reinsurance and Retrocession hence scored above average of the total score for the question as allocated.

Question 4

We have about 35% amongst those that attempted the question stated correctly essential features of a data base. However, 50% candidates gave difference between sample and population. About 45% scored pass marks in the total marks allocated for the question.

Question 5

Over 60% of the candidates that attempted this question did not understand. Assumed mean and the application. Less than 10% scored well above average pass marks. In future candidates must be texted on some topic in subsequent diets.

Question 6

Majority of the candidates did not read/prepared very well for the examination hence found definition/meaning of terms difficult to give. This question was on relative frequency, proportional and non-proportional reinsurance about 30% of all the candidates scored pass mark.

Question 7

The question set to get candidates' knowledge of reinsurance as form of securities to insurance company(ies). 90% of the candidates showed good understanding and scored above average of the total score allocated. The question achieved the purpose.

Question 8

Despite poor performance, majority candidates on questions close to 80% of the total candidates that attempted this question gave satisfactory points, performed very well by scoring above average pass marks.

Question 9

- (a) 50% of the total candidates could not give names and mention functions of trade associations in Nigeria insurance market.
- (b) 60% of the candidates understood probability and non-probability sampling and scored pass marks.
- (c) Close to 75% of the candidates gave excellent definition of risk management as given in course book A510.
- (d) About 20% of the candidates could not state correctly processes involved in risk management, however about 78% scored pass mark.

Ouestion 10

About 25% of all the candidates attempted this question. 60% of the total that attempted scored above average marks allocated.

Question 11

The question was well attempted especially the (a)part. Candidates also provided appropriate examples. The (b)part was equally well attempted. Close to 40% could not provide the correct explanations for the components that makes up life Assurance pricing, close to 25% mistook this for requirements for underwriting a policy.

Question 12

Less than 20% of the candidates attempted this question. Each of the question were fairly answered. Close 60% scored total pass marks out of the marks allocated.

Question 13

We have less than 20% of the total candidates that attempted the question. Candidates must be encouraged to study more on insurance company rating. Those that attempted scored pass mark.

Question 14

This question was attempted by few candidates (about 20%). The intention was to text candidates understanding of regression. For those that attempted it, close to 55% scored pass marks.

Comments on Overall Performance

There is marked improvement in candidates' general performance. The number of candidates that scored pass mark was above 55%.

Suggestion(s) on Improvement

Since the pass rate improved, more candidates will be further encouraged to study and prepared adequately for future examinations, as majority of the questions were picked from the Institute's course book.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Outline any three (3) features of the median.

Solution

The features of the median are:

- it is the second most known among the measures of central tendency;
- its calculation is not usually affected by extreme values;
- it is very easy to calculate for ungrouped data;
- it is easy to understand;
- it has limited practical application/ it cannot be used for further mathematical processes;
- for grouped data, the median does not make use of all the variables unlike the mean which makes use of all the variable;
- the value or figure obtained as the median may not correspond to any of the variables given in the data.

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

2. (a) Outline two (2) main features of a risk.

(4 marks)

(b) Give any two (2) definitions of a risk.

(2 marks)

Solution

a) The main features of a risk are:

* Uncertainty; * levels or degrees of risk * the cause of the loss. (2 marks for each correctly stated feature. Maximum of 2 to be graded. Sub-Total: 4 marks)

- b) Risk may be defined in any of the following ways:
 - It is an uncertainty of loss
 - It is a possibility of loss.
 - It is a combination of the probability of occurrence of an undesired outcome (loss) and its consequences.

(1 mark for each correct and complete definition. Maximum of 2 to be graded. Sub-Total: 2 marks) (Grand Total: 6 marks)

- 3. (a) Distinguish between reinsurance and retrocession.
 - (b) Outline any three (3) main uses of retrocession to the reinsurance companies.

Solution

a) Reinsurance may be described as the transfer of risks from one insurance company to a reinsurance company or collection of reinsurance companies (1½ marks); whereas, retrocession may be described as the transfer of risks from one reinsurance company to another reinsurance company or collection of reinsurance companies (1½ marks).

- b) The main uses of retrocession to the reinsurance companies are:
 - further spread of risks for the reinsurance companies;
 - bigger capacity for the reinsurance companies;
 - stabilisation of claims ratio;
 - profit sharing arrangement;
 - it brings about confidence to the reinsurance companies;
 - product development for the reinsurance companies and its cedants;
 - underwriting and other financial advisory services;
 - training and development programmes for the reinsurance companies and its cedants.

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

- 4. (a) Distinguish between a sample and population in Statistics. (2 marks)
 - (b) Outline any four (4) essential features of a database? (4 marks)

Solution

- a) A sample may be described as a part or portion of the population which serves as a true representative of the population. It may also be described as a subset of the population, which when analyzed, certain valid inference(s) about the entire population may be made (1 mark); where-as population on the other hand, may be described as the entire group of people or elements which are expected to be studied or considered. A population is made up of several small portions of the entire group known as samples (1 mark)
- b) The essential features of a database are:
 - it is usually created gradually over a period of time;
 - it must meet the purpose for which it was created;
 - it must not be obsolete;
 - it must be very adequate and comprehensive;
 - the data in the database must be systematically organised.

(1 mark for each correct and completely stated feature. Maximum of 4 to be graded. Sub-total: 4 marks) (Grand Total: 6 marks)

5. Given the marks scored by ten (10) students of the College of Insurance in Liability Insurance test as below – 1, 10, 2, 8, 6, 5, 8, 4, 9 and 6. Calculate the arithmetic mean through the Assumed Mean and make use of 4 as the Assumed Mean.

Solution

Let X represent the variables – 1, 10, 2, 8, 6, 5, 8, 4, 9 and 6.

The Assumed Mean (A) = 4

X	D = X - A
1	1 - 4 = - 3
10	10 - 4 = 6

2	2 - 4 = - 2
8	8 - 4 = 4
6	6 - 4 = 2
5	5 - 4 = 1
8	8 - 4 = 4
4	4 - 4 = 0
9	9 – 4 = 5
6	6 – 4 = 2
∑D=	19

(2 marks for correct tabulation above)

Mean (X) through the Assumed Method is obtained by the formula:

$$= A + \sum_{n} d$$
 (1 mark)
$$= 4 + 19 = 4 + 1.9$$
 (2 marks)
$$= 5.9$$
 (1 mark)
$$(Grand Total: 6 marks)$$

6. (a) What is relative frequency?

(2 marks)

(b) Differentiate between proportional and non-proportional reinsurance arrangement. (4 marks)

Solution

a) **Relative frequency** is the ratio of the frequency of a particular class limit to that of the total frequency of the whole data given. (i.e. the frequency of a class divided by the total sum of all the frequencies). Furthermore, relative frequency is usually expressed as a percentage.

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

b) In a **proportional reinsurance arrangement**, both the insurance company and reinsurer share the risks, premiums and liabilities (if any) in a predetermined percentages or proportions. In other words, under a proportional reinsurance, the reinsurer shares in the payment of losses (if any) in the same proportion it has shared in the premium from the risk with the insurer.

In **non-proportional reinsurance arrangement**, claims are being shared between the cedant and reinsurance company. The liability of the cedant is capped at a certain amount known as the 'deductible' or 'priority', while the reinsurer pays anything in excess but up to a limit agreed. Generally, non-proportional reinsurances are arranged in layers, with the first layers being the most expensive.

(1 mark for any correctly stated point. Maximum of 2 points to be graded under each term. Sub-total per term: 2 marks. Grand Sub-Total: 4 marks)

(Grand Total: 6 marks)

7. Enumerate any three (3) purposes of reinsurance securities to insurance companies.

Solution

The purposes of reinsurance securities to the insurance companies are:

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

(2 marks for each correct and completely stated purpose. Maximum of 3 to be graded. Total: 6 marks)

8. (a) If the empirical relationship between the mean, median and mode is represented as: P - Q = 3(P - R)

What does P, Q and R stand for?

(3 marks)

(b) Outline three (3) methods of data presentation.

(3 marks)

Solution

a) P = Mean, Q = Mode and R = Median.

(1 mark for each correctly stated meaning. Sub-Total: 3 marks)

b) The methods of data presentation are:

* pictogram; * tables; * charts/diagrams; * graphs.

(1 mark for each correctly stated method. Maximum of 3 to be graded. Sub-Total: 3 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) Enumerate any five (5) organizations/ trade associations that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market. (10 marks)
 - (b) Differentiate between probability and non-probability sampling techniques. (12 marks)
 - (c) Define risk management as learnt in the Course A510. (3 marks)
 - (d) Enumerate and describe in detail any five (5) of the processes involved in risk management as learnt in the course, A510. (25 marks)

Solution

- a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:
 - Nigerian Insurers Association (NIA)
 - Nigerian Council of Registered Insurance Brokers (NCRIB)
 - Institute of Loss Adjusters of Nigeria (ILAN)
 - National Insurance Commission (NAICOM)
 - Chartered Insurance Institute of Nigeria (CIIN)
 - Professional Reinsurance Association of Nigeria (PRAN)
 - Association of Registered Insurance Agents of Nigeria (ARIAN)

(2 marks for each correctly stated organisation/association. Maximum of 5 to be graded. Total: 10 marks)

b) **Probability Sampling Techniques**: under the Probability Sampling Technique, members of the sample are selected from the population in accordance with the probability theory. Thus, all the elements of the population have a likelihood and independent chance of being selected as a sample member.

WHILE

Non-Probability Sampling Techniques: these are sampling techniques under which sample members are selected without attaching any probability to the selection process. Thus, unlike in the probability sampling technique, sample members have no equal chance of being selected from the population.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded under each term.

Sub-total per term: 6 marks. Grand Sub-Total: 12 marks)

c) **Risk management** may simply be defined as a continuous process of identifying, analyzing, evaluating, monitoring and taking best economic control of all those risks which may threaten the assets (human and non-human) of an organization. (3 marks)

OR

Risk management may also be described as the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. (3 marks)

- d) The processes of risk management are as follows
- i) **organisation's strategic objectives:** These are long term planned objectives which an organization is set out to achieve. Risk management generally enhances organisation's strategic objectives through the following:
 - by providing a framework in terms of activities in the most sequential & guided ways for the organization;
 - effective & efficient allocation and use of the organization's capital as well as other resources;

- by protecting the organization's assets from all those risks that may threaten them:
- by providing enabling environment for the people to work;
- it also aids decision making process through coordinated planning and direction of business activities;
- volatility is reduced, especially in the less important aspects of the business.
- ii) **risk assessment:** it is the overall process of risk analysis and evaluation which comprise of two components of risk assessment i.e. risk analysis and risk evaluation. Risk analysis comprises of risk identification, description and estimation as briefly explained below:
- risk identification: This is a systematic way of identifying all the activities that may expose the organization to various risks.
- risk description: This is the explicit description of all the risks identified under the risk identification stage in a way that would be readily understood by all the stakeholders. The risk description stage will contain sub-headings such as the name of the risk, the scope of the risk, the nature of the risk and the stakeholders.
- risk estimation: These are the estimates both in terms of quantitative & qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as H M L may be employed in describing the estimate values or attributes.

H - stands for High

M - stands for Medium or Middle

L - stands for Low

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

- iii) **risk reporting (in terms of threats & opportunities):** this reporting both the downside and upside aspects of the risks. In other words, we are reporting on what are the threats and opportunities associated with the risks under consideration.
- iv) **decision making:** take informed decisions regarding the importance and acceptability of the risks having considered the threats & opportunities they present to the organisation.
- v) **risk treatment:** the process of selecting and implementing measures to modify the risk and this basically include risk avoidance, risk control, risk transfer and risk financing.
- vi) **residual risk reporting:** reporting the overall information about all the risks to the appropriate stakeholders as they are all affected separately. The stakeholders are the

board, the CEO, executive management, business units/departments, departmental heads and various individuals.

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

(1 mark for each correctly stated process. 2 marks for each complete and correctly stated point under each process. Maximum of 2 points to be graded under each process. Sub-Total per process: 5 marks.

Maximum of 5 processes to be graded. Grand Sub-Total: 25 marks)

(Grand Total: 50 marks)

Part III

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

- 10. (a) Write short notes on Financial Services Authority (FSA). (4 marks)
 - (b) Outline five (5) distinct roles of the Financial Services Authority. (20 marks)
 - (c) What is risk-based capital modelling?

(10 marks)

Solution

a) Financial Services Authority (FSA) is an independent and non-governmental body which is given powers by the FSMA. It officially assumed its full role of single regulator for the UK financial services industry in 2001. The FSA is also responsible for the resolution of complaints against insurers and the provision of compensation for customers of failed insurers. The FSA is funded by a levy on regulated firms.

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

- b) The roles of FSA are:
 - sets the rules, via its handbook, sourcebooks and other guidance;
 - authorizes firms and individuals (approved persons) to operate within the regulated markets;
 - monitors the external environment for threats to its strategic objectives;
 - monitors the markets and the regulated firms operating within those markets;
 - responds to changes (e.g. new eu law), threats or other developments by amending its rules;
 - acts to prevent or resolve failures, problems or breaches of its rules (enforcement role).

(4 marks for each correct and completely stated role. Maximum of 5 to be graded. Sub-Total: 20 marks)

c) **Risk-Based Capital Modelling** is the name given to a number of mathematical modelling techniques used for calculating the capital that an insurer should allocate to each of its component businesses or product lines. These individual allocations help the insurer to understand the return each business or product should be making if it is to

contribute fairly to the overall result, and thereby taking into consideration the cost of volatility.

(5 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)

- 11 (a) Enumerate with two (2) distinct characteristics how fundamental risks differ from particular risks? Give two (2) examples of each type of the risks. (14 marks)
- (b) List, and write briefly on the components which make up life assurance pricing. (20 marks)

Solution

Candidates are required to state the characteristics of the two groups of risks with example. Characteristics of Fundamental Risks

- 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.

Characteristics of Particular Risks

- 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.

(2 marks for each correct and completely stated example. Maximum of 2 under each group to be graded. $1\frac{1}{2}$ marks for each correctly stated example. Maximum of 2 to be graded under each group. Sub-Total: 14 marks)

- (b) The components that make up life assurance pricing include:
 - **mortality:** is concerned with the risk of death. Actuarial tables tell us the expected number of people in a group who will survive for given 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 the premium.
 - **Contingencies:** the final component of the premium is a form of reserve for unexpected contingencies. The contingency factor provides this safety margin.

(2 marks for each correctly stated component. 2 marks for the correct explanation/discussion under each component. Sub-Total per component: 5 marks. Grand Sub-Total: 20 marks)

(Grand Total: 34 marks)

- 12. (a) Write short notes on the following measures of central tendency, explicitly taking into consideration their features:
- (i) Arithmetic Mean (12 marks) (ii) Medium (12 marks) (iii) Mode (10 marks) Solution
- i) **Arithmetic Mean:** this is the sum of the variables in the data given divided by the total number of occurrence or frequency (4 marks). The mathematical formula is EfX/N or EfX/Ef or $A + \sum fd/N$ (for grouped data) (1 mark)

and EX/n or A + \sum d/n (for ungrouped data)) (2 marks for any correctly stated formula). The features of the arithmetic mean are as follows:

- it is very easy to compute and understand for both grouped and ungrouped data;
- it makes use of all the variables;
- it is the most known of all the averages;
- it can be used for further mathematical processes;
- it may likely be affected by extreme values.

 (2 marks for each correctly stated feature. Maximum of 3 to be graded. Sub-Total: 6 marks)

 (Grand Sub-Total: 12 marks)
- ii) **Medium:** This is the middle variable or the mean of two middle variables after the variables have been arranged either in ascending or descending order (4 marks). The above definition suffices as the mathematical formula for Median under grouped data and $L_1 + \frac{(N/2 Efi_{(b/4)})C}{(for ungrouped data)}$ (2 marks for any correctly stated formula).

The features of the median are as follows:

- it is the second most known of all the averages;
- for ungrouped data, it is very easy to compute and understand;
- it has limited practical applications;
- it is not mostly affected by extreme values.

(3 marks for each correctly stated feature. Maximum of 2 to be graded. Sub-Total: 6 marks)

• (Grand Sub-Total: 12 marks)

iii) Mode: This is the variable which has the highest number of occurrence in the data given. (4 marks). The mathematical formula is $L_1 + (D_1) C$ (for grouped data) $D_1 + D_2$

and for ungrouped data, the above definition suffices for it. (2 marks for any correctly stated formula). The features of the mode are as follows:

- it may not necessarily be affected by extreme values;
- for both grouped and ungrouped data, it is very easy to compute and understand;
- it has limited practical applications;
- it is not mostly affected by extreme values;
- for a given data, the mode may not be unique.

(2 marks for each correctly stated feature. Maximum of 2 to be graded. Sub-Total: 4 marks)
(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 13. (a) Explain any reasons why insurance companies prefer to have a financial rating by the rating agencies. (15 marks)
 - (b) Outline the procedures or stages involved in the rating process between the insurance company and rating agency. (16 marks)
 - (c) Mention any three (3) options available to insurance companies in case of shortfall regarding their regulatory capital? (3 marks)

Solution

- a) Insurance companies prefer to have a financial rating by rating agencies because:
 - it demonstrates to policyholders that a third party has measured the likelihood of the insurance company being able to meet their financial obligations/ commitments;
 - it allows for financial strength comparisons among different insurance companies;
 - brokers and clients can decide on their risk appetite by choosing the financial rating that they prefer for their insurance carriers;
 - it allows for premium differentiation among the insurance companies, where by an extremely strong companies charge higher premium than a low rated company;
 - it is another means of determining whether an insurance company is solvent or insolvent.

(5 marks for each correct and completed stated reason. Maximum of 3 points to be graded. Total: 15 marks)

- b) The procedures or stages involved in the rating process between the insurance company and rating agency are:
 - the insurance company meets the agency and signs a contract
 - at least two analysts spend a day with the senior executives to understand the insurance company's business
 - an exhaustive analysis is undertaken over the next five weeks and may require answers to further questions
 - the lead analyst will then recommend a rating to a committee of eight analysts who then debate the methods and reasoning
 - the committee will vote on the rating
 - the insurance company is then told of the rating and can either accept it or appeal and the committee re-sits
 - once agreed the rating agency issues a press release
 - the rating agency will then monitor the insurance company and carry out an annual review.

(2 marks for each correctly stated procedure. Sub-Total: 16 marks)

- c) The options available to insurance companies in case of shortfall regarding their regulatory capital are:
 - issuing new shares in a limited liability company
 - borrowing
 - switching out of assets
 - reducing the volume of business written, particularly in lines which generate a high capital requirement
 - purchasing reinsurance (1 mark for any correctly stated option. Maximum of 3 options to be graded. Total: 3 marks) (Grand Total: 34 marks)
- 14. A Life Specialist Insurance company has recorded the life premiums generated by agents in 2020 in the table below:

Number of Agents	Premiums per million		
40	8.5		
25	5.5		
32	7.5		
20	4.0		
25	6.5		
35	9.0		
55	12.0		
60	15.5		

Find the regression line of y on x.

Solution

X	Y	\mathbf{X}^2	\mathbf{Y}^2	XY	
40	8.5	1,600	72.25	340	
25	5.5	625	30.25	137.5	
32	7.5	1,024	56.25	240	
20	4.0	400	16.00	80	
25	6.5	625	42.25	162.5	
35	9.0	1,225	81.00	315	
55	12.0	3,025	144.00	660	
60	15.5	3,600	240.25	930	
292	68.5	12,124	682.25	2,865	

(1 mark for each correctly stated value for under the columns X², Y² and XY. Sub-total: 27 marks)

Let the regression line of y on x be represented by:

$$y = a + bx$$
 (1 mark)
where $a = \sum Y - b\sum X$ (1 mark)

and
$$b = \underbrace{n\sum XY - \sum X\sum Y}_{n \sum X^2 - (\sum X)^2}$$
 (1 mark)

Therefore,
$$b = (8 * 2,865) - (292 * 68.5) = 0.24881$$
 (1 mark)
 $(8 * 12,124) - (292)^2$
 $a = 68.5 - (0.24881 * 292) = -0.51907$ (1 mark)

$$Y = -0.51907 + 0.24881x$$
 (2 marks)



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ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A520

COMPANY AND CONTRACT LAW

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- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A520 - COMPANY AND CONTRACT LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was intended to test candidates' understanding of law. Attempts and score were above average.

Ouestion 2

Pass rate was about 45%. The question was direct and straight forward but inability to link up issues of crime to how it will be processed as a social behaviour is responsible for its failure.

Question 3

A great attempt at about 90%. Performance was high because it is conspicuous in the textbook and explained without ambiguity i.e. the requirements for formation of contract. This has always been a popular question.

Question 4

Attempt at about 80%. The question was testing resolutions passed at AGMs. Candidates have moved away from the previous years' performances of not keeping track of company's matters.

Question 5

An average attempt. Most candidates could not name all the agents. The reason for this dismal performance can only be adduced to inadequate preparation.

Question 6

Performance was high at 90%. Agency issues are tropical and it is central to business environment, therefore the good pass rate was not a surprise.

Question 7

Attempt was outstanding 95%. This question also features in another subject - insurance law. This could be responsible for the good pass rate.

Question 8

Attempt was over 90% as the question appears direct and straightforward. This is also an overlap topic in Insurance Law.

Question 9

Question was intended to test knowledge of improvements in the industry in the last 10 years. Attempt was above 95% and score good as most of the issues were topical and observable issues. {b}attempt was good as it is a textbook question {c}attempt was weak.

Question 10

Poor attempt of only 20% of the total candidates that sat for the course. We can improve performance on this topic by referring candidates to relate with the company secretary or legal department of their various offices for first-hand knowledge of issues surrounding memorandum though most insurance companies are public limited companies.

Question 11

Poor attempt even though it was a textbook question. Inadequate preparation may be responsible for the turn out/performance.

Question 12

Attempt at 10% because of other options but the few who attempted have a grasp of the question.

Question 13

Pass rate about 70%. Candidates itemized the points which showed understanding of the direction of the question.

Question 14

Attempt was about 90% with outstanding performance; contract is central to business studies and so familiar with the candidates.

Comments on Overall Performance

A great performance on the compulsory question (Number 9) as the issue involved are observable and topical i.e., issues of improvements in the insurance industry in the last decade. A fairly good attempt too on part 1 of the question. Generally, a good year for the candidates.

Suggestions on Improvements:

Candidates should be invited to our annual programs like AGMs as observers to see how issues evolve practically. This can also be escalated to a general discussion so that Managing Directors of companies can give opportunities to staff to attend as observers.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Law is a set of rules enforceable by the State. Briefly explain.

Solution

Law is the system of rules which a particular community or country (2 marks) recognizes as regulating activities of its members which may be enforced by way of sanctions (2 marks).

- It must have binding force
- It must be certain and known
- The breach will attract sanctions/penalty
- There must be a mechanism in place to detect breaches (2 marks for any other correctly stated point as guided above. Grand Total: 6 marks)
- 2. What is the purpose of criminal proceedings?

Solution

Criminal law is the part of law which deals with enforcement of Law and order in the interest of the community (1 mark). The purpose of criminal proceedings is the punishment of offenders together with attempts at their rehabilitation and overall protection of the society (3 marks). Crime is an offence against the state and therefore punishable by the state which is usually police or office of the Director of Public Prosecution (2 marks).

3. (a) Give a simple definition of a contract.

(2 marks)

(b) Enumerate any four (4) essential requirements for formation of a simple valid contract. (4 marks)

Solution

- a) A contract can be defined as a legally binding agreement an agreement that the law will enforce. (2 marks)
- b) The essential requirements for formation of a simple valid contract are:
 - an intention to create a legal relationship
 - there must be offer and acceptance i.e. an agreement
 - there must be consideration
 - the agreement must be in form required by law
 - parties to have capacity to contract.

(1 mark for each correctly stated requirement. Maximum of 4 to be graded. Total: 4 marks)
(Grand Total: 6 marks)

4. Briefly explain the three (3) types of resolutions that a company can pass in a general meeting.

Solution

The three types of resolutions that a company can pass in a general meeting are:

- **ordinary resolution:** this a resolution passed by a simple majority of the numbers present and voting is done in person or by proxy at the meeting.
- **extraordinary resolution:** is a resolution, required in certain specific situations required by Statutes, passed by at least ¾ majority of the votes of the members present and voting is also done in person or by proxy at the meeting.
- **special resolution:** is a resolution passed by at least ¾ majority of the votes of the members present and voting is also done in person or by proxy at the meeting.

(1 mark for correctly stated type. 1 mark for the explanation. Sub-total per type: 2 marks. Grand Total: 6 marks)

5. List six (6) particular agents that you have been exposed to in this course.

Solution

The different types of agents in this course are:

- * Commercial agents * auctioneers * bankers (1 mark for each correctly stated type. Maximum of 6 to be graded. Grand Total: 6 marks)
- 6. (a) Briefly explain the latin maxim "delegatus non protest delegare". (2 marks) (b) List four (4) exceptions to the principle it enunciates. (4 marks)

Solution

- a) "delegatus non protest delegare" is a latin maxim meaning that an agent must personally perform the duties owed to his principal and he is not permitted to delegate his duties to anyone.

 (2 marks)
- b) The exceptions to the principle it enunciates are:
 - where the principal expressly authorised the agent to delegate;
 - where custom or trade usage sanctions delegation;
 - where delegation is necessary to ensure proper performance;
 - where the work delegated is purely clerical e.g. signing;
 - where unforeseen emergencies arise which impose upon the agent the necessity of employing substitute e.g. serious illness.

(1 mark for each correctly stated exception. Maximum of 4 to be graded. Sub-Total: 4 marks) (Grand Total: 6 marks)

7. What constitutes Parliament in England.

Solution

Parliament is the supreme law making body and, in theory there are no limits to its law making powers (2 marks). Parliament consists of the Monarch, House of Lords and the House of Commons. Legislation must be approved by both Houses of Parliament and receive the Royal Assent from the Sovereign (4marks). (Grand Total: 6 marks)

8. (a) Define private law.

(2 marks)

(b) List four (4) branches of private law.

(4 marks)

Solution

- a) Private law if the law that governs relationships between individuals rather than between the State and individuals. (2 marks)
- b) The branches of private law are:

* law of contract

* laws of tort

* law of trusts

* law of property

* family law.

(1 mark for each correctly stated branch. Maximum of 4 to be graded. Sub-Total: 4 marks) (Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) Account for the noticeable improvements in the insurance industry in the last decade with five (5) distinct and completely stated points. (10 marks)
 - (b) What is "privity of contract"?

(6 marks)

- (c) Discuss the doctrine in relation to the following:
- (i) property insurance

(8 marks)

(ii) motor and liability insurance

(10 marks)

(iii) marine insurance

(6 marks)

(iv) life assurance.

(10 marks)

Solution

The noticeable improvements in the insurance industry in the last decade include:

- prompt claims settlement in recent times. This shows that the industry is more responsive to claims settlements;
- the regulatory body- NAICOM is more alert to its responsibility i.e. adequate monitoring, supervision and enforcing standards and regulations. NAICOM is adequately empowered to enhance proper regulations of the industry;
- enforcement of high ethical standards among individual practitioners;
- insurance education
- reviews of syllabus by CIIN.
- establishment of college of insurance.

- accreditation of more higher institutions of learning.
- awareness programmes by NAICOM or CIIN;
- organisation of loss-free service/courses by NAICOM and the institute;
- social responsibilities- the corporate bodies are alive to social responsibility projects;
- diversification of business base e.g. incursion of some firms into stock broking, tile communications;
- professionalism strictly adhere to for cop management positions;
- more firms are going public enlisted on the Nigerian Stock Exchange;
- increase in the operating capital base to further enhance the profitability of the firms;
- merger and acquisition of insurance firms which may lead to increased profitability on the long-run.

(2 marks for each correct and completely stated improvement. Maximum of 5 to be graded. Sub-Total: 10 marks)

(b) What is "privity of contract"?

Privity of contract is a doctrine which limits the rights, duties and obligations created by the contract to parties who originally made the contract in its simplest form ,it shuts doors of rights and obligations on a contract to 3rd parties and regards them as busy bodies. The effect of the principle of privity of contract is debar or shut the door of recovery by parties other than the insured. The strict application of this doctrine will create inconveniency and disrupt normal commercial activities as an individual or may have a sound comment reason for effecting insurance cover.

(3 marks for each correct and completely stated point. Maximum of 2 to be graded. Sub-Total: 6 marks)

(c) Discuss the doctrine in relation to the following:

(i) Property Insurance.

The effect of the principle of privity of contract is to debar or shut the door of claim recovery to parties other than the insured.

Strict application of this doctrine will create inconvenience and disrupt normal commercial activities as an individual or entities may have a sound commercial reason for effecting insurance cover.

Haulage contractors have a commercial reason to effect a goods in transit cover on consignments they accept to move from a particular location to a destination point in Hepburn V A. Thompson (Hauliers) Ltd 1996, Hauliers effected a goods in

transit policy on consignments of cigarettes which they transported from players Nottingham factory to their London warehouse, vehicles containing the cigarettes were stolen from London depot owing to negligence of player's own staff.

The court held that the policy was not merely a liability insurance but a property insurance, although effected by the hauliers, it covered goods belonging to players (who were in fact named in the policy) The plantiffs could recover the whole of the loss for the benefit of the owners of the goods.

(3 marks for each correctly stated point. Maximum of 2 to be graded. 2 marks for citing a legal authority. Sub-Total: 8 marks)

(ii) Motor and Liability Insurance

A motor policy would not only cover the insured's liability for the use of his car but also indemnify people driving the vehicle on the insured's orders or with his permission and other unspecified persons who may incur liability in connection with the vehicle such as passengers. (5 marks)

Under a liability policy a third party who is injured by the insured or other persons under a liability policy cannot make a claim but the insured can make a claim under the policy for the benefit of the 3rd party, But if negotiation with the 3rd party breaks down and the injured party elects to sue, it is the insured tortfeasor who will be sued by the injured third party.

(5 marks) (Grand Sub-Total: 10 marks)

(iii) Marine Insurance

Marine insurance Act 1906 allows a person to insure for the benefit of others. Sec 14 (2). "A consignee or other persons having an interest in the subject matter may insure on behalf of and for the benefit of other persons interested as well as for his benefit.

(4 marks. 2 marks for reference to the Statute. Grand Sub-Total: 6 marks)

(iv) Life Assurance.

In life Assurance, an assured can affect cover on his own life for the benefit of other third parties or named beneficiaries e.g. his son, grandson or other persons named in the life policy as a beneficiary.

An individual can also effect a mortgage protection policy as a life policy to compensate the mortgagee/building society in the event of death of the borrower/mortgagor to cover for the outstanding debt on the mortgage transaction.

The benefit of the mortgage protection policy is paid to the mortgagee as a lien would have been inserted on the policy for this purpose.

(3½ marks for each correctly stated point. Maximum of 2 to be graded. 3 marks for the example cited. Sub0Total: 10 marks)

Part III

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

- 10. (a) Enumerate any three (3) clauses contained in the memorandum of association of a limited liability company? (9 marks)
- (b) Explain five (5) circumstances that the object clause of a company may be altered by a special resolution of the company. (25 marks)

Solution

- a) The clauses contained in the memorandum of association of a limited liability company are the:
- * Name of the company;

* registered office address;

* Object of the company;

* limitation of liability clause;

* Capital clause;

* association clause and subscription.

(3 marks for each correctly stated clause. Maximum of 3 to be graded. Sub-Total: 9 marks)

- b) The object clause of the Memorandum of Association of a company may be altered by special resolution in the following circumstances:
 - to enable the company carry out business more economically or efficiently;
 - to enable the company attain its main purpose by new or improved means;
 - to enlarge or change the local area of its operation;
 - to enable the company carry on some other business which may be conveniently combined with its own;
 - to restrict or abandon any of its objects;
 - to sell or dispose of the whole or parts of the undertaking;
 - to amalgamate with another company.

(Candidates are required to also explain the circumstances. 3 marks for each correctly stated circumstance. 2 marks for correct and completely stated explanation. Sub-total per circumstance: 5 marks. Maximum of 5 circumstances to be graded. Grand Sub-Total: 25 marks)

(Grand Total: 34 marks)

11. (a) Define the term "consideration" as learnt in the course.

(4 marks)

(b) What are the rules of consideration?

(30 marks)

Solution

a) "Consideration" was defined in the case of *Cuurie v. Misa* (1875) as "some right, interest or profit or benefit accruing to one party, or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other." (4 marks)

- b) The rules of consideration are:
- (i) **consideration must be real or genuine.**: courts only enforce promises that are real and confer real benefit and not vague promises or the ones that do not give real benefits or detriment at all. In *White v. Bluett (1853)*, a son sued his father's executors claiming that his father in his life time had agreed to pay him some money if he would cease complaining that he, the son, was not well treated as his brothers. It was held that the consideration furnished by the son was insufficient- the promise not being more than a promise not to bore his father.
- (ii) **consideration need not be adequate**: it must have some value, it needs not be adequate provided it is acceptable to the party to whom it was offered.
- (iii) **consideration must not be past**: consideration must support the promise for which was given. There must be some connection between the promise and the consideration. For example, when services have already been given for nothing, a subsequent promise to pay for them is not supported by good consideration. In *Re MC Ardle (1951)*, the occupants of a house carried out improvements on the house at a cost of £488. After the work was done the beneficial owner of the house agreed to writing to pay the £488 in consideration of the work done they subsequently reneged. In an action taken out to receive the money, the court declined to uphold the action of the occupants to recover the money because the consideration for it was past.
- (iv) **consideration must move from the promise to the promiser:** a person cannot enforce a promise even when made to him, if the consideration form it was supplied wholly by some other person. If X makes a promise to Y and Z to pay £5000. Kif Z does the same Y cannot enforce X's promise since the consideration moves entirely from Z.
- (v) Consideration must not be something which the promisor was already bound to do: since the essence of consideration is a 'benefit to the promise or detriment to the promisor' a promise to do something which the promisor is duty-bound to do gives nothing more than he already can effects. It imposes no further detriment or burden on the promisor. In *Foakes v. Beer*, Beer obtained a judgment against Foakes for the latter to pay a sum of money. Parties agreed that the judgment sum be paid instalmentally. After the whole sum was liquidated by Foakes, Beer sued for interest on the judgment sum. It was held that Beer would succeed because s Foakes did not furnish a new consideration for the agreement to pay instalmentally. The payment of the jugdement sum was what she was out of bound to pay in the first place.

(2 marks for each correctly stated rule. 2 marks for correct and completely stated explanation.

Maximum of 2 explanations to be graded. Sub-total per rule: 6 marks. Grand Sub-Total: 30 marks)

(Grand Total: 34 marks)

- 12. (a) Distinguish between express and implied terms of a contract. (4 marks)
 - (b) How may terms be implied into a contract? (12 marks)
 - (c) What are the basic terms implied into insurance contracts? (18 marks)

Solution

- a) **Express terms** arise from the words used by the parties in reaching or recording their agreement whereas **implied terms** are those which form part of the agreement even though the parties never put them into words.
- b) Terms may be implied into a contract in the following ways:
 - **terms implied in fact:** these are terms not explicitly stated but which the courts would view as obviously being intended by the parties. The courts use the offices by stander test to arrive at this.
 - **implied by advice:** If the parties to the contract had been discussing their arrangement and an official bystander had suggested that the term in question be expressly included, then the term would be implied.
 - by custom or usage:
 - The custom of the market in which the parties to the contract operate, or the usages of a particular locality or trade. Such term must not be unreasonable and inconsistent with other parts of the contract.
 - **term implied in law**: many contractual obligations of the parties may be based on detailed decisions of the court which have been codified. An example of this is the Sales of Goods Act 1979. The provisions of the Act imply that some terms of the contract which the parties themselves do not expressly agree upon.

(2 marks for each correctly stated way. 2 marks for correct and complete explanation. Sub-Total per way: 4 marks. Maximum of 3 ways to be graded. Grand Sub-Total: 12 marks)

- c) Insurance contracts are subject to some implied terms. Examples of such are:
 - **Marine Insurance Act 1906- S.39:** implies into every contract of Marine Insurance, a term to the effect that the vessel must be seaworthy.
 - It is implied that in all insurance contract, the subject matter of insurance does exist.
 - It is implied that insurers are not liable for losses that are not accidental in the sense that they are caused by the willful conduct of the insured.
 - It is an implied term of the principle of subrogation that it is an implied term of the contract that is within the power of the assured to reduce the amount of the loss for which he has received payment from the insurer, by exercising remedies against third parties, he must do so upon being indemnified by the insurers.

(6 marks for each correct and completely stated example. Maximum of 3 to be graded. Grand Sub-Total: 18 marks)

(Grand Sub-Total: 34 marks)

- 13. (a)Explain the doctrine of "utmost good faith" as given in the case of "rozanes v. bowen (1928)". (4 marks)
- (b) What is a material fact?

(6 marks)

(c) List and briefly explain four (4) facts that must be disclosed by the insured to satisfy the doctrine of utmost good faith. (24 marks)

Solution

- a) The doctrine of "utmost good faith@ was explained in the case of *Rozanes v. Bowen* thus as the underwriter knows nothing and the man who comes to him to ask him to insure knows everything, it is the duty of the assured to make a full disclosure to the underwriter without being asked of all the material circumstances. This is expressed by saying it is a contract of utmost good faith. (4 marks)
- b) A material fact is defined in Section 18(2) of the Marine Insurance Act 1906 thus "every circumstance is material which would influence the judgment of a prudent insurer in fixing the premium or determining whether he will take the risk.

(3 marks for each bolded and coloured phrase. Sub-Total: 6 marks)

- c) The facts that must be disclosed by the insured to satisfy the doctrine of utmost good faith are:
 - facts which show that the particular risk being proposed is greater because of individual, internal factors than would be expected from nature or class;
 - external factors which make the risk greater than normal;
 - facts which would make the likely amount loss greater than that normally expected;
 - previous losses and clause sunder other policies;
 - previous declinature or adverse terms imposed on previous proposals by other insurers;
 - facts restricting subrogation rights due to the insured relieving third parties of liabilities which they would otherwise have.

(6 marks for each correct and completely stated fact. Maximum of 4 to be graded. Sub-Total: 24 marks)

(Grand Total: 34 marks)

14. (a) Define the term "contract".

- (2 marks)
- (b) How may a simple contract be discharged? Enumerate four (4) of the ways.

(20 marks)

(c) State three (3) remedies available in the law of contract.

(12 marks)

Solution

- a) Contract is a legally binding agreement which exists between 2 or more parties which the law will enforce, it may be oral or written. It usually creates rights, duties and obligations between parties to it.
- b) A simple contract may be discharged in the following ways; by:

* Performance;

* breach;

* rescission;

* frustration;

* agreement;

* operation of law (merger, material alternation and bankruptcy)

(5 marks for each correctly stated way. Maximum of 4 to be graded. Sub-Total: 20 marks)

- c) The three remedies available in the law of contract are:
 - action for damages;
 - action for specific performance;
 - action for injunction.

(4 marks for each correctly stated remedy. Sub-Total: 12 marks)
(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A530

BUSINESS AND ECONOMICS

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
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WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A530 - BUSINESS AND ECONOMICS

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

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

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

Chief Examiner's Comments

Question 1

The question was about workings capital revenue and capital employed; A well understood question with an excellent performance (More than 90% plus rate).

Question 2

The question sought to know the difference between both the executive and non-executive director of insurance company and their functions. A good performance (More than 90% pass rate.)

Question 3

A popular question with below average performance as majority of them did not have in depth knowledge of the question.

Question 4

The success rate was below 40% as the candidates who attempted the question could not answer correctly.

Question 5

The question requested for 2-reasons why motivated employees are vital assets in an insurance company, A well attempted question and well understood by the candidates with an excellent performance (70% passed rate).

Question 6

The question sought to know the difference between share capital and paid up share capital. A well understood question with an excellent performance (Above 60% pass rate).

Question 7

A good attempt with a fair pass rate (about 50% pass rate). It is an I.T question and candidates used residual knowledge for the question.

Question 8

Most of the candidates understand the question hence, the performance was very poor (Less than 35% pass rate).

Question 9

A compulsory question and very direct with majority of the candidates scoring high marks. Performance rate was about 75%.

Question 10

Diverse question with most of the candidates attempting it. An excellence performance with more than 70% pass rate.

Question 11

A well attempted question with a fairly average performance (less than 40% pass rate). They gave scanty answers and this accounted for the low performance.

Question 12

The question sought to know candidates understanding of inflation. A well attempted question with an excellent performance (more than 65% pass rate).

Question 13

The question attempted to text candidates' knowledge in floating rate. A very woeful performance.

Question 14

The question is diverse with about 90% attempt with an average performance (about 50% pass rate).

Question 15

Not a popular question and those that attempted it performed woefully.

Comments on Overall Performance

The overall success rate was good. The success rate is 81% which represents ninety-nine (99) candidates out of the one hundred and twenty two (122) that presented themselves for the paper.

Suggestions on improvements:

Candidates are encouraged to continue to adhere to the recommended texts to ensure the success gets even better.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

- 1. Define the following terms:
 - (a) working capital;
- (b) venture capital;
- (c) capital employed.

Solution

- a) **working capital**: is the money used to finance the day-to-day activities of the firm. It is used to pay for wages, overheads and raw materials. It is also known as net current assets.

 (2 marks)
- b) **venture capital**: is a mixture of loan capital and share capital offered organisations which are considered too risky by conventional banks. (2 marks)
- c) **capital employed**: shows the total sources of the firm's long-term finance and where the money has come from (long term loans, share capital or resources plough back).

(2 marks)

(Grand Total: 6 marks)

- 2. (a) Distinguish between an executive director and non-executive director of an insurance company. (4 marks)
 - (b) State a way in which a non-executive director contributes meaningfully to the success of the company. (2 marks)

Solution

- a) An executive director is a full-time employee of the company who is responsible for running a specific department or division within the company and has input into any decision made by the Board (2 marks); whereas a non-executive director is not an employee of the company but rather tends to be a seasonal manager who have valuable experience or contacts with other companies or organisations abd brings such experiences to the use of the organisation (2 marks).
- b) A non-executive director contributes meaningfully to the success of the company in the following ways:
 - can act as sharp independent external critics of the firm's management and its strategies;
 - contributes knowledge and experience from wider areas.

(2 marks for any correct and completely stated way. Maximum of 1 to be graded. Sub-total: 2 marks) (Grand Total: 6 marks)

- 3. A promoter of a new insurance company is contemplating registering a new insurance company.
 - (a) Advice the promoter on two (2) major challenges that might be experienced.

(4 marks)

(b) Who is a promoter?

(2 marks)

Solution

- a) The challenges that might be experienced are:
 - the capital costs needed to meet solvency requirements;
 - the marketing costs of launching the company and any brand;
 - the sunk costs-hiring staff, buildings, equipment, e.t.c.;
 - the legal barrier of needing the correct licences to transact business.

(2 marks for each correct and completely stated challenge. Maximum of 2 to be graded. Sub-total: 4 marks)

b) A promoter is the applicant making a request to get approval from NAICOM to operate as either an insurance company or a reinsurance company in Nigeria Insurance market space. (2 marks)

(Grand Total: 6 marks)

- 4. Differentiate between:
 - (a) an "asset" and a "liability".
 - (b) a "revenue account" and a "profit and loss account".

Solution

- a) **An asset** is an item of wealth owned by a company either as a fixed asset or a current asset (1½ marks); while **a liability** is an item of wealth owned by the firm either as a current liability or long-term liability (1½ marks).
- b) A revenue account works out the underwriting result i.e. premium written less reinsurance (1½ marks) whereas the profit and loss account works out the total profit or loss made by the company (1½ marks).

(Grand Total: 6 marks)

5. Enumerate the two (2) reasons why motivated employees are vital assets in an insurance company.

Solution

Motivated employees are vital assets in an insurance company because:

• motivated employees tend to be more productive than employees who are just content to divisional effort day's work. This is because the additional effort will help to push productivity up, which will drive unit costs down;

• there is another advantage of quality of work produced because they tend to provide a superior quality of workmanship. They are interested and maybe even empowered to do what they do.

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

6. Distinguish between authorized share capital and paid-up share capital.

Solution

Authorised share capital is the maximum number of shares that the board of directors can issue (3 marks); whereas paid-up share capital is the total payments received to date on all shares (3 marks).

(Grand Total: 6 marks)

- 7. Differentiate between
 - (a) hardware and software.
 - (b) internet and world wide web (www).

Solution

- a) **Hardware** is the physical component which enable computerised information systems to run (1½ marks); while the **software** is the program which run on the hardware (1½ marks).
- b) **Internet** is a global computer network made up of hundreds of smaller networks linked by the international telephone system (1½ marks); whereas **world wide web (www)** is a system of millions of hypertext pages (pages linked using associative 'list words') where databases can be search, information can be accessed and files can be downloaded to a connected computer anywhere in the world (1½ marks). (Grand Total: 6 marks)
- 8. An established insurance company has just announced the increase in the premium of one of its products by 50%. Predict three (3) likely ways that their existing clients may react to the increment.

Solution

Existing clients of the company may react in the following ways:

- search competitors for a lower premium;
- pay the increase;
- set up a captive or internal funds;
- self-insure and carry the exposure.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) Account for the noticeable improvements in the insurance industry in the last decade with five (5) distinct and completely stated points. (10 marks)
 - (b) Enumerate the four (4) main stages in the budgeting process? (4 marks)
 - (c) An I.T. project is usually divided into phases. List any four (4) phases of an I.T. project. (4 marks)
 - (d) List and discuss fully the factors of production in relation to the insurance industry. (26 marks)
 - (e) There are various factors that can make market unprofitable for an insurer. Enumerate any three (3) of these factors (6 marks)

Solution

The noticeable improvements in the insurance industry in the last decade include:

- prompt claims settlement in recent times. This shows that the industry is more responsive to claims settlements;
- the regulatory body- NAICOM is more alert to its responsibility i.e. adequate monitoring, supervision and enforcing standards and regulations. NAICOM is adequately empowered to enhance proper regulations of the industry;
- enforcement of high ethical standards among individual practitioners;
- insurance education
- reviews of syllabus by CIIN.
- establishment of college of insurance.
- accreditation of more higher institutions of learning.
- awareness programmes by NAICOM or CIIN;
- organisation of loss-free service/courses by NAICOM and the institute;
- social responsibilities- the corporate bodies are alive to social responsibility projects;
- diversification of business base e.g. incursion of some firms into stock broking, tile communications;
- professionalism strictly adhere to for cop management positions;
- more firms are going public enlisted on the Nigerian Stock Exchange;
- increase in the operating capital base to further enhance the profitability of the firms;

merger and acquisition of insurance firms which may lead to increased profitability on the long-run.

(2 marks for each correct and completely stated improvement. Maximum of 5 to be graded. Total: 10 marks)

- b) The four (4) main stages in the budgeting process are:
 - identify the objective;
 - determine policies to achieve the objectives;
 - prepare and obtain approval for budgets;
 - revise strategies in the light of budget variance to achieve objective. (1 mark for each correctly stated stage. Total: 4 marks)
- c) The phases of an IT project are: * business audit;
- * feasibility study;
- * system analysis;

* design;

- * development;
- * testing;

* maintenance

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

- d) The factors of productions in relation to the Insurance Industry are:
 - (i) land;
- (ii) labour;
- (iii) capital; (iv) entrepreneurship.
- i) **Land:** this includes everything that is usually referred to as natural resources, 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 spaces to build an office block. This can be very expensive as insurance companies are usually located in control business area where land prices are high. As technology progress insurance companies may operate virtual offices – i.e. staff working from homes and using virtual offices/centres.
- ii) **Labour**: to produce goods and service, the economy requires a workforce. the amount of labour an economy has at its disposal is dependent on the following factors:
 - the size of the population;
 - the proportion of the population that are of working age;
 - the number of those of working age who wish to work.

Insurance is labour intensive. The industry requires a high skilled professionals in underwriting and brokering (i.e. underwriters and brokers) to assess the risk to make informed judgement. This come from years of experience and expertise to make best business decisions on the field. Labour costs may have to be controlled to get a competitive advantage because wages constitute a high percentage of the total costs of the industry.

- iii) **Capital:** this consists of anything used in the production process that is manmade. It could be machinery, tools computers or even roads. The more capital that is used to the production process, the more can be produced. In insurance, finance is required to purchase the following capital items:
 - an office block;
 - computers;
 - fixtures and fittings, vehicles, e.t.c.
- iv) **Entrepreneurship:** Land, labour and capital all cost money. Entrepreneurs are individual who obtain initial finance required to set up the business. They then organise production, coordinating the use of land, labour and capital within the production process so that output from a given resource impart is maximised. An entrepreneur is both a manager and financier. To succeed, they must take risks with their own capital and with the capital of investors in the business. They must predict about the future of the business. Resources must be carried out on new products in the market.

For the insurance industry, syndicates can be formed with individuals and organisations to provide the needed finances to run the companies. Boards of the companies appoint managers to run the businesses.

((i) 1 mark for relating the opening answer to the insurance industry.

(ii) 2 marks for each correctly stated factor of production.

(iii) $1\frac{1}{2}$ marks for any correctly stated point under each factor of production. Maximum of 2 points to be graded for each stated factor.

- (iv) Sub-Total per Factor: 5 marks. Grand Sub-Total: 26 marks)
- e) The factors that make market unprofitable are:
 - reinsurance costs are too high;
 - customers premiums are too low;
 - undertaking risk are too high;
 - claim cost are too high.

(2 marks for each correctly stated factor. Maximum of 3 to be graded. Grand Total: 6 marks)
(Grand Total: 50 marks)

Part III

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

10 (a) Give the full meaning EDI, WIN and LIMNET. (4 marks)

(b) Explain with two (2) distinct points, the concept of EDI on the insurance industry. (4 marks)

(c) State three (3) benefits of EDI on insurance. (9 marks)

(d) State three (3) advantages of WIN. (9 marks)

(e) Differentiate between

(i) market networks and global networks. (4 marks)

(ii) local area network and wide area network. (4 marks)

Solution

a) EDI: Electronic Data Interchange (1½ marks)
WIN: World Insurance Network (1½ marks)
LIMNET: London Insurance Market Network (1 mark)
(Sub-total: 4 marks)

b) EDI involves the direct transfer of business data between the computer applications of two or more trading partners (e.g. a broker and insurer). EDI structure have information, the 'message' in such a way the data can be handled by both systems. For this to happen, some standardization of data format is required, as reliable and flexible data communications networks are essential.

(2 marks for any correct and completely stated point. Maximum of 2 points to be graded. Sub-total: 4 marks)

- c) The benefits of EDI are:
 - it increases the speed of processing;
 - leads to increased accuracy (no errors in re-keying data);
 - it leads to improved customer service;
 - it reduces administrative cost (since there is no human activity involved).

(3 marks for each complete and correctly stated benefit. Maximum of 3 to be graded. Sub-Total: 9 marks)

- d) The advantages of WIN are:
 - it is an efficient way to transact messages;
 - leads to cost savings in the long run;
 - it provides security;
 - it produces a common platform to continue with the organisations existing systems.

(3 marks for each complete and correctly stated benefit. Maximum of 3 to be graded. Sub-Total: 9 marks)

- e) (i) **Market networks** exist within specific markets to enable organisations within these markets to communicate and send data to each other electronically (2 marks); while on the other hand, **global networks** link machines in different continents (2 marks). (Sub-Total: 4 marks)
- ii) Local Area Network enables information, computing and communication resources to be shared between directly connected computers, often in the same building or close vicinity (2 marks). The computers are usually linked with cabling, gateways being used to connect local networks together; while wide area network cover larger distance and wider geographical location. They may telephone lines or communication may be provided by a common carrier (2 marks).

(Sub-Total: 4 marks) (Grand Total: 34 marks)

- 11. (a) Short-term finance is a vital ingredient for a business to succeed. Why is this so? (3 marks)
 - (b) Enumerate four (4) sources of short-term finance. (12 marks)
 - (c) List and briefly discuss the factors that may cause short-term cash flow difficulties.

 (15 marks)
 - (d) Define the term 'cashflow forecast'. (4 marks)

Solution

- a) Short-term finance is a vital ingredient for a business to succeed because it is needed to finance day-to-day cash flow activities in order to remain solvent. (3 marks)
- b) The sources of short-term finance are:

(3 marks for each correctly stated source. Maximum of 4 to be graded. Sub-Total: 12 marks)

- c) The factors that may cause short-term cash flow difficulties are:
 - seasonal fluctuations: firms that produce a product with seasonal demand often
 encounter cash flow problems during slack periods when demand for their
 product is weak. The products produced during the slack period are stock-plied
 for use during busy season. This approach may be cost effective in terms of
 capacity utilization but it may create severe cash flow difficulties because cash
 inflows may occur during the firm's peak periods.
 - late payment: small firms who supply large firms often suffer from a cash flow problem caused by late payment of their invoices. When a firm accepts an order,

raw materials and components have to be purchased so that the order is finished, an invoice will be dispatched to the customer telling them how much they owe. If the customer takes a long time to settle the invoice, the firm is likely to suffer from cash flow difficulties because the order has created outflows without creating a compensating cash inflow.

• accepting a large order: if customers are paying their invoices on time and the firm is trading profitably, cash inflows should be high enough to pay for cash outflows. However, if they take on an abnormally large order, a temporary cash flow problem might arise. A large order is expensive to produce so additional short-term finance will be needed. Unless the customer agrees to pay upfront, the firm accepting large orders is likely to suffer from a cash flow problem.

(3 marks for correctly stated factor. 1 mark for each correctly stated point under each factor. Maximum of 2 points to be graded under each factor. Sub-Total per factor: 5 marks. Grand Sub-Total: 15 marks)

- d) **Cash flow forecast** is the document that shows expected weekly or monthly cash inflows and comprises those inflows against expected weekly or monthly cash flows. It is the prediction of the firm's payments and/or income in the weeks or months to come. (2 marks for each complete and correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks) (Grand Total: 34 marks)
- 12. (a) Discuss three (3) ways of controlling inflation. (15 marks)
 - (b) Explain the two (2) factors that can create cost-push inflation. (10 marks)
 - (c) When is demand-pull inflation likely to occur? Explain briefly. (9 marks)

Solution

The ways to controlling inflation are:

- **by reducing inflation the monetary way:** this is done by the government by carefully controlling the rate of growth of the money supply. The idea is to set monetary target related to the growth of the money supply for the Central Bank to follow;
- **reducing inflation by demand management:** the key here is to control demand-pull inflation by carefully managing the demand by the central government. The government would apply the use of domestic policies such as the tax increase and cuts in public expenditure to curb the growth of spending in the economy;
- **income policies**: government use income policies to reduce cost-push pressure caused by the rising money costs. The policy involves the government intervening directly in the labour market and setting permissible wage increases.
- **high interest rates and strong currency**: this is done by the government controlling inflation through the combination of high interest rates and high exchange rates. The strong currency would make imports cheaper and would protect the economy against inflation caused by rising import costs. Also, high interest rates will help to correct the demand growth by reducing spending levels.

(2 marks for each generic way stated. 1½ marks for each correct and complete explanation. Maximum of 2 points to be graded. Sub-Total per generic way: 5 marks. Grand Sub-total: 15 marks).

- b) The two factors that can create cost-push inflation are:
 - wage increase: inflation is only likely to occur when wage rise faster than productivity, so it not the size of the wage increase that matters but the wage increase compared to any productivity gains made.
 - **rising raw materials prices**: if a country imports a high percentage of its raw materials, increase (rise) in the price of such materials will impact on the firms cost greatly. This will lead to high production cost thereby creating a wave of cost-push inflation.

(3 marks for each correctly stated factor. 2 marks for each correct and complete explanation under each factor. Only one complete point to be graded under each correctly stated factor. Sub-Total per factor: 5 marks. Grand Sub-total: 10 marks).

c) **Demand-pull inflation** is likely to occur during boom periods. In a boom period, unemployment is low and spending level high. Many firms are already operating at full capacity. Any further increase in spending will create a situation where firms are forced into raising their prices. If firms are already producing as much as they possibly can, they cannot respond to any additional increase in demand by producing more, so instead they raise their prices. If this is repeated across the economy, a wave of demand-pull inflation is created.

(3 marks for each correct and completely stated point. Maximum of 3 points to be graded. Sub-total: 9 marks) (Grand Total: 34 marks)

13. (a) Enumerate the six (6) factors that determine floating exchange rate.

(6 marks)

(b) Explain any four (4) of the factors enumerated above.

(28 marks)

Solution

- a) The six factors that determine the floating exchange rate are:
 - (i) balance of payments;
 - (ii) difference in inflation rates between various countries;

(iii) interest rate differentials;

(iv) confidence;

(v) speculation;

(vi) government intervention.

(1 mark for each correctly stated factor. Sub-Total: 6 marks)

- b) (i) **balance of payments:** the most important factor is the state of the country's balance of payments. In a floating exchange rate system, the current account of the balance of payments will have a major effect on the exchange rate. If a country is having problems in terms of its international competitiveness, the result is likely to be a current account deficit. In this situation, the currency will be weak. If this persists, the country will fall farther. Ultimately, a strong country is usually indicative of a strong, healthy, competitive economy
- (ii) **difference in inflation rates between various countries:** high inflation currencies will fall, low inflation currencies will rise in value. For example, if a country A has a higher rate of inflation

than country B, A's products will become more expensive than similar products made in B. consequently, people will buy the products of country B, not those of country A.

- (iii) **interest rate differentials:** if one country has higher interest rates than other countries, some people would want to invest their savings in the higher interest country. To be able to do that, they first have to buy some of the high-interest country's currency; the higher rates of interest will have increased the demand for high-interest currency, and as a result its price (exchange rate) will go up.
- (iv) **confidence:** if people have more confidence in the economic prospect of country A than in those of country B, they may want to invest their savings in country A. this will increase the demand for, and value of country A's currency.
- (v) **speculation:** if people expect a currency to go up in value, they may want to buy some of that currency in order to sell it at a profit, whether speculation increase or decrease currency fluctuations is debatable.
- (vi) **government intervention:** normally, exchange rates are determined by supply and demand. Sometimes government try to influence exchange rates by manipulating the supply of or the demand for, their currencies. This can be done either by the central bank buying or selling currencies in the foreign exchange markets or by increasing or reaching interest rates.

(3½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded. Sub-total per factor: 7 marks. Grand Sub-Total: 28 marks)

(Grand Total: 34 marks)

- 14. (a) State three (3) reasons why insurance companies need information about other companies, whether as clients or otherwise. (9 marks)
 - (b) Suggest at least three (3) reasons why insurance brokers need information about companies/clients to-be-brokered. (9 marks)
 - (c) Information is a vital tool in any insurance company, list and explain five
 - (5) other parties that may be interested in information about any insurance company. (10 marks)
 - (d) Enumerate any six (6) sections of the annual report of insurance companies. (6 marks)

Solution

- a) the reasons why insurance companies need information about other companies include:
 - to calculate premiums;
 - to work out whether the sum insured is accurate;
 - to check the amount of claims;
 - to assess whether a company's shares are suitable as investments.

(3 marks for each correct and completely stated reason. Maximum of 3 reasons to be graded. Grand Sub-Total: 9 marks)

- b) The reasons why insurance brokers need information about companies to-be-brokered clients or companies include:
 - to produce a formal underwriting submission to be presented to various underwriting organisations to obtain quotations;
 - to test the viability of every potential business;
 - to ascertain the acceptability by insurance companies;
 - to ensure that their clients are financially strong and able to pay the premium to the insurers.

(3 marks for each correct and completely stated reason. Maximum of 3 reasons to be graded. Grand Sub-Total: 9 marks)

- c) Other parties that may be interested in information about any insurance company are:
 - **trade unions-:** to assess the viability of wage demand.
 - brokers: to advise on mergers and takeovers.
 - **stock brokers**: to advise on share prices and prospects.
 - **Investors**: to assess the viability of any investment in such company.
 - **suppliers**: to assess the credit worthiness of the company.
 - **lenders**: to produce a credit check for a loan.
 - **potential employees:** to assess the company suitability to own goods.
 - **existing employees**: to have a good understanding of their employer and sustained payment of salaries.

(1 mark for each correctly stated other party. 1 mark for each complete and correct explanation. Subtotal per correctly stated other party: 2 marks. Maximum of 5 to be graded. Grand Sub-Total: 10 marks)

- d) The sections of the annual report of insurance companies are:

 - * profit and loss account for the current financial year and the year preceding it;
 - * balance sheet for the current financial year and the year preceding it;

(1 mark for each correctly stated section. Maximum of 6 to be graded. Sub-Total: 6 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A655 RISK MANAGEMENT

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A655 – RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was attempted by all the candidates with good understanding hence over 98% scored pass marks out of the total marks allocated.

Question 2

The question was popular amongst the candidates. 99% scored for above the average passed marks on the question.

Question 3

Over 60% of all the candidates could not give full definition of Risk Modelling and they have a poor understanding on how risk manager can develop risk models. Close to 49% scored above average of the total scores for the question.

Question 4

The question was attempted by 100% of the candidates. Over 90% have excellent understanding of risk retention and risk transfer hence scored far above average pass marks for the question.

Question 5

Risk inspection and survey formed major topic in risk management, the question was attempted by all the candidates that scored pass marks.

Question 6

All the candidates attempted this question and over 60% showed poor understanding, hence scored below average. Few scored above average marks.

Question 7

This question was attempted by over 98% of the candidates. Close to 57% had good understanding of both definition and workings of the term CATEX.

Question 8

Over 48% of the candidates have low knowledge of part "B" of the question but were able to make up in part "A". More than 50% of the over 90% that attempted scored above average (pass) marks.

Question 9

Compulsory question attempted by over 98%. Close to 78% of all the candidates that attempted scored pass marks in the question. However close

to 50% of the candidates that attempted the question could not mention correctly risks that the regulator required risk management department must ensure they are well covered in risk management framework.

Question 10

Less than 40% of the entire candidates attempted this question on transaction of business through open network. Among those that attempted close to 80% scored pass marks in due question.

Question 11

Majority of the examination candidates scored pass marks on this question. Few mix-up the shortcomings/problems in use of questionnaires, hence did not remember to state the disadvantages of such which would have given the candidates more marks.

Question 12

Over 70% of the examination candidates did not attempt this question. The applications, the question was making reference is in the course book. Over 80% of those that attempted scored below pass mark allocated to the question.

Question 13

This question was popular amongst the candidates attempted by over 50% amongst which close to 75% scored above pass marks for the question.

Question 14

Close to 25% of the candidates attempted this question amongst which many about 50% scored pass mark. The scored part of the question gave majority candidates challenges.

Comments on Overall Performance

Generally, more candidates prepared better in this diet hence scored pass mark.

Suggestions on Improvements

More candidates should seek counselling and encouragement from senior colleagues in order to be able to study properly for examination and adopt good techniques in answering question. Tutorial attendance is also encouraged.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Enumerate three (3) reasons why a risk manager in a new job (company) can spend time usefully touring the organisation.

Solution

The reasons why a risk manager in a new job (company) can spend time usefully touring the organisation are to:

- conduct interviews with the key operational and possibly facility managers;
- know what each unit does;
- know how each unit do what they do to know areas of risk exposures;
- allow for provision of organization charts and possibly flow charts where none
 existed or the one in existence need review;
- appreciate or begin to understand any interdependencies across these individual operational units;
- enable risk manager take or have helicopter view;
- be able to identify department or personnel whose inaction or error can result in the organization losing the approval of regulator(s);
- help bring out organization through recommendation that will safe such from death or killer risk.

(2 marks for each correct and completely stated reason. Maximum of 3 to be graded. Total: 6 marks)

- 2. (a) List two (2) things that will guide Risk Managers while analysing a risk concern. (4 marks)
 - (b) Why do risk managers need the guide? (2 marks)

Solution

- a) Things that will guide Risk Managers while analysing a risk concern are that they need to:
 - understand what all input criteria are;
 - check the input criteria in terms of qualities;
 - take precise view on their value in relation to the actual objective in mind.

(2 marks for each correct and completely stated thing, Maximum of 2 to be graded. Sub-Total: 4 marks)

b) Risk managers need the guide because slight inaccuracies or variables in input data when subjected to statistical processes can produce output that has huge inaccuracies or variables that will grossly affect the decisions to be made with it. (2 marks)

(Grand Total: 6 marks)

3. (a) Define risk modelling.

(2 marks)

(b) Enumerate any two (2) circumstances of how risk managers are likely to develop risk models that best meet what is wished to be achieved. (4 marks)

Solution

- a) Risk modelling is a way of creating a picture of the risk in a way that help the organisation to prioritize risks for attention. (2 marks)
- b) The circumstances of how risk managers are likely to develop risk models that best meet what is wished to be achieved are:
 - having the knowledge that there are many unpredictables (in terms of occurrence, nature and cost);
 - knowing that impact of an incident can vary by time of day;
 - by having knowledge of different points of time (example in production cycle or periods most renewal falls for insurance companies and brokers);
 - by having knowledge of different times of the year (example; Christmas period, Easter session or school resumption time)'

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

(Grand Total: 6 marks)

4. Differentiate between risk retention and risk transfer.

Solution

Risk retention is the formal acceptance of a risk with the hope of keeping same for future (2 marks); while **risk transfer** is either the sharing of the consequence of the risk when it happens or moving the risk to another party the consequences of the risk incidents (2 marks). In differentiating, one is exclusive of the other any risk transferred is no longer retained whilst risk retained is not transferred (2 marks).

(Grand Total: 6 marks)

5. Enumerate any three (3) headings you will expect to see in the report as a risk manager going through a typical physical risk survey report.

Solution

The headings expected to be seen in the report as a risk manager going through a typical physical risk survey report are:

location surveyed/risk address;

- * date of survey;
- when resurvey is recommended or due;
- * name of surveyor;
- person interviewed/conducted surveyor round risk location
- action required and agreed;
- risk improvement recommended date compliance expected;

- compliance with minimum safety or group risk standard
- additional comment
 (2 marks for each correctly stated heading. Maximum of 3 to be graded. Total: 6 marks)
- 6. List three (3) levels that will influence an organisation to determine and regard risk as unacceptable under the adoption of the risk tolerance policy.

Solution

The levels that will influence an organisation to determine and regard risk as unacceptable under the adoption of the risk tolerance policy are the levels of:

- individual mission and vision statements of each organisation;
- pressures within the services the organisation being offered;
- needs of its stakeholders;
- strength and resilience of the organisation itself.

(2 marks for each complete and correctly stated levels. Maximum of 3 to be graded. Total: 6 marks)

- 7. (a) What is the full meaning of CATEX in the alternative risk transfer technique which is uniquely different from insurance? (2 marks)
 - (b) Briefly explain how CATEX works.

(4 marks)

Solution

a) The full meaning of CATEX is Catastrophic Risk Exchange.

(2 marks)

- b) CATEX works as follows:
 - It is electronically applied to various types of risks exchange;
 - It is used to protect individual/single insurer been over exposed to one type of risk;
 - It allows for efficient use of own capital.

(2 marks each for correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks) (Grand Total: 6 marks)

8. The Business Continuity Institute gave ten principles of business continuity. List any six (6) of them.

Solution

The following are the principles of business continuity given by the Business Continuity Institute:

- developing strategies
- emergency response and operations
- business impact analysis
- risk evaluation and control
- project initiation and management
- awareness and training

- public relations and crisis co-ordination
- co-ordination with public authorities
- maintaining and exercising business continuity plans
- developing and implementing business continuity plans
 (1 mark for each correctly stated principle. Maximum of 6 to be graded. Total: 6 marks)

Part II Compulsory Question. This question carries 50 marks.

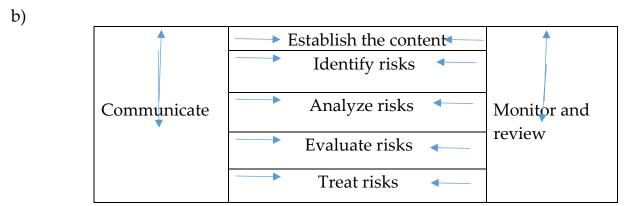
- 9. (a) NAICOM specified certain risks that insurance operators must arrange to cover as regards risk management framework. Enumerate any five (5) types of risks that the risk management department must ensure are well covered in this risk management framework. (10 marks)
 - (b) Through a diagram only, draw and complete the steps for creating effective risk management in any organisation as a process of risk management. (18 marks)
 - (c) Using Springfield Limited Risk Management structure/channel as benchmark, draw the channel/organogram out with correct label/position. (16 marks)
 - (d) Enumerate any three (3) cadres of directors that are required to be permanent members of the Group Risk Committee of a risk conscious company/ establishment. (6 marks)

Solution

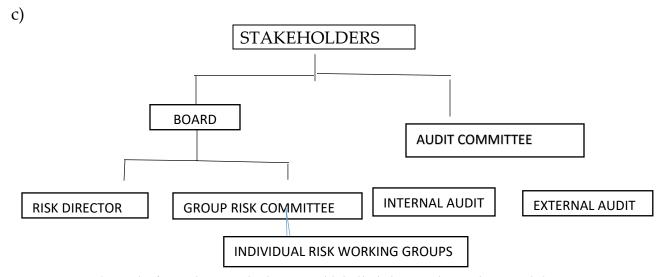
a) The types of risks that the risk management department must ensure are well covered in this risk management framework of NAICOM are:

* claims management risks; * operating risks; * liquidity risks;

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



(3 marks for each correctly drawn and labelled chats. Sub-Total: 18 marks)



(2 marks for each correctly drawn and labelled chats. Sub-Total: 16 marks)

- d) The cadres of directors that are required to be permanent members of the Group Risk Committee of a risk conscious company/ establishment are:
 - * risk director;
- * compliance director;
- * legal director;

- * group internal auditor;
- * public affairs director;
- * finance director
- * any other director as approved by the board and based on organisation line of Business.

(2 marks for each correctly stated cadre. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 50 marks)

Part III

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

10. The Information Technology (IT) team lead in your company recently issued a memo that all payments to the company must either be online, point of sales or transfer. He also mentioned that in the view of the effects of Covid-19, customers must transact business with the company by use of open networks within and outside the (your) company.

The MD/CEO has requested for your reaction to the memo in the form of an internal memo through the MD/CEO's office to the Chairman, Board Risk Management Committee of the Company. In the memo, enumerate and explain six (6) of some of the new risks that are envisaged and the impact of traditional risks arising through the contents of the memo on exchange of perceived value between your company and clients/stakeholders because of the use of open networks.

Solution

From: Risk Manager/CEO To: Chairman (4 marks)

Board Risk Management Committee

Thru': MD/CEO (1 mark)

cc: Company Secretary/ Legal Advisor

Date:

Reference:

REPORT ON NEW & POSSIBLE EMSCRITING RISKS ON THE TOTAL EXCHANGE OF PERCEIVED VALUE WITH OUR CLIENTS AND OTHER STAKEHOLDERS BY THE USE OF OPEN NETWORKS (10 MARKS)

Security: Customers need to be confident that credit card details and other personal information is secure. Overtime information including personal bank statements and fun were insecure

Global: Cut across boundaries not new risk. Tax law and other regulations of customer country may unknowingly be contravened

Hacking and Viruses: Open networks have viruses and hacking attack causing embarrassment, can destroy an organization's operations and credibility

Legality: Concerns remain about the legality of electronic signatures USA has esignatures Act 2000 that makes the same legal standing but not yet law in other countries.

Scale of Impact: Millions of customers and users can be affected at the same time because when something goes wrong it goes wrong wholesale. Many times, cost of getting the infrastructure and strategy wrong, is very costly.

Extremely costly: Average operational cost particularly when branch is involved on insurance transaction in USA was very high US \$19.00 to ordinary or use of call center that cost US \$0.45.

Speed of evolution: The race and advantage of being the first mover is enormous but the reward for the winner may not be censurable.

Miscellaneous: This is a range of other new risks. Example: domain name registration, ownership of intellectual property.

(1 mark for each coloured phrase. Sub-Total: 11 marks – i.e. for the memo format and cc) Candidates are required to develop the memo using the inserted areas of specification. 3 Marks for each explanation on any of the points above. Only one explanation per specification area. Maximum of 4 to be graded. Sub-total: 12 marks. 1 mark for correct sign-off/ending. Grand Total: 34 marks)

- 11. You have moved round various units and departments in the company as the risk manager and thereafter developed questionnaires to be administered by your colleagues in the risk management department to all other departments and staff members except the team lead (administration and human resources (A&HR)) does not see the need for the use and respond to the questionnaire
 - (a) Write a memo to the team lead (A&HR) copying the group risk director on six
 - (6) important ways that the use of questionnaires has in the successful management of risks in a company. (24 marks)
 - (b) As a professional risk manager, explain five (5) issues that must have put doubt in the mind of the team lead (A&HR) on the use of questionnaires, the shortcomings or likely problems. (10 marks)

Solution

a) Memo Format + copy: 11 marks

The important ways that the use of questionnaires has in the successful management of risks in a company are:

- useful as an aide memoir to the risk manager directly;
- assist risk managers in gathering information through delegation and for wider areas;
- format will allow comparison and analyses of information gathered;
- completed questionnaire can be added to what the risk manager already knows about the activities of the units;
- it can be pointers to previous loss history or recovery;
- it is a cheap and efficient way of collating large amounts of information;
- questionnaires are simple and easy to use;

- it is a way of updating information for current use and for monitoring trends against previous surveys;
- it is easily adaptable to individual areas of risk interest;
- it is used for putting diverse sources of information into a common format. (1 mark for each coloured phrase. Sub-Total: 11 marks i.e. for the memo format and cc) Candidates are required to develop the memo using the stated important ways above. 3 Marks for each explanation on any of the points above. Only one explanation per specification area. Maximum of 4 to be graded. Sub-total: 12 marks. 1 mark for correct sign-off/ending. Grand Total: 24 marks)
- b) The issues/shortcomings/likely problems that must have put doubt in the mind of the team lead (A&HR) on the use of questionnaires are:
 - could be completed by someone who may not be skilled in the subject of the questionnaire;
 - could be completed by someone who may not understand precisely the objectives and ultimate use of the answers;
 - could focus the users' attention simply on answering the questions themselves without keeping the overall reason for the questions in mind;
 - it could be treated as just let me rest or just let me fill in anything and go, defeating the purpose and objectives for which it was meant for, hence becoming wrong collation or total of no use to risk management dept.
 - no matter how carefully design, some people will find the content, the question ambiguous
 - the risk management department could be at risk of getting it completed quickly without much thought on the importance
 - could be completed by people who may have reasons for suppressing risk information

(2 marks for each correct and completely stated issue. Maximum of 5 to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 12. (a) As the risk manager of one of the television stations in Lagos State, Nigeria destroyed in the wake of the civil unrest/disturbances that accompanied the peaceful EndSars project, enumerate and explain any six (6) risk management procedures that you will ensure are in place immediately to get the confidence of stakeholders. (24 marks)
 - (b) Explain prior preparation to staff of safety units in four (4) different scenarios. (10 marks)

Solution

- a) The risk management procedures that one will ensure are in place immediately to get the confidence of stakeholders are to ensure that:
 - good continuity/contingency plan in place
 - there is a fast, authorised and visible control of the incident and its aftermath;
 - if possible, further damage is contained as far and as fast as possible;
 - security and safety are reinstated by getting security forces station informed or take position with adequate encouragement/incentives;
 - 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 or ensured there is alternative premises or equipment for continuing operations, if possible on-line.

(2 marks for a summarised procedure. 2 marks for any explanation on the procedure. Sub-Total per procedure: 4 marks. Maximum of 6 procedures to be graded. Sub-total: 24 marks)

- (b) Prior preparation to staff of safety units in different scenarios are:
 - having major tools that help organization/risk manager respond to an incident;
 - in case of fire, provision of fire extinguishers and evacuation are good starting points;
 - in case of a large organisation, having accredited fire brigade on site
 - adequate staff training and fire drill
 - preparation of emergency succession planning, particularly for key employee;
 - setting money aside, contingency fund.

(2½ marks for each complete and correctly stated scenario. Maximum of 4 to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 13. (a) You were interviewed by a journalist to mention the assets that are important to an organisation as a risk manager. List and explain any three (3) of these assets. (12 marks)
 - (b) Do you accept the fact that taking carefully considered risk is a routine and in fact an essential ingredient of business and other organisation strategies. Discuss any six (6) benefits of this to the organisation. (22 marks)

Solution

- a) Three important assets to organisation are:

 - * capital or financial including money cash in all its forms.

(2 marks for each correctly stated asset. Candidates are required to explain any 3 of the stated assets. 2 marks for each correct explanation. Sub-total per asset: 4 marks. Maximum of 3 assets to be graded.

Sub-Total: 12 marks)

b) Yes; taking carefully considered risk is a routine and in fact an essential ingredient of business and other organisation strategies. (4 marks)

The benefits of this to the organisation are:

- it will allow for regular risk identification;
- it will allow for risks to be analysed and handled appropriately;
- it will allow for understanding of risks and adoption of risk management procedures;
- it can guarantee good profits to organizations and can allow organizations to take new/additional risk without negative consequences;
- it will remove fear hence, good decisions can be made that will generate valuable opportunity;
- it has been proved that taking carefully considered risk is risk management;
- it will promote good business practice;
- it allows laws to be obeyed, regulations followed (example risk management guidelines/rules as rolled out by the regulatory authority) and fines/penalties will be avoided as possible;
- it will make it easy to comply with regulations requiring organisations to have in place visible risk management structure and strategy.

(3 marks for each correct and completely stated benefit. Maximum of 6 to be graded. Sub-Total: 18 marks. Grand Sub-Total: 22 marks) (Grand Total: 34 marks)

- 14. (a) List any seven (7) important issues that a risk manager and building engineer will consider in setting out to model the consequences of a fire. (14 marks)
 - (b) Fire can cause real danger to people who are within building, vessels, roads, vehicles and other workplace organisation. In its booklet: fire safety an employer's guide, the Health and Safety Executive seeks to guide those who are setting out to assess fire risk, particularly for a risk manager. Represent the five (5) steps in a paraphrased table as a risk management scholar. (20 marks)

Solution

- a) The important issues that a risk manager and building engineer will consider in setting out to model the consequences of a fire are:
 - ignition and fire source;
 - heat transfer to neighbouring structures and materials;
 - the behavior of those materials and structures in a fire;
 - smoke movement;
 - detection;
 - active fire safety features;
 - the way humans behave and how they will exit the premises;

- toxicity; and
- waste and run off.

(2 marks for each correct and completely stated issue. Maximum of 7 to be graded. Sub-Total: 14 marks)

b)

Approach	The risk	Appoint a person to carry out assessment plan and prepare
	manager is to:	for carrying out the assessment
Step 1 Location Identify the locations of p		Identify the locations of people and assets that are at
		significant risk in case of fire.
Step 2	Identify fire	Sources of ignition.
	hazards	Sources of fuel.
		Work processes.
Step 3	Evaluate the risks	Are existing fire measures adequate?
		Are ignition and fueling sources adequately controlled?
		Is the fire detection adequate for the likely needs at peak
		times?
		Is fire fighting equipment in place of the right kind and
		adequate?
		Are fire precautions maintained and tested regularly?
		Are employees trained as necessary in fire safety?
Step 4	Record	Record findings and the actions taken.
		Prepare emergency plans and
		Inform, instruct and train employees in fire precautions and
		fire responses.
Step 5	Update	Keep assessment under renew
		Revise as necessary
		Ensure new employees are inducted continually



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A735

LIFE ASSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A735 – LIFE ASSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was properly framed to elicit good answers from candidates. The question was easy for any average candidate who reads well. Surprisingly, they did not answer so well as expected.

Ouestion 2

This was a compulsory question. A course book question that requires the candidates' knowledge of the relationship of life insurance policy beneficiaries with both the insurer and the trustees. Over 95% of the candidates attempted the question but the pass rate was less than 30%. This further buttress the fact that most of the candidates are not conversant with the course book.

Ouestion 3

This is a compulsory question in Part A, majority of the candidates' attempted it, and their performance was very woeful. About 90% of them show lack of complete understanding of the concept behind the social system benefit.

Question 4

This question intended to test candidates' knowledge about the offences under money laundering regulation 1993. Performance recorded was above average while many candidates failed woefully.

Ouestion 5

This question was well attempted by candidates and the performance is very good. This is because the candidates understood the question.

Question 6

This is one of the most attempted question in part 1, but they did not do justice to it as it is obvious that the candidates did not have a good knowledge of the topic.

Question 7

This is a pure text book question plus practical experience. Majority of the candidates attempted it because it is in part 1, making it compulsory but their performance was below average.

Question 8

This question tested candidates on variety of funds to which a life policy can be linked. An average performance was recorded. Many candidates' response showed lack of understanding of this question.

Question 9

All the candidates are expected to attempt this question and they all performed woefully and the reason for this can be deduced from the pattern of the question. It should be noted that although question 9(c) was not a purely life question, candidates are required to be able to answer application questions. For a Life Assurance candidate at the advanced level, relating the course to fidelity guarantee, which is also related to the life of person, should njot be a challenge if they candidates adequately prepared for the examination.

In addition, almost all the candidates who attempted the question did not know the vision and core values of the Institute.

Question 10

A lot of the candidates did not attempt this question. However, majority of those that attempted the question passed it. Candidates should be made to understand well the rudiments of actuarial valuation which is very key to Life Assurance.

Question 11

This was an optional question. A course book question that tested the candidates' knowledge of Life Assurance claims. Though an optional question, it was attempted by over 95% of the candidates. It was quite a popular question and over 60% of the candidates obtained a pass mark.

Question 12

Few of the candidates attempted this question and few performed below average, less than 10% showed clear understanding of the question in part 'A' but the part 'B' was badly answered; it is hereby suggested that the candidates should read more about suicide as it affects the third party.

Question 13

The question is intended to test candidates' knowledge on medical and occupational factors required to underwrite a life policy. The question required the candidates to list and explain those underwriting factors. Majority of the candidates listed the factors but failed to explain each of the factors which resulted in their poor performance.

Question 14

Majority of the candidates did not attempt this question, even the few that attempted performed below average. The question is a technical question and the candidates did not understand the question. It is advisable that the candidates should create more time to prepare for the examination.

Comments on Overall Performance

The overall performance during this diet has been poor. The average score is 44% while the lowest score is zero (0%).

Suggestions on Improvements

The major reason for the poor performance has been the poor reading attitude of the candidates where less time is devoted to studying the course book and/or attending lectures where available.

While the Institute may go back to the era when lecture centres were introduced, the employers should be encouraged to grant the candidates some time off to attend lectures.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. List two (2) specific examples where no insurable interest exists as it relates to life assurance.

Solution

Examples of situations where no insurable interest exist as it relates to life assurance are:

- a parent has no insurable interest in the life of their children as no financial loss would be suffered on death
- a child has no insurable interest in its parent
- a beneficiary under a will does not have an interest in the testator. (3 marks for each correctly stated example. Maximum of 2 to be graded. Total: 6 marks)
- 2. When beneficiaries are dealing with life offices and/or trustees, there are some actions that they can or cannot do. List these two (2) actions.

Solution

The actions that beneficiaries dealing with life offices and/or trustees can or cannot do are:

- a beneficiary cannot claim against the life office as he does not have any legal interest;
- a beneficiary can deal with his beneficial interest, which is possible to be absolutely assigned or mortgaged.

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

3. Historically, governments have provided little or no benefits that might have been seen to impact on insurance needs. However, the social system does provide benefits in times of need; much like insurance. Enumerate any three (3) of such benefits.

Solution

The benefits provided by the social system are:

* widow's payment * widowed mother's allowance (2 marks for each correctly stated benefit. Maximum of 3 to be graded. Total: 6 marks)

4. Enumerate any three (3) criminal offences under the Money Laundering Regulations 1993.

Solution

The criminal offences under the Money Laundering Regulations 1993 are:

- failure to report suspicion that a person may be attempting to launder money
- providing assistance to a suspected money launderer;
- tipping off a person that are suspected of money laundering or are being investigated for the offence;
- to possess, use or acquire the proceed(s) of drug trafficking in the knowledge that they have such proceeds.

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

- 5. Define the following terms:
 - (a) death strain

(b) new business strain.

Solution

(a) **Death Strain:** is the sum assured less the reserve.

(3 marks)

(b) **New Business Strain:** is an unexpected number of large early claims before a new life fund has the chance to build up large reserves. (3 marks)

(Grand Total: 6 marks)

6. There are different circumstances that may lead to the appointment of a new trustee in a life assurance contract. Enumerate any six (6) of those circumstances.

Solution

The following are the circumstances that may lead to the appointment of a new trustee in a life assurance contract:

- where the existing trustee is dead or has gone into liquidation;
- where the existing trustee is an un-discharged bankrupt person;
- where the existing trustee becomes physically unfit;
- where the existing trustee is a minor;
- where the existing trustee resigns his appointment;
- where the existing trustee resides outside the country continuously for more than 12 months calendar period;
- where the existing trustee commits an act of felony or treasonable offence.

(1 mark for any correctly stated circumstance. Maximum of 6 to be graded. Total: 6 marks)

7. Usually, in any life office, the record system will also have to make provision for the recording of information and/or changes to the policy. List any three (3) of this information and/or changes.

Solution

The information and/or changes that the record system will also have to make provision for are:

- * life assured * address for correspondence * policy number * type of policy * sum assured * term * premium amount * premium frequency * unit fund * any special condition * branch offices involved * intermediary * unit allocation * premium payments * units encashed * unit fund switches * loans * assignment notices
- * alterations to benefits/premiums.

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

8. Most life offices offer a variety of funds to which a policy can be linked. List any three (3) types of the fund.

Solution

The types of the funds offered by most life offices are:

- * building society fund.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) As a student member of the Chartered Insurance Institute of Nigeria,
 - (i) what is the vision of the Institute?

(2 marks)

(ii) what are the Institute's core values?

(8 marks)

- (b) Credit insurance is a type of life assurance contracts that has over the years gained ground in the market. Enumerate any four (4) benefits of this type of contract. (16 marks)
- (c) More Growth Manufacturing Company has taken on a large number of new employees. Subsequently, five (5) members of the warehouse staff were discovered to have been stealing the stocks. You, as the Broker to the client, should full describe what cover you would recommend to provide an indemnity in such circumstances, with justification. (24 marks)

Solution

- a) **CIIN Vision:** To remain a world class professional body committed to the provision of an efficient and effective manpower for the insurance industry. (2 marks)
- b) CIIN Core Values: * Members' Satisfaction * Knowledge

Trust * Efficiency.

(2 marks for each correctly stated value. Sub-Total: 8 marks)
(Grand Total: 10 marks)

- (b) The benefits of credit insurance are that it:
 - helps businesses to escape bad debt due to the death/loss of job/disability of the borrower
 - protect company's assets
 - create reserves for the company
 - maintenance of dividends in investment
 - reinforcement of credit control
 - create an acid to finance
 - is a valuable tool for management to make decisions
 - helps to recoup their losses in case of debtors' default to meet their obligation.

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

(c) The candidates are required to clearly state that the product to be recommended is NOT a life policy as life assurance products are NOT indemnity policies. (3 marks)

They will thereafter have to state that the policy to recommend or that they will recommend a policy that covers fidelity (5 marks).

A fidelity insurance policy is an insurance policy that covers loss of property or money as a direct result of fraudulent act by insured employee(s). (4 marks)

This fidelity policy could be arranged according to the following types:

- individual
- collective (name or unnamed)
- blanket all employees
- position.

The cover provided include loss of the insured's property (money, stock, workin-progress and other property) and the operation of cover include losses:

- sustained during policy year and
- discovered prior to expiry of discovery period (usually 24 months after cancellation of the policy for losses committed during policy period).

(If the candidate simply proceeded to recommend FG policy, then the candidate should be awarded the combined 10 marks).

(Definition of Fidelity Guarantee – 2 marks)

(Candidates are also required to defend their recommended policy from any of the points above. 3 marks for any correctly stated point. Maximum of 4 points to be graded. Sub-Total: 12 marks)

(Grand Sub-Total: 24 marks)

(Grand Total: 50 marks)

Part III

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

- 10. (a) Describe in detail what you understand by "Actuarial Valuation of life Business". (10 marks)
 - (b) Enumerate and explain any five (5) purposes of actuarial valuation to a life office. (15 marks)
 - (c) Define "surplus" in relation to actuarial valuation and list any two (2) uses of surplus. (9 marks)

Solution

a) Actuarial Valuation of a life business is a technical actuarial process of assessing the life fund in the light of mortality and interest rates as well as the benefits the life office has guaranteed to pay in the future. It may equally be described as an assessment of the long-term solvency of a life office in respect of its various life policies under its portfolio. It evaluates the sufficiency of the life fund or assets over the life office net liabilities as at the valuation date. The main purpose of the actuarial valuation is to determine whether or not a life office is solvent.

Actuarial valuation may also be referred to as **actuarial investigation** or **life valuation**. If the assets of the life portfolio of a life office exceed its net valuation liabilities, there is a **surplus** and this means that the company is solvent. But if the assets short fall of the net valuation liabilities, this connotes a deficit and as such the company is said to be insolvent.

(2½ marks for any complete and correctly point. Maximum of 4 points to be graded. Sub-Total: 10 marks)

- b) The purposes of Actuarial Valuation to a life office are that:
 - it is required at the time of mergers and acquisitions between two or more life offices
 - it is carried out to test future funding or current solvency of the life office portfolio
 - to comply with the legal requirement
 - to determine the winding-up position of a life office
 - to know the pace of the life portfolio
 - to revalue the investment position of the life office
 - to determine whether or not a life office is in a state of solvency or deficiency.

(2 marks for mentioning the purpose; 1 mark for explaining the mentioned purpose. Sub-Total per purpose: 3 marks. Maximum of 5 purposes are to be graded. Grand Sub-Total: 15 marks)

c) "Surplus" is the excess of the life fund over the net liabilities as at the valuation date. When there is a surplus, it means that the portfolio of such a life office is healthy and therefore the life office is solvent.

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

The uses of surplus are to:

- establish reserves for future uses.
- increase or add to the current reserves level
- pay bonuses and dividends.

(1½ marks for any correctly stated use. Maximum of 2 uses to be graded. Sub-Total: 3 marks) (Grand Total: 34 marks)

- 11. (a) Cause of death, as well as the proof of age, of the policyholder are very relevant to the settlement of a death claim. Fully discuss. (24 marks)
 - (b) Enumerate and explain the need for any four (4) documents that are usually acceptable as proof of age by a life office. (10 marks)

Solution

(a) Cause of death, as well as the proof of age, of the policyholder are very relevant to the settlement of a death claim. This is because:

For Cause of Death

- the cause of death as shown on the medical certificate of cause of death of a
 deceased policyholder must be noted by the life office in other to check if the life
 assured died as a result of an excluded risk not covered by the policy
- if death had occurred within a very short time from the date of inception of the policy, the office would also check for the possibility of non-disclosure of material facts e.g. heart related diseases, epilepsy, e.t.c.
- if it can be established that the life assured suffered a chronic heart disease and that (s)he might have been receiving medical treatment for but had not disclosed

- this on the proposal form, it will be a clear case of non-disclosure of material facts. The life office would therefore have the right to repudiate the claim
- the life office will usually only decline a claim for non-disclosure if the non-disclosure is related to the cause of death
- if non-disclosure is fraudulent, the claimants have no legal right to recover the premiums paid
- if non-disclosure is not fraudulent, then premiums paid can be recovered but without any accrued interest(s)
- the place of death should also be checked as some policies contain restrictions as to travel or residence abroad.

(3 marks for each complete and correctly stated justification. Maximum of 4 to be graded. Sub-Total: 12 marks)

For Proof of Age

- premium payable is based on the age of the life assured and if the true age of the life assured differs from that stated on the proposal form, then an incorrect premium may have been charged to the detriment of the office premium rating
- proof of age is not so important in maturity or surrender payouts
- age is normally proven by an official birth certificate (or any other acceptable document for this), the original of which must be sighted while photocopies are NOT acceptable
- if it is found that the life assured is older than stated, the sum assured payable would be reduced to that which the actual premium paid would have bought using the rate for the real age
- if the age was younger than stated, the treatment is to recalculate the premium which should have been charged and refund an excess over the amount actually paid.

(3 marks for each complete and correctly stated justification. Maximum of 4 to be graded. Sub-Total: 12 marks)

(Grand Sub-Total: 24 marks)

- (b) Life offices may accept the originally sighted copies of any of the following documents as proof of age:
 - * valid birth certificate *adoption or naturalization certificate
 - * international travel certificate * statutory declaration of age

(2½ marks for each correctly stated document. Maximum of 4 to be graded. Sub-Total: 10 marks) (Grand Sub-Total: 34 marks)

- 12. (a) What special consideration should the underwriter give to claims where the cause of death is suicide? (24 marks)
 - (b) What effect does suicide have on third party claims? (10 marks)

Solution

a. Candidates are expected to relate the effect of the Suicide Act 1961 to life claims as a

result of suicide.

The special consideration that the underwriter should give to claims where the cause of death is suicide are as follows:

- before the suicide Act 1961, suicide committed voluntarily by a person of sound mind was a crime.
- it is also contrary to public for a person to benefit from his own criminal act. Therefore, no legal claim could be made by the estate of the life assured that diet by way of suicide.
- the 1961 Act abolished the rule that suicide was a crime but no mention was made about its effects on life assurance contract.
- the fundamental principles of insurance law that the insured cannot recover if by his deliberate act, cause the event insured against to happen still stand.
- however, the above principle will not apply if the life assured commits suicide
 whilst he is insane as it be said that he does not have the mental capacity to
 appreciate what he is doing, the estate of the deceased will be able to claim in such
 circumstances.
- if the policy contains a suicide clause which usually states that: if the life assured shall commit suicide during the specified period no claim will be payable
- if suicide is committed after the specified period, even if the life assured is of sound mind at the time, the assurer will be liable for the claim.
- this is because by having a suicide clause expressly excluding cover for a limited period it means the office is prepared to provide cover for the risk after that period.

The burden of proving that suicide was the cause of death is on the life office while noting that the major challenge here is that the coroner's finding and verdict are usually not conclusive proof of suicide.

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

b. The effect of suicide on third parties' claims is that most suicide clauses protect the interest of third party preserving the value of the policy for mortgages. However, where a life office can repudiate a claim on the grounds of suicide, both the legal personals representatives and all those claiming a share in the estate as beneficiaries or creditors are equally barred from the claim; including the trustees of a policy under trust.

(5 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)

13. (a) What is underwriting?

(4 marks)

- (b) What types of medical and occupational factors will the underwriter look out for in a life proposer? (6 marks)
- (c) List and describe any six (6) of each of the factors.

(24 marks)

a) Underwriting is the procedure of assessing a proposal and deciding whether to or not to accept the risk and, if so, at what rate of premium, terms and conditions (2 marks). The underwriter will look out for medical factors that can cause premature death of the proposer, by illness or disease (1 mark). The occupation of proposer is also important to the underwriter to determine whether it presents a greater than average risks of death by disease or accident (1 mark).

(Sub-Total: 4 marks)

b. Some of the factors to look for are any of the following:

Medical Factors Occupational Factors Heart Diseases Oil Rig Workers Circulatory Diseases Trawlermen Scaffolders Digestive System Diseases Cancer Underground Miners Liver diseases Bomb Disposal Workers **Professional Boxers** Respiratory Diseases **Divers** Kidney Diseases Mental Disorders Steal Erectors Diabetes Radioactive Handlers **Eve Diseases** Steeple Jacks Diseases of Nervous System Overweight HIV/Aids

(1 mark for each correctly stated type of factor. Maximum of 3 to be graded under each segment. Sub-Total per segment: 3 marks. Grand Sub-Total: 6 marks)

b. Candidates are required to describe any six (6) of the factors in (b) above under each segment.

(2 marks for each correct description. Maximum of 6 to be graded under each segment. Sub-Total per segment: 12 marks. Grand Sub-Total: 24 marks)

(Grand Total: 34 marks)

- 14. (a) What is morbidity? How does morbidity risk relate to morbidity reassurance in life Assurance practice? (22 marks)
 - (b) State and describe the most common example of risks(s) that are commonly reassured under morbidity reassurance? (7 marks)
 - (c) Outline the basis of reassurance under the original term reassurance? (5 marks)

(a) Morbidity refers to the statistics (2 mark) used to estimate the probability (2 mark) of the occurrence of certain medical conditions (sickness or injuries) (1 mark) and the frequency with which these conditions may affect the insured (1 mark) during the life time. (1 mark) (Sub-Total: 7 marks)

While morbidity risk of dying usually covered under life assurance occurs only once in the contract. Morbidity risk that the insured will need medical treatment with an unspecified cost may occur several times during the lifetime.

By the nature of the risk, morbidity reassurance is usually sought after by the direct assurers to enable them spread the risk with the re-assurers and this eliminates the risk of being crippled by a catastrophic or an unusually large loss.

(5 marks for each complete and correctly stated point. Maximum of 3 to be graded. Sub-Total: 15 marks) (Grand Sub-Total: 22 marks)

- (b) The most common example of risks(s) that are commonly reassured under morbidity reassurance is the Critical Illness Cover (3 marks), which is described below:
 - provides benefit on the diagnosis of a pre-defined critical illness and/or death
 - claim can be made before the insured's death (1 mark)
 - if there is a pay-out before the insured's death, there cannot be a further payment at subsequent death (1 mark)
 - examples of critical illness policies include:

* cancer * heart attack * blindness * stroke (4 marks)

(Grand Sub-Total: 7 marks)

- (c) The basis of reassurance under the original term reassurance is:
 - a method whereby a proportion of the original sum assured is reassured at the same rate of premium and subject to the same policy conditions
 - the reassurer is therefore liable for a proportion of the original policy throughout its duration, and pays out its due share of any claims and the surrender value. It will also follow the rate of bonus(es) declared by the ceding office.

(2½ marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 5 marks) (Grand Total: 34 marks)

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A745

PROPERTY AND PECUNIARY INSURANCES

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A745 - PROPERTY AND PECUNICARY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question tested candidates' knowledge of marketing strategy of an organization. About 90% attempted the question but less than 5% of the candidates passed. This could be due to candidate's inadequate preparation. Candidates are advised to ensure that they cover every aspect of their course book in their future preparations. This will enhance their performance.

Question 2

This question tested candidates' knowledge about the characteristics of goods that differentiate them from services. About 95% of the candidates attempted the question. The pass rate was about 65%. Some candidates obtained the full mark available for the question.

Question 3

The examiner tested candidates' knowledge about the conditions for perfect competition to exist. About 90% of the candidates attempted the question. The pass rate was very good (about 95%). Candidates displayed the adequate knowledge of the concept.

Question 4

The question tested candidates' knowledge about insurance pricing method. About 95% attempted the question while the pass rate was about 75%. The response was highly encouraging. Candidates displayed good understanding of the question.

Question 5

This question tested the candidates' knowledge of buying criteria of business customs segment. About 920% attempted the question, whereas the pass rate was about 40% as many candidates provided wrong answers. Candidates should ensure that every aspect of their syllabus is covered in their preparation, this will enhance their performance.

Question 6

This question tested candidates' knowledge about corporate identity and objectives. About 75% attempted the question but the pass rate was just a little above average (52%). Candidates are advised to read and understand the question before answering.

Question 7

This question tested the key assumptions of organization's strategic marketing plan. Above 80% attempted the question but an average performance was recorded (50%). It is surprising that many candidates could not really explain the concept

of the strategic marketing plan. Candidates need to read and understand their course books well in future preparations.

Question 8

The question tested candidates' knowledge about how to verify the feature of new products and services. About 65% attempted the question. The pass rate was about 55%. It was observed that many candidates misinterpreted the question.

Question 9

This is a compulsory question, testing the candidate's knowledge of both local and international insurance marketing as well as regulatory framework. All the candidates attempted the question (100%) while the pass rate was about 50%. Knowledge of regulatory frame work and local as well as international marketing are very essential. Candidates are advised to take them serious in the future preparation.

Question 10

The question tested candidates' knowledge about functions of marketing departments, actions necessary for exchange to take place as well as functionally structured organization compared to a divisionally structured organization. About 50% of the Candidates attempted the question. The pass rate was about 60%. Some candidates could not display good understanding of the concept tested.

Question 11

The examiner tested candidates' knowledge of the concept of sales promotion. About 50% candidates attempted the question, while the performance was below average (48%). Adequate preparation is recommended for improved examination performance.

Question 12

The examiner tested candidates' understanding of communication process, promotional activities and advertisement. About 80% of the candidates attempted the question, but the pass rate was about 55%. Many candidates lack understanding of the concepts tested. Candidates are advised to study harder and ensure that they cover all their course book.

Question 13

This question tested candidates' knowledge of free market economy, functions of the marketing department and market competition. 50% attempted the question, but the pass rate was about 40%. Many candidates provided wrong answers.

Question 14

This question tested candidates' knowledge about self-insurance, no-insurance, market audit and marketing objectives. About 70% attempted the question and the pass rate was about 55%. Some of the candidates, mix-up the answer due to lack of understanding of the question. Candidates are advised to read and understand the questions before providing answer to them.

Comments on Overall Performance

This diet's performance is better than the previous performances. This could be due to the fact that candidates are taking their study more seriously

Suggestions on Improvements

Candidates are advised to ensure that every aspect of the course book is covered when preparing for the examination.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. List any three (3) categories of special perils?

Solution

The categories of special family are:

* chemical * social * natural * miscellaneous

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

- 2. What is: (a) turnover? (b) indemnity?
- Solution
- (a) **Turnover:** can be defined as the money paid or payable to the insured for goods sold/delivered and for services rendered in the course of the business activity at the premises. It consists of variable charges, standing charges and real profit. (3 marks) **(b) Indemnity period:** is the period beginning with the occurrence of the damage and ending not later than the maximum agreed (indemnity) period whereafter during which the result of the business shall be affected in consequence to the damage. (3 marks)

(Grand Total: 6 marks)

3. Enumerate any three (3) benefits of combined policies to the insured.

Solution

The benefits of combined forces to the insured are:

- one proposal form to complete;
- a simple policy booklet/folder to retain and refer to;
- one premium payable;
- common renewal date for all covers;
- easier reference from day-to-day dealings with insurer or intermediary, particularly in time of claim;
- reduced premium levels.

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

4. As an underwriter, give three (3) examples of those who may present a risk for underwriting purposes to you.

Solution

Some examples of those who may can present a risk for underwriting purposes are:

- * proposer * broker * bank
- * insurance department of an organisation.

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

- 5. What in general terms are:
 - (a) gross premium
- (b) net premium
- (c) earned premium?

(a) **Gross Premium:** is the total premium paid by the insured.

(2 marks)

(b) **Net Premium:** is the gross premium less commission paid to the intermediary party.

(2 marks)

(c) **Earned Premium:** is that proportion of the net premium which relates to the time which as elapsed from inception of each policy currently in force to the date to when the earned premium is required to be calculated. (2 marks)

(Grand Total: 6 marks)

6. What is warranty?

Solution

Warranty is either a clause requiring an insured to undertake to do or not to do some certain things or a clause relative or the existence or absence of a certain state of affairs. A warranty must be strictly complied with and of there should be a breaching warranty, the insurance is valuable at the option of the insurer.

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

7. State the three (3) main exclusions in a theft policy.

Solution

The three main exclusions in a theft policy are:

- unexplained disappearance and shortage and omission revealed during stock taking
- theft involving collision
- explosion.

(2 marks each. Total: 6 marks)

8. Explain the phrase "existing structure".

Solution

Existing structures refers to the employer's property already on site before the work commences. The existing structures are property forming or which has formed part of any structures prior to the commencement of the contract or works. The policy is to insure loss or damage to the contract works but not the employer's existing properties and damage to the existing structures on site not forming part of the contract works is excluded.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) List five (5) classes of general insurance business as classified in the Insurance Act 2003. (10 marks)
 - (b) In the insurance year ended 31st December 2020, UDT Plc Manufacturing Company suffered a fire loss at their premises. Based on the figures below, what loss settlement would you propose in respect of the loss?

Cover is written on a sum insured basis and a 12 months' indemnity period

	₩
Sum insured	1,360,000
Additional increase in cost of working after	400,000
Turnover in the last financial year before loss	4,370,000
Gross profit in the last financial year before loss	1,390,000
Standard turnover	3,360,000
Turnover achieve during indemnity period	2,400,000
Additional cost incurred during the indemnity period	
which avoid a N800,000 reduction in turnover	400,000
Saving made during indemnity period	80,000
	(35 marks)

(c) Even though the reinstatement condition in the property insurance policy gives insurer the option to reinstate the property lost to damage, insurers rarely exercise this option. List the five (5) conditions guiding reinstatement. (5 marks)

Solution

- a) The classes of general insurance business are-
 - Fire Insurance business
 - General accident insurance business
 - Motor Vehicle insurance business
 - Marine and aviation insurance business
 - Oil and Gas insurance business
 - Engineering insurance business
 - Bonds, credit guarantee and surety cling insurable business
 - Miscellaneous insurance business

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

b) Calculating the rate of gross profit = Gross Premium x 100 (3 marks) Turnover 1 1,390,000 x 100 (1 mark) 4,370,000 32.18% (1 mark) Reduction in Turnover = Standard Turnover-Turnover Achieved (3 marks) = N3,360,000 - N2,400,000(1 mark) $= \frac{N}{960,000}$ (1 mark) Apply rate of gross profit to the reduction in turnover $= \frac{1}{2}960,000 \times 32.18\%$ (3 marks) $= \frac{1308,928}{1}$ (1 mark) Increase in cost of working N400,000 increased cost which avoided reduction in turnover of N800,000.00 and applying the rate of cross profit to the reduction in $= N800,000 \times 32.18\%$ turnover avoided i.e. (3 marks) Giving an Economic Limit $= \frac{N257,440}{}$ (1 mark) Adjusted loss before the application of average= N308,928 + N257,440 =N556,368 (2 marks) Less Savings N 80,000 (1 mark) <u>₩ 486,368</u> (1 mark) Application of Average = Sum Insured * loss (3 marks) Rate of Gross Profit * turnover **=** 1,360,000 * 486,368 (1 mark) 32.18% * 4,320,000 = N475,810.60(1 mark) Application of the additional increase in cost of working item Cost Incurred N400,000 Amount covered under gross profit item= $\frac{1}{2}$ 257,400.00 Difference which is not economic $= \frac{1}{2} 400,000 - \frac{1}{2} 257,400 = \frac{1}{2} 142,560$ (3 marks) **Total Adjustments** N475,810.60 (1 mark) N142,560.76 (1 mark) $\frac{\text{N}618,370.60}{\text{N}618,370.60}$ = Amount of Claim to Pay (3 marks)

(Sub-Total: 35 marks)

- (c) The conditions guiding reinstatement in insurance are:
 - once the insurers elect reinstatement, they cannot withdraw
 - once the insurers elect reinstatement, the insured cannot refuse reinstatement
 - during the work of reinstatement, the insurers are their own insurers
 - the insurers are liable for damages if the reinstated property is in any way unifier to the enquire property
 - the insurers are responsible for the manner of reinstatement.

(1 mark for each correctly stated condition. Sub-Total: 5 marks) (Grand Total: 50 marks)

Part III

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

10. A standard "all risks" policy insures all accidental losses, destruction of or damage to the property insured except by a cause in the exclusions it contains. State the four (4) generic categories of such exclusions and list any three (3) causes under each of the categories.

Solution

The four generic categories of such exclusions are:

- (i) The causes which insurers will not insurer in a property policy are: (3½ marks)
 - Its own inherited vice, wear and tear
 - Sonic bangs
 - Trade risk of the insured
 - Pollution
 - Normal settlement of a new structure
 - Property in open
 - Property insured by a marine policy
 - Property insured elsewhere
 - War risks
 - Radioactive contamination and explosive nuclear assemble
 - Terrorism
 - Consequential loss

(2 marks for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 9½ marks)

(ii) The causes which insurers may insure but only after careful attention to their underwriting are: (3½ marks)

- Inventory shortages
- Empty property as it relates to freezing
- Empty property as it relates to escape of water and
- Empty property as it relates to malicious damage.

(1 mark for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 3 marks)

(2 marks for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 9½ marks)

Causes which insurers **will usually allow to be added as "buy back"** are: (3½ marks)

- fraud and dishonesty of insured's employees
- theft
- substance, ground heave, landship
- jewelry and other valuables
- goods-in-transit
- fixed glass
- sanitary and similar ware, other glass
- money and ither negotiables
- land, bridges and civil engineering works
- crops and trees.

(2 marks for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 9½ marks)

Causes or property insured on a separate specially designed policy are:(3½ marks)

- own steam and other pressure plant
- breakdown
- the building's own collapse and cracks
- computers (if breakdown needs to be insured)
- vehicle licensed for road use
- buildings in curse of creation
- live stock
- consequential loss
 - (2 marks for each correctly stated cause. Maximum of 2 to be graded. Sub-Total: 4 marks. Grand Sub-Total: 9½ marks)

(Grand Total: 34 marks)

- 11. What are the objectives of the following regulations on the requirements that they apply to; and the duties imposed an owners and users of the affected plants?
 - (a) Pressure System Safety Regulations 2010

(18 marks)

(b) Electricity at Work Regulation 1989

(16 marks)

Solution

(a) Pressure System Safety Regulations 2010

Objectives

• To prevent the risk of serious injury from the sudden and uncontrolled release of stored energy in a pressure system resulting from the failure of the system or any part of it

(6 marks)

The regulations define a pressure system in two parts:

- First, a system with pressure vessel(s) associates pipe work or a pipeline, all which contains or can contain a relevant fluid;
 (2 marks)
- Second, the relevant fluid being steam, a fluid above a given pressure, a gas or liquid in a given state
 (2 marks)

Duties - there are four main duties and they apply to users of fixed plant and owner in case of mobile plant:

- to establish and use plant within safe operating limit;
- to establish a writer scheme for periodic examination by a competent person;
- to conduct examination in accordance with the written scheme;
- action in case of imminent danger, either immediate repairs or written report.

(2 marks for each correctly stated duty. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Sub-Total: 16 marks)

(b) Electricity at Work Regulation 1989 Objectives

• To require precautions to be taken against the risk of death or personal injury from electricity in work activities having a bearing an electricity safety. **(6 marks)**

Duties - duties are imposed on both employers or employees; which are:

- construction, maintenance and use of electrical system;
- strength and capacity of electrical equipment;
- advertise or hazardous environment;
- earthing or other suitable precautions;
- insulation, protection and placing of conduction;
- integrity of referred conductor;
- work on or near live conductor;
- working space, access and lightning;
- electrical connection;
- means of cutting of supply;
- persons to be competent to the prevention of danger and injury.

(2 marks for each correctly stated duty. Maximum of 6 to be graded. Sub-Total: 12 marks)
(Grand Sub-total: 18 marks)

(Grand Total: 34 marks)

- 12. (a) Enumerate five (5) main features of the Fire Prevention Act 1774? (15 marks)
 - (b) As the claims manager of Cosmos Plc, explain how you would calculate the claim value for:
 - (i) machinery; (12 marks) (ii) farm produce (9 marks)

- (a) The main features of the Fire Prevention Act 1774 are:
 - the right to reinstatement does not arise until a distinct request to reinstate the property has been made to the insurer;
 - the request must be made before payment for the loss;
 - the insurers are not themselves obliged to carry out the reinstatement;
 - the insurers cannot be compelled to spend more than the amount of the insurance;
 - the insured must be entitled to maintain a claim under the policy;
 - the Act is applicable to England and Wales;
 - the Act does not apply to policies subscribed to by Lloyds underwriter.

(3 marks for each complete and correctly stated feature. Maximum of 5 to be graded. Sub-Total: 15 marks)

b. To calculate the claim value for

(i) machinery:

• when repair is possible, it is the cost of repair;

(4 marks)

- when damage is extensive, it the cost of replacement by a second-hand machinery of some age, type, capacity and condition. This may not always be possible so the cost of new machinery of some model is used with deduction for wear and tear;
- where the machinery is no longer in production, replacement will have to be by better machinery. (4 marks)

(Sub-Total: 12 marks)

(ii) Farm Produce:

- **growing crops:** price at the nearest market less cost of cutting, threshing and transportation in sacks
- hay and straw in sacks: market price at the farm
- hay and straw for farm use: cost of replacement at the farm.

 (3½ marks for each correctly stated way. Maximum of 2 to be graded. Sub-Total: 7 marks)

 (Grand Sub-Total: 19 marks) (Grand Total: 34 marks)
- 13. You have been invited by a manufacturing concern to explain to their insurance department staff on combined policies. Kindly highlight the following in your paper presentation:
 - (a) what combined policies are; (14 marks)
 - (b) four (4) benefits of combined policies to the insured (10 marks)
 - (c) four (4) benefits of combined policies to the insurer. (10 marks)

(a) Combined policies were introduced to cater for business risks, where more than one type of insurance is required. For example, fire, theft or burglary; or product/public liability; consequential loss/fire, e.t.c. It has evolved as a single contract policy using one proposal where previously insurers may have sought proposals for each separate class. Whilst it is written as one contract, each section or class of insurance is underwritten and rated separately and will contain its own conditions, terms, exclusions and warranties. This means in effect that the contract comprises of a number of single policies written under one "umbrella" policy.

(3½ marks for each complete and correctly stated point. Maximum of 4 to be graded. Sub-Total: 14 marks)

- (b) The benefits of combined policies to the insured are:
 - one proposal to complete;
 - a single policy booklet or folder to retain and refer to
 - only one premium payable;
 - common renewal date for all covers;
 - easier reference for day-to-day dealing with insurer and/or intermediary.
 (2½ marks for each correctly stated benefit. Maximum of 4 to be graded. Sub-Total: 10 marks)
- (c) The benefits of combined policies to the insurer are:
 - easier handling as regards staff resources;
 - multi-disciplined expertise needed;
 - simply policy only required, reduces administration costs;
 - one renewal document only needed;
 - ease of review for insurer and or intermediately;
 - good staff relationship with client.

(2½ marks for each correctly stated benefit. Maximum of 4 to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)

- 14. (a) Explain what is meant by a first loss policy and identity what it may apply to in property insurance. (14 marks)
 - (b) What are:
 - (i) floating insurance (ii) blanket insurance (10 marks)
 - (c) How are the policy types in (b) above used and what are their benefits to the insured? (10 marks)

- a) A first loss policy:
 - is when an insured believes that any loss, they may incur from a given peril cannot amount to more than a proportion of the value at risk.
 - therefore, the sum insured is set at a much smaller value than the full value;
 - this may apply to certain perils, such as theft, storm, impact, flood;
 - the insured insures only for the maximum they believe could be at risk;
 - but insurers charge a 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 either open ended cover such as professional fees or property in a catastrophe perils area such as earthquake.

 (3½ marks for each correctly stated point. Maximum of 4 to be graded. Sub-Total: 14 marks)
- (b) (i) **Floating Insurance** is the term used to describe an insurance on stock which belongs to or is the responsibility of the insured but which are at various to locations, sometimes in several countries in the case of multinational firms. (5 marks)
- (ii) **Blanket Insurance** is the term used to describe buildings or machinery and plant se.t.c., on which insurance is arranged in one sum insured to cover all such buildings and another to cover all machinery and plant in one premises. (5 marks)

(Grand Sub-Total: 10 marks)

- (c) **Floating Covers** were originally designed solely for stock, where the sum insured was given to apply ever a number of premises. **Blanket cover** is where the sum insured covers all buildings, machinery and plant across premises. This is without identity separate sum insured for each building or items of plant against a particular building.

 (5 marks)
- (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 under insurance provided the overall sum insured is adequate. (5 marks)

(Grand Sub-Total: 10 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A755 LIABILITY INSURANCES

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A755 - LIABILITY INSURANCES

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

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

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

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

Chief Examiner's Comments

Question 1

This question was intended to test candidates' knowledge on various liability policies. Candidates' performance was excellent.

Question 2

This question tested candidate knowledge on exclusion of the product liability policy. Average performance was recorded. Candidates need to study well to cover aspect of the syllabus.

Question 3

Question was intended to test candidates' knowledge on employers' liability insurance. Candidates perform was above average.

Question 4

This question tested candidates on practice of insurance. Overall performance was below average. Candidates needs to improve on their study

Question 5

The question was intended to test candidates' knowledge on duty of care which embedded in Donoghue V Stevenson 1932. Candidates' responses showed their lack of understanding of this topic. More commitment to their studies will guarantee their improvement in future,

Question 6

This question tested candidates' knowledge on public liability insurance. Average performance was recorded. Good numbers of the candidates lacked understanding of the area of public liability insurance.

Question 7

This question was intended to test candidates' knowledge on tort of defamation. Above average performance by candidates. Many candidates showed lack of understanding of the topic.

Question 8

This question dealt with conditions of employer's liability insurance. Performance was below average which shows lack of understanding by the candidates.

Question 9

This is the compulsory question which was intended to test candidates' knowledge on NAICOM function, strict liability, underwriting of professional indemnity insurance among others. Below average performance. More commitment to their studies is the only antidote to success in future.

Question 10

This question tested candidates' knowledge on Directors' and officers' liability insurance. Below average performance by very few candidates who attempted this question.

Question 11

This is one of the popular questions attempted by the candidates. Above average performance.

Question 12

This question is not popular i.e few candidates attempted it. This question tested candidates' knowledge on hotel proprietor Act and various liability. Performance was below average.

Ouestion 13

This question tested candidates' knowledge on various liability risks exposure more than 50% of the candidates attempted the question with above average performance recorded.

Question 14

This question was intended to test candidates' knowledge on various liability terms. Less than 50% of the candidates attempted this question with below average performance recorded.

Comments on Overall Performance

Overall performance was poor. Candidate responses showed they did not prepare well for the exam. Poor performance is the resulting of poor preparation for the exam. Candidates do not fail exam in the examination hall.

Suggestions on Improvements

Candidates are strongly advised to attend good tutorial class and they are also encouraged to demonstrate more dedication and commitment to their studies.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. List six (6) liability insurance policies you are familiar with.

Solution

Some examples of liability insurance policies are:

- Employers' Liability Insurance;
- Public Liability Insurance;
- Product Liability Insurance;
- Professional Indemnity Insurance;
- Directors' and Officers' Liability Insurance;
- Personal Liability Insurance;
- Motor (Automobile) Insurance (Third Party Liability);
- Umbrella Liability Insurance.
 (1 mark for each correctly stated policy type. Maximum of 6 to be graded. Total: 6 marks)
- 2. Briefly explain why damage to the product is an exclusion in product liability policy.

Solution

The cover provided by product liability insurance excludes damages to the product itself caused by defect the product or unsuitability of the product for the purpose it is intended. The cover for the damage to the product is provided by product guarantee insurance which will also provide cover for the cost of removal, recall, repair or replacement of the product.

(3 marks for each complete and correctly stated explanation. Maximum of 2 to be graded. Total: 6 marks)

- 3. In Employers' liability insurance:
 - (a) what is the name of the ACT that established this type of insurance?
 - (b) what is the limit of liability on any one occurrence?
 - (c) what is 'Approved Policy' in this type of liability insurance?

Solution

a) Employers' Liability (Compulsory Insurance) Act 1969.

(2 marks)

- b. The limit of liability must be at least €2 million any one occurrence. This was increased to €5 million any one occurrence following the Employers' Liability (Compulsory Insurance) Regulations 1988. (2 marks)
- c. Approved Policy means a policy of insurance not subject to any conditions or exceptions prohibited for the purposes by regulations. (2 marks)

(Grand Total: 6 marks)

- 4. (a) What do you understand by the term hazard? (2 marks)
 - (b) List four (4) hazards that are common to construction industry. (4 marks)

- a) Hazards are agents which has the potential to cause harm, injury or damage. (2 marks) b. Hazards that are common to construction industry are:
 - * work at height (fall e.t.c.);
 * work at depth (collapse);

 * lifting;
 * impact by falling object;
 - * dust; * noise;
 - * vibration; * work in compressed air.

(1 mark for each correctly stated hazard type. Maximum of 3 to be graded. Sub-Total: 3 marks)
(Grand Total: 6 marks)

- 5. (a) Explain the term 'narrow rule' in the case of Donoghue v. Stevenson 1932? (4 marks)
 - (b) State the definition of 'negligence' as stated in Blyth v. Birmingham Waterworks Co. 1856. (2 marks)

Solution

a) The narrow rule in Donoghue V. Stevenson (1932) is that the manufacturer of a product owes a duty of care to the subsequent users of the product. The court therefore held that the defendant (the manufacturer) owes a duty of care to the plaintiff (the end user of the product).

(2 marks for each correct and complete coloured phrase. Sub-Total: 4 marks)

b. The definition of 'Negligence' as contained in the case of Blyth V. Birmingham Waterworks Co. 1856 is that: 'negligence is the omission to do something which a reasonable man, guided upon those consideration which ordinarily regulate the conduct of human affairs, would do, or doing something which a prudent and reasonable man would not do.'

(2 marks)

(Grand Total: 6 marks)

6. In public liability insurance, 'Passers-By' and 'Custody or Control' of property are underwriting factors. Briefly explain these two (2) terms.

Solution

Passers-By: it is important to consider the potential liability for bodily injury to passersby. This is possible in a construction site. Besides, where loading and unloading takes place close to the public pavement, falling load can cause injury to pedestrian. (3 marks) **Custody or Control of Property:** the insured may have property belonging to third parties in his or her custody and control. The nature of such property should be considered as this may increase the potential liability to third parties. (3 marks)

(Grand Total: 6 marks)

7. "Justification" and "Consent" are defences in tort of defamation. Distinguish between these two (2) terms.

Solution

Justification: justification means that no action will lie if the defendant can prove that the statement is true and the onus is on them to do so. However, they only have to prove that the substance of the statement is true. (3 marks)

Consent: the defendant will have a defence if they can show that the plaintiff either expressly or by implication consented to the publication if the defamatory material.

(3 marks)

(Grand Total: 6 marks)

8. List the six (6) principal conditions on Employers' Liability Insurance.

Solution

- a) The following are the principal conditions on Employers' Liability Insurance:
 - * notification of claim;
- * claims procedure;
- * reasonable precautions;
- * premium adjustment;

* arbitration;

* observance of policy.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) The NAICOM Act 1997 has some statutory functions for the National Insurance Commission when it was established. List any five (5) of these functions. (10 marks)
 - (b) State the rule of Ryland v. Fletcher (1868).

(4 marks)

- (c) The rule is based on four important factors. Enumerate these four (4) factors. (8 marks)
- (d) List and explain five (5) underwriting factors that are required for Professional Indemnity Insurance. (20 marks)
- (e) Explain what you understand by the following liability terms:
- (i) Disclaimer (4
 - (4 marks)
- (ii) Damnum sine injuria. (4 marks)

Solution

- a) The statutory functions of the National Insurance Commission as established by NAICOM Act 1997 are:
 - establish standards for the conduct of insurance business in Nigeria
 - approve rates of premium to be paid in respect of all classes of insurance business
 - approve rates of commission to be paid in respect of all classes of insurance business
 - ensure adequate protection of strategic government assets and other properties
 - regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria

- act as adviser to the Federal Government on all insurance related matters
- approve standards, conditions and warranties applicable to all classes of insurance business
- protect insurance policyholders, beneficiaries and third parties to insurance contracts
- publish, for sale and distribution to the public, annual reports and statistics of insurance industry
- liaise with and advice Federal Ministries, parastatals, statutory bodies and other government agencies on all matters relating to insurance contained in any technical agreements to which the country is a signatory to
- contribute to educational programmes of the Chartered Institute of Nigeria and the West African Insurance Institute
- carry out other activities connected or included to its other functions.
 (2 marks for each correctly stated function. Maximum of 5 to be graded. Total: 10 marks)
- b) The rule of Ryland V. Fletcher state that "an occupier who brings unto and keeps on his land anything which is likely to cause damage if it escapes is under a strict obligation to prevent its escape and is liable for any damage caused as a result of its escape."

 (4 marks)
- c) Ryland V. Fletcher is based on the following four (4) factors.
 - the occupier must bring the 'dangerous thing' onto their land and accumulate it there for the rule to apply. For example, a reservoir is by definition an accumulation of water;
 - the thing that escapes is usually referred to as the 'dangerous thing'. The test is whether it is likely to cause damage if it escapes. Therefore, water, frames, gas, sewage, electricity and animal will come within the rule;
 - The accumulation must be artificial rather than natural for the rule to apply. Natural means something was there by nature;
 - There must be an escape of the 'dangerous thing' beyond the boundaries of the defendant's land.

(2 marks for each correct and completely stated factor. Sub-Total: 8 marks)

- d) The underwriting factors required for professional indemnity insurance are:
- i) **Business of the proposer:** this should be described accurately and comprehensively. The insurer will want to know exactly the field in which the proposer operates and where their experience lies.
- ii) **The date when the business was established** is very important underwriting factor. A well established firm has generally more attractive risks than new and unproven firm.

- iii) **The professional experience of each of the individual partners** is very important factor in rating.
- iv) **Professional qualifications of partners** are one of the great importance and may mean the difference between acceptance and declinature. Professional qualification of partners is a pointer to their competence in the chosen field.
- v) **Period of Practice as a Partner:** this information helps the underwriter to access the proposer's experience.
- vi) **Total number of other staff:** this information may be necessary for rating purposes since the premium can be based in part at least on the total number of staff.
- vii) Proposer's previous claims experience.
- viii) **Limit of indemnity required:** this will enable the underwriter to determine their liability and also arrange adequate re-insurance if necessary.
- ix) **Number of branches:** this information helps the insurers to ascertain their total exposures. How the partners supervise and control their branches may be a rating factor.
- x) **Exclusions required:** this will help the underwriter to charge commensurate premium for the risk present.

(2 marks for correctly stated factor. 2 marks for correct explanation. Sub-total per factor: 4 marks.

Maximum of 5 to be graded. Grand Sub-Total: 20 marks)

e) (i) **Disclaimer:** a contract is an agreement between two or more persons which contains terms and conditions to be fulfilled by the parties. Disclaimer in contract deals with those terms of the contract which attempt to limit the performance of the contract or limit the liability flowing from the contract.

(2 marks for each complete and correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)

ii) **Damnum Sine Injuria:** this means harm done without the commission of a legal wrong. That is the breach of duty which a person owes to his fellow men in general. In tort, not all action (or failure to take action) which cause injury or damage is actionable i.e. failure to take action in certain circumstances may not give right to a claim. For example, there is no duty to save a person drowning even if one can swim very well. (2 marks for each complete and correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks) (Grand Total: 50 marks)

Part III

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

10. (a) Directors' and Officers' (D&O) Liability insurance cover has been available for over 50 years but became popular in the last decade. Mention and explain four (4) reasons for the popularity and expansion of D & O liability. (20 marks)

- (b) Discuss the position of the law of defamation as regards the following:
- (i) Offer of Amends. (4 marks)

(ii) A dead person. (4 marks)

(iii) A corporation. (2 marks)

(iv) Privilege.

(4 marks)

Solution

- a) The reasons for the popularity and expansion of D & O liability are:
 - the globalization of commercial and industrial business which result in increase in assets of companies around the world;
 - government intervention by control the activities of multi-nationals and by regulating both the operation of companies and the conduct of directors;
 - many countries have witness dramatic rise in actions against directors which resulted in litigation;
 - a series of company scandals as well as the executive pay issue have brought corporate governance into the general public arena;
 - government response to public concern over the management of companies and the way company boards are structures and run;
 - the issue of transparency by companies' directors as they are required to provide stakeholders with the knowledge required to enable them to make informed decision about the company;
 - directors of companies are aware of the potential risks of acting as a director and they are actively seeking insurance protection.
 - (5 marks for each correct and completely stated reason. Maximum of 4 to be graded. Sub-Total: 20 marks)
- b) The position of the law of defamation as regards the following terms are:
- i) **Offer of Amends:** Section 2 of the Defamation Act 1996 provide a mechanism whereby a person who unintentionally defames the aggrieved party can make an offer of amends. This involve making a suitable correction and apology offering appropriate compensation. The aggrieved party has the option of accepting and rejecting the offer is accepted, that is the end of the action.

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

ii) **A dead person:** The law of defamation protects a person's reputation. However, a dead person cannot be defamed but the relative may be distressed by the defamatory statement but they have no cause of action.

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

iii) **A corporation:** In the law of defamation, a corporate entity is a legal person and they can be defamed for statement made which impute the corporation reputation. (2 marks)

iv) **Privilege:** Privilege is on of the defences available to an action in defamation. The law recognizes that in very special circumstances, any restriction in freedom of speech will be unjustified. Accordingly, if those circumstances exist, the definition can plead the defence of the privilege.

(2 marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks) (Grand Total: 34 marks)

11. Distinguish between the following terms:

(a) Re-insurance/Co-insurance.	(8 marks)
(b) Physical hazard/ Moral hazard.	(6 marks)
(c) General damages/ Special damages.	(6 marks)
(d) Public liability/ Personal liability.	(8 marks)
(e) Volenti Non Fit Injuria/ Scienti Non Fit Injuria	(6 marks)

Solution

a) **Re-insurance**/ **Co-insurance**: **Re-insurance** is the system whereby one insurer shares (re-insurer) with another part of the risk accepted. The company which reinsure (ceding company) thus reduces its possible liability. Re-insurance is an essential tool of risk spreading. It offers a means of sharing risk to lessening the effect of catastrophies. **Co-insurance** is a process where two or more insurers share a risk on percentage basis. The lead underwriter will issue the policy document and each insurer will sign against the proportion of the risk.

(2 marks for each correctly stated point. Maximum of 2 points to be graded per term. Sub-Total per term: 4 marks. Grand Sub-total per comparative set of terms: 8 marks. Sub-Total: 8 marks)

b) **Physical Hazard/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. It is a hazard that can be seen by the eyes. **Moral hazard** is concerned with the attitude 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 compare with physical hazard.

(3 marks for each correctly stated point. Maximum of 1 point to be graded per term. Sub-Total per term: 3 marks. Grand Sub-total per comparative set of terms: 6 marks. Sub-Total: 6 marks)

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

(3 marks for each correctly stated point. Maximum of 1 point to be graded per term. Sub-Total per term: 3 marks. Grand Sub-total per comparative set of terms: 6 marks. Sub-Total: 6 marks)

d) **Public Liability/ Personal Liability:** A **public liability policy** is designed to indemnify the insured against their legal liability to the member of the public in general. The policy is usually effected by corporate organization and it covers them against third party liability arising through their business operation. A **personal liability policy** is designed to indemnify the insured and members of his household permanently residing with him/her against legal liability to third party arising in their private capacity.

(2 marks for each correctly stated point. Maximum of 2 points to be graded per term. Sub-Total per term: 4 marks. Grand Sub-total per comparative set of terms: 8 marks. Sub-Total: 8 marks)

e) Volenti Non Fit Injuria/ Scienti Non Fit Injuria: Volenti Non Fit Injuria means no injury is done to a willing person. In other words, to one who is willing, no harm is done. Example, sport men and women voluntarily accept the risk associated with their sports. On the other hand, scienti non fit injuria state that having or more knowledge about the risk (dangerous situation) is not enough for the application of volenti.

(3 marks for each correctly stated point. Maximum of 1 point to be graded per term. Sub-Total per term: 3 marks. Grand Sub-total per comparative set of terms: 6 marks. Sub-Total: 6 marks)

(Grand Total: 34 marks)

- 12. (a) Explain the three (3) general provision(s) of Hotel Proprietor Act 1956. (9 marks)
 - (b) What does the term "vicarious liability" imply? Give any three (3) examples of this term. (10 marks)
 - (c) Vicarious liability does not attach to a principal for the tortious act of an independent contractor. Enumerate and explain any five (5) exceptions to this statement. (15 marks)

Solution

- a) The three general provisions of Hotel Proprietor Act 1956 are:
 - The liability of a hotel proprietor is now defined by the Hotel Proprietor Act 1956. By the provision of this Act, a hotel proprietor is liable for the safety of his guests' effects.
 - The Act imposes monetary limit of €50 for any one article of a guest given up to an aggregate of €100.
 - The proprietor must display statutory notice of the Act in a conspicuous place in the hotel premises.

(3 marks for each correctly stated provision. Sub-Total: 9 marks)

b) **Vicarious liability** means that X is liable for the tort of Y. in other words, a person say a father is liable or responsible for the tort (wrong doing) of his son. In order for vicarious liability to be established, there must be a close relationship between X and Y.

(4 marks)

Examples are:

* Employer/ Employee;

- * Principal/ Agent;
- * Principal/ Independent Contractor;
- * Partner.

(2 marks for each correctly stated example. Maximum of 3 to be graded. Sub-Total: 6 marks)
(Grand Sub-total: 10 marks)

- c) Vicarious liability does not attach to a principal for tortious act of an independent contractor except in the following circumstances:
 - **unlawful act:** if the task delegated to the contractor is in itself unlawful, liability will attach to the principal. For example, if the task delegated cannot be undertaken without creating nuisance, the principal will be liable;
 - **non-delegable statutory duty:** certain Acts of parliament impose an absolute responsibility on a principal to carry out a job. If he delegates such to a contractor and there is injury or damage, the principal will become vicariously liable;
 - **strict liability:** in case involving strict liability, the principal will be vicariously liable for the contractor's act;
 - **extra hazardous work:** If a principal requires a contractor to carry out work which is inherently dangerous or involves an unusual risk of damage or injury, the principal will be vicariously liable;
 - work done on or near a highway: if the work is likely to endanger persons using the highway then the principal will be liable in the event of injury or damage occurring;
 - **bailee:** property entrusted by the bailee to sub-contractor will not relieve the original bailee of the responsibility is the property is stolen.

(2 marks for each correctly stated exception. 1 mark for correct explanation. Sub-total per exception: 3 marks. Maximum of 5 to be graded. Grand Sub-Total: 15 marks)

(Grand Total: 34 marks)

- 13. The assets of a corporate organisation which is engaged in manufacturing and distribution of essential goods can be threatened by many liability risks.
 - (a) Enumerate and explain five (5) of such liability risks. (15 marks)
 - (b) For each of the liability risk you mentioned in (a) above, recommend appropriate insurance policy that is suitable to mitigate such risk. (15 marks)
 - (c) What do you understand by the term 'Limitation of Actions'. (4 marks)

Solution

- a) The following are liability risks which can threaten the assts of a corporate organisation:
 - i. accident at work place which may result in bodily injury to the employees of the company;
 - ii. accident at work place which may result in death to the employees of the company;

- iii. accident at work place which may result in illness to the employees of the company;
- iv. third party liability risks for bodily injury arising from the company operation;
- v. third party liability risks for death arising from the company operation;
- vi. third party liability risks for property damage arising from the company operation;
- vii. product liability risks arising from the defect in the products of the company;
- viii. professional risk i.e. error, omission, mistake e.t.c. of the partners and their employee;
- ix. motor third party liability risk arising from the use of their motor vehicle. (3 marks for each correct and completely stated risk. Maximum of 5 to be graded. Sub-Total: 15 marks)
- b) The following liability insurance policies are suitable to mitigate the liability risks mentioned above:
 - for (i) to (iii): an Employers' Liability insurance policy taken or effected by the insured (employer) will indemnify the insured for their legal liability to their employees in course of their employment
 - for (iv) to (vi): a public liability insurance policy will be suitable to take care of their company third party liability to the public arising from their operation;
 - for (vii): product liability insurance policy will indemnify the company against product liability risk arising from the effect in their product;
 - for (viii): professional indemnity insurance will be suitable to mitigate the professional risks of the company;
 - for (ix): motor Insurance policy (third party) will take care of the company's third-party liability risk arising from the usage of the company's vehicles.

(3 marks for each correct and completely stated policy. Maximum of 5 to be graded. Sub-Total: 15 marks)

c) **Limitation of actions** imposes a time limit within which a plaintiff must bring his action and this is to avoid the court hearing to deal with state claims where the parties' memory of the events vague and witnesses are unreliable. It is also to safeguard the defendant from the problem associated with defending a claim based on an accident which occurred a long time ago.

(2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks) (Grand Total: 34 marks) 14. (a) Explain the following terms as they are used in liability insurances:

(i) Limit of Indemnity.
 (5 marks)
 (ii) Remoteness of Damage.
 (5 marks)
 (iii) Premium Adjustment.
 (5 marks)
 (iv) Legal Liability.
 (5 marks)
 (v) Total Temporary Disablement (TTD)
 (4 marks)

b. In Employers' Liability claim involving death of an employee, the policy contains a provision to pay such claim to any other person. List and explain two (2) categories of other persons that can be indemnified.

(10 marks)

Solution

- a) (i) **Limit of Indemnity:** most liability policies have limit of indemnity for any one occurrence which represent the insurer maximum amount payable to the insured. Limit of indemnity is usually fix by the insured which represent their legal liability to third party for bodily injury, death or damage to property.

 (2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)
- ii) **Remoteness of Damage:** A claimant may be able to show that the damage suffered by him has been proximately caused by the activities of the defendant, he may not recover full the extent of his loss as same may be considered too remote from the original act to be recoverable. When damage is considered to be remote, it means it could not be reasonably foreseeable. The principle of law is that a man should only be held responsible for the probable consequences of his act the test is a reasonable foreseeability. If the damage suffered is not foreseeable, then it is too remote.

(2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)

iii) **Premium Adjustment:** in liability policies, premium adjustment relates to the condition of wages declaration. In employers' liability insurance for instance, the premium is usually based on estimated total wages of the employees. A rate is applied on estimated total wages to produce the premium which is regarded as provisional or deposit premium from inception. The wages declaration condition on the policy require the insured to declare to the insurer the actual wages paid to their employees at the end of the period of insurance for the purposes of premium adjustment. The purpose of premium adjustment is to ensure that the

insurer charge adequate and commensurate premium for the liability cover under the policy.

(2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)

iv) **Legal Liability:** at the root of liability insurance is the term duty of care. We all have duty of care to our fellow human being i.e. whatever we do, we must be careful not to cause bodily injury or damage the property of our fellow human being. When we breach our duty of care (negligence) which result in death, bodily injury or property damage to another person (third person) we will be liable accordingly to compensate the third part. The liability we incur is legal/recognized by law because it involves death, bodily injury or property damage. This should be distinguished from 'moral liability' which does not involve death, bodily injury or property damage.

(2½ marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)

v) **Total Temporary Disablement (TTD):** this is one of the benefits of employers' liability insurance. An employee in the course of his/her duty may be involved in an accident resulting in bodily injury. When an employee suffers TTD, he/she will not be able to attend to his/her usual occupation during the period of disability which may last for few weeks or months. The disability for the period is 'total' because he/she is off duty during the period. If he/she could attend too his/her duty partially during the same period, then it is partial temporary disablement.

(2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks)

(Grand Total: 24 marks)

- b) The indemnity to other persons include:
 - the insured's personal representative as a member of the deceased family wife, husband, children, e.t.c.;
 - any director, partner or employee of the insured in respect any claims for which the insured would be entitled to indemnity;
 - any director, partner or employee of the insured for whom with the consent of the insured an employee is undertaking private work;
 - the officers, committees and members of the insured's canteen, social clubs and welfare organisations.

(3 marks for each correct and completely stated example. 2 marks for each correct explanation. Sub-total per example: 5 marks. Grand Sub-Total: 10 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A765 MOTOR INSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A765 - MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

Majority of the candidates understood the question and answered appropriately with over 70% candidates passing.

Question 2

Candidates' performance was average and it shows that the candidates did not fully understand the question.

Question 3

Candidates performed poorly in the question. This is an indication of the fact that question is not understood.

Question 4

The performance of candidates in this question was fair and above average. Majority of the candidates have idea of the question.

Question 5

Answers given by most of the candidates were as expected as the pass mark is over 70%.

Question 6

Candidates displayed thorough knowledge and understanding of the question as it is reflected in the pass rate.

Question 7

The question was to test candidates' knowledge of crane insurance. About 80% attempted the question and performance was excellent.

Question 8

To test candidates' knowledge of non-standard risks, almost all candidates performed woefully, it would appear that they do not understand the question.

Question 9

This was a compulsory question and performance was below average. Majority of the candidates di not know the Institute's core values which should be improved upon.

Question 10

The performance of candidates in this question was above average except for few of them that performed poorly.

Question 11

This is well attempted question and good performances were observed by the candidates.

Question 12

Most of the candidates avoided this question which is an indicator that most of them do not understand the question. The few that attempted did not do well.

Question 13

This question centres on operative clause and loss of use clause. Candidates' performance was just average.

Question 14

The question is to test candidates' knowledge of comprehensive motor insurance, also as it relates to insurgency, war and kindred risks etc. Many candidates avoided this question and performance was not encouraging. Part (a) self-drive hire vehicle insurance was fairly attempted.

Comments on Overall Performance

Overall performance was just average.

Suggestion on Improvements

Candidates should study the entire course book for improvement in subsequent examinations.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Explicitly explain the circumstances where the risks of loading and unloading are covered under a commercial vehicle policy?

Solution

The risks of loading and unloading under a commercial vehicle policy are covered wherever it happens if the driver or attendant is carrying out the loading or unloading (3 marks) to the limits of the carriage way (3 marks). (Grand Total: 6 marks)

2. What is the significance of "use to which vehicle is put" in private motor insurance rating?

Solution

The significance of "use to which vehicle is put" in private motor insurance rating is related to the geographical location within which the vehicle is used is a good indicator of risk. However, the more a vehicle is used, the more chance it has of being involved in an accident and of course the more chance there is of it straying from a lower-rated to higher-rated area. To try to assess and rate properly, this part of the risk, insurers ask for details of the use to which the car will be put. In the man, the questioning revolves around use for work.

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

3. Outline two (2) ethical problems that an insurer faces recording onto or accessing one of the anti-fraud data bases?

Solution

The ethical problems that the insurers face recording or accessing one of the anti-fraud data bases are that they take care of in the way that they use database information particularly in view of the protection of individuals that the European parliament is looking for in its July 1995 Directive. They may only use the information for the purpose originally requested.

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

4. (a) What is salvage?

(2 marks)

(b) "Motor Vehicle salvage is unfortunately an opportunist's source of fraud". Justify the authenticity or otherwise of this statement. (4 marks)

Solution

a) If a claim is being settled on a total loss basis, then the insurer will invariably retain the salvage and will sell it to defray costs. The market for salvage is vast and while many are broken for spares or crushed, a great number of vehicles are successfully passed through the trade, repaired and put back on the road in safe condition.

(2 marks)

b. Motor Vehicle salvage is unfortunately an opportunist's source of fraud. This is absolutely correct. The identity of broken or crushed vehicles may be taken and used on stolen vehicles- "ringing." Vehicles may be cheaply and unsafely repaired before being sold on with the history hidden or salvage may be re-used in insurance accident or theft claims. It is for these reasons that the insurance industry in conjunction with salvage buyers and government departments, has sought to control the disposal of salvage.

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

- 5. (a) What is the statutory definition of a road?
- (b) List any two (2) factors are taken into consideration in the definition of a road?

(4 marks)

(2 marks)

Solution

- a) A road is "any highway and other road to which the public has access and including bridges over which a road passes. (2 marks)
- b) The factors that are taken into account in the definition of a road are:
 - is it generally known as road?
 - does it go between two points?
 - what is the degree of public access?
 - does it provide access to a route?

(2 marks for each correct and completely stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)
(Grand Total: 6 marks)

6. The contract of motor insurance is made up of a number of documents. Enumerate any three (3) of these documents.

Solution

The contract of motor insurance is made up of a number of documents which are the:

* proposal form;

* certificate of insurance;

* policy booklet;

* schedule.

(2 marks for each correct and completely stated document. Maximum of 3 to be graded. Total: 6 marks)

7. Outline the three (3) types of policies involved when insuring a crane.

Solution

The three types of policies involved when insuring a crane are:

- engineering (plus inspection);
- public liability (for the tool of trade risk);
- motor (for RTA liabilities).

(2 marks for each correctly stated policy type. Total: 6 marks)

8. List any three (3) risks that fall under the category of non-standard risks.

Solution

The risks that fall under the category of non-standard risks are:

* car modification;

* vintage or special cars;

* kit cars:

- * motorised caravan, e.t.c.
- * previous accident or conviction;
- * physical or mental disability.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) As a student member of the Chartered Insurance Institute of Nigeria,
- (i) what is the vision of the Institute?

(2 marks)

(ii) what are the Institute's core values?

(8 marks)

- (b) What is "Theft" in relation to Motor Insurance Policy? Fully explain. (15 marks)
- (c) Dr. Akerele insured his Suzuki Jeep with Reliable Insurance Company Limited on comprehensive basis for a sum of N3,500,000.00. One week to the renewal of the policy, the vehicle was stolen at the National Theatre, Iganmu, Lagos from where it was parked. The insured immediately reported the theft at Iponri Police Station, in addition to reporting same to the insurers.

The insurers requested for relevant claim supporting documents, particularly the Police report which was promptly submitted. Thereafter, the insurers also requested for the final police report.

The insured did not take kindly to this request wondering why the insurers should request for the final police report having already obtained and submitted the preliminary police report.

As the Claims Manager of Reliable Insurance Company Limited, advise the insured on:

- (i) the relevance of Police Report in Motor Claims Administration.
- (ii) Distinguish between the 'Preliminary' and 'Final' police reports. (25 marks)

Solution

- a) **CIIN Vision: -** To remain a world class professional body committed to the provision of an efficient and effective manpower for the insurance industry. (2 marks)
- b) CIIN Core Values:
- * Members' Satisfaction
- * Knowledge

* Trust

* Efficiency.

(2 marks for each correctly stated value. Sub-Total: 8 marks) (Grand Total: 10 marks)

- b) **Theft** within the context of Insurance Policy is generally speaking, given a wider interpretation than is defined within the theft Act 1968. For the records, the Theft Act 1968 defined 'Theft' as follows:
 - a person is guilty of theft if he dishonestly appropriate property belonging to another with unknown and of, permanently depriving he others of it and 'theft' and 'steal' shall be constructed accordingly; (10 marks)
 - it is a non-material whether the appropriation is made with a view to gain or is made for the thief's own benefit, for the purpose of indemnity under the theft section of a policy, cover is given in respect of loss or damage caused by unauthorized use of the vehicle (e.g. joyriding).
 - For instance, S178 of the RTA 1988 makes it an offence for taking a motor vehicle without lawful authority. It should be remembered that 'loss' of a vehicle can occur as a result of a deception.

(5 marks for any other stated point. Sub-Total: 15 marks)

- c) (i) The relevance of the Police Report in Motor Claims Administration is to assist in the investigation of losses(theft) and possible recoveries in the case of theft or attempted theft. It also helps in enforcing subrogation rights by insurance companies. (10 marks)
- ii) **Preliminary Police Report:** after report of theft of a motor vehicle to the Police, the Preliminary Police Report is issued to the effect that the report was lodged with them and investigation was in progress (8 marks) while for **Final Police Report:** the Final Police Report is usually issued thereafter to the effect that investigation has been concluded and a stint of the outcome of the investigation is stated therein (7 marks).

(Grand Sub-Total: 25 marks) (Grand Total: 50 marks)

Part III

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

- 10. (a) Distinguish between 'Specified Motorcycle' Policy and 'Specified Rider' Motorcycle Policy. How is the premium for each policy calculated? (14 marks) (b) Outline any four (4) underwriting measures usually applicable to Motorcycle
- (c) Highlight any information required for changes in risk in motor insurance and when such a change is required to be notified to the insurer. (8 marks)

(12 marks)

Solution

Policies.

a) **Specified Motorcycle:** Here, the insurers would normally seek a completed proposal in respect of each rider and often there would be a restriction to the total number of

riders (e.g. four.) (4 marks). The premium in this instance will invariably be the simplest calculated based on the youngest rides (3 marks).

Specified Rider Policies: Here only the rider will be allowed to ride but with no restrictions upon the number of motorcycles insured (4 marks). The premium charged will be calculated based on the rider and the cubic capacity (c.c) chosen as the maximum for full policy cover (3 marks).

It should be noted that that these policies are being withdrawn from the market because of adverse claims experience. For all practical purposes this type of policy is no longer available.

(Grand Total: 14 marks)

- b) The underwriting measures usually applicable to motorcycle policies are:
 - the accessories and spare parts will only be covered whilst they are attached to the motorcycle itself;
 - the loss or damage section of the motorcycle policy follows the basic cover provided under a private car policy;
 - one or two of the enhanced benefits are not provided e.g. personal effect and personal accident;
 - there will be higher excess a s the motorcycle is more prone to being damaged superficially or stolen;
 - the more elite motorcycle policy may include the following additional benefits by writing off a specific motor recovery service, for example, transmission of messages to family or friends to alleviate anxiety;
 - there may be new motorcycle replacement clause within the policy but such a facility may only be available if for example, the motorcycle is stolen and not recovered;
 - lastly some insurers will stipulate that they will not indemnify in respect of any loss if the motorcycle is not fitted with manufacturers steering lock. it will also be a replacement that the lock is set and in operation.

(4 marks for each correct and completely stated measure. Maximum of 4 to be graded. Sub-Total: 16 marks)

c) Immediate notification (5 marks) is required for changes in drivers, convictions, conversion or modification of the vehicle, business address or use (3 marks for any correctly stated required change).

(Grand Sub-Total: 8 marks) (Grant Total: 34 marks)

- 11. (a) In relation to Trailer Insurance, define:
- (i) vehicle (ii) trailers (iii) spare trailers. (6 marks)
- (b) There are two basic ways by which trailer cover can be provided. Highlight and explain these two (2) ways. (12 marks)
- (c) Who is a third party as far as motor insurance is concerned? (4 marks)
- (d) Differentiate between third party property damage (TPPD) and third-party injury (TPPI) in relation to motor insurance. (12 marks)

Solution

- a) (i) **vehicle:** means any vehicle insured under the policy and is described in the certificate of Insurance. (2 marks)
- ii) **trailer:** this would include any type of trailer, including agricultural trailer or implements, constructed to be towed by a vehicle. (2 marks)
- iii) **spare trailer:** this is a trailer that is not allocated to a vehicle but declared to the insurer. Normally, trailers would be allocated to a vehicle and this definition caters for trailers which do not fall within the category. (2 marks)
- b) The two basic ways by which trailer cover can be provided are:
 - **specified or allocated trailer basis:** with specified or allocated trailer basis, an identification number will be required and cover will apply irrespective of whether the trailer is attached or detached from a towing vehicle.
 - unspecified or spare trailer cover: this applies where trailers are attached to a towing vehicle or temporarily attached and in the vicinity of the towing vehicle. Here, the insured will be asked to specify the vehicle which will be used to trailer. Such towing units will then be identified in the policy extension and each unit will separate a premium change. Some insurers will not provide cover whilst the trailer is detached and not in use for cover. While the trailer is detached (and in the vicinity) an additional premium may have to be charged.

(2 marks for each correctly stated way. 2 marks for each correct and completely stated point. Maximum of 2 points to be graded under each way. Sub-total per way: 6 marks. Grand Sub-Total: 12 marks)

c) Normally there are two parties to a motor insurance contract, the insurer and the insured and these are reflected in the Motor Insurance Policy. They are the First and Second Parties respectively. Any other person outside these two (i.e. the insurer and the insured) is regarded as a Third Party and he is not a party to the contract. The policy, however make provision for the protection of this (third party) interest.

(2 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub -Total: 4 marks)

d) **TPPD:** In the event of any accident involving the insured vehicle as a result of which proposition other than the insured vehicle is damaged, such damage property is referred to as Third Party Property whilst the resultant damage is referred to as Third Party Property Damage (TPPD).

TPPI: Similarly, constant upon an accident involving the insured vehicle, if any person outside the insured suffers any bodily injury, such injury is referred to as Third Party Personal Injury (TPPI). The policy makes provision for the protection of such injured person.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded under each term. Sub -Total per term: 6 marks. Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

- 12. (a) Compare and contrast the small goods vehicle and passengers' vehicles. (20 marks)
- (b) (i) Outline the two (2) principal factors to consider in order to determine the exposure in the area of 'use' on a rating of factor in commercial vehicle goods carrying vehicle policy. (5 marks)
- (ii) Outline the three (3) rating tables that insurers operate in relationship to Vehicle 'Use' for Goods-Carrying Vehicles. (9 marks)

Solution

- a) A **small goods vehicle** is:
 - a vehicle which does not form part of a vehicle combination; and
 - has a relevant plated weight (the statutory unladen weight and the carrying capacity of the vehicle) not exceeding 3.5 tonnes;
 - or one that is not having a relevant plated weight, has an unladen weight (the weight of a vehicle ready for road use;
 - but without the weight of its load being considered) not exceeding 1.525kg.
 - If it does form part of a vehicle combination, has aggregate plated weights that do not exceed 3.5 tonnes so the aggregate unladen weight does not exceed 1.525kg (Transport Act 1968).

Passenger Vehicles are likewise

- divided into small passenger-carrying vehicles and large passenger-carrying vehicles, as follows. The number quoted do not include the drivers.
- Small is defined as those constructed to carry more than 8 but not more than 16 passengers for hire or reward.
- Large passenger- carrying vehicles are those that carry more than 16 passengers.
 (5 marks for any correct and completely stated point. Maximum of 2 to be graded under each term. Sub-total per term: 10 marks. Grand Sub-total: 20 marks)

- b) (i) In order to determine exposure in the area of rating, there are two principal aspects to be considered. These are:
 - i. whether the vehicle is to be used purely for carrying the owner's own goods or to be utilized on hire and reward basis. (2½ marks)
 - ii. the physical area (i.e. radius) with which the vehicle will be driven. (2½ marks) (Grand Sub-Total: 5 marks)
- ii). for goods-carrying vehicles, the insurers operate three rating tables in relation the Vehicle 'Use'. These are:
 - The lowest rating class is where the vehicle is used 'for the carriage of the operator's own property.' (3 marks)
 - The second or intermediate category of use is 'mixed' class of carriage of own goods plus carriage for hire or reward within a limited radius (say 100 miles of the depot where the vehicle is usually garaged.) (3 marks)
 - The highest rated category of use is in respect to the Haulage Contractor- clearly with unlimited for other people's goods, the risk is great. Not only are vehicles likely to travel expensively they will often be of the larger type to maximise the profit for the operator. Consequently, such risks will commend the highest rates. (3 marks)

(Grand Sub-Total: 9 marks) (Grand Total: 34 marks)

13. (a) What is the place of "operative clause" in Motor Insurance Policy construction? Outline an ideal 'operative clause'. (10 marks)

(b) Alhaji Ikumapayi insured his Mercedes Benz Saloon Car with Excellence Insurance Company Limited on a Comprehensive Basis. Whilst driving along Sango Ota- Idi Iroko Express Road, Ogun State, he accidentally hit a Toyota Saloon Car from behind then causing extensive damage to the car. The third party's car was insured by Patience Insurance Company. The insured's insurers elected to repair to repair the third party's vehicle. Whilst it was being repaired, he (the third party) forwarded a bill of \$\frac{1}{2}\$50,000.00 to Excellence Insurance Company Limited representing the 'loss of use' claim. However, the insured was totally opposed to the bill of \$\frac{1}{2}\$50,000.00 arguing that the third party should not make any further claim, his insurers having opted to repair his vehicle.

As the Claims Manager of Excellence Insurance Company Limited, please advise the insured what "loss of use" claim is all about. (24 marks)

Solution

a) The operative clause in Motor Insurance Policy is the insuring clause (3 marks). It states the scope or extent of cover granted by the policy and enumerates the circumstances under which the insurers undertake to indemnify the insured (3 marks).

The 'Operative Clause' is usually worded along the following lines: "Now the policy witnesseth that in respect of accidental injury, loss or damage occurring during the period of insurance or during any subsequent period for which the company may accept payments for the removal of this policy and subject to the terms, objections and conditions contained herein or endorsed hereon." (4 marks)

(Sub-Total: 10 marks)

b) A large number of people rely on the use of a car in both their private and professional lives and to these people, the loss of the vehicle- however temporary for accidental damage repairs, can represent a serene blow. Many individuals will be able to make alternative arrangement whilst their own car was off the road, for example by borrowing another car, but those who cannot may be faced with the prospect and cost of having replacement vehicle. When another car is responsible for an accident, which led to a person's car being off the road that person should normally be able to recover the cost of having a replacement vehicle from the negligent third party or his insurers. Most times, third party claimants resort to claiming for 'loss of use' of their vehicle whilst the vehicle is still being repaired and this usually done by way of running up the additional cost incurred in procuring a replacement vehicle.

(6 marks for each complete and correctly stated point. Maximum of 4 to be graded. Sub-Total: 24 marks)

(Grand Total: 34 marks)

- 14. (a) (i) What are the types of vehicles that constitute the "self-drive hire vehicles"? What is the underwriting approach usually adopted by insurers for this class of business? (10 marks)
- (ii) What basis are used for the rating of Self-Drive vehicles?

(12 marks)

(b) Mallam Bature drove his Mercedes Benz Saloon Car from Maiduguri to Damaturu. He parked the insured car in a parking lot to attend a seminar. To his surprise, he discovered later that the car had been a subject of explosion by insurgents, thus damaging the car beyond any economic reclamation. The matter was reported to the police and his insurers- Messes Sincerity Insurance Company Limited; claiming the sum of ₹3,000,000.00 (Three Million Naira) being the value of the car. The car was insured on a comprehensive basis, but the policy excludes losses occasioned by rebellion, insurrection and insurgency. There was also injury to Bala, a third party and damage to a nearby electricity pole.

As the claims Manager of Messrs. Sincerity Insurance Company Limited, how would you handle this claim? (12 marks)

Solution

- a) i) This category includes small goods-carrying vehicles and caravanettes plus normal passenger-carrying vehicles up to twelve seats. (4 marks)

 Here, the owner makes the vehicle available to the hirer. Moreover, the owner will
- normally arrange insurance to the hirer, on the basis that the latter completes the short proposal form. This form will usually cover the following areas:
 - **Age** this will usually be subject to age bands (i.e. between 25 and 70) although the owner may reserve the right to quote outside such band.
 - Occupation- there are few occupations which may fall outside the normal criteria and may therefore be ineligible for hire e.g. the entertainment profession.
 - **Driving experience and history** the owner will be obliged to check the driving license of the hirer and satisfy themselves that the information is highly correct.

(3 marks for each correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 6 marks).

(Grand Sub-Total: 10 marks)

- ii) The basis of rating of Self-Drive vehicles are:
 - Flat Rate per vehicle (operates like a thief-rated risk).
 - Day-by-Day rates (affectively a number of short period policies).
 - Turnover or hiring charges (adjustable on actual figures at the end of the year). (4 marks for each correctly stated basis. Grand Sub-Total: 12 marks)
- b) Insurgency is a sort of terrorism taking into account the definition of terrorism. Aside that, insurgency is akin to rebellion, mutiny, revolt, insurrection and uprising all these are related to war and kindred risk which are Standard Exclusions from Standard Motor Policy. Added to that is the fact that the insured's Motor Policy expressly excludes the risk of insurgency. Consequently, notwithstanding the fact that the insured's car was comprehensively insured and relevant premium paid, the insurer would be able to repudiate liability as the proximate cause of the accident is insurgency, which is an Excluded Peril under this policy. However, in satisfaction of the RTA provisions, claims for Bodily Injury to Bala a third party and damage to the nearby Electricity Pole (TPPD)- a third party property damage would be met by the insurer.

(3 marks for each correct and completely stated point. Maximum of 4 points to be graded. Sub-Total: 12 marks).

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A770

PRINCIPLES OF MARINE INSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A770 - PRINCIPLES OF MARINE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

No candidate attempted this course during the diet.



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A780 AVIATION INSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A780 - AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was on types of insurance liability in cargo insurance. Poorly attempted by the candidate, no candidate who attempted the question passed it.

Ouestion 2

The question was on key advantages to a company which result from a captive. About 50% of the candidates scored above 50%.

Question 3

The question was on standard hull deductibles on jet aircraft and normal limit applied to personal injury endorsement extension AVN 60. Every candidate who attempted the question scored above 50%.

Question 4

The question was on risk elements when assessing a satellite risk. 75% of the candidates scored below 50%.

Question 5

The question was on documents required by lawyers after an aircraft accident. No candidate scored up to 50%

Question 6

The question was on areas mostly affected as it relates to liabilities. No candidate scored up to 50%.

Question 7

The question was on documents required in aircraft engaged in international navigation by Chapter V of the Chicago Convention 1944. More than 50% score above 50%.

Question 8

The question was on Guadalajara Convention 1961 and it was well attempted. All the candidates scored above 50%.

Question 9

The question was on classes of general insurance as stated by Insurance Act 2003 and case study on operational issues on placement expansion and claim only 25% of the candidates scored above average.

Question 10

The question was on hazardous risk and provisions of the E.U. Regulation 2027/97. Deep pocket theory was a sub-question. About 75% of the candidates scored more than 60%.

Question 11

The question was on Loss of License Insurance and circumstances that could cause the policy to be terminated and how hull rates on an aircraft can be adjusted. All the candidates who attempted the question scored high (Above 70%).

Question 12

The question included definition of insurance broker and list of aviation exposures among other related issues. No candidate who attempted the question scored up to 50%.

Question 13

The question included explanation on structured settlement and provision in the Montreal Convention 1999 relating to damage and delay to cargo. Most of the candidates who attempted the question scored averagely in it.

Question 14

The question was on the discovery methods that are available for use in any eventful litigation process. 75% of those who attempted the question scored averagely.

Comments on Overall Performance

Good performance.

Suggestion on Improvement

Candidates should read more because knowledge in aviation insurance will help the insurance Industry in Nigeria. Aviation industry is growing in the world market.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. Name and briefly explain the two (2) types of insurance liability cover available in respect of cargo.

Solution

The two types of insurance cover available in respect of cargo are:

- Cargo liability for which the insured is legally liable to pay for physical loss or damage to the cargo under the Warsaw convention or any other condition of carriage agreed to by the insured up to the limit specified.
- Cargo All Risks Insurance: where the insured does not have to be legally liable in order for a payment to be made. Cover is for "all-risks" of physical loss or damage.

(2 marks for each correctly stated type. 1 mark for each correct explanation under each type of cover. 1 explanation per type to be graded. Total: 6 marks)

2. Mention at least three (3) key advantages to a company which result from owning a captive.

Solution

The key advantages to a company which result from owning a captive are:

- captives have lower administration costs compared with those of the company
- captives' parent company will have the benefit of any investment income
- cost of insurance would more closely reflect the risk
- cover can be provided for risks which the traditional insurance market for not wish to insure.

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

- 3. (a) What are the standard hull deductibles applied to jet aircraft?
 - (b) What is the normal limit applied to the Personal Injury Endorsement Extension AVN 60.

Solution

- a) The standard hull deductibles applied to jet aircraft are:
 - US\$1,000,000.00 for wide-bodied aircrafts
 - US\$750,000.00 for hybrid aircrafts
 - US\$500,000.00 for narrow-bodied aircrafts

 $(1\frac{1}{2} \text{ marks for each correctly stated deductible. Total: } 4\frac{1}{2} \text{ marks})$

b) The normal limit applied to the Personal Injury Endorsement Extension AVN 60 is US\$25,000,000.00. (1½ marks)

(Grand Total: 6 marks)

4. Enumerate any three (3) main risk elements that an underwriter should consider when assessing a satellite risk?

Solution

The main risk elements that an underwriter should consider when assessing a satellite risk are:

- the technical complexity of the Satellite
- manufacturer's history at building the type
- manufacturing and testing programme
- heritage of the components and their respective manufacturers (2 marks for each correctly stated document. Maximum of 3 to be graded. Total: 6 marks)
- 5. Write out any six (6) documents required by lawyers as soon as possible after an aircraft accident.

Solution

The documents required by lawyers as soon as possible after an aircraft accident are:

- copy of completed passenger list or manifest with the nationalities of the passengers
- specimen passenger tickets, airway bills and condition of carriage
- passenger sitting plan if available
- passenger flight coupons with routing and baggage details
- names and addresses of passengers and their next-of-kin
- copy of the crew manifest
- copy of the aircraft's papers
- copy of any charter or inclusive tour contract
- copies of correspondence with the next of kin/legal representative
- copy of any group manifest and waybills for cargo
- copy of injured passengers and details of hospital/medical treatment. (1 mark for each correctly stated document. Maximum of 6 to be graded. Total: 6 marks)
- 6. In Aviation Insurance, what areas (or classes) will capacity be mostly affected as it relates to liabilities?

Solution

The areas (or classes) that capacity will be mostly affected as it relates to liabilities in Aviation insurance are:

- airlines hull values and airlines liabilities
- major aircraft manufacturer's liabilities
- airport liabilities (3 marks for each correctly stated are (or class). Total: 6 marks)

7. List any three (3) documents which are required to be carried in an aircraft engaged in international navigation by Charter V of the Chigago Convention 1944.

Solution

The following are the documents that are required to be carried in an aircraft engaged in international navigation by Charter V of the Chigago Convention 1944:

- Aircraft's Certificate of Registration
- Aircraft's Airworthiness Certificate
- Aircraft's Licenses for Crew
- Logbook Requirements
- Radio Apparatus
- Passenger Manifest
- Cargo Manifest

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

- 8. Under the Guadalajara Convention 1961, who is:
 - (a) a contracting carrier?
 - (b) an actual carrier?

Solution

Under the Guadalajara Convention 1961:

- a) a contracting carrier is the party who contracts with another party for the carriage of goods but who does not actually carry the goods but rather gets another party to carry the goods.

 (3 marks)
- b) an actual carrier is the party who carries out the transport operation of moving the goods. (3 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) List five (5) classes of general insurance business as classified in the Insurance Act 2003. (10 marks)
 - (b) Eagle Air, a young promising Nigerian Airline, has insured its aviation operation in London for two (2) years through a recognised and licensed Broker in the London market.
 - i. This year, the airline intends to expand its operation to include flights to Rwanda, Gambia, Cameroun, Ghana and the Republic of South Africa. Describe the placing process for this expansion in the London market. (20 marks)
 - ii Five (5) months after renewal, one of Eagle Air's plane crashed on an internal flight as it approaches one of the country's major airports, killing all

passengers and crew on board. The insured has insurance cover for aircraft hull, airline liability and aviation hull risks,

Discuss both the insured's and the various insurers' liabilities for the loss of the aircraft and the death of the passengers. (20 marks)

Solution

- a) The classes of general insurance business are-
 - Fire Insurance business
 - General accident insurance business
 - Motor Vehicle insurance business
 - Marine and aviation insurance business
 - Oil and Gas insurance business
 - Engineering insurance business
 - Bonds, credit guarantee and surety cling insurable business
 - Miscellaneous insurance business

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

b)

- The London broker will seek instructions for renewal probably about one or two months before expiry. At this stage, the insured or indigenous intermediary should provide the broker with details of the changes. (4 marks)
- The broker/insurer may well require the following details:
 - the new equipment being operated
 - details of contractual agreement
 - liability regimes i.e. EU2027/97
 - pilot details
 - value of risk both hulls and spares
 - liability limits required.

(4 marks)

- The broker will also need to review loss/premium statistics for the last 5 years ideally but since the airline has only been in operation for two years, then the review will be precisely for two years as per age of the airline. (4 marks)
- The broker will then prepare a renewal slip and will seek to portray the airline and the new developments in a positive light to the proposed leader. Part of the broker's job is to choose security of an acceptable standard. The Broker will approach the existing lead insurer but may approach alternatives, if available and secure the terms of engagements of the insurer(s). (4 marks)
- The broker will probably use vertical marketing in order to achieve the lowest overall price with appropriate security. Vertical placements are those placements where other markets may insure at different premium rates. (4 marks)

- The Broker will advise the client of the terms and conditions, if acceptable, the
 go-ahead is given, the risk will be placed and confirmation will be given when
 concluded.
- The broker may well prepare the certificates of insurance on behalf of the insurer and will produce a cover note evidencing the terms. The broker will also produce a debit note showing the premium and payment terms. (4 marks)
 (4 marks for each complete and correctly stated point. Maximum of 5 complete and correct points to be graded. Sub-Total: 20 marks)

b. **As far as the insured's liability goes**, a certain amount depends on the contractual provisions and who was responsible for providing insurance.

If the contractual provisions stipulate that the insured is responsible for insurance and/or the risk of all losses, then,

- i) the insured will be responsible for the loss of the aircraft
- ii) the insured could well be liable for the death of the passengers as one would need to consider whether strict liability should apply or not.

Reference to the terms of carriage would need to be made i.e, international carriage under the terms of any of the applicable conventions. In practice, if loss occurred whilst passengers are in the care and custody of an airline, the airline will be found liable and the local courts will also decide the level of any award(s) made in respect of deaths of passengers.

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

For the insurers' liabilities, the exact circumstances of the loss will need to be investigated i.e. is it a war loss, was it an act of terrorism or was it just an unfortunate accident. The exact circumstance will then determine the exact insurance policy that will be liable for the loss.

There can be challenges when there is doubt as to which policy will respond (hull/hull war). In addition, the circumstances will show if any policy condition was breached or which exclusion should apply and if there are any chances of subrogation.

Leaving aside conditions/exclusions and contractual arrangements as far as liability to passengers is concerned, whether the war write-back I clause AVN52 is included or not is a crucial issue.

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

(Grand Total: 50 marks)

Part III

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

- 10. (a) Explain why underwriters consider that helicopters are a more hazardous underwriting risk than fixed winged aircrafts? (10 marks)
 - (b) Explain the provisions of the EU Regulation2027/97 as it specifically applies to ticketing and advanced payments affecting EU air carriers. (16 marks)
 - (c) Explain, using an example, what is meant by the "deep pocket theory" when used in relation to aviation liability losses. (8 marks)

Solution

- a) Underwriters consider helicopters to be more hazardous underwriting risk than fixed winged aircrafts because:
 - helicopters by their very nature are not aerodynamic. If the engine stops or the rotor blades stop turning, the helicopter will lose height rapidly. If there is a problem while the helicopter is flying, it will usually lead to major damage. Underwriters recognize this by adjusting the rating and by imposing a higher deductible which is usually applicable to all losses.

Another reason for helicopters being considered a great underwriting risk is that helicopters are often used in more hazardous situations and at lower altitudes than fixed winged aircraft. For example, in search and rescue, logging, e.t.c.

(5 marks)

(Sub-Total: 10 marks)

b) Under EU Regulation 2027/97, there is an obligation for community air carriers to make an advanced payment of at least 16,000SDRs (Special Drawing Rights) in the event of death to meet economic needs not later than 15 days from the identification of the person entitled to compensation. (6 marks)

Carriers selling or providing carriage in the community must provide written notice of the limits of liability applicable to the flight being sold. (5 marks)

In addition, carriers must make available to passengers at all points of sale, a summary of the main provisions regarding liability including time limits and the availability of special declarations for baggage. (5 marks)

c) "Deep pocket theory" when used in relation to aviation liability losses is generally taken to mean that the person who has the largest fund available pays the most of a liability award, irrespective of liability.

(2 marks)

In most cases, this means the person with the largest awards made against them, not because they have caused the most damage but because they carry large limits under their liability policies. (3 marks).

For example, in the USA especially, there can be speculative litigation against the large airlines and manufacturers as some States have joint and several laws. This means that plaintiffs can recover damages from any liable defendants regardless of the degree of liability, the theory is that the defendant needs to recover the damages so the defendants that are in the best position to pay will have to make up for those who cannot. (3 marks for any correct and complete example like this one) (Sub-Total: 8 marks) (Grand Total: 34 marks)

- 11. (a) (i) Explain briefly why pilots buy loss of licence insurance. (2 marks)
 - (ii) Identify four (4) circumstances in which loss of licence policy coverage will usually terminate. (6 marks)
 - (b) Describe briefly:
 - (i) why an aviation insurer may wish to adjust the hull rate of an aircraft on which the value has been reduced? (6 marks)
 - (ii) the method that insurers would use to calculate the new rate, using a simple example. (5 marks)
 - (c) You are an insurance broker to a company tendering to run airport ground services that an airline has decided to contract out at a new destination airport. The services consist of passenger and baggage handling, aircraft line maintenance and towing and ramp services such as cleaning and catering.

You have been asked to write a report to the Company's Finance Director detailing the company's exposures and the risks if they accept this contract. Discuss the exposures you would identify to the Finance Director. (15 marks)

Solution

- a) i) Pilots buy loss of licence insurance because it provides a cash benefit to assist when such a pilot is unable to work in the event of a withdrawal of licence by the authorities while noting that it is required that aircrew must hold a valid licence in order to carry out their duties.

 (2 marks)
- ii) The circumstances in which loss of licence policy coverage will usually terminate if:
 - the insured person's employment ends
 - the insured person dies
 - payment is made by insurers for bodily injury or illness
 - the insured person undertakes flying which is more hazardous than usual unless previously agreed by insurers
 - the insured person undertakes active duties with any armed forces other than part-time training on a non-combat training
 - the insured person reaches retirement age. (2 marks for each identified circumstance. Maximum of 3 to be graded. Total: 6 marks)

- b) i) As an aircraft ages, it would be expected that the aircraft's value would reduce because of new models being introduced onto the market and through natural depreciation. Therefore overtime, the amount that would be paid by an insurer in the event of a total loss would be expected to reduce as the aircraft agreed value decreases.

 (3 marks for each correctly bolded phrase. Total: 6 marks)
- ii) The method that insurers would use to calculate the new rate, using a simple example, is outlined below: as the element of premium needing to be set aside for repairs as a proportion of the total premium is higher as the agreed value reduces. Insurers have established a formula called the 70/30 formula. The formula is applied where a lower value does not produce enough premium to cover the increased risk of a total loss caused by the reduced value.

(3 marks for correctly stated formula. 2 marks for the explanation of the formula. Total: 5 marks)

- c) The identified exposures to be identified to the Finance Director are:
 - company's liability for bodily injury that may arise from their operations
 - company's liability for property damage that may arise from their operations
 - use of vehicles airside is strictly regulated, with drivers having to undergo instruction and be under the control of air traffic control outside certain welldefined areas
 - the very presence of many people working airside means that there is always a risk of human error.

(Candidates are required to briefly discuss any of the points mentioned above. 3 marks for correctly stating the exposures while 2 marks for complete and correct explanation on each point. Maximum of 3 exposures to be graded. Sub-Total per exposure: 5 marks. Grand Total: 15 marks)

- 12. You are an insurance broker to an airport maintenance company who has been asked to review the liability insurances of a baggage handling company working airside at the airport.
 - (a) Define who an insurance broker is. (4 marks)
 - (b) List and briefly discuss any three (3) aviation exposures that the baggage handler needs to insure against. (15 marks)
 - (c) Discuss the wordings and clauses you would recommend to be used for these exposures. (15 marks)

Solution

a. An insurance broker, in most jurisdiction, is the agent of the client and as such, is subject to the general law as it applies to agents. In addition to the broker's duty to the client, the broker as a professional, has a common duty of care in English law, and in many jurisdictions elsewhere, to anyone who relies on the information provided by the broker.

(2 marks for every correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)

- b. The aviation exposures that the baggage handler needs to insure against are:
 - legal liabilities for bodily injury and property damage arising from their operations whilst working at the airport;
 - liabilities from the operation of motor vehicles where there is a risk if collision with other vehicles, the very many types of airside equipment or even aircraft;
 - exposure of damage to baggage; or
 - exposure to interaction with members of the public in the course of the insured;
 - exposure as a result of the contractual obligations arising from the contracts signed with the airports/concessionaires companies which indicates a minimum amount of insurance to be carried.

(Candidates are required to briefly discuss any of the points mentioned above. 3 marks for correctly stating the exposures while 2 marks for complete and correct explanation on each point. Maximum of 3 exposures to be graded. Sub-Total per exposure: 5 marks. Grand Total: 15 marks)

c. The coverage for ground handling companies is very similar to airport liability coverage so the ARIEL Airport Owners and Operators' Liability Policy may be used. **(6 marks)** The standard clauses that would be added include the:

- War, Hijacking and Other Perils Exclusion Clause AVN 48B
- Extended Coverage Endorsement (Aviation Liabilities) AVN 52G
- Nuclear Risk Exclusion Clause AVN 71
- Noise Pollution and Other Perils Exclusion Clause AVN 46B

(3 marks for each correctly stated clause. Maximum of 3 clauses to be graded. Sub-Total: 9 marks)
(Sub Grand Total: 15 marks)
(Grand Total: 34 marks)

- 13(a) Explain "structured settlements" as it relates to benefits that may be to claimants and insurer in respect of aviation insurance. (12 marks)
- (b) State the provisions contained in the Montreal Convention 1999 relating to damage and delay to cargo. (12 marks)
- (c) You are the insurance manager for XY Airlines Company. One of the aircrafts while on a flight between countries within the EU was hijacked and flown to a country outside the EU. On landing, the aircraft sustained damages and several passengers were injured. Enumerate any three (3) information the surveyor will need to investigate on the claim. (10 marks)

Solution

a) It has sometimes been the case that after having received a large award, a claimant has spent the money inappropriately and not had enough left to meet their future medical and other requirements. To avoid such problems and to avoid the need for constant management of the settlement fund, the attorneys will arrange for the award to be used to purchase an annuity or similar instruments which will ensure that the claimant receives a regular income appropriate for their needs. Purchase of an annuity may be less expensive for insurers, than an outright settlement of the claim. There may also be tax advantages for the claimant.

(3 marks for each complete and correctly stated point. Maximum of 4 points to be graded. Total: 12 marks)

- b) The provisions contained in the Montreal Convention 1999 relating to damage and delay to cargo are:
 - there is an unbreakable limit of 19SDR's (Special Drawing Rights) per kilogram in respect of loss, damage or delay to cargo. The limit is strict as long as the loss or damage took place during the carriage by air. (4 marks)
 - there is a requirement for an airway bill to be delivered which include the places of departure and destination. (4 marks)
 - costs and interest can be awarded in addition to limits of liability. (4 marks) (Sub-Total: 12 marks)
- c) The information the surveyor will need to investigate are as illustrated below:
 - the appointed surveyor will need to investigate all aspects of the loss and the circumstances leading up to it and ensure that (s)he decide whether to pay for the loss or not.
 - The surveyor will obtain and check policy details and details of the insured to ensure that coverage was correctly in place at the time of the accident.
 - The surveyor will also look at the cause of the loss to ensure that this was correctly
 insured, hence the importance of looking at the geographical limits and hijacking
 coverage.
 - The surveyor will work with the local aviation authority to look at the loss, the background and the causes
 - The surveyor will also recommend whether they should be paid as a total loss or aircraft repairable and if any salvage to take into account.

(2½ marks for each complete and correctly stated issue to be investigated. Maximum of 4 issues to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

14. In the context of aviation insurance, describe any five (5) of the discovery methods that are available for use in any eventful litigation process.

Solution

The discovery methods available for use in any eventful litigation process are:

- **interrogation:** these are written questions that one party asks another. They must be answered in writing and under oath within a certain period (usually 20/30 days). A party can object to the questions if there is a valid reason not to answer.

 (5 marks)
- **document production:** each party is allowed to request and inspect documents and other tangible items from other parties. Requests are in writing and documents must be produced to specified time frames. (5 marks)
- **medical examination:** these may be requested by either party and would have to be consented to by the other party before being carried out. (5 marks)
- **request for admissions:** any party can serve another with a written request to admit particular allegations. The served party must admit or deny within a specified time limit. (5 marks)
- **Deposition:** any party may demand that another party to the lawsuit appears for a deposition, which could be either a: (5 marks)
 - o **pre-trial conference:** this decides whether the case can be settled before it proceeds to full litigation in court or not. (5 marks)
 - o **trial:** this can be held in a State or Federal court. (2 marks)
 - o **appeal:** this can be held in a State or Federal court. (2 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A785

PRINCIPLES OF REINSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

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 distributed as follows:

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was testing the candidates' knowledge on formula for calculating the premium adjustment. 91% of the candidates attempted it and only 15% of the candidates who attempted the question answered it very well.

Question 2

The question was on facultative obligatory reinsurance. All the candidates attempted it and 75% of the candidates scored above the average mark on the question.

Question 3

The question was testing the candidates' knowledge on reinsurance premium. Only one candidate did not attempt the question. The question was well answered as 85% of the candidates at least half of the mark allocated to the question.

Question 4

The question was testing the candidates' knowledge on the areas to focus on when considering spreading risks with the reinsurer. Only one candidate did not attempt the question. The question was not well answered by majority of the candidates. Only 31% of the candidates answered the question well.

Question 5

The question was centered on the basis of cover under a non-proportional wording. About 9% of the candidates did not attempt this question. In all, the question was poorly answered and 35% of the candidates scored above the average mark on the question.

Question 6

The question was on definition of certain terms as they relate to reinsurance. 95% of the candidates attempted it and more than 50% of those that attempted it did not answer the question well. Only 35% of the candidates scored above the average mark on the question.

Question 7

The question was on different types of finite reinsurance. The question was well attempted by almost all the candidates. Majority of the candidates did very well on the question and with 76% of the candidates scored well above the average mark on the question.

Question 8

The question tested the knowledge of the candidates on the need for a catastrophic cover. All the candidates attempted it and only about 7% scored below the average mark on the question.

Question 9

The question was compulsory and it was attempted by all the candidates. The question was in two parts. The first part was testing the candidates' knowledge on insurance trade association. The second part was testing the candidates on the main types of proportional treaties. 74% of the candidates scored well above the average mark on the question.

Question 10

The question tested the knowledge of the candidates on risk excess of loss treaty. Only 67% of the candidates attempted it and 69% of those that attempted it scored well above the average mark on the question.

Question 11

The question was testing the knowledge of candidates on consideration as key requirement and relevant information required in contracts. About 79% of the candidates attempted the question and only 53% of the candidates scored well above average mark on the question.

Question 12

The question was in two parts. The first part was testing the knowledge of the candidates on reinsurance ceding commission and the second part was on the cost of reinsurance to an insurer. 70% of the candidates attempted the question. Majority of the candidates that attempted the question did very well as 80% of them scored well above the average mark on the question.

Question 13

The question was in three parts. The first part tested the knowledge of the candidates on the circumstances for portfolio transfer. The second part was on the description of loss reserve e deposit and the third part on the material information required from an insurer by the reinsurer when placing a business on facultative basis. Only 60% of the candidates attempted the question and it was well answered by 75% of them.

Question 14

The question was testing the knowledge of the candidates on some crucial clauses relating to the application of reinsurance. Only 28% of the candidates attempted the question and about 75% of them scored answered the question very well.

Comments on Overall Performance:

The overall performance was very fairly encouraging as 60% of the candidates that sat for the course (i.e. 26 candidates out of 43) would pass based on the recommended pass mark for the course,

Suggestions on Improvement:

Adequate preparation by the candidates would enhance their success in the examination.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. State the formula for calculating the premium adjustment rate%.

Solution

Premium Formula for Premium Adjustment Rate% =

Paid and Outstanding Losses * 100 * 100
Gross Premium Income 70 1 (6 marks)

2. Briefly explain Facultative Obligatory Reinsurance?

Solution

Facultative Obligatory Reinsurance. 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 arrangement.

(3 marks for each correct and completely stated point. Maximum of 2 to be graded. Total: 6 marks)

3. In relation to reinsurance, define the term "premium".

Solution

Premium is the financial consideration paid by the reinsured to the reinsurer (3 marks) in consideration for the acceptance of the risks reinsured under the contract (3 marks).

(Total: 6 marks)

4. When spreading risk, the success of any exchange of reinsurance is affected by the care with which the business to be exchanged is selected. List any three (3) areas that attention should be focused upon as far as the concerned companies are concerned.

Solution

When spreading risk, the success of any exchange of reinsurance is affected by the care with which the business to be exchanged is selected. To this end, the following areas requires that attention should be focused upon them as far as the concerned companies are concerned:

- standard of management
- experience of the underwriters
- financial standing
- geographical distribution of the business being written
- past underwriting results.

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

5. List any three (3) of the four most commonly used basis of cover under a non-proportional wording?

Solution

The four most commonly used basis of cover under a non-proportional wording are:

- "each loss each risk"
- "each accident"
- "each loss occurrence"
- "in the aggregate each annual period".

(2 marks for each correct and completely stated basis. Maximum of 3 to be graded. Total: 6 marks)

- 6. Define the following terms as it relates to reinsurance:
 - (a) innominate terms

(b) condition.

Solution

- (a) **Innominate Terms** are terms in contract such that the consequences of a breach of them cannot be laid down in advance but depends upon the nature and gravity of the relevant breach.
- (b) **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.

(3 marks for each correct definition. Total: 6 marks)

7. There are different types of finite reinsurance. List any three (3) of these types.

Solution

The different types of finite reinsurance are:

- * fully funded: one off premium * contingent capital
- * fully funded: regular premium * partially funded: regular premium
- * fully funded: one-off premium partially withheld by client.

 (2 marks for each correctly stated type. Maximum of 3 to be graded. Total: 6 marks)
- 8. Why does an insurer purchase a catastrophic cover?

Solution

An insurer purchases a catastrophic cover to protect itself for the potential losses which may arise from one insured event, such as earthquake, windstorm, e.t.c. The cover is to protect the insurer's net retentions that the insurer might be forced to accumulate.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) Enumerate any five (5) organisations/ trade associations that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market.
 - (b) There are two main types of proportional treaties.
 - (i) list and explicitly explain these two (2) types;
 - (ii) enumerate distinctly three (3) advantages and three (3) disadvantages of each of them. (24 marks)

(16 marks)

Solution

- a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:
 - Nigerian Insurers Association (NIA)
 - Nigerian Council of Registered Insurance Brokers (NCRIB)
 - Institute of Loss Adjusters of Nigeria (ILAN)
 - National Insurance Commission (NAICOM)
 - Chartered Insurance Institute of Nigeria (CIIN)
 - rofessional Reinsurance Association of Nigeria (PRAN)
 - Association of Registered Insurance Agents of Nigeria (ARIAN)

(2 marks for each correctly stated organisation/association. Maximum of 5 to be graded. Total: 10 marks)

- (b) (i) The two main types of proportional treaties. These are:
 - quota share treaty: this is an obligatory ceding treaty where the ceding company has to cede a fixed percentage of all their risks and the reinsurer is obliged to accept all the cessions made, usually subject to a maximum amount any one cession.
 - surplus treaty: this is the type where insurers can cede only those risks over a certain size i.e. those who are "surplus" to its retention. The insurer would agree to retain those amounts indicated in the table of limits (which is attached and forms an integral part of the treaty for its own account).

(2 marks for correctly stated type. 2 marks for each bolded phrase. Sub-Total per type: 8 marks. Sub-total: 16 marks)

(ii) Advantages of Quota Share Treaty are:

- relationship between insurer and reinsurer is absolute in such a context that the reinsurer follows the fortunes of the insurer almost identically
- the accounting and reporting of business are simple
- flexibility exists in increasing or decreasing the amount of quota share ceded
- unlimited cover is provided for aggregation of risk losses in a single loss event.

Disadvantages of Quota Share Treaty are:

- large amounts of income are ceded away that could be to the detriment of the insurer
- it is inflexible and no choice exist for the insurer outside the agreement
- if the risk falls outside the scope of cover, the insurer must resort to facultative placement or retain the risk
- the insurer cannot make a new relationship with a reinsurer unless there is an agreement in the treaty that further reinsurance can be sought and used for the benefit of the insured.

Advantages of Surplus Treaty are:

- allows the insurer to vary its retention upon a particular risk
- there is automatic capacity available upon a particular class and size of risk
- the insurer is allowed to retain a greater proportion of its income
- the insurer receives a ceding commission, usually sufficient to pay the acquisition costs and expenses, together with an additional contribution to reward underwriting profit.

Disadvantages of Surplus Treaty are:

- the insurer stands or falls by its chosen retention
- comparison of results between the insurer's net results and those of its surplus reinsurers might be different
- if the risk does not fall within the scope or capacity of the treaty arrangements, the insurer must still resort to the facultative reinsurance or retain the risk net
- the insurer cannot alter the retention or its underwriting practice where these details form an integral part of treaty
- the surplus can result in both a widely fluctuating loss experience and less desirable business
- the ceding commission is usually lower than if the treaty were a quota share.
 (3 marks for correctly stated (dis)advantage. Maximum of 3 to be graded under each sub-heading, under each type. Sub-Total per term: 12 marks. Grand Sub-Total: 24 marks)

Part III

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

- 10. (a) In a property account risk excess treaty for N200,000.00 XS N50,000.00, an event limit of N600,000.00 (i.e. three total losses) might be imposed. If four houses were hit by a storm, each loss being over the N250,000.00 total insured limit, apportion the claim appropriately. (19 marks)
 - (b) (i) What does the "excess of loss premium" mean? (5 marks)
 - (ii) List the five (5) constituents of the "excess of loss premium". (10 marks)

Solution

(a) Total Gross Claims 4*N250,000.00 = N1,000,000.00 (3 marks) Priority Retained by Cedant 4*N50,000.00 = N200,000.00 (3 marks) Risk Excess of Loss Cover 4*N250,000.00 = N200,000.00 (3 marks)

As this exceeds the event limit:

- (b) (i) "The excess of loss premium" is the amount of financial remuneration the reinsurer requires for the contract requested by the reinsured. (5 marks)
- (ii) The five constituents of the "excess of loss premium" are:
 - the risk premium
 - the fluctuation premium
 - a provision for catastrophe loss that will occur sooner or later
 - a provision for the acquisition costs, commissions, management expenses, e.t.c.
 - margin of premium for profitability.

(2 marks for each correctly stated constituent. Sub-Total: 10 marks) (Grand Total: 34 marks)

- 11. (a) Consideration is a requirement of all contracts, including contracts of reinsurance. What is the consideration usually provided for in a reinsurance agreement? (4 marks)
 - (b) When an unknown cedant is offering business to a reinsurer, there should be some specific information concerning the proposed reinsurance that should be made available to the reinsurer by the cedant. Enumerate and explain any four (4) of this information.

 (30 marks)

Solution

a) The consideration usually provided for in a reinsurance agreement is that **one party**, **the reinsured**, **will promise to pay a premium** and **the other party**, **the reinsurer**, **will promise to provide an indemnity**.

(2 marks for each bolded phrase. Sub-Total: 4 marks)

- b) When an unknown cedant is offering business to a reinsurer, there should be some specific information concerning the proposed reinsurance that should be made available to the reinsurer by the cedant. These are:
 - Class or Classes of Business to be Covered: there should be a clear indication to the reinsurance underwriter of the precise risks to be protected by the reinsurance. If possible, the nature and extent of original coverage should be outlined and, with a new cedant, examples of original policy wordings would be

- advantageous. Also, full details of the territorial scope of the proposed reinsurance would be useful.
- Original Policy Sums Insured. details of the sums insured or the limits of liability being issued by the cedant should be made available, including any deductibles that are applied to the original policies. A risk profile of the portfolio of risks to be protected should be prepared.
- **Risk Profile:** as well as details of the different sums insured that are being underwritten by the cedant, this should also indicate whether the account consists of similar risks or is a varied book of business. The risk profile should indicate whether the portfolio consists entirely of direct insurances or whether there is an element of inwards reinsurance business, as this may present the potential reinsurer with significant additional unknown accumulation exposures. Finally, the relationship between any hazardous and non-hazardous risks in the portfolio should be made clear and what, if any, special perils or risks may be covered.
- General Experience: there may be concerns about the cedant's experience in the particular class or classes of business that it is proposed the protection will cover. Positive information confirming the overall experience of the company to manage its accounts and its claims as well as the individual experience and competence of the actual underwriters can be beneficial in negotiating the required reinsurance. Information concerning the development of the cedant's premium income over the past five to ten years is also a valuable indicator as to whether the company's attitude to growth is aggressive or conservative, particularly if it is supported with a record of individual policy numbers issued.
- Claims Experience: this information more than any other, forms the basis of the negotiations on the price of the reinsurance. Claims experience influences the premium required by non-proportional reinsurers and the commission that proportional reinsurers will be prepared to allow. Any claims details must be sufficient to enable the reinsurer to assess what its future liabilities may be. It would not be adequate to advise whether the particular reinsurance being placed has had any losses or not. This could be misleading if the cedant has recently increased its general underwriting policy, increased its original policy limits or changed its underlying proportional arrangements over the past few years. All of which would require the reinsured to provide 'as if' loss figures. In the case of non-proportional reinsurances, claims which previously were settled below the deductible may now be considerably greater due to the effect of inflation or changes in law and attitude of courts in settling compensation claims.

Consequently, it may be necessary to obtain details of all claims that have affected the portfolio or at least all claims larger than, say, 50% of any proposed reinsurance deductible.

With a liability account (long-tail business), there is a need for reinsurers to project the anticipated eventual loss experience for each underwriting year. This is because of the length of time it can take for claims to be reported and settled. Therefore, statistics that predict the possible outcome are required. Such loss details are called 'development' or 'triangulation' statistics and will give paid and outstanding loss figures as at annual review dates on an individual claims basis. This information not only proves invaluable for rating the risk but also gives a significant insight to the reinsured's claims-reserving philosophy and expertise.

- Exclusions: in addition to any standard exclusions that will be applied, such as nuclear or war risks, the cedant should provide, wherever possible, details of the business or perils that it does not underwrite or for which it does not require reinsurance. Even if such a list is available, it will not be unusual for reinsurers to impose their own exclusions, especially if the definition of the class of business or account being protected is not precisely defined such as 'Reinsured's Marine Account' or 'Whole Account Reinsurance.
- Reinsurance Preference: this has a major influence on the price of its reinsurance
 and, in some instances, on the availability of reinsurance, and there are different
 factors to be considered for proportional and non-proportional reinsurances.

(2 marks for correctly stated information. 2 marks for any correct explanation on each information. Maximum of only two complete and correct explanations to be graded per information. Sub-Total: 30 marks)

(Grand Total: 34 marks)

- 12. (a) Reinsurers are usually unwilling to allow the reinsured any reduction in the reinsurance premium by way of commission in non-proportional treaties. Why is this so? (4 marks)
 - (b) The cost of reinsurance to an insurer is determined by the amount of premium it must pay to its reinsurers notwithstanding the costs incurred by the insurer. Therefore, it is reasonable for the reinsured to seek the recovery of some of the costs incurred in the production of the business. This recovery is achieved by the application of ceding commissions to the reinsurance premium. Enumerate and explain any three (3) common forms of commission in use in proportional treaties (excess of loss). (30 marks)

Solution

a) Reinsurers are unwilling to allow the reinsured any reduction in the reinsurance premium by way of commission in non-proportional treaties (excess of loss) because the reinsured has not sustained any acquisition or administrative costs directly attributable to the reinsurance risk being offered.

(2 marks for each bolded phrase; Total: 4 marks)

- b) The common forms of commission in use in proportional treaties (excess of loss) are:
- i) **Flat-Rate Commission:** if a portfolio of business is expected to have very stable results, with the results in any one year not subject to significant fluctuations, and if it is not to any great extent exposed to variations in profitability that can be influenced by the way business is ceded to the treaty (as in the case of surplus or facultative obligatory treaties) then the application of a flat-rate commission is commonly applied. This is shown in the reinsurance terms and conditions as a percentage of the gross premiums that will be ceded to the reinsurance. The percentage will differ on each reinsurance arrangement depending upon the type of reinsurance, the class of business, previous results, geographical scope, market conditions and so on, but it should be sufficient to cover the ceding company's own acquisition costs and make a contribution to its administrative expenses.
- ii) **Profit Commissions (Flat-Rate Basis):** if a treaty is profitable then both reinsured and reinsurers benefit from the agreement. If it is unusually profitable, the reinsured may seek an extra commission from reinsurers for giving them a share in such a good account. This payment would be called a profit commission and would most commonly be allowed on stable quota share and surplus treaties. The existence of a profit commission in the treaty would be seen as an incentive to the reinsured to underwrite a sound, profitable account, as the 'better' the business the more of its gross premium income it is likely to retain. There are many variations but on each individual treaty the terms and conditions of any profit commission should be clearly established and set out in the treaty wording.
- iii) **Sliding Scale Commission:** profit commissions on a flat-rate basis reward the reinsured for a good result on a particular treaty but are an inflexible mechanism. The incentive to do better has a limited appeal and certainly does nothing for either party should the results be less profitable than expected. An alternative is to have commissions calculated on a sliding scale basis which not only automatically rewards the cedant for producing a good result but also takes into account the possibility of imposing a 'penalty' in the event of a poorer than expected performance. The cedant debits the reinsurer with a provisional commission on premiums paid during the year.

This commission would be adjusted at the end of the year. The adjustment is determined in accordance with an agreed variable table of commissions linked.

iv) **Loss Participation:** whilst it can be seen that the sliding scale basis goes some way towards rewarding the cedant for good results and protecting the reinsurers against a worse than expected performance, it does little in the event of the results of a treaty being exceptionally poor. A flat-rate profit commission achieves even less to address this possibility, being purely an extra reward for good performance. Proportional reinsurance has its foundations in 'sharing' arrangements – the cedant and the reinsurer sharing in the fortunes of the original business. Therefore, if there is an expectation that heavy losses may be incurred, some form of loss participation clause may be adopted to ensure a more equitable distribution of the net loss between the cedant and its reinsurers. This can be explained as a reverse profit commission situation whereby the loss above an agreed loss ratio would be redistributed so that the cedant bears some portion of a very heavy loss rather than the reinsurers bearing the whole burden.

(5 marks for each correctly stated form; 2½ marks for any correct explanation. Maximum of 2 explanations should be graded on each form; Sub-Total per form – 10 marks. Maximum of 3 forms to be graded. Sub-Total: 30 marks)

(Grand Total: 34 marks)

13. (a) Mention three (3) circumstances under which transfer of portfolio can arise.

(6 marks)

(b) Describe "a loss reserve deposit" in detail.

(12 marks)

(c) Explain the various material information a reinsurer would require from an insurer when placing a business on facultative basis. (16 marks)

Solution

- a) The circumstances under which transfer of portfolio can arise are:
- i) where the reinsured wants a new treaty to assume the portfolio of business in force at the inception of the treaty, or a new reinsurer to assume the portfolio from a retiring reinsurer
- ii) where there is an option, usually open to the reinsured only, to withdraw premiums and outstanding losses upon termination.
- iii) where the entire treaty is on a clean cut basis
- iv) a treaty on underwriting year basis may also provide for the closing of each year after a specified period and the transfer of any subsisting liability into the next open year.

(2 marks each of every correctly explained circumstance. Maximum of 3 to be graded. Total: 6 marks)

b) A loss reserve deposit is an amount held by the reinsured in a bank account quite often on a letter of credit basis as a reserve against the reinsurer going insolvent and not being able to pay the reinsurance claims. It is based on the claims reserves held by the insurance company but is paid into an account by the reinsurer who will get the interest but it is not allowed to take the money out again without the prior agreement of the reinsured.

(4 marks each of every correctly explained point. Maximum of 3 to be graded. Total:12 marks)

- c) The various material information a reinsurer would require from an insurance when placing a business on facultative basis are:
 - i) details of the insured
 - ii) class or classes of the business to be covered
 - iii) risk profile
 - iv) general experience
 - v) claims experience
 - vi) applicable experience

(2 marks each for every correctly stated information. 2 marks for every correct explanation under each stated information. Maximum of 4 factors to be graded. Sub-Total: 4 marks per information. Grand Sub-Total: 16 marks)

(Grand Total: 34 marks)

- 14. The following clauses are crucial clauses relating to the application of the principle of insurance. Write short notes on them:
 - (a) Interlocking Clause (5 marks)
- (b) Index (Stability) Clause (5 marks)
- (c) Claims Series Clause (5 marks)
- (d) Aggregate Extension Clause (5 marks)
- (e) Local Jurisdiction Clause (5 marks)
- (f) Acts-in-Force Clause (5 marks)
- (g) Hours Clause (4 marks)

Solution

(a) Interlocking Clause:

This clause arises in policies incepting during contracts. If a loss is spread over more than one year because the original policies incept in different years, the reinsured might have to run more than one retention.

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

(b) Index (Stability) Clause:

The Index (Stability) clause apportions the effect of inflation between limit and deductible, usually geared to wages. The purpose is to maintain the relative value of the retention and cover at the time of payment of a claim with that prevailing at the commencement date of the treaty underwriting year.

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

(c) Claims Series Clause

Claims series clause defines a claims series event by relating all claims from the same specific common cause involving one original insured, arising from a product of the same design or specification.

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

(d) Aggregate Extension Clause

The purpose of the aggregate clause extension clause was to allow cover for underlying aggregated claims as one loss to reinsurance contracts where the original policy giving rise to the claims making up an aggregate loss was written on aggregate basis.

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

(e) Local Jurisdiction Clause

The purpose of the local jurisdiction clause is to ensure that claims falling to the reinsurance cover shall be settled in accordance with the law of those countries specified in the territorial scope.

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

(f) Acts-in-Force Clause

This is also known as the 'change in law' clause. The purpose of this clause is to avoid an increase to reinsurer's liability due to change in law of a country which would increase reinsurer's liability substantially from that envisaged at the outset of the treaty.

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

(g) Hours Clause

The hours clause stipulates that the reinsured can seek cover for all loses arising from the insured peril for a set number of hours following the commencement point.

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A825

APPLICATION OF REINSURANCE

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A825 - APPLICATION OF REINSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was testing the candidates' knowledge on retention limit and factors to be considered when fixing it. All the candidates attempted it and on average, it was well answered by majority of the candidates. 75% of the candidates scored above the average mark on the question.

Question 2

The question was on reinsurance programme objectives. All the candidates attempted it, but the question was poorly answered by more than 50% of the candidates. Only 46% of the candidates scored above the average mark on the question.

Question 3

The question was testing the candidates' knowledge on ex-gratia payment and all the candidates attempted it. It was fairly well answered by about 71% of the candidates.

Question 4

The question was o claims data collation and all the candidates attempted it. About 50% of the candidates answered it well and scored above the average mark on the question.

Question 5

The question was centered on short notes on two types of premium under nonproportional reinsurance method. All the candidates attempted it and 67% of the candidates scored above the average mark on the question.

Question 6

The question was on credit rating and deductible as they relate to reinsurance practice. All the candidates attempted it and 67% of the candidates scored above the average mark on the question.

Question 7

The question was on three major basis of coverage under an excess of loss treaty. It was attempted by 92% of the candidates. It was poorly answered by all the candidates and with no candidate who scored up to the average mark on the question.

Question 8

The question tested the knowledge of the candidates regarding the options available to the cedants when reviewing their reinsurance contracts. All the candidates attempted it and it was fairly answered by approximately 42% of the candidates.

Question 9

The question was compulsory and it was attempted by all the candidates. The question was in three parts. The first part was testing the general knowledge about noticeable improvements in the insurance industry in last decades. The second part was testing the methods being used by reinsurers to charge premium under the non-proportional treaty and the third part was on claims apportionment and premium adjustment determination under a non-proportional reinsurance treaty arrangement. The question was very poorly answered. Only 17% of the candidates scored above the average mark on the question.

Question 10

The question tested the knowledge of the candidates on a combined proportional and non-proportional reinsurance treaty arrangement. Only 75% of the candidates attempted it and out which only 33% scored above the average mark on the question.

Question 11

The question was testing the knowledge of candidates on the general requirements of the reinsurers in handling claims as presented to them by the insurance companies. About 63% of the candidates attempted the question, but it was not well answered by more than 50% of the candidates as only 47% scored above average mark on the question.

Question 12

The question was in two parts. The first part was testing the knowledge of the candidates on ways available to the reinsurers on investment of their funds and the second part was on apportionment of risk, premium and liability under a combined proportional treaty, excess of loss and proportional facultative arrangements. Only one candidate did not attempt the question. It was poorly answered by 43% of the candidates as only 57% of the candidates scored above the average mark on the question.

Question 13

The question was testing the knowledge of the candidates on the possible changes to the subsisting terms and conditions on existing treaties. Only 33% of the candidates attempted the question. It was poorly answered by 75% of the candidates who attempted it as only 25% of them scored above the average mark on the question.

Question 14

The question was testing the profitability terminology in the context of a reinsurance arrangement. Only 33% of the candidates attempted the question. It was poorly answered by 75% of the candidates who attempted it as only 25% of them scored above the average mark on the question.

Comments on overall performance:

The overall performance was very poor.

Suggestions on improvement:

Candidates need to adequately prepare for the course in subsequent examination for better performances.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. (a) Explain the term Retention limit.

(2 marks)

(b) List four (4) factors an insurer needs to consider when fixing its retention limit. (4 marks)

Solution

- a) This is the limit of liability, usually expressed as a monetary amount, which the insurer retains for its own net account before or after reinsurance is ceded. (2 Marks)
- b) The factors that an insurer need to consider when fixing its retention limit are:
 - assets; capital and free reserves; and solvency;
 - the size and nature of the portfolio; premium income and profitability;
 - the type of risks and pattern of losses;
 - reinsurance type and costs;
 - strategic and financial considerations, including corporate strategy;
 - the market environment.

(1 mark for each correctly stated factor. Maximum of 4 to be graded. Sub-total: 4 marks) (Grand Total: 6 marks)

2. State three (3) reinsurance programme objectives.

Solution

In arranging its reinsurance programme, an insurer seek to achieve the following objectives:

Automatic reinsurance cover

adequate capacity;

* sufficient scope;

economic advantage;

* security and continuity;

(1½ marks for each correctly stated objective. Maximum of 3 to be graded. Total: 6 marks)

3. What is ex-gratia payment? Discuss briefly the situation(s) that would propel a reinsurance company to pay a claim on ex-gratia.

Solution

Ex-gratia means as a favour and essentially it implies that the particular loss is outside the policy terms and conditions. In some certain circumstances, reinsurers may respond to claim by the reinsured even though they believe the theme is not cover for the claim under the reinsurance programme. Example, where a claim forms under an exclusion, in this case, reinsurer will pay the settlement on an exgratia basis. It might be that the reinsured is an exceptionally good client and the reinsurer does not want this to affect their business relationship. Or it may mean that the reinsured want to cover

the situation on an exgratia basis themselves due to the operation of a legal system over which they had no control.

(2 Marks for each of the bolded points. 6 marks in all)

4. What are the three (3) main ways of collating claims data?

Solution

The three main ways of collating claims data are by;

- losses occurring during basis;
- risk incepting basis;
- claims made basis.

(2 Marks for each of the stated points. 6 marks in all)

- 5. Write short notes on the following:
 - (a) deposit premium

(b) minimum premium.

Solution

a) **Deposit Premium:** this is an agreed amount of money to be paid, on account, by the reinsured and which will be subject to adjustment at the end of the contract. If the final adjusted premium is less than the deposit premium, the reinsurer will be obliged to return to the reinsured the difference between the actual premium and the deposit premium paid, any amount greater than the deposit will be payable to reinsurers as an additional premium.

(1½ marks for any correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 3 marks)

b) **Minimum Premium:** this represent the minimum amount of premium that the reinsurer requires for the protection provided. It is used in conjunction with a deposit premium, but will not form part of any accounting transactions unless the premium adjustment calculation at the end of the period produces a premium that is less than the deposit premium paid.

(1½ marks for any correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 3 marks)

(Grand Total: 6 marks)

- 6. Write short notes on the following in the context of reinsurance.
 - (a) credit rating

(b) deductible.

Solution

a) **Credit Ratings:** A credit rating agency reviews the company's overall financial, its earnings history and its ability to service debt. Servicing their debts involves paying any interest and returning the capital at the end of the period of the debt. Credit ratings has been extended by the various rating agencies to include an assessment of claims – paying ability of insurance and reinsurance companies. Company ratings consider the

following factors; assessment of the company's financial strength, its operating performance and market profile.

(1½ marks for any correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 3 marks)

b) **Deductible:** this is the term used in non-proportional reinsurance to express the amount of loss which is usually a fixed amount of each loss (regardless of the size of original policies) that the reinsured retains or pays. The reinsurer pays the amount of loss in excess of that sum up to the limit of the treaty.

(1½ marks for any correct and completely stated point. Maximum of 2 points to be graded. Sub-Total: 3 marks)

(Grand Total: 6 marks)

7. Name the three (3) major basis of coverage under an excess of loss treaty, with brief explanation of each basis.

Solution

The three basis of coverage under an excess of loss treaty are:

- losses occurring during: the treaty covers all losses occurring during the period of cover, regardless of the date of issue of the original policy;
- policies issued or renewed during: the treaty covers only those losses occurring on original policies issued or renewed during the period of cover. also known as risk attaching' or risk incepting' basis;
- losses discovered /claims made during: the treaty covers all losses discovered, or claims made, during the period of cover, regardless of the date of the loss or claim occurrence.

(1 mark for correctly stated basis. 1 mark for correct explanation. Sub-Total per basis: 2 marks. Grand Total: 6 marks)

8. Enumerate three (3) options available to a reinsured when reviewing its reinsurance contract?

Solution

The options available reinsured when reviewing its reinsurance contract include:

- arrange new or different types or combinations of facultative and treaty contract;
- negotiate the terms and conditions of existing treaties;
- change reinsurer and / or broker;
- arrange alternatives to conventional reinsurance contracts.
 (2 marks for each correctly stated options. Maximum of 3 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) Account for the noticeable improvements in the insurance industry in the last decade with five (5) distinct and completely stated points. (10 marks)
 - (b) List and explain any two (2) of the methods by which reinsurers charge premium under a non-proportional treaty arrangement. (5 marks)
 - (c) Babs Insurance Plc purchased a non- proportional reinsurance arrangement to cover its motor excess of loss reinsurance covering its motor insurance portfolio for 2020 underwriting year as detailed below:

Deductible: N20,000,000

1st layer: N30,000,000 XS N20,000,000 2nd Layer: N50,000,000 Xs N50,000,000

Any risks in excess of the treaty capacity is managed facultatively. The treaty is arranged on a **Losses Occurring during basis**.

Other information extracted from the reinsurance arrangement is as follows: Premium Rate:

1st layer: 2% Minimum and Maximum 20% with a loading factor of 100/80

2nd layer: 2% flat

EGNPI for 2020: N500,000,000

The following losses were paid by Babs Insurance Plc in 2020

S/NO	INSURED	DATE OF	AMOUNT PAID	AMOUNT
		LOSS	(N)	OUTSTANDING (₩)
1	FBU Nigeria Ltd	15/11/2019	40,000,000	0
2	Korede Oluwa	10/12/2019	10,000,000	0
3	Beauty fair Nig Plc	20/01/2020	30,000,000.00	0
4	Semilore Limited	10/2/2020	5,000,000	0
5	Ayoade Ola	25/04/2020		0
			50,000,000.00	
6	Benjamen Big	1/5/2020		0
			120,000,000.00	
7	Tracy Co. Ltd	30/06/2020	75000000	0
8	Blessing Nig Ltd	15/07/2020	28,000,000	0
9	Akpan Ltd.	10/9/2020	100,000,000	0
10	Internatiol Nig Ltd	9/11/2020	0	60,000,000
12	Chinedu Blessing	25/12/2020	0	20,000,000

Required:

- (i) Calculate the total claim paid by BABS insurance company in year 2020. (4 Marks)
- (ii) Determine the amount of claims retained by the insurance company on claims incurred in 2020. (4 Marks)
- (iii) Calculate the amount recoverable on 1st layer based on 2020 treaty reinsurance arrangement. (4 Marks)
- (iv) Calculate the amount recoverable on 2nd layer cover based on 2020 treaty reinsurance arrangement. (4 Marks)
- (v) Compute the Minimum & Deposit Premium payable by 1st January 2020. (4 Marks)

Additional Information: if the GNPI as at 31st December 2020 is N600m;

- (vi) Prepare the premium adjustment statement as at 31st December 2020 using the burning cost method. (8 Marks)
- (vii) Determine the additional premium due to the reinsurers (if any) on both 1st & 2nd layers. (5 Marks)
- (viii) Determine the return premium (if any) due to Babs Insurance Plc on both 1st & 2nd layers. (2 Marks)

Solution

The noticeable improvements in the insurance industry in the last decade include:

- prompt claims settlement in recent times. This shows that the industry is more responsive to claims settlements;
- the regulatory body- NAICOM is more alert to its responsibility i.e. adequate monitoring, supervision and enforcing standards and regulations. NAICOM is adequately empowered to enhance proper regulations of the industry;
- enforcement of high ethical standards among individual practitioners;
- insurance education
- reviews of syllabus by CIIN.
- establishment of college of insurance.
- accreditation of more higher institutions of learning.
- awareness programmes by NAICOM or CIIN;
- organisation of loss-free service/courses by NAICOM and the institute;
- social responsibilities- the corporate bodies are alive to social responsibility projects;
- diversification of business base e.g. incursion of some firms into stock broking, tile communications;
- professionalism strictly adhere to for cop management positions;
- more firms are going public enlisted on the Nigerian Stock Exchange;
- increase in the operating capital base to further enhance the profitability of the firms;

• merger and acquisition of insurance firms which may lead to increased profitability on the long-run.

(2 marks for each correct and completely stated improvement. Maximum of 5 to be graded. Total: 10 marks)

- b) The methods by which reinsurers charge premium under a non-proportional treaty arrangement **are:**
 - a flat premium: which is a fixed monetary amount. With a flat premium there is no subsequent adjustment of the premium as with the other two methods. The reinsurer must therefore be confident that the premium set is sufficient to cover expected losses and that the reinsured's premium income is not going to be substantially more than projected.
 - a fixed premium: which is a percentage of the reinsured's premium income for the account that is being protected. However, as the reinsured's premium income figures will generally not be known until the end of the reinsurance period and the reinsurer will not wish to wait this long before they receive any premium, a 'provisional' payment will be made by the reinsured. This premium can take the form of a deposit premium. It will normally be subject to a minimum premium, and then an adjustment premium.
 - A rate determined by the loss ratio of the contract; a burning cost premium: a burning cost premium operates by calculating the ratio of the reinsurers incurred losses (i.e. paid and outstanding elements to layer) to the reinsured's subject matter premium income and then applying a loading factor (commonly 100/70ths, 100/80ths) to determine the reinsurance premium rate. This is then applied to the reinsured's premium income for the account protected year. Burning cost Rate = Incurred loss to reinsurer/Reinsured's premium income * loading factor.

(1½ marks for each correctly stated method. 1 mark for correct explanation. Sub-Total per method: 2 ½ marks. Maximum of 2 methods to be graded. Grand Sub-Total: 5 marks)

- c) i) Total claim paid by BABS insurance company in year 2020 is N408,000,000. (4 Marks)
- ii) The amount of claims retained by the insurance company on claims incurred in 2020 is $\LaTeX125,000,000$. This excludes the balance చ30,000,000 on Benjamen Big as it is assumed this has been managed facultatively and the $\u3200,000,000$ is recoverable from the prior facultative reinsurance arrangement. (4 Marks)
- iii) The amount recoverable on 1st layer based on 2020 treaty reinsurance arrangement is ₩138,000,000. (4 Marks)

iv) The amount recoverable on 2^{nd} layer cover based on 2020 treaty reinsurance arrangement is \$125,000,000. (4 Marks)

					LOSSES APPORTI ONMENT	RECOVERABLE UNDER 2020 PROGRAMMS		
S/NO	INSURE D	DATE OF LOSS	AMOUNT PAID	AMOUNT OUTSTA NDING	DEDUCTI BLE	1ST LAYER	2ND LAYER	
1	FBU Nigeria Ltd	15/11/2019	40,000,000	0	20,000,000.0	0	0	
2	Korede Oluwa	10/12/2019	10,000,000	0	10,000,000			
3	Beauty fair Nig Plc	20/01/2020	30,000,000. 00	0	20,000,000	10,000,000	0	
4	Semilore Limited	10/2/2020	5,000,000	0	5,000,000.00	-	-	
5	Ayoade Ola	25/04/2020	50,000,000. 00	0	20,000,000.0	30,000,000.00	-	
6	Benjamen Big	1/5/2020	120,000,000	0	20,000,000.0	30,000,000.00	50,000, 000.00	
7	Tracy Co. Ltd	30/06/2020	75,000,000. 00	0	20,000,000.0	30,000,000.00	25,000, 000.00	
8	Blessing Nig Ltd	15/07/2020	28,000,000	0	20,000,000.0	8,000,000.00	-	
9	Akpan Ltd.	10/9/2020	100,000,000	0	20,000,000.0	30,000,000.00	50,000, 000.00	
TOTAL CLAIM RELEVANT TO THE REINSURANCE COVER			408,000,000		125,000,000. 00	138,000,000.00	125,000	

					OUTSTANDING CLAIM APPORTIONMENT				
					DEDUCTIBLE	1ST LAYER	2ND LAYER		
10	internatiol	9/11/2020	0	60,000,000					
	Nig Ltd				20,000,000.00	30,000,000.00	10,000,000.00		
12	Chinedu	25/12/2020	0	20,000,000					
	Blessing				20,000,000.00				
TOTAL				80,000,000					
					40,000,000.00	30,000,000.00	10,000,000.00		

v) To compute the Minimum & Deposit Premium

Total M&DP payable in January 2020 = $\frac{1}{2}$ 20,000,000.

(4 marks)

vi) To Prepare the Premium adjustment statement as at $31^{\rm st}$ December 2020 Motor Excess of Loss Premium Adjustment statement 01/01/2020-31/12/2020

vii) To determine the additional premium due to the reinsurers, since the actual rate of 35% is higher than the maximum rate of 20%, the maximum rate would apply.

= N120,000,000 - N10,000,000

Additional Premium on 1st Layer = \cancel{N} 110,000,000.00 (3 marks)

On 2nd Layer:

Actual premium due = 2% * N600,000,000 = N12,000,000Additional Premium = N12,000,000 = N12,000,000Additional Premium = N12,000,000 = N10,000,000

Additional Premium due to reinsurers on 2^{nd} Layer = $\frac{1}{2}$,000,000.00 (2 marks)

Total Additional Premium due = \cancel{N} 110,000,000 + \cancel{N} 2,000,000 Total Additional Premium due to reinsurers = \cancel{N} 112,000,000.00

viii) There is no return premium due to the insurance companies since the actual adjusted premium is higher than the minimum & deposit premium and the amount initially paid represent the minimum the reinsurers is ready to accept for the cover they have provided.

(2 marks)

Part III

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

10. The following is extracted from the Fire treaty arrangement of Planet One Insurance Company Plc for 2019 underwriting year.

Gross Retention: 1,000,000 Surplus Treaty cover 15 lines

Excess of Loss cover:

1st Layer: 200,000 XS 200,000 2nd Layer: 600,000 XS 400,000

The insurance company underwrites a risk with sum insured of 20,000,000 retains 800,000. Facultative proportional reinsurance is used to manage the excess of its capacity.

Required:

- (i) Allocate the risk based on the sum insured.
- (ii) If there was a loss of 12,000,000, how will this be apportioned?
- (iii) How would the gross retained loss be apportioned between the reinsured and the excess of loss reinsurers?

Solution

LAI	NET ONE REINSURANCE PROGRAMME							
	Surplus treaty reinsurance							
	Gross Retention:	1,000,000						(1 Mark)
	15 Lines surplus treaty	15,000,000						(1 Mark)
	Excess of loss cover							
	Deductible	200,000						
	1st Layer	200,000 Xs 200,000						(1 Mark)
	2nd Layer	600,000 Xs 400,000						(1 Mark)
								(1 Mark)
	Risk underwritten	Sum insured	20,000,000.00					
	Risk apportionment							
		RETENTION AMOUNT	RETAINED %	SURPLUS TREATY AMOUNT	SURPLUS TREATY %	FACULTATIVE AMT	FACULTATIVE %	
		800,000,000	4.00%	12,000,000	60.00%	7,200,000.00	36.00%	(2 marks each, marks in all)
	Loss apportionment							
	loss amount	12,000,000						
		12,000,000						(2 Marks)
	loss amount	480,000.00						(2 Marks) (2 Marks)
	loss amount Retention @ 4% of N12,000,000	480,000.00						
	Retention @ 4% of N12,000,000 Surplus treaty @ 60% of N12,000,000	480,000.00 7,200,000.00						(2 Marks)
	loss amount Retention @ 4% of N12,000,000 Surplus treaty @ 60% of N12,000,000 Facultative @ 36% of N12,000,000	480,000.00 7,200,000.00						(2 Marks)
	loss amount Retention @ 4% of N12,000,000 Surplus treaty @ 60% of N12,000,000 Facultative @ 36% of N12,000,000 Gross retained loss apportionment	480,000.00 7,200,000.00						(2 Marks)
	loss amount Retention @ 4% of N12,000,000 Surplus treaty @ 60% of N12,000,000 Facultative @ 36% of N12,000,000 Gross retained loss apportionment Excess of loss claim apportionment	480,000.00 7,200,000.00 4,320,000.00						(2 Marks) (2 Marks)
	loss amount Retention @ 4% of N12,000,000 Surplus treaty @ 60% of N12,000,000 Facultative @ 36% of N12,000,000 Cross retained loss apportionment Excess of loss claim apportionment Cross retained liability	480,000.00 7,200,000.00 4,320,000.00 480,000						(2 Marks) (2 Marks)

11. (a) Enumerate five (5) general requirements that should be considered by Reinsurers in handling claims presented by underwriters. (10 Marks)
(b) The ability of the reinsurer to pay promptly and in full when a valid claim is presented is considered as part of the reinsured's decision-making process when negotiating any reinsurance contract. Discuss any six (6) reasons for having a claims department. (24 Marks)

Solution

- a) The general requirements that should be considered by reinsurers in handling claims presented by underwriters are:
 - examination of the question of coverage;
 - has a policy been issued for the insured? if so, what were the conditions on the original policy and what was the sum insured?
 - have there been any amendments? if so, when?
 - when does the original policy commence and when does it end?
 - is this risk mentioned in the claim covered under the original policy? is there any exclusion that might apply? if so, are they relevant to the whole claim or only for part of it?
 - is the reinsurance cover to be refused as a result of the reinsured failing in any of its duties? Reasons could be non-payment of the premium or failure to observe the stipulations under the policy.
 - does the claim fall within the period of Reinsurance.

(2 marks for each correct and completely stated requirement. Maximum of 5 to be graded. Sub-Total: 10 marks)

- b) Reasons for having claims department include:
 - claims frequency is mounting all the time. For example, the rising number of accidents resulting from the continuing increase in the number of cars on the road.
 - technological developments have led to more complex and time-consuming claims and hence, the level of expertise required has also increased.
 - claims processing is also made more complex by legal and legislative developments. Also, of importance is the increasing amount of international trade and the considerations that they have to be given to the laws of individual countries from which the underlying contracts emanate.
 - claims department assist in passing information both vertically and horizontally, to all parts of the company concerned. This information include:
 - informing the underwriting department of adverse development in a risk, contract or type of business or geographical areas.
 - informing the underwriting department of any key changes in the claims practices of any underlying reinsured

- o informing underwriting department and senior management of any legal developments that could impact on the reinsurance company as a whole.
- keeping the company informed of any changes in the claims handling practice of competition.
- informing the accounts department to make provision for any large claims that may be required to be paid to the reinsured as cash call.
- the assessment and calculation of the reserves requirements of the company in respect to the claims potential arising from their books of business.

(4 marks for each correct and completely stated reasons. Maximum of 6 reasons to be graded. Grand Sub-Total: 24 marks)

(Grand Total: 34 marks)

- 12. (a) (i) Discuss three (3) main ways open to Reinsurers for investment of its funds? (9 Marks)
 - (ii) Would a reinsurance company be expected to hold all three types? (5 Marks)
 - (b) Success insurance Plc in its Engineering treaty programme has a retention of N50,000,000.00 and has a 10 lines treaty cover. Meanwhile, the retention is protected by a per risk excess of loss cover of N30,000,000.00.

 A risk of N1,000,000,000 is underwritten by Success insurance Plc with a

A risk of N1,000,000,000 is underwritten by Success insurance PIc with a premium of $\frac{1}{2}$ 10,000,000.00. Balance in excess of the gross capacity is managed with facultative proportional reinsurance arrangement.

In June 2019, there was a loss of ₩700,000,000.00 on the risk underwritten by Success Insurance Plc.

Required

- (i) Apportion the risk and the premium among the various stakeholders.
- (ii) Apportion the liability among the stakeholders
- (iii) If another risk with sum insured of \LaTeX 40,000,000.00 and premium of \end{dcases} 400,000.00 was underwritten by Success Insurance Plc. How will it be managed? If a claim of \end{dcases} 38m was paid on this transaction, show the apportionment clearly. (20 Marks) Solution
- (a) (i) The three main ways open to reinsurers for investment of its funds are through:
 - Cash: this is the most liquid of investments. The rate of interest paid on it depends on the current market rates and the term for which the cash is invested. Generally, the shorter the term, the less the interest. But it must be noted that even cash deposited in the bank has a risk attached to it.
 - **Fixed-Interest Securities:** reinsurance companies by looking at the liability profiles of their claims (i.e when they are likely to fall due for payment) can buy

- fixed-interest debt instruments which are of a term that matches the liability profile. Debt is money which is borrowed for a specific period with interest paid in the interim.
- Equities Including Property: equities are stocks and shares and are regarded as the most risky investment. However, over time the investment yield (dividends plus capital growth) of equities in the developed markets has significantly exceeded that of cash deposits and fixed-interest securities, whether government or corporate. Also, larger reinsurers might can choose to invest in property. Property can be expected to produce a yield derived from the rental income and capital growth of the asset.

(2 marks for each correctly stated way. 1 mark for correct explanation. Sub-Total per way: 3 marks.

Grand Sub-Total: 9 marks)

ii) A reinsurance company would only hold all three types of investments if it were sufficiently large in size and had been trading successfully for many years. Conversely, a newly-established, small reinsurance company might feel more comfortable investing only in cash, until its financial strength had increased and results had developed over time. Some reinsurance companies do not feel it appropriate to hold any equities at all because of the potential volatility of equities and the difficulty of their immediate sale.

(2½ marks for each correct and completely stated reasons. Maximum of 2 to be graded. Sub-total: 5 marks)

(Grand Total: 34 marks)

(b)

o introc	INSURANCE PLC								
	BINGTREATY PROGRAMME								
	GROSSRETENTION		50,000,000	(1 mark)					
	SO LINES SURPLUS TREATY		500,000,000	[114xk]					
	BICES OF LOSS								
				David III					
	DEDUCTIBLE RISK NOL COVER	20,000,000		[1 Mark]					
	NOT AUCTOVER	30,000,000		Itherd					
	RISK UNDERWRITEN	1,000,000,000							
i	RSX AND FREMUMAPPORTIONARY	ıT							
					SURPLUS TREATY				
			RETENTIONAMOUNT	RETAINED %	AMOUNT	SURPLUS TREATY %	FACULTATIVEAMT	FACULTATIVE%	
			50,000,000.00	500	500,000,000,00	50.00%	450,000,000.00	45.00%	(3 mark each, b marks in all)
							,		
ı	LIABILITY APPORTIONNED/IT		700,000,000,000.00						
			RETEVTION @5% * 700,000,000	35,000,000,00					. II
			SURPLUS TREATY @ 50% 700,000,000						(1 mark) (1 Mark)
		-	FACULTATIVE @ 45%* 700,000,000	315,000,000,000					(1Mark)
									(LINAN)
			EXCESS OF LOSS PROGRAMME CLAIM AS	PORTONEI/AIT					
			GROSS RETAINED CLAIM BY SUCCESS INS	SURANCE PLC = NOS (00	1,000				
				DEDUCTIBLE	20,000,000				(1Mark)
				NOL COVER LIABILITY	15,000,000				(imark)
_	A risk with sum insured of 1440,000,0	000 and premium of	1400,000 was underwritten						
	The risk will be reained by success insurance pic 100% because the sum insured of 1440,000,000 in			raiblis the saturat of	a limit of trees.				(2 Marks)
	inc io. via or manes of success insurance pic 100% desains one sum insured di 140,000,000 t			o witch the reservation	HI HI HOUPL				/Annual
	A loss of N38m will be apportionern	amme as shwn below							
	Deductible: N20,000,000								(2 Marks)
	Excess of loss cover: N18,000,000								
									(1Mark)

13. When negotiating terms and conditions of existing treaties, the reinsured may wish to hold the existing structures or programme of treaties in place but to alter the terms and conditions. Enumerate six (6) possible changes each which may be re-negotiated in respect of proportional treaties and non-proportional treaties.

Solution

Proportional Treaties (Surplus and Quota share):

- Capacity
- Scope of treaty in terms of location and type of risks to be covered
- The most negotiated item is the commission, which reflects the contribution the reinsurer is making to the reinsured's operating expenses. Commission may be operated on a profit or loss sharing basis and governs the treaty results, which is the price. The existence of profit commission is also a factor
- The terms relating to premium and loss reserves, in terms of amount or basis on which they are calculated, the amount of interest payable on withheld amounts may be reviewed.
- The amount payable as a cash loss
- Frequency and settlement of accounts.

(4 Marks for each correctly stated possible changes. Maximum of 5 points to be graded. Sub-Total: 20 marks)

Non-Proportional Treaties (Excess of Loss)

- Scope of the treaty in terms of location and type of risks to be covered
- Basis on which the treaty is written; for example, losses occurring or claims made
- Where the premium is calculated on a burning cost basis, the minimum and maximum rates and the loading factors involved.
- The number of reinstatements allowable.
- The basis of calculating the reinstatements premium I.e as to time or amount and ratios used.
- The index to be used for the recalculation of deductibles and limits which are subject to inflation in long tail liability business.
- The definition of what constitutes a loss occurrence, an event and the amount of the vent limit
- Extent of the reinsured's co-reinsurance in event covers.
- Amounts payable as minimum and deposit premium

(3½ marks for each correctly stated possible changes. Maximum of 4 points to be graded. Sub-Total: 14 marks)

(Grand Total: 34 marks)

14. In general terms, the connotation of profitability is a little more complicated in the context of lasting reinsurance relationships than in other spheres of activity. Discuss the relevant points to be noted when considering whether a contract is profitable, or not.

Solution

The relevant points to be noted when considering whether a contract is profitable, or not are:

- The parties involved, the reinsured and the reinsurer, have different expectations over time; profit, in terms of underwriting performance, will be affected by other factors such as expenses, cost and investment income.
- The type of contract; proportional contracts are on a continuous basis, subject to the
 notice of termination clause, and lend themselves to a measure of profitability or
 equalization of results over a period of time. Non-proportional treaties and facultative
 arrangements, on the other hand, are usually renewable on an annual basis and
 results are measured over a shorter timescale than that applicable to proportional
 treaties.
- The circumstances prevailing when the contract was effected, in terms of portfolio composition or premium income, for example, may have altered significantly, so that a profit or loss on a current basis may be misleading.
- In terms of the underwriting experience of the intrinsic business, the contract may be profitable, but the acquisition and servicing costs may be unduly heavy.
- An unprofitable treaty, driven by competitive pressure on the reinsurer, may be capable of becoming profitable in a hardening market.
- A profitable treaty, to the reinsured, may incur an opportunity cost and produce less of an overall return on the premium than if the premium had been invested in a different way as part of a 'risk management strategy'.
- Periodically, the commissions received on proportional reinsurances will need to be reexamined and, for non-proportional reinsurance, the reinsured must ensure that it is not
 paying a disproportionately high amount of its original premium income in comparison
 to its overall retention, either on a per risk, per event or aggregate basis
- Other related issues which affects the ultimate profit of a treaty or a contract, not directly
 determined by the underwriting performance includes; the delay in receiving accounts
 and monies from the other party, government intervention in respect of the movement
 or valuation of currencies or the insistence by a legislative body to impose price controls
 or new taxes.
- Whole portfolio consideration; when considering profitability, reinsurers also need to take a broader view to encapsulate more than one contract which may in itself be profitable.

(5 Marks for each correctly stated and explained relevant points EXCEPT for the coloured bolded one. Maximum of 6 points to be graded. 8 factors to be graded. 4 marks for the coloured bolded point above. Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A930

INSURANCE BROKING

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A930 - INSURANCE BROKING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

24% pass rate. Poor attempt.

Question 2

8% pass rate. Poor attempt.

Question 3

26% pass rate. Poor attempt.

Question 4

82% pass rate. Good attempt.

Question 5

32% pass rate. Poor attempt.

Question 6

42% pass rate. Poor attempt.

Question 7

39% pass rate. Poor attempt.

Question 8

58% pass rate. Fair attempt

Question 9

79% pass rate. Good attempt.

Question 10

55% pass rate. Good attempt.

Question 11

Only 13% of candidates attempted. 20% pass rate.

Question 12

50% pass rate. 89% of candidates attempted question.

Question 13

82% of Candidates attempted. 45% pass rate.

Question 14

84% of candidates attempted. 58% pass rate.

Comments on Overall Performance

42% total pass rate. This can and should be better - going forward.

Suggestions on Improvement

Candidates need to study harder. Questions are friendly and not outside the scope of the course contents.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. The Insurance Mediation Directive (IMD) defines mediation as ...

Solution

The activities of introducing, proposing or carrying out other work preparatory to the conclusion of contracts of insurance, or concluding such contracts or of assisting in the administration and performance of such contracts, in particular in the event of a claim.

(2 marks for each coloured phrase. Total: 6 marks)

2. How are smaller firms generally organised?

Solution

Smaller firms are generally organised into:

- personal lines: mainly householders' insurance and private motor vehicles (or retail)
- commercial classes: that is for all types of insurers.

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

3. List three (3) general information which a broker must give to their customers? **Solution**

The general information which a broker must give to their customers are:

- the name and address of the broking firm;
- confirmation that the firm is authorised and regulated;
- details of the permitted business;
- ownership of the firm; and
- details of how to lodge a complaint.

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

4. Enumerate two (2) duties under the general law of agency, that a broker owes to its principal.

Solution

The duties under the general law of agency, that a broker owes to its principal are:

- follow the lawful instruction of the principal;
- exercise reasonable skill;
- exercise reasonable care.

(3 marks for each correct and completely stated duty. Maximum of 2 to be graded. Total: 6 marks)

5. List two (2) circumstances whereby conflict of interest could arise when a broker is acting for two or more clients.

Solution

The circumstances whereby conflict of interest could arise when a broker is acting for two or more clients are:

- two or more clients involved in the same claim where the broker is acting for more than one party;
- two or more clients involved in a transaction, such as acquisition or disposal of a business; and
- two or more clients competing for the same contract.

(2 marks for each correct and completely stated circumstance. Maximum of 2 to be graded. Total: 6 marks)

- 6. (a) Explain the term "material fact".
- (2 marks)
- (b) A programme may be either admitted or non-admitted. Briefly discuss.

(4 marks)

Solution

a) Material fact is any information that would influence a prudent insurer in deciding whether a risk is acceptable and, if so, the premium, terms and conditions to be applied.

(2 marks)

b) This simply means that either local policies are issued in all relevant countries (2 marks), or reliance is placed on one master policy arranged in the country of the parent company's domicile or in one of the international insurance markets for instance London (2 marks). (Sub-Total: 4 marks)

(Grand Total: 6 marks)

7. Enumerate any two (2) reasons why a broker will undertake survey?

Solution

The reasons why a broker will undertake survey are:

- for the purpose of obtaining detailed underwriting information and to enable it to negotiate with insurers over risk improvements;
- in support of a risk management exercise; and
- on behalf of insurers.

(3 marks for each correct and completely stated reason. Maximum of 2 to be graded. Total: 6 marks)

8. Explain the term "service level agreement" with at least two (2) points.

Solution

Service Level Agreement is a document between brokers and their client stating the terms of the engagement with clearly stated responsibilities for all concerned parties. It has become a standard aspect of the relationship between brokers and their client in the insurance market and are fashionable for all fee-based clients.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9 (a) The NAICOM Act 1997 has some statutory functions for the National Insurance Commission when it was established. List any five (5) of these functions. (10 marks)
 - (b) What is a charge?

(6 marks)

- (c) Explain any two (2) factors that are considered when determining whether a charge is excessive? (6 marks)
- (d) Enumerate five (4) benefits of global insurance programme.

(16 marks) (2 marks)

(e) What is product development?

(40 1)

(f) List any five (5) stages in product development.

(10 marks)

Solution

- a) The statutory functions of the National Insurance Commission as established by NAICOM Act 1997 are:
 - establish standards for the conduct of insurance business in Nigeria
 - approve rates of premium to be paid in respect of all classes of insurance business
 - approve rates of commission to be paid in respect of all classes of insurance business
 - ensure adequate protection of strategic government assets and other properties
 - regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria
 - act as adviser to the Federal Government on all insurance related matters
 - approve standards, conditions and warranties applicable to all classes of insurance business
 - protect insurance policyholders, beneficiaries and third parties to insurance contracts
 - publish, for sale and distribution to the public, annual reports and statistics of insurance industry
 - liaise with and advice Federal Ministries, parastatals, statutory bodies and other government agencies on all matters relating to insurance contained in any technical agreements to which the country is a signatory to
 - contribute to educational programmes of the Chartered Institute of Nigeria and the West African Insurance Institute
 - carry out other activities connected or included to its other functions.
 (2 marks for each correctly stated function. Maximum of 5 to be graded. Total: 10 marks)

b) A charge is defined as any fee or charge made to a client in connection with any insurance mediation activities in respect of an insurance contract whether levied by the firm or any other person including a mark-up or mark-down.

(2½ marks for each coloured phrase. Sub-Total: 6 marks)

- c) The factors that are considered when determining whether a charge is excessive are:
 - the amount of its charges for the services or products in question compared with similar services or products in the market;
 - whether the charges are an abuse of the thrust that the retail customer has placed with the insurance intermediary;
 - the nature and extent of the disclosure of the charges to the rental customer.
 (3 marks for each correct and completely stated factor. Maximum of 2 to be graded. Sub-Total:
 6 marks)
- d) The benefits of global insurance programme are:
 - it offers consistency of cover;
 - it provides central control of cover and trust;
 - savings are obtained through group buying;
 - it offers simply identification of losses worldwide;
 - it can act as a vehicle for a global approach to risk management;
 - it facilitates controlled participation in its own risk by parent company;
 - premiums allocations can be adjusted for claims experience and used as a tool to encourage better risk management.

(4 marks for each correct and completely stated benefit. Maximum of 4 to be graded. Sub-Total: 16 marks)

- e) Product development is the art of with finding improved and new product that will match customers' requirements and do so profitably for the firm. (2 marks)
- f) The stages of product development are:

(2 marks for each correctly stated stage. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 50 marks)

Part III

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

- 10 (a) Identify ten (10) factors which a broker must consider when selecting an insurer. (20 marks)
 - (b) Give four (4) examples of errors and omissions as it relates to insurance broking. (14 marks)

Solution

10. a) The factors which a broker must consider when selecting an insurer are:

* geographical spread; * claims service; * price; * technical avenue; * support and sales literature;

* specialist experience; * survey and control.

(2 marks for each correctly stated factor. Maximum of 10 to be graded. Sub-Total: 20 marks)

- b) Examples of errors and omissions are:
 - documentation failure;
 - non-disclosure of all material facts;
 - appreciation of the extent of cover;
 - responsibilities to explain terms fully to the insured;
 - lack of appreciation of potential consequences for the insured;
 - failure of supervision and management.

(3½ marks for each correct and completely stated example. Maximum of 4 to be graded. Sub-Total: 14 marks)

Grand Total: 34 marks)

11. Identify and discuss on each, five (5) obligations of the broker and their clients as provided under the Service Level Agreement.

Solution

The Service level agreement is a document between brokers and their client stating the terms of the engagement with clearly stated responsibilities for all concerned parties.

(4 marks)

The obligations of the broker are:

- delivery of renewal terms within a specified time before renewal date;
- completion of premium allocation under a global programme within a certain line;
- issuance of post-renewal documentation;
- production of minutes after meetings;
- payment of agreed claims;

• liaison terms between the client and the insurance company(ies).

(3 marks for each correct and completely stated obligation. Maximum of 5 to be graded. Sub-Total: 15 marks)

The obligations of the clients are:

- granting access to its site(s);
- granting access to required information;
- access to senior management as required;
- delivery of information;
- payment of invoices;
- documentation of claims.

(3 marks for each correct and completely stated obligation. Maximum of 5 to be graded. Sub-Total: 15 marks)

(Grand Total: 34 marks)

- 12. Define the following terms, enumerate and explain at least four (4) information contained in each of them:
 - (a) cover note (14 marks)
 - (b) policy document (20 marks).

Solution

Candidates are required to enumerate and explain any of the following information contained in the stated document:

- a) Cover Note:
 - brief information about the insured, e.g. name and address;
 - information about the risk, e.g. description of property and the usage;
 - period of cover;
 * type of cover;
 * class of cover;
 - declaration; * signature.

(2 marks for each correctly stated information. 1½ marks for correct explanation of the information. Sub-Total per information: 3½ marks. Maximum of 4 to be graded. Grand Sub-Total: 14 marks)

- b) Policy Document:
- brief information about the insured, e.g. name and address;
- information about the risk, e.g. description of property and the usage;
- period of cover;* type of cover;* class of cover;
- declaration;
 * signature
 * policy schedules;
- terms, conditions, warranties and exception to cover; e.t.c.

(3 marks for each correctly stated information. 2 marks for correct explanation of the information. Sub-Total per information: 5 marks. Maximum of 4 to be graded. Grand Sub-

Total: 20 marks) (Grand Total: 34 marks)

- 13. (a) A broker must never sign the proposal form even if requested to do so by the client. Explain the exception to this rule. (4 marks)
 - (b) Enumerate four (4) actions that a broker must do when he has assisted the proposer in completing a proposal form. (24 marks)
 - (c) What is the acceptable number of days for the phrase "in good time" for:
 - (i) an individual consumer
- (ii) a commercial customer? (6 marks)

Solution

a) An exception to this rule is where the broker is acting with the express authority of the client under a written power of attorney, which in any case is very unusual.

(4 marks)

- b) The actions that a broker must do when he has assisted the proposer in completing a proposal form are:
 - the broker must explain to the question very clearly and without ambiguity to the proposer where the broker assisted in completing the proposal form;
 - review each question with the client before asking the client to sign;
 - make clear to the proposer, the obligations required in signing the proposal;
 - make clear to the proposer, the duties required in signing the proposal;
 - give a copy of the completed proposal immediately to the client, preferably together with a written commentary of any important points described during completion.

(6 marks for each correct and completely stated action. Maximum of 4 to be graded. Sub-Total: 24 marks)

c) The acceptable number of days for the phrase "in good time" for:

(i) an individual consumer is: 21 days

(3 marks)

(ii) a commercial customer is: 14 days

(3 marks)

(Grand Sub-Total: 6 marks) (Grand Total: 34 marks)

- 14. (a) Enumerate five (5) methods of conducting surveys during marketing research. (15 marks)
 - (b) List out five (5) true cost of mistakes, errors and poor services to a Broker.

 (10 marks)
 - (c) Apart from the use of a proposal form, enumerate three (3) other ways through which information relating to a proposed risk could be obtained.

(9 marks)

Solution

- a) The methods of conducting surveys during marketing research are:
 - face to face; * instant response questionnaires;
 - panels; * postal; * telephone;
 - email/website response; * continuous research; * interactive.

 (3 marks for each correctly stated method. Maximum of 5 to be graded. Sub-Total: 15 marks)
- b) The true cost of mistakes, errors and poor services to a Broker are:
 - loss of client; * reputation; * litigation risk;
 - cost of defence;
 * direct cost of loss;
 * hidden cost;
 - impact on professional indemnity policy.
 (2 marks for each correctly stated cost. Maximum of 5 to be graded. Sub-Total: 10 marks)
- c) Apart from the use of a proposal form, the following are ways through which information relating to a proposed risk could be obtained:
 - insurers' supplementary questionnaires;
 * brokers questionnaires;
 - meeting with the client; * surveys;
 - telephone calls; * slip.

(3 marks for each correctly stated way. Maximum of 3 to be graded. Sub-Total: 9 marks) (Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A935

MANAGEMENT

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A935 - MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

45% pass rate. Fair attempt.

Question 2

88% pass rate. Well attempted.

Question 3

24% pass rate. There was a general lack of understanding of this question by the candidates who attempted this question.

Question 4

52% pass rate. Fair attempt.

Question 5

17% pass rate. Poor attempt. Question is friendly enough.

Ouestion 6

60% pass rate. Fair attempt.

Question 7

7% pass rate. Question is fair and direct but for poor preparation.

Question 8

40% pass rate. Defining "Competence" was attempted based on residual knowledge.

Question 9

76% pass rate. Good attempt.

Question 10

43% pass rate. Fair question.

Question 11

Attempt was poor. Only 4 candidates attempted. Pass rate is 50%.

Question 12

55% pass rate. Fair attempt.

Question 13

24% of candidates attempted questions. 60% pass rate fair.

Question 14

The question was well attempted and well passed. 92% pass rate.

Comments on Overall Performance

55% pass rate is fair enough.

Suggestions on Improvements

Candidates need to study harder to get better results.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. According to Robert N. Anthony, mention the three (3) areas of decision making. **Solution**

The three areas of decision making are:

* strategic management; * management control; * operational control.

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

2. State the main difference between SWOT and ETOP. Also state their meanings. **Solution**

The meaning and main difference between SWOT and ETO'P are: **SWOT** (Strength, Weakness, Opportunities, Threats) (1 mark) analysis is the internal equivalent (2 marks) of **ETOP** (Environmental Threat and Opportunity Profile) (1 mark) which assess the external environment (2 marks).

3. Work practices have varied significantly in the past years. Functional flexibility is one of the flexible structures adopted by organisations. Briefly explain functional flexibility.

Solution

Functional flexibility is by employing a core staff who have multiple skills, can perform a range of jobs and are able and willing to move between them as the need arises.

(2 marks for each coloured phrase above. Total: 6 marks)

4. Express the formula of trading profit.

Solution

Trading Profit = Gross Profit minus Administration of overhead costs.

(2 marks) (2 marks)

(Total: 6 marks)

5. What are the three (3) main areas of competence of a "Manager".

Solution

The three main areas of competence of a manager are:

 6. State the five (5) hierarchy of needs of Maslow in their progressive order.

Solution

The five (5) hierarchy of needs of Maslow in their progressive order are:

- growth needs;
- * esteem needs;
- social needs;
- * safety need; and
- * physiological needs.

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

7. State three (3) advantages of written communication.

Solution

The advantages of written communication are that it:

- is more authoritative.
- is more permanent.
- is less easily forgotten.
- highlights central message.
 (2 marks for each correctly stated advantage. Maximum of 3 to be graded. Total: 6 marks)
- 8. What is the main difference between "Job Description" and "Competencies"? **Solution**

A **job description** describes what activities a job holder gets involved in (3 marks); while **competencies** describe how individuals should behave in order that the job is done correctly (3 marks). (Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) NAICOM specified certain risks that insurance operators must arrange to cover as regards risk management framework. Enumerate any five (5) types of risks that the risk management department must ensure are well covered in this risk management framework. (10 marks)
 - (b) Corporate culture is defined as 'the way we do things around here' but it is made up of a range of factors. State and explain the three (3) factors of corporate culture.

 (15 marks)
 - (c) Enumerate three (3) characteristics EACH of:
 - (i) bureaucratic culture; (6 marks)
- (ii) organic culture (6 marks).
- (iii) matrix culture (6 marks).
- (d) Explain the motivational culture.

(7 marks)

Solution

a) The types of risks that the risk management department must ensure are well covered in this risk management framework of NAICOM are:

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

- b) The three factors of corporate culture are:
 - **Norms:** behaviour which is most acceptable to the organisation.
 - **Beliefs and Values:** for example: "we stand for quality". "The input of every employee is valued" e.t.c.
 - **Management Style:** the behaviour of the managers e.g open door, autocratic, democratic, organic, e.t.c.

(3 marks for each correctly stated factor. 2 marks for correct explanation. Sub-Total per factor: 5 marks.

Grand Sub-Total: 15 marks)

c)

S/No	Culture Type	Characteristics
1	Bureaucratic	- It is pyramidal in shape.
		- It has a clear hierarchy of positions.
		- It has a well developed system of codified rules and
		norms for workers.
		- Employees are appointed and promoted according to
		open and tested procedures.
		- There is a highly developed specialization of tasks.
		- There is certainty and stability for employees with
		regard to the work and standard expected from them.
2	Organic	- It has a flat or otherwise non-hierarchical structure of
		control and communication.
		- It has informal, unwritten communications and
		instructions between staff.
		- It is not bound by precedent but by the continual
		redefinition of tasks.
		- It responds quickly to change.
		- It is more hibernating for the individual worker.
3	Matrix	- Resource allocation and goal setting decisions are
		made bureaucratically.
		- Operational decisions are made on a project group
		basis.
		- Specialist staff are used across the whole organization.

- The organization relies on a team system.
- There is a cross-disciplinary approach.
- A more stimulating work environment is provided or
individual workers.

(2 marks for each correctly stated characteristic. Maximum of 3 to be graded per culture type. Sub-Total per culture type: 6 marks. Grand Sub-total: 15 marks)

c. **Motivational Culture:** In an organisation with the motivational culture, such organisation only had to provide for everyday sustenance needs of their employees while also liberating the employees' creative drives. The culture also drives home the point that employees' deep-seated drive for self-fulfillment can never be met fully in a structure which divides work to the point that they cannot see the totality of the final product.

(3½ marks for each correct and completely stated point. Maximum of 2 to be graded. Sub-Total: 7 marks)

(Grand Total: 50 marks)

Part III

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

10. (a) Explain briefly, with four (4) points, how leaders differ from managers.

(10 marks)

(b) List the eight (8) views of leadership.

(16 marks)

(c) Briefly explain "Intraprenueral Leadership".

(8 marks)

Solution

- a) Leaders differ from managers in the following ways:
 - a leader is a person who is able to influence others to pursue goals, while a manager may or may not be able to do so;
 - leadership does not require trappings of official cloaks but being a manager does;
 - a manager is a person who performs the specific functions of management, while a leader can be any member of the organisation with no specific goal from the management;
 - a leader need not hold an official title or play an official part within the organisation but a manager must.

(2½ marks for each correct and completely stated point. Sub-Total: 10 marks)

b. The eight views of leadership are:

• the existence of special leadership traits;

* behavioural theories;

• situational leadership;

* action-centred leadership;

transactional leadership;

* transformational leadership;

• intraprenuership;

* facilitative leadership;

(2 marks for each correctly stated view. Sub-Total: 16 marks)

c. **Intrapreneural Leadership:** Entrepreneurs are leaders who create wealth by assuming risk (2 marks) Intrapreneurs are employees who exhibit entrepreneurial characteristics and behaviours(3 marks). Organisations encourage the spirit of intrapreneurship by creating new staff roles such as: idea champion and sponsor. (3 marks). (Sub-Total: 8 marks)

(Grand Total: 34 marks)

- 11. Steps to managing strategic change differ from steps to managing operational change. Enumerate:
 - (a) the seven (7) steps to managing strategic change.

(14 marks)

(b) ten (10) steps to managing operational change.

(20 marks)

Solution

- a) The seven steps to managing strategic change are:
 - formulation and clear communication of mission statement;
 - development and communication of clear statements of business objectives flowing from the strategic mission;
 - development of policy statements showing how the mission statement will be transferred into practice;
 - formulation of action plans to implement policies;
 - identification and implementation of appropriate organizational structure to support the new strategic direction;
 - cascading development pf agreed managerial objectives and action plans flowing from overall business objectives;
 - establishment of mechanisms to monitor managerial performance and to provide feedback and guidance to managers.

(2 marks for each correctly stated step. Sub-Total: 14 marks)

- b. The steps to managing operational change are:
 - accept that dealing with continually changing situations is a normal part of the job;
 - control routine work and create time to consider the innovative aspects of the job;
 - maintain a well-informed knowledge of development of the industry;
 - monitor the environment for signals, trends and developments in the attitudes and behaviour of competitors, customers and the market;
 - regularly discuss new ideas and issues to stimulate a positive attitude to change.
 - encourage staff to raise issues affecting their work;
 - watch for signs that accepted practice is inappropriate;
 - discuss future plans and issues with staff on a regular basis;
 - communicate internal changes to the staff;

- be experimental and flexible in dealing with other people's ideas;
- try out new techniques and ideas whenever appropriate;
- create a working atmosphere in which ideas and issues are carefully attended to. (2 marks for each correctly stated step. Maximum of 10 to be graded. Sub-Total: 14 marks)

 (Grand Total: 34 marks)
- 12. A reward system can be defined as a collection of all the variable elements of an employment package related to performance offered to employees.
 - (a) (i) State four (4) examples of financial rewards.

(8 marks)

(ii) State six (6) examples of fringe benefits.

(12 marks)

(b) Define, and give two (2) examples each, the terms intrinsic rewards and extrinsic rewards. (14 marks)

Solution

- a) i) Some examples of financial rewards related to performance offered to employees are:
 - * salary; * productivity payments;

(2 marks for each correctly stated example. Maximum of 4 to be graded. Sub-Total: 8 marks)

- ii) Some examples of fringe benefits related to performance offered to employees are:
 - * holiday entitlement;
- * non-contributory pensions;
- * medical insurance schemes;
- * company cars;
- * subsidised loans;
- * co-ownership schemes;
- * working conditions;
- * catering, welfare and recreational facilities.
- a. marks for each correctly stated example. Maximum of 6 to be graded. Sub-Total: 12 marks)
- b) Intrinsic Rewards are derived from the pleasure which the individual associates with doing the job itself (3 marks) such as using personal skills to the full, dealing with problems, taking responsibility for decision, achieving targets and work with likeminded people (2 marks for each correctly stated example; maximum of 2 to be graded; sub-total: 4 marks); while Extrinsic Rewards are given to the employee by the organisation (3 marks). They include salary and wages, performance bonus, car, overtime, holiday pay and pension contribution (2 marks for each correctly stated example; maximum of 2 to be graded; sub-total: 4 marks).

(Sub-Total: 14 marks) (Grand Total: 34 marks) 13. (a) What is 360° appraisals.

- (9 marks)
- (b) Briefly explain five (5) benefits of 360° appraisals method.
- (15 marks)
- (c) Enumerate five (5) difficulties associated with the method.

(10 marks)

Solution

a) 360° appraisals method is a human resource technique which gives individuals all round view of their performance at work. (5 marks)

Opinions are collected on 360° from (2 marks) the person being assessed; the people that work for them; their peers and their managers. (2 marks for any correctly stated one here).

(Grand Sub-Total: 9 marks)

- b) The benefits of 360° appraisal method are that:
 - multi source feedback provides a more balanced view of an individual's performance;
 - it provides information that is not captured through single feedback approaches;
 - it helps to create change by identifying issues with strong evidence;
 - it helps to increase understanding of how people need to perform;
 - it supports self-directed learning and development;
 - it supports competency frameworks;
 - it helps managers to understand the skills of their subordinates;
 - it provides senior management with a valuable and in some cases, their only source of feedback.

(3 marks for any correct and completely stated benefit. Maximum of 5 to be graded. Sub-Total: 15 marks)

- c) The difficulties associated with 360° appraisal method are that:
 - the fear of giving feedback, if negative information, can be traced back;
 - whether the feedback is real or not, some people find it difficult to give their real opinion;
 - some questionnaires are too lengthy, rigid or not relevant to the job;
 - a focus on reward can limit openness;
 - in large organisations, the process may become bureaucratic with time;
 - people having to spend a lot of time completing and collecting the information;
 - people in receipt of feedback not being given the right support to overcome their development gaps.

(2 marks for any correct and completely stated benefit. Maximum of 5 to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 14. (a) The external environment of a business can be split into four (4) main subenvironments. State them. (8 marks)
 - (b) Under social environment, how does fluctuation in unemployment rate (high/low) affect the demand for insurance services. (10 marks)
 - (c) State four (4) types of interest EACH that the following stakeholders can have in a business:
 - (i) Customers
- (ii) Shareholders
- (iii) Government
- (iv)The Public. (16 marks)

Solution

- a) The four main sub-external environment of a business are:
 - * social; * technological; * economic; and * political.

 (2 marks for each correctly stated sub-environment. Sub-Total: 8 marks)
- b) Fluctuation in unemployment rate (high/low) affect the demand for insurance services in the following ways:
 - high levels of unemployment lead people to question the security of their own jobs. when unemployment is high, people are more cautious about spending money, preferring to save it in case of redundancy.
 - also, there is increasing demand for insurance products designed to protect policy holders against loss of income.
 - when unemployment is low, consumers have more confidence and are generally more inclined to spend money.
 - (5 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 10 marks)

c)

S/No	Stakeholder	Interests
i.	Customers	Quality products.
		Value for money prices.
		Warranties and guarantees.
		Rapid delivery/service.
		After sales service.
ii.	Shareholders	High rate of investment return.
		Sustained and increased growth.
		Increased share value.
		Profitable products and services.
		Cost-effective operating.
iii.	Government	Tax revenue.
		Openness.
		New job creation.
		Introduction of new technologies.
		Adoption of new technologies.
iv.	The Public	Environmental responsibility.
		Safety.
		Ethical working.
		Good neighbour policies.

(1 mark for each correct and completely stated interest. Maximum of 4 to be graded under each stakeholder. Sub-total per Stakeholder: 4 marks. Grand Sub-Total: 16 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A940

FINANCE AND ACCOUNTING

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WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A940 - FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question tested candidates' knowledge on the definition of a parent undertaking. All the candidates attempted the questions while only about 40% got a pass mark. Reason for this could be deduced to be lack of adequate preparation. Candidates wasted time in writing irrelevant things. Adequate preparation is recommended for improved performance.

Question 2

The question tested candidates' knowledge of items that are found in the Director's report inside the Audited report. All Candidates attempted the question, but the performance is just a little above average (about 52%). The reason for this may not be unconnected to lack of proper preparation. Adequate preparation is recommended for improved future performance.

Question 3

The question intended to test candidates' knowledge of 3 important items that must be disclosed in insurance accounting. The question was attempted by almost all the candidates but the performance was not encouraging (55%). Some of the candidates' mix-up the answer as they could not display adequate understanding of the concept tested. Candidates needs to read and understand the course book in preparation for the future examination.

Question 4

The question tested candidates' knowledge of 3 items that are categorized as other assets on the balance sheet of any financial institution. Most of the candidates did not attempt the question and the few that attempted it did not get the answer right. The pass rate is about 48%. Candidates need to read their course book and ensure they cover same.

Question 5

The question tested the candidates' knowledge of definition of management accounting and financial accounting. All the candidates attempted the question. The performance of the candidates is quite impressive (About 80%). Few candidates mixed up the definition of the 2 concepts. Adequate preparation is recommended for improved performance.

Question 6

The question tested candidates' understanding of the concept of responsibility accounting and its components. The performance was good (60%) as all the candidates attempted the question. To improve on their performance, candidates are advised to study the course book and ensure that they pay attention to every aspect of the course.

Question 7

The examiners tested candidates' knowledge of reason for government supervision of insurance companies in Nigeria. Attempt was good (90%) but performance was average (52%). Candidates need to read and understand the course book well and seek tutorial aid in their preparation.

Question 8

The question tested candidates' knowledge about ways by which issue of shares can be made. All the candidates attempted the question. The performance was below average (about 48%). Candidates wasted time in writing irrelevant things. Adequate preparation is recommended for improved performance in the future.

Question 9

This is a compulsory question testing candidates' ability to prepare a simple final account of an ordinary enterprise. All the candidates attempted the question (100%) but the pass rate was just about 50%. Candidates are advised to study and know how to prepare financial accounts

Question 10

The question dealt with the term agent and broker and their differences. The question was well attempted (about 80%). The performance was good (about 65%). Some of the candidates could not differentiate between ordinary agent and credit agent. Candidates can improve on their performance by studying the course book.

Question 11

The question tested candidates' understanding of insurer's sources of income and value Added Tax. About 60% of the candidates attempted the question while the pass rate is about 45%. Many candidates supplied wrong answers to the question. Adequate preparation is recommended for improved future performance

Ouestion 12

The examiner tested candidates' knowledge the term solvency margin and how it is calculated. Few of the candidates (about 25%) that attempted the question could not give correct meaning of the term, but others seemed to have a deep understanding of it. Some of them gave more than the required wants. Candidates need to read and understand the course book.

Question 13

The question tested candidates' understanding about budget and reasons for budget. All the candidates attempted the question (100%) and the performance was above average (60%). Candidates are advised to study their course book very well in future preparation.

Question 14

The question tested candidates' understanding of terms in relation to profit and loss account of insurance companies. Only about 20% attempted this optional question, while the pass rate was not encouraging (about 25%). Candidates wasted time on irrelevances. Candidates are advised to cover every aspect of the syllabus in their future preparation.

Comments on Overall Performance

There is a marked improvement on this diet's performance over the past performances. This indicates that candidates' interest in the course is better than it used to be.

Suggestion on Improvement

Candidates are advised to study the course book very well while preparing for the examination.

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. A parent undertaking is defined in four (4) ways. State any three (3) of the definitions.

Solution

A "parent undertaking" can be defined as one which are:

- has a majority of the shareholders' or members' voting rights in another undertaking (a subsidiary undertaking); OR
- has the right to appoint or remove a majority of the members of the administrative management or supervising body of another undertaking (a subsidiary undertaking) and is at the same time; OR
- has the right to exercise a dominant influence over an undertaking (a subsidiary undertaking) of which it is a shareholder or a member, pursuant to a contract entered into with that undertaking or provision in its memorandum or articles of association, where the law governing that subsidiaries undertaking permit its being subject to such contracts or provisions; OR
- is a shareholder or a member of an undertaking.

(2 marks for each correct and completely stated definition. Maximum of 3 to be graded. Total: 6 marks)

2. Outline any three (3) items that are found in the director's report.

Solution

The items that are found in the director's report are:

- changes in asset values, directors shareholdings and other interests, contributions for political and charitable purposes;
- any acquisition by a company of its own shares or a charge on them;
- employment, training and advancement of disabled person;
- health, safety and welfare at work of employees.

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

3. Enumerate any three (3) important items that must be disclosed in insurance accounting.

Solution

The important items that must be disclosed in insurance accounting are:

* premiums; * expenses; * claims; and * unexpired risks.

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

4. List any three (3) items that are categorised as other assets on the balance sheet of any financial institution.

Solution

The items that are categorised as other assets on the balance sheet of any financial institution are:

- tangible assets and stock other than land and building;
- cash at bank;
- * cash in hand;
- own shares. * all others not specifically stated elsewhere. (2 marks for each correctly stated item. Maximum of 3 to be graded. Total: 6 marks)
- 5. (a) Define the term management accounting.
 - (b) Define the term financial accounting.

Solution

- a) **Management Accounting** is defined as the process of identifying, measuring and communicating economic information to permit informed judgement and decisions by users of the information. (3 marks)
- b) **Financial Accounting** is concerned with the provision of information to parties outside the organisation e.g. shareholders, inland revenue, etc. It contains information about events that has happened in the previous accounting period. (3 marks)

(Grand Total: 6 marks)

6. Responsibility accounting has 3 components or centers. List these three (3) components.

Solution

The three components (or centres) of responsibility accounting are:

- * cost centre; * profit centre; and * investment centre.
- (2 marks for each correctly stated component/centre. Total: 6 marks)
- 7. Outline six (6) main reasons in support of government supervision of insurance companies in any country.

Solution

The main reasons in support of government supervision of insurance companies in any country are:

- requirements for compulsory insurance;
- authorization of insurers for some or all classes of business;
- control of managers, e.t.c.;
- regulation of premium rates;
- regulation of policy conditions;
- limitation of expenses charges;
- financial requirements deposits, premiums, capital, solvency;

- requirements for annual returns;
- power of direction and other intervention;
- controls in advertising and marketing;
- control of intermediaries;
- compulsory compensation schemes for affected policyholders and claimants. (1 mark for each correctly stated reason. Maximum of 6 to be graded. Total: 6 marks)
- 8. When raising share capital, although prospectus all look the same, there are usually four (4) general ways in which an issue can be made and the shares listed for the first time. List three (3) of these four ways.

Solution

The general ways in which an issue can be made and the shares listed for the first time are:

* an offer for sale;

* an offer by tender;

* by placing;

* by introduction.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9 (a) As a student member of the Chartered Insurance Institute of Nigeria,
 - (i) what is the vision of the Institute?

(2 marks)

(ii) what are the Institute's core values?

(8 marks)

(b) The following is a summary of the bank account of Matthew Arinye who runs a students' cafeteria at University of Ibadan for the year ended 31/12/20X2.

Bank Summary

	№ ′000.00	₩′000	0.00
Trading Receipt and Bank			
Transfers for Friends	21,245	Bal. Dec. 31 20X1	262
		Payment for trade payable	13,546
		Cash drawn from the bank	4,820
		Rent	96
		Payment of child's school fe	es 200
		General expenses	1,968
		Bal. Dec.31, 20x2	353
	21,245		21,245

All trading receipts were paid into the bank. Of the cash drawn from the bank, N2,394,000.00 was paid for wages and N228,000.00 for general expenses. Mr. Matthew Arinye received bank transfers amounting to N182,000.00 for the convenience of his friend Mr. Agbabiaka of University of Ibadan, Department of

Economics. Cash not otherwise accounted for is to be treated as taken by Mr. Arinye for Private Purposes. \$100,000.00 worth of discounts were allowed and a discount of \$54,000.00 was received by the business. There was no bad debt.

The following information is obtained from the books:

	31st Dec 20X1 (₩'000.00)	31 st December 20X2 (₩'000.00)
Inventory	2,460	2,850
Trade payables	1,490	1,286
Freehold property	5,500	5,500
Accrued rent	20	34
General expenses paid		
in advance	100	70
Cash in hand	-	16

You are required to:

- (i) Show your calculation of the balance in Matthew Arinye's Capital Account as at 31st Dec. 20X2
- (ii) Prepare an income statement for the year ended December 31st 20X2
- (iii) Prepare a statement of financial position as at 31st December 20X2.

(40 marks)

Solution

a) **CIIN Vision: -** To remain a world class professional body committed to the provision of an efficient and effective manpower for the insurance industry. (2 marks)

b) CIIN Core Values:

- * Members' Satisfaction
- * Knowledge

* Trust

* Efficiency.

(2 marks for each correctly stated value. Sub-Total: 8 marks)
(Grand Total: 10 marks)

b) PRELIMINARY CALCULATIONS.

Drawings (w1)	- ₩'000	₩'000
Cash drawn from bank		4,820
Less amount accounted for:		
Wages	2,394	
General expenses	228	
Bank transfers cashed for Adekoya	182	
Cash in hand at the end of the year	<u>16</u>	<u>2820</u>
Cash not accounted for		2000
Add school fees for child		<u>200</u>
Total Drawings		<u>2200</u>
Sales (w2)		
Total lodgements in the bank		21,245
Add discount allowed		<u>100</u>
		21,345
Less bank transfers cashed for Adekoya		<u>182</u>
Total sales		<u>21,163</u>
	Cash drawn from bank Less amount accounted for: Wages General expenses Bank transfers cashed for Adekoya Cash in hand at the end of the year Cash not accounted for Add school fees for child Total Drawings Sales (w2) Total lodgements in the bank Add discount allowed Less bank transfers cashed for Adekoya	Cash drawn from bank Less amount accounted for: Wages 2,394 General expenses 228 Bank transfers cashed for Adekoya 182 Cash in hand at the end of the year 16 Cash not accounted for Add school fees for child Total Drawings Sales (w2) Total lodgements in the bank Add discount allowed Less bank transfers cashed for Adekoya

Adekoya had no bank account so that Arinye helped him to bank transfer into the account of Arinye's business. Adekoya was subsequently given cash equivalent to the bank transfers.

iii.	Purchases (w3)	
	Payment for trade payables	13,546
	Add discounts received	<u>54</u>
		13,600
	Less trade payables at beginning	<u>1,490</u>
		12,110
	Add trade payables at the	
	end	<u>1,286</u>
	Total purchases	<u>13,396</u>
iv.	General expenses (w4)	
	Prepayment at the beginning of the year	100
	Add amount paid at the beginning of the year	
	(\\19,680+\\2,280)	21,960
		22,060
	Less prepayment at the end of the year	<u>70</u>
	General expenses for the	
	year	<u>21,990</u>
٧.	Rent (w5)	
	Amount paid during the year	96

Less amount outstanding at the beginning of the year	<u>20</u>
	76
Add amount outstanding at the end of the year	<u>34</u>
Rent for the year	<u>110</u>

(2 marks for each correct working. Maximum of 5 to be graded. Total marks for workings =10marks)

MATTHEW ARINYE'S CAPITAL AS AT 31/12/20 X 1

	₩'000	₩'000
Sundry asset:		
Freehold property		5,500
Inventory		2,460
General expenses paid in advance		<u>100</u>
		8060
Less:		
Trade payable	1,490	
Accrued rent	20	
Overdraft	<u>262</u>	<u>1,772</u>
		6,288

(1marks for the heading of the account. 1 mark each for correct posting . Maximum of 9 to be graded. Total marks for workings =10marks)

I. INCOME STATEMENT OF ARINYE FOR THE YEAR ENDED 31ST DECEMBER, 20X2

	N'000	N'000
Sales (w2	1 mark	21,163
Cost of sales		
Opening inventories	2,460 1/2mark	
Purchases (w3)	13,396 1 mark	
	15,856 ½ mark	
Closing inventory	(2,850) ½ marks	13,006 ½ mark
Gross Profit		8,157 ½ mark
Discount Received		54 1/2mark
		8,211 ½ mark
EXPENSES		

Discount allowed

100 ½ mark

Wages	2,394 ½ mark	
Rent	110 ½ mark	
General Expenses(w4)	2,226 1 mark	4,830 ½ mark
Net Profit		3,381 ½ mark
		=====
(heading of account 1 mark, entry resulting from mark each total 6 marks. Ground total = 10 mark		rks. Other entries ½
ARINYE STATEMENT OF FINANCIAL POSITION AS	S AT 31 ST DECEMBER 20X2	
ASSETS	N'000	N'000
Non-current assets		
Freehold property		5,500
Current assets:		
Inventory	2,850	
Bank	353	
Cash	16	
Prepayment	70	
		3,289
TOTAL ASSETS		<u>8,789</u>
EQUITY		
Opening capital	6,288	
Net profit for the year	<u>3,381</u>	
	9,669	
Drawings	(2,200)	7,469
CURRENT LIABILITY		
Trade payables	1,286	
Accrued rent	34	<u>1,320</u>
Equity & Liabilities		8,789
		====

(2 marks for correct heading. Each entry is ½ marks. Maximum of 16 entries. Total marks =10marks)

Part III

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

- 10. (a) Define the term ' agent' and 'broker'. Articulate their differences in four (4) distinct ways. (14 marks)
 - (b) Compare and contrast, in in four (4) distinct ways, the roles or function of the following types of agents.
 - (i) agents and credit agents.

(10 marks)

(ii) Lloyd's Brokers and Industrial assurance agents.

(10 marks)

Solution

a) **Agents** are persons under one or more contracts or empowered to act in the name of and/or on behalf of one or more insurance undertakings in introducing, proposing and carrying out work preparatory to the conclusion of, or in concluding contracts of insurance, or in assisting in the administration and performance of such contracts, in particular in the event of a claim.

(2 marks for each correct and completely stated point. Sub-Total: 2 marks)

Brokers are persons who, acting with complete freedom as to their choice of undertaking, bring together with a view to the insurance or reinsurance of risks, persons seeking insurance or reinsurance and insurance and reinsurance undertaking carry out work preparatory to the conclusion of conduct of insurance or reinsurance and, where appropriate assist in the administration and performances of such contracts, in particular in the event of a claim.

(2 marks for each correct and completely stated point. Sub-Total: 2 marks)

The differences are:

- the broker is independent whereas agents are not.
- the broker is the representative of its client whereas agents are insurers' representatives.
- brokers are remunerated with higher rates of commission whereas agents are paid 50% of what is paid to brokers.
- brokers enjoy credit facilities from insurers e.g. 30 days to remit premium collected from the insured.
- brokers are protected by their professional indemnity insurance cover.
- brokers are professional agents with requisite competence to advise their clients. (2½ marks for each correct and completely stated difference. Maximum of 4 differences to be graded. Sub-Total: 10 marks)

(Grand Sub-total: 14 marks)

- b) The differences between **cash and credit agents** are:
 - cash agents merely introduce business to their principals but do not collect premiums;
 - cash agents are often paid a lower rate of commission than credit agent;
 - credit agents, include brokers collect premiums in behalf of their principal;
 - credit agents settle the insurers monthly or quarterly;
 - credit agents/ most brokers are often authorized to give cover, issue policies or certificates of insurance and perhaps settle claims on behalf of principals.
 (2½ marks for each correct and completely stated difference. Maximum of 4 differences to be graded. Sub-Total: 10 marks)

The differences between Lloyd's Brokers and Industrial Assurance Agents are:

- Lloyd's brokers are registered with IBNC.
- Lloyd's brokers are specialist but some place business in other markets.
- Lloyd's brokers are registered and are subject to stringent financial and professional requirement;
- Industrial assurance agents are called theme service representatives;
- Industrial assurance agents are remunerated partly by salary and partly by commission;
- Industrial assurance agents are employed by industrial life assurance companies;
- Industrial assurance agents also sell ordinary life assurance and general insurance and vehicle commission.

(2½ marks for each correct and completely stated difference. Maximum of 4 differences to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 11. (a) List the three (3) main sources of income for insurers from their functional incomes. (12 marks)
 - (b) Distinguish between value added tax exempt and zero rated supplies.

 (8 marks)
 - (c) Explain the following terms in details in relation to VAT supplies.
 - (i) Non-Taxable Supplies (4 marks)

(ii) Taxable Supplies (4 marks)

(iii) Exempt Supplies (3 marks)

(iv) Non-Supplies (3 marks)

Solution

a) The three (3) main sources of income for insurers from their functional incomes are:

* underwriting income; * capital profits income; * investment income.

(4 marks for each correctly stated source. Sub-Total: 12 marks)

- b) The following are the distinguishing points between value added tax exempt and zero rated supplies;
 - although neither exempt nor zero-rated supplies made by a trader attract VAT;
 - zero-rated supplies only are considered Vatable for the purposes of input tax recovery;
 - exempt supplies include right over land, insurance, postal and financial services, education, health and welfare and sports competition;
 - zero rated supplies are notably foodstuff, books, news services, international services, transport, drugs and medicines supplies by charities.

(4 marks for each correct and completely stated distinguishing point. Maximum of 2 to be graded. Sub-Total: 8 marks)

c) i) Non-Taxable Supplies:

- all supplies made by a small trader;
- small trader is defined by their turnover;
- they are not required to register for VAT;
- all other suppliers must register.

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

ii) Taxable Supplies:

- they are taxable at standard rate;
- all supplies are covered elsewhere;
- they are taxable at zero rate;
- examples of zero rated supplies are foodstuffs, books, e.t.c.

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

iii) Exempt Supplies:

- they are exempted from VAT;
- the lists are stated on the schedule;
- examples are education, health, welfare, sport competitive, e.t.c. (1½ marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 3 marks)

iv) Non-Supplies:

- this exist when payment is made for services provided by local authorities;
- examples are gratuitous services, donations, e.t.c.;
- such 'supplies' are nowhere defrayed in detail;
- they are described as being 'outside the scope'.

(1½ marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 3 marks)
(Grand Sub-Total: 14 marks)
(Grand Total: 34 marks)

12. (a) What do you understand by the term solvency margin? Identify any four (4) of the main factors affecting its size. (24 marks)
(b) (i) List and explain the bases of the two (2) methods of calculating the general business solvency margin. (10 marks)

Solution

a) Solvency margin is the excess of the value of (an insurers) assets (3 marks) over the amount of its liabilities (3 marks), that value and amount determined in accordance with any applicable valuation regulations (2 marks).

(Sub-Total: 8 marks)

The main factors affecting the size of solvency margin are:

- the size of the insurer (not retention);
- the types of business undertaken (class and geography);
- the efficiency of management (claims and expense control, underwriting);
- the risk of outstanding claims exceeding provisions thereon;
- the possibility of collapse in investment values at a time when cash is needed;
- the danger of default by debtors, particularly reinsurers;
- the harmful effect of an increase in inflation rates;
- the degree of exposure to exchange rate risk;
- the existence of equalization or other reserves counted as liabilities;
- bases of valuing assets and liabilities.

(4 marks for each correct and completely stated factor. Maximum of 4 to be graded. Sub-Total: 16 marks)

(Grand Sub-Total: 24 marks)

- b) The two methods of calculating the general business solvency margin are:
 - **based on premiums:** the starting point is the gross premium income for the business premiums for the previous financial year. This is then divided by number of months in the financial year and multiply by 12. A figure is then calculated, being 18% of the first 10million units of account and 16% of the rest. The calculated figure are added together and multiplied by a percentage which is normally that which claims net of reinsurance recoveries beat to gross claims incurred in the last financial year. However, the percentage must not be less than 50%.
 - **based on claims:** add together all claims incurred (gross) in the reference period (usually the last three financial years). Divide this figure by the number of months in the reference period and multiply by 12. Calculate 26% of the first seven million units of account and 23% of the balance. This calculated figure is then reduced by the same percentage as in Method 1 (above) for reinsurances.

(2 marks for each correctly stated method. $1\frac{1}{2}$ marks for each correct and completely stated point. Maximum of 2 to be graded under each term. Sub-Total for each term: 5 marks. Grand

Sub-Total: 10 marks) (Grand Total: 34 marks)

- 13. (a) To achieve best results both from a performance and motivational point of view, budgets must possess certain attributes. List and explain any three (3) of such attributes. (12 marks)
 - (b) Human nature being what it is, there will be a tendency for individuals to attempt to influence the budget process and obtain stock budgets (that is, obtain targets which can be easily achieved). Outline three (3) main reasons for budget bias.

 (12 marks)
 - (c) Enumerate five (5) reasons why we budget.

(10 marks)

Solution

a) To achieve best results both from performance and motivational part of view, budgets must be:

(i) attainable:

- budget should not be bogus and imaginary;
- it should be what can be attained;
- it should reflect on the capacity of the person or utility that will run the budget;
- previous period performance should serve as the basis for the budget;
- resource available should be enough and capable at driving the budget.

ii) participatory:

- it should not be force on the party that would drive the budget;
- conducive atmosphere should be created to discuss the budget;
- budget preparation and defence should be participatory;
- management should make the budget process all inclusive.

iii) delegated to responsible individuals:

- budgets should be delegable to unit of the organisation that will take care of preparation, executive and evaluation;
- individuals should take responsibility for budgeting should report to management/ board of directors;
- individuals responsible for budget should take responsibility for review as sanction for non-performance.

(2 marks for each correctly stated attribute. 2 marks for any correct and completely stated explanation. Sub-total per attribute: 3 marks. Grand Sub-Total: 12 marks)

b) The main reasons for budget bias are:

- if reward systems are too closely linked with budget achievement, managers will be motivated to seek lower, more easily achievable budgets;
- management perception that higher sales and profits figures are a requirement of the centre. This can lead to submission of over-optimistic forecasts;

• poor previous performance: some managers may feel that they need to promise more in the future.

(4 marks for each correct and completely stated reason. Sub-Total: 12 marks)

- c) The reasons for budgeting are to enable managers to:
 - * plan; * co-ordinate;

* communicate;

* control;

* evaluate; and

* motivate.

(2 marks for each correctly stated reason. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)

- 14. (a) Clearly explain the following terms in relation to profit and loss account (comprehensive Income Statement) of Insurance Companies.
 - (i) General Business Revenue Account.

(ii) Premium Written.

(iii) Premium Earned.

(iv) Claims incurred.

(24 marks)

(b) When reference is made to investment income, a number of items may be covered. List and explain any two (2) of such items. (10 marks)

Solution

- a) (i) **General Business Revenue Account:** Accounts are usually prepared annually with the revenue and profit and loss account covering the results of a twelve month period. Sometimes it is very rare that events fit nicely inside a twelve month period and it is only possible to assess them in annual terms by making estimates and assumptions at the end of each year to cover unfinished business. This is not always satisfactory and the industry has developed, as an alternatives to
- -annual accounting;
- -deferred annual accounting
- -fund accounting

Whatever basis is adopted it is usual for the items to be accounted for to be brought together in the General Business Revenue Account although analysis may be provided in form of notes

(ii) **Premium Written:** This is the sum of both direct premiums written and assumed premium written, before deducting ceded reinsurance. Direct premiums written represents the premiums on all policies the insurance company during the year. In the present UK format, these are shown as a net figure separate from the revenue amount itself, but in the EU format, they are shown gross of reinsurance. The object is to give information about the extent to which a company reinsures its business or retains it and the extent to which it may be relying on the security of other insurers.

- (iii) **Premium Earned:** These are premium written + unearned premium brought forward- unearned premiums carried forward(or premium written plus or minus change in provision for unearned premiums). The figure is the first and principal component of the revenue account covering the income attributable to the year.
- (iv) Claims incurred: This is the claim paid plus claims outstanding at end of period minus claims outstanding at beginning of period i.e.

Claim paid +outstanding claims Carried forward – outstanding claims brought forward(or claims paid plus or minus change in outstanding claims provision)

(6 marks for each correctly explained item. Maximum of 4 to be graded. Sub-Total: per item: 6 marks.

Maximum of 4 to be graded. Grand Sub-Total: 24 marks)

- b) The items that may be covered when reference is made to investment income are:
 - i. the basic income is that from interest, dividends and rents;
 - ii. investment expenses should be deducted from profit;
- iii. many investments are purchased with a view to capital appreciation rather than revenue earning.
- i) the basic income is that from interest (on various sorts of loans), dividends (from preference and ordinary shares ordinary shares) and rents (from property owned): generally, these will be recorded on as, 'earned' rather than on a 'received basis', with adjustments. For interest, etc. accrued but not paid up to balance sheet date. Since ordinary dividends are subject to fluctuation and are not due until declared, prudence dictate that they are recorded either on a received basis or, if there is accrued, this is only on shares where a dividend, this is only on shares where a dividend is known to be payable shortly.
- ii) it is also accepted that investment expenses should be deducted from profit and loss income with disclosure. In the life revenue account there are arguments that such expenses should be included with management expense.
- iii) many investments e.g. property and equities are purchased with a view to capital appreciation rather than revenue earnings. Some appreciate at least should be recognised in revenue or profit and loss account. This will enhance comparability between companies of different portfolios of investments.

(3 marks for each correctly stated item. 2 marks for each correct and complete explanation. Maximum of 2 to be graded. Sub-Total: per item: 5 marks. Maximum of 2 to be graded. Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA ADVANCED DIPLOMA

OCTOBER 2021 DIET EXAMINATION PAPER

SUBJECT A945

MARKETING

All answers are to be written on the answer booklet(s) supplied in accordance with the following instructions:

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2021 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A945 - MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question tested candidates' knowledge of marketing strategy of an organization. About 90% attempted the question but less than 5% of the candidates passed. This could be due to candidate's inadequate preparation. Candidates are advised to ensure that they cover every aspect of their course book in their future preparations. This will enhance their performance.

Question 2

This question tested candidates' knowledge about the characteristics of goods that differentiate them from services. About 95% of the candidates attempted the question. The pass rate was about 65%. Some candidates obtained the full mark available for the question.

Question 3

The examiner tested candidates' knowledge about the conditions for perfect competition to exist. About 90% of the candidates attempted the question. The pass rate was very good (about 95%). Candidates displayed the adequate knowledge of the concept.

Question 4

The question tested candidates' knowledge about insurance pricing method. About 95% attempted the question while the pass rate was about 75%. The response was highly encouraging. Candidates displayed good understanding of the question.

Question 5

This question tested the candidates' knowledge of buying criteria of business customs segment. About 920% attempted the question, whereas the pass rate was about 40% as many candidates provided wrong answers. Candidates should ensure that every aspect of their syllabus is covered in their preparation, this will enhance their performance.

Question 6

This question tested candidates' knowledge about corporate identity and objectives. About 75% attempted the question but the pass rate was just a little above average (52%). Candidates are advised to read and understand the question before answering.

Question 7

This question tested the key assumptions of organization's strategic marketing plan. Above 80% attempted the question but an average performance was recorded (50%). It is surprising that many candidates could not really explain the concept of the strategic marketing plan. Candidates need to read and understand their course books well in future preparations.

Question 8

The question tested candidates' knowledge about how to verify the feature of new products and services. About 65% attempted the question. The pass rate was about 55%. It was observed that many candidates misinterpreted the question.

Question 9

This is a compulsory question, testing the candidate's knowledge of both local and international insurance marketing as well as regulatory framework. All the candidates attempted the question (100%) while the pass rate was about 50%. Knowledge of regulatory frame work and local as well as international marketing are very essential. Candidates are advised to take them serious in the future preparation.

Question 10

The question tested candidates' knowledge about functions of marketing departments, actions necessary for exchange to take place as well as functionally structured organization compared to a divisionally structured organization. About 50% of the Candidates attempted the question. The pass rate was about 60%. Some candidates could not display good understanding of the concept tested.

Question 11

The examiner tested candidates' knowledge of the concept of sales promotion. About 50% candidates attempted the question, while the performance was below average (48%). Adequate preparation is recommended for improved examination performance.

Question 12

The examiner tested candidates' understanding of communication process, promotional activities and advertisement. About 80% of the candidates attempted the question, but the pass rate was about 55%. Many candidates lack

understanding of the concepts tested. Candidates are advised to study harder and ensure that they cover all their course book.

Question 13

This question tested candidates' knowledge of free market economy, functions of the marketing department and market competition. 50% attempted the question, but the pass rate was about 40%. Many candidates provided wrong answers.

Ouestion 14

This question tested candidates' knowledge about self-insurance, noinsurance, market audit and marketing objectives. About 70% attempted the question and the pass rate was about 55%. Some of the candidates, mix-up the answer due to lack of understanding of the question. Candidates are advised to read and understand the questions before providing answer to them.

Comments on Overall Performance

This diet's performance is better than the previous performances. This could be due to the fact that candidates are taking their study more seriously

Suggestion on Improvement

Candidates are advised to ensure that every aspect of the course book is covered when preparing for their examination.

A945

Part I

Answer ALL questions in Part I. Each question carries six (6) marks.

1. A marketing strategy will typically give an account of the way in which an organisation will use the means and resources it has available for marketing to achieve the main aims defined in its corporate strategy. This includes six (6) items. Enumerate any three (3) of these items.

Solution

The six items are:

- there must be at least 2 parties;
- both parties must offer something of value (e.g. money, goods, services etc.);
- both parties must be aware of each other's existence;
- both parties must be capable of communication and delivery;
- both parties must be free to accept or reject the other's offer;
- both parties must be willing and able to negotiate terms of exchange they find acceptable.

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

2. From a marketing perspective, goods have a range of characteristics that differentiate them from services. Outline any six (6) of such characteristics.

Solution

The range of characteristics that differentiate goods from services are:

- goods are tangible and have a physical dimension;
- goods are perishable, consumable or durable;
- goods usually conform to a recognizable and consistent specification;
- to be bought and sold, goods do not rely on personal interaction between the buyer and the producer of the goods;
- to be attractive to buyers, goods rely specifically more on their inherent qualities rather than external benefits;
- goods require a physical distribution channel to pass from seller to buyer;
- all other thing being equal the value of goods can be assessed at the time they are bought.

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

3. Where perfect competition exists in a market, there are certain conditions that prevail. Enumerate three (3) of these conditions.

Solution

The conditions for perfect competition in a market are:

- there is large number of both buyers and sellers in the market;
- no single buyer or seller is large enough to influence the market prices;
- all product and services offerings are identical;
- there are no barriers to entering and leaving the market;
- all buyers and sellers have full knowledge of the market conditions.
 (2 marks for each correctly stated condition. Maximum of 3 to be graded. Total: 6 marks)
- 4. Insurance pricing is complicated by the fact that the level of premium offered by an insurer must cover anticipated claims and other expenses. There are several different methods for pricing insurance, based on the insurance organisation's corporate objectives. List three (3) of such methods.

Solution

The different methods of pricing insurance are:

- * survival; * profit maximization
- * sales maximization; * prestige pricing.

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

5. Business customer segments of the insurance market can be divided according to their buying criteria. Outline three (3) of those criteria.

Solution

The buying criteria are the:

- type of business in which the enterprise is engaged;
- risks caused by the insurance e.g. fire, public liability, car fleet, business interruption, property;
- financial security of the insurance organization i.e. how is it rated by independent rating institution;
- insurance organisation's reputation i.e. does it generally have a 'good' or 'bad' name in the market?
- scope and wordings of the insurance cover i.e. is the cover broad or narrow, is the policy easy to read and in plain English?;
- degree to which the customer participates in the risk i.e. how high the excess or deductible is? Does the customer need to comply with loss prevention conditions before insurance is effective;

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

6. Corporate objectives need to be consistent with the sense of corporate identity and direction provided by the mission statement. They may be expressed financially like all objectives they need to be specific, measurable, achievable, relevant and time-defined. Outline three (3) examples of corporate objectives.

Solution

Some examples of corporate objectives are to:

- double sales revenue over the next five years;
- reduce staff turnover by 60% over the next three years;
- have entered the market in 3 non-EU countries by 2025.

(2 marks for each correctly stated objective. The above list is not exhaustive. Maximum of 3 to be graded. Total: 6 marks)

7. The key assumptions made are important component of any insurance organization's strategic marketing plan. Outline three (3) assumptions for an insurance organisation's marketing plan.

Solution

The key assumptions for an insurance organisation's marketing plan are:

- continued collaboration with partnership organisations;
- consistent foreign exchange rate levels;
- consistent price level of reinsurance;
- continued occupation of an existing office or premises.
 (2 marks for each correctly stated assumption. Maximum of 3 to be graded. Total: 6 marks)
- 8. Many tests are available for verifying the features of new products and services. Outline the three (3) tests.

Solution

The tests for verifying features of new products/services are:

- using panels of experts drawn from the industry;
- carrying out consumer tests, both pre-launch and during phases of development;
- testing the effectiveness of the proposed marketing mix for the new product.

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) The NAICOM Act 1997 has some statutory functions for the National Insurance Commission when it was established. List any five (5) of these functions. (10 marks)
 - (b) There are quite a range of distribution structures for overseas markets and these are not inflexible. Some organisations might use a mixture of components in putting together a final structure. With the aid of diagram, list and explain the three (3) main distribution structures for overseas markets.
 - (c) The importance of location depends to a large extent on the nature of the service and the type of interaction it sets up between the supplier and the customer. Set out with clear explanation that all service providing organization such as an insurance company may interact with their customers.

 (16 marks)
 - (d) The public relations (PR) function is complementary to other communication activities. It is the planned and sustained effort to establish and maintain goodwill between an organisation and its potential and existing customers Outline six (6) main tasks usually addressed by the PR department of an insurance organisation. (18 marks)

Solution

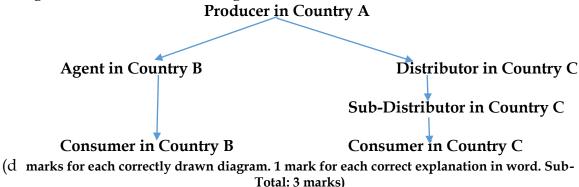
- d) The statutory functions of the National Insurance Commission as established by NAICOM Act 1997 are:
- establish standards for the conduct of insurance business in Nigeria
- approve rates of premium to be paid in respect of all classes of insurance business
- approve rates of commission to be paid in respect of all classes of insurance business
- ensure adequate protection of strategic government assets and other properties
- regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria
- act as adviser to the Federal Government on all insurance related matters
- approve standards, conditions and warranties applicable to all classes of insurance business
- protect insurance policyholders, beneficiaries and third parties to insurance contracts

- publish, for sale and distribution to the public, annual reports and statistics of insurance industry
- liaise with and advice Federal Ministries, parastatals, statutory bodies and other government agencies on all matters relating to insurance contained in any technical agreements to which the country is a signatory to
- contribute to educational programmes of the Chartered Institute of Nigeria and the West African Insurance Institute
- carry out other activities connected or included to its other functions.
 (2 marks for each correctly stated function. Maximum of 5 to be graded. Total: 10 marks)
- d) The three main distribution structures for overseas markets are:
- **direct marketing and sales to end users:** if the product or service has very few potential users, as may be the case with industrial plant, raw materials or reinsurance, the distribution chain may consist of only the producer and the user as shown in the diagram below:

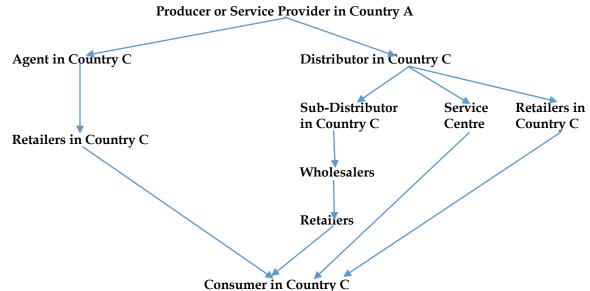
From Producer — direct to user

(d marks for each correctly drawn diagram. 1 mark for each correct explanation in word. SubTotal: 3 marks)

marketing and sales through wholesalers and distributors: if a more local service
is needed by the user, such as with equipment that needs to be serviced regularly
or insurance claims handling on a local basis, then the chain may need to be
lengthened as shown in the diagram below:



• marketing and sales through local retailers: if goods (especially consumer goods) need to be stored locally or if consumers need access to services locally, such as crediting and debiting their bank accounts, then the chain may need to be lengthened still further as shown in the diagram below:



(d marks for each correctly drawn diagram. 1 mark for each correct explanation in word. Sub-Total: 3 marks)

(Grand Total: 12 marks)

- d) The four scenarios are:
- the customer comes to the organisation's premises;
- the organisation goes to the customer's premises;
- the organisation and customer transact business directly but at arm's length e.g. via telephone or the internet;
- the organisation and customer transact business indirectly e.g. via an intermediary.

(d marks for each correct and completely stated scenario. Sub-total: 16 marks)

- d) The main tasks usually addressed by the PR department of an insurance organisation are:
 - building a corporate image;
 - maintaining a corporate image;
 - supporting other communication activities;
 - handling specific challenges;
 - reinforcing organisation's positioning;
 - assisting in the launch of new products and services;
 - influencing specific internal groups.
 (3 marks for each correctly stated task. Maximum of 6 to be graded. Sub-Total: 18 marks)
 (Grand Total: 50 marks)

Part III

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

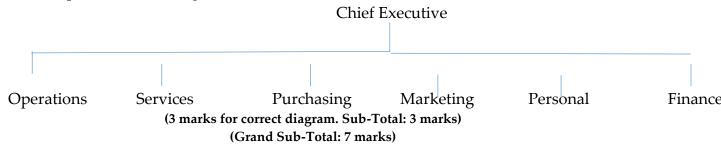
- 10. (a) There are certain activities that would usually be carried out by a marketing department of an insurance company. Enumerate any four (4) of such activities.

 (10 marks)
 - (b) Explain how the marketing function operate in a functionally structured organisation compared to a divisionally structured organisation. Illustrate your explanation with diagrams. (14 marks)
 - (c) A seller must do five (5) main actions before he/she can bring about an exchange of goods or service. Outline the five (5) actions. (10 marks)

Solution

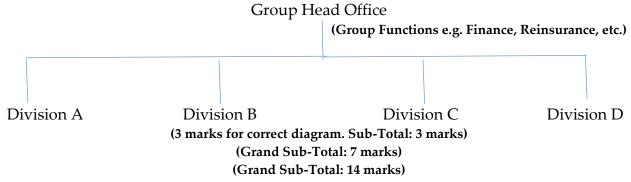
- a) The following are the activities usually carried out by a marketing department of an insurance company:
 - identification and targeting of the markets that best fit its resources;
 - develop products that meet the needs of the target market better than competitor's products;
 - make products readily available for consumption;
 - develop customer awareness of the problem solving capabilities of its line of products;
 - obtain feedback from the market about the success of its products and programs. (2½ marks for each correct and completely stated activity. Maximum of 4 to be graded. SubTotal: 10 marks)
- b) Marketing Within the Functional Business Structure: the thrust in the structure of this type of organisation is functional specialisation where managers create work units with employees performing aspects of the same functions. Most firms adopt functional specialisation as they grow and it is especially suited to single product or service firms. In this structure, marketing holds equal importance with the other primary business functions of which are co-ordinated and supervised by the CEO.

(2 marks for any correct and completely stated point. Maximum of 2 to be graded. Sub-Total: 4 marks) This is explained in the diagram below:



Marketing Within the Divisional Business Structure: this is generally found in organisations that offer a wide range of products and services. Each division handles all activities associated with producing and marketing its own products or service.

(2 marks for any correct and completely stated point. Maximum of 2 to be graded. Sub-Total: 4 marks) This is explained in the diagram below:



- c) The A five (5) main actions that a seller must do before he/she can bring about an exchange of goods or service are to ensure that both parties must:
 - offer something of value (e.g. money, goods, services, an idea);
 - be aware of each other's existence;
 - be capable of communication and delivery;
 - be free to accept or reject the other's offer;
 - be willing and able to negotiate terms of exchange that the find acceptable.

 (" marks for each correct and completely stated action. Sub-Total: 10 marks)

 (Grand Total: 34 marks)
- 11. (a) From the distribution perspective, insurers may transit insurance business with their customers in several different ways with suitable examples. List and explain four (4) of these ways. (14 marks)
 - (b) Outline five (5) typical objectives of sales promotions. (10 marks)
 - (c) Outline five (5) types of sales promotion.

(10 marks)

Solution

- a) From the distribution perspective, insurers may transact insurance business with their customers in several ways. These ways are:
 - the customer comes directly to the insurance organisation's premise;
 - the insurance organisation goes directly to the customers' premises;
 - the insurance organisation and the customer transmit business at an intermediary's premises directly;
 - the insurance organisation and the customer transmit business at an intermediary's premises through an intermediary;
 - the insurance organisation and the customer transact business at arm's length via an intermediary e.g telephone, fax, internet;

 the insurance organisation transacts business indirectly with the customer, without the customer's knowledge of its existence, via a fronting organisation.
 (3½ marks for each correct and completely stated way. Maximum of 4 to be graded. Sub-Total: 14 marks)

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b) The tv	'bicai	obie	ctives	or sa	ies i	promo	nons	are:
-	, ,						P		

* increase sales:

* counteract competitor activity;

* encourage repeat process;

* encourage affiliated purchases;

* induce a trial purchases;

* encourage payment in advance.

(2 marks for each correctly stated objective. Maximum of 5 to be graded. Sub-Total: 10 marks)

c) The types of sales promotion are:

* price reduction;

* coupons;

* vouchers;

* competitions;

* special functions;

* free gifts.

(2 marks for each correctly stated type. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)

- 12. (a) The basis of any successful communications programme is a clear understanding of the communication process, seen from the consumer's view point. With the aid of diagram, explain the flow of effective communication programme. (10 marks)
 - (b) Define the following terms in relation to marketing

(i) Sales Promotion

(ii) Personal Selling

iii) Public Relations

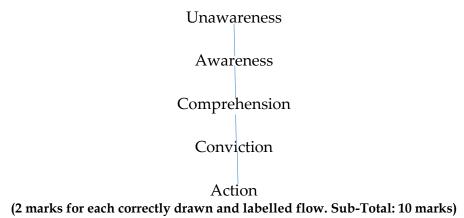
(iv) Corporate Advertising

(12 marks)

- (c) (i) Outline four (4) circumstances in which advertising becomes the most important mix element. (8 marks)
- (ii) Outline four (4) circumstances in which personal selling dominates the communication mix for product or service. (4 marks)

Solution

a) The flow of effective communication programme is shown with the aid of diagram as below:



- b) (i) **Sales Promotion**: a consumer must be offered something that is different from the usual terms and conditions applying to the sales transaction (the special offer) it includes benefits that do not form part of the standard customer package e.g. coupons,
- ii) **Personal Selling**: is one of the personal communication methods, distinct from other communication method. It allows face-to-face contact with the consumer.
- iii) **Public Relations:** is complimentary to other communication activities. It is planned and sustained effort to establish and maintain goodwill between an organisation and its potential and existing customers. e.g. news releases, e.t.c.
- iv) **Corporate Advertising:** is different from product or service advertising. It is aimed at benefiting the organisation as a whole. Three types of corporate advertising may be used:
 - investor relation advertising.

rebates, refunds and free samples.

- support a view held by the organisation on particular social or political issue.
- corporate image advertising.
 (3 marks for any correct and complete explanation under each term. Sub-Total: 12 marks)
- c) i) The circumstances in which advertising becomes the most important element are where:
 - the benefits to be communicated are relatively simple;
 - there is a need to develop awareness and comprehension of these benefits in a mass market;
 - a brand name is involved;
 - products or services are purchased frequently;

- product or service specifications are reasonably standardised.
 (2 marks for any correctly stated circumstance. Maximum of 4 to be graded. Sub-Total: 8 marks)
- ii) The circumstances in which personal selling dominates the communication mix for product or service are when the product or service:
 - is complex;
 - is expensive;
 - needs to be demonstrated;
 - requires after-sales service;
 - is sold to only a few customers.

(1 mark for any correctly stated circumstance. Maximum of 4 to be graded. Sub-Total: 4 marks) (Grand Total: 34 marks)

- 13. (a) The gradual influence of marketing on business practice in free market economies has had some notable effects. Explain any four (4) of such effects.
 - (b) Enumerate any six (6) activities that would usually be carried out by a marketing department (12 marks)
 - (c) There are a number of factors that influence the amount of competition affecting a given product or service. Enumerate any six (6) of such factors.

(12 marks)

Solution

- a) The effects of marketing on modern day business practice are:
- i) Compressed Channels of Distribution:
 - the number of intermediaries between the original producer and the final consumer has decreased gradually;
 - these were results of mergers, expansion, co-operation, voluntary ties and long term contractual relationship;
 - marketing communication between producers and consumers have improved. this reduced the need for intermediaries;
 - internet threatens to diminish the role of intermediary even further.

ii) More Marketing Channels:

- this is possible because of industrialization that has encouraged greater diversity of products and services;
- technology has improved mass communication and increased in the number of ways in which advertising and promotion may be cornered on.

iii) Market-Led Organisations:

 many organisations are now market-led due to inspiration from business schools and management thinking;

- concentration is now discovering what consumers want and other functions are regarded as secondary;
- effort is now on maximum consumer satisfaction.

iv) International Marketing:

- goods and services are now available worldwide;
- many organisations have developed global brands;
- organisations are now adapting to the external factors such as cultural and legal requirements among others to consolidate their overseas marketing.

v) Consumer Protection:

- because free markets sometimes attract rouge sellers and unethical practices therefore many countries have set up consumer protection agencies to regulate products, services, production methods, sellers and advertisers;
- quality standards are devised by consumer protection agencies.
 (1½ marks for correctly stated effect. 1 mark for correct explanation. Sub-Total for each effect:
 2½ marks. Grand Sub-Total: 10 marks)
- b) The activities that will usually be carried out by a marketing department are:

market research;
 * competitor research;

• customer profiling; * advertising;

development of strategic marketing plans;

development of operational marketing plans;

media relations;
 * corporate affairs and sponsorship;

product development;
 * product pricing;

branding and brand management; * customer service.
 (2 marks for correctly stated activity. Maximum of 6 to be graded. Sub-Total: 12 marks)

- c) The factors influencing the amount of competition affecting a given product or service are:
 - organisations operating in the market;
 - the number of organisations producing competing goods in the market;
 - the size of those organisations relative to our organisation;
 - the difficulty for new organisations to enter into the market;
 - the amount of collision between competitor in the market;
 - the amount of knowledge organisations have about their competitors;
 - consumers interest in buying products and services in the market;
 - the amount of knowledge that consumers have about the market offering;
 - the number of buyers and the relative size of their buying requirements;
 - the ability for consumers to pay for goods and services;

- factors external to the market;
- the availability and price f raw materials;
- the ease of transporting raw materials and finished goods;
- government policy on competition and regulation.

(2 marks for correctly stated factor with complete explanation. Maximum of 6 to be graded. Sub-Total: 12 marks)

(Grand Total: 34 marks)

- 14. (a) All insurance organisations compete to provide risk transfer services to the market. They also compete as a group against the options of "self-insurance" and "no-insurance". List the six (6) main sources they often obtain information about competitors. (12 marks)
 - (b) The most valuable information in an audit of major competitors is about certain features. List any five (5) of such features. (10 marks)
 - (c) Marketing strategies can make use of all the six marketing mix elements to determine the most effective way of achieving marketing objectives. Enumerate these elements with an example each. (12 marks)

Solution

- a) The six main sources where insurers obtain information about their competitors are:
 - publicly available annual reports; * media reports. * newsletter;
 - market research;* talking to customers;
 - the organisation's internal communications department.

(2 marks for correctly stated source. Sub-Total: 12 marks)

- b) The features of the information in an audit of major competitors are:
 - goods and services;
- * market share;

growth;

* quality;

positions;

* operations and resources.

(Candidates are required to explain any 5 of the features above. 2 marks for each correctly stated feature. 1 mark for the explanation. Sub-Total per feature: 3 marks. Maximum of 5 to be graded. Grand Sub-Total: 15 marks)

- c) Marketing mix strategies differ from an organisation to another. Its market audit will reflect the effectiveness of its marketing mix. These, with examples, are:
 - **Product**: stating the policies and procedures relating to the service to be offered.
 - **Price**: setting the pricing levels to be adopted, including margins, commissions and discount.
 - **Promotion:** advertising and sales promotion deciding on the corporate brand image, the creative approach, type of media and the available budget.

- **Place**: choosing the most appropriate distribution channels (e.g. insurance brokers, affiliated organisations) and defining customer service policies.
- **Process**: deciding on the ease with which new customers can be signed up.
- **People**: strategic issues relating to staff responsibility.

(1 mark for each correctly stated marketing mix. 1 mark for any correctly stated example. Sub-Total per strategy: 2 marks. Grand Sub-Total: 12 marks) (Grand Total: 34 marks)