



*Chartered Insurance
Institute of Nigeria*

Chief Examiners' Report

April 2022

Associateship

(A01-A09)

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)
Start each question on a fresh page	Write after invigilators have declared "time-up"
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch 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
<p>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), cinigeria.com (CIIN)</p>	
<p>INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT. ANY CANDIDATE CAUGHT AND/OR FOUND TO BE CHEATING/HAVE CHEATED, WILL BE BARRED FROM PARTICIPATING IN ANY OF THE INSTITUTE'S EXAMINATION ACTIVITY FOR TWO (2) YEARS AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).</p>	
<p>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</p>	

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A01

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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A01 - 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 question tested the candidates' knowledge on re-insurance, especially the facultative type. About 97% of the candidates attempted this question while 60% of them scored above average score.

Question 2

The question was intended to test the candidates' knowledge on normal distribution, 86% of the candidates that attempted the question scored above average.

Question 3

All the candidates attempted the question and performed above average. It was a good performance.

Question 4

This question tested the knowledge of the candidates on sampling method in Insurance Company, 80% of the candidates that attempted the question performed very well.

Question 5

The question attempted to test the candidates' knowledge of understanding in practical Insurance, ordinarily, it was expected that candidate at that level would find the question very simple. More than 99.8% of the candidates' answered the question and less than 60% of the candidates' passed the question, despite its simplicity.

Question 6

This question was to test the candidates' understanding on the risk identification, description and estimation. More than 70% of the candidates who attempted the question performed above average.

Question 7

The question is simple enough, even pupils at lower levels can give correct answer to it; but it seems the candidates need to be serious in order to enhance their performance. The performance in this question is below average.

Question 8

The question was intended to test the candidates' knowledge on underwriting, underwriting authority and binding authority. The performance of the candidates' is fair and encouraging.

Question 9

The first part of the question was on the industry practice as for regulation. 95% of the candidates that answered the question did well and 50% of them scored above pass mark. The second part was on probability usefulness in insurance and important aspect of the

course, 90% of the candidates had challenges with the probability due to wrong counting. Generally, the performance was good.

Question 10

The question tested the knowledge of candidates on statistics, the performance showed that all the candidates attempted the question performance was above average.

Question 11

More than 50% of the candidates' did not attempt this question at all, and among those that answered the question, their performance was relatively below average.

Question 12

This question required the candidates to justify the use of financial rating agencies by the insurance companies and procedures for conducting rating process between the insurance companies. About 72% of the candidates' attempted the question while about 65% did well, but the candidates' would not explain the rating process.

Question 13

This question was intended to examine the knowledge of the candidates on proposal form and ways of preparation of proposal. 86% of the candidates that attempted the question did very well, and it showed that the candidates really understood the question.

Question 14

The question intended to assess the knowledge of the candidates on regression analysis but the performance is below average. More than 50% of the candidates who attempted the question scored below average.

Comments on Overall Performance:

Overall performance of the candidate is 40% which is not encouraging; the candidate can perform very well if they really study hard, because the question was moderate enough for this level.

Suggestion(s) on Improvement (if any):

Candidates should study hard in order to perform very well in this course. Also candidates are advised to prepare adequately before attempting future examinations of the Institute.

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

1. a) What is facultative reinsurance? **(2 marks)**
 b) Facultative reinsurance has both advantages and disadvantages over treaty reinsurance. Enumerate two (2) of each. **(4 marks)**

Solution

a) Facultative reinsurance is the placement and acceptance of business on an individual basis depending on its merit. Therefore, in a facultative reinsurance, there is no obligation on both the direct office and reinsurance company to place nor accept the risk being placed. **(2 marks for correct and full definition)**

b) Advantages of facultative reinsurance over the treaty:

- It is the last resort once the treaty capacity is fully exhausted.
- It is specifically designed for hazardous risks.
- It is highly flexible in the sense it could be put in place for any risk.
- No binding obligation on both parties

(1 mark for each correctly stated advantage. Total: 2 marks)**Disadvantages of facultative reinsurance over the treaty**

- It is very cumbersome in administration
- Acceptance is not automatic
- Possibility of leakages in vital information to competitors
- Possibility of loss of goodwill

(1 mark for each correctly stated advantage. Total: 2 marks)

2. a) What is a "normal distribution"? **(2 marks)**
 b) Enumerate four (4) characteristics of a normal distribution. **(4 marks)**

Solution

(a) A normal distribution is a continuous probability distribution which can assume any value. **(2 marks)**

(b) Characteristics of a normal distribution are:

- It is a continuous distribution
- The mean (μ) lies at a point under the peak of the curve
- It is symmetrical (ie has both the two tails or sides exactly alike)
- In some specific areas under curve, there lie certain standard deviations above and below the mean (μ).
- The two tails of the curve do not touch the horizontal axis theoretically.
- The mean (μ) is zero, while the standard deviation (δ) is one for a standard normal distribution.
- It is bell shape
- The area under the normal distribution graph

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

3. (a) The mean, median and mode has an empirical relationship between them. Write it out. **(4 marks)**

b) What is a unimodal distribution? **(2 marks)**

Solution

a) Mean – Mode = 3 (Mean – Median) **(4 marks)**

b) A unimodal distribution is a distribution where a single mode exists. **(2 marks)**

4. Quantitative analysis has some sampling techniques. Enumerate any six (6) of these.

Solution

The following are sampling techniques in quantitative analysis:

- i) Random Sampling
- ii) Stratified Random Sampling
- iii) Systematic Sampling
- iv) Cluster Sampling
- v) Double Sampling
- vi) Expert Sampling
- vii) Purposive Sampling
- viii) Convenience Sampling
- ix) Quota Sampling

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

5. (a) List four (4) generic meanings of a risk in insurance. **(4 marks)**

b) Distinguish between moral and physical hazards. **(2 marks)**

Solution

a) The four generic meanings of risk in insurance:

- (i) Risk as the main cause of an undesired outcome
- (ii) Risk as the object (i.e. the subject matter of insurance)
- (iii) Risk as the probability of an undesired event taken place
- (iv) Taking a risk by not putting in place what a reasonable man.

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

b) Moral hazard relates to the attitude of the insured while physical hazard has to do with the physical feature(s) or characteristic(s) of the risk.

(1 mark for each correctly stated distinguishing point. Total: 2 marks).

6. Describe the following in relation to risk analysis:

- (a) Risk Identification; Estimation?
- (b) Risk Description;
- (c) Risk

Solution

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

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

(iii) Risk Estimation: These are the estimates both in terms of quantitative & qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as H – M – L (H – stands for High; M – stands for Medium or Middle and L – stands for Low) may be employed in describing the estimate values or attributes.

(2 marks each for correctly explained term. Total: 6 marks)

7. (a) Enumerate any three (3) methods of data presentation. **(3 marks)**

(b) Define relative frequency? **(3 marks)**

Solution:

a) The methods of data presentation are:

(i) Pictogram (ii) Tables (iii) Charts/diagrams (iv) Graphs.

(1 mark each for any correctly stated method)

b) Relative frequency is the ratio of the frequency (f) procedures or stages involved in the rating 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.

(2 marks for any correctly stated definition and 1 mark a further description (i.e. it is usually expressed as a percentage). Maximum of 3 marks in total.

8. (a) Define underwriting? **(2 marks)**

(b) Distinguish between “binding authority” and “underwriting authority” **(4 marks)**

Solution

a) Underwriting is a process of determining whether or not the risk proposed for insurance should be accepted, and if it is to be accepted at what premium rates, terms & conditions.

(2 marks for correct and full definition)

b) “Binding Authority” gives the direct brokers and reinsurance brokers the authority to accept risks on behalf of the insurer/reinsurer and place the risks accepted with them; *while* “Underwriting Authority” is the level of authority granted by an insurance company within certain predefined limits to the insurance intermediaries (such as the insurance brokers) to be involved in the underwriting process. It may equally be granted by the reinsurer to the insurance companies and reinsurance broking firms.

(2 marks for each correct and full definition. Total: 4 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers. Enumerate any two (2) of the stated minimum information that insurance institutions are required to update their websites as stated in the circular. **(10 marks)**

(b) What do you understand by the term "probability"? **(2 marks)**

(c) A pair of dice is tossed.

(i) Draw the sample space. **(5 marks)**

(ii) What is the probability that the sum of the two dice which appeared is eleven?

(3 marks)

(iii) What is the probability that both dice showed the same number? **(3 marks)**

(iv) What is the probability that the sum of both dice gives a sum of at least nine?

(3 marks)

d) A fair coin is tossed four times. You are required to:

(i) Construct a sample space for the four tosses of the coin. **(10 marks)**

(ii) List out all the possible outcomes of the experiment. **(8 marks)**

(iii) What is the probability of obtaining at least two heads? **(3 marks)**

(iv) What is the probability of more heads than tails? **(3 marks)**

Solution

a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment to customers. The stated minimum information that insurance institutions are required to update their websites as stated in the circular major focus in the circular are:

- the average timeline to settle claims (for various classes of insurance)
- business location and contact telephone number of all its branches
- the complaint procedure.

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

b) The Probability of an event (E) occurring may be defined as the ratio of the number of times event (E) can occur to the total number of possible outcomes.

Thus, $P(E) = \frac{\text{Number of times event E can occur}}{\text{Total number of possible outcomes}}$

In other words, the probability of any event is obtained by dividing the number of time(s) that the event can occur with the total number of possible outcomes. Probability ranges from 0 to 1.

(2 marks for stating the correct formula. Total: 2 marks)

c) A pair of dice is tossed. The construction of the sample space table is as shown below:

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6
4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

(3 marks for the correctly completed table. Total: 5 marks)

#

(i)

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6
4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

Probability that the sum of the two dice which appeared is eleven = $\frac{2}{36} = \frac{1}{18}$ (3 marks)

(ii)

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6
4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

Probability that both dice showed the same number = $\frac{6}{36} = \frac{1}{6}$ (3 marks)

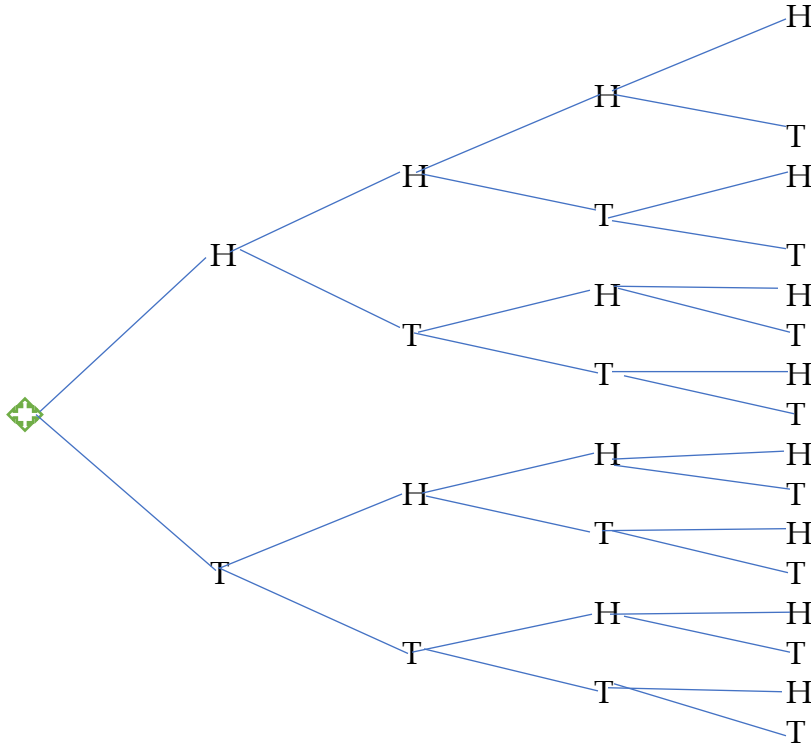
(iii)

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6

4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

Probability that the sum of the two dice is at least nine = $\frac{10}{36} = \frac{5}{18}$ (3 marks)

- d) A fair coin is tossed four times. You are required to:
 (i) Construct a sample space for the four tosses of the coin.



(2½ marks for each correctly shown horizontal space/diagram. Total: 10 marks.)

- (ii) List out all the possible outcomes of the experiment, say X,
 $\{X\} = \{HHHH, HHHT, HHHT, HHTH, HHTT, HTHH, HTHT, HTTH, HTTT, THHH, THHT, THTH, THTT, TTHH, TTHT, TTTT\}$ (1/2 marks each. Total: 8 marks)

(iii) P (of obtaining at least two heads) = $\frac{11}{16} = 0.6875$. (3 marks)

(iv) P (of obtaining at more heads than tails) = $\frac{5}{16} = 0.3125$. (3 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. The data below was obtained from the Chartered Insurance Institute of Nigeria in respect of marks scored by candidates in one of the Institute's examinations for 2018 April Diet:

Marks	Frequencies
1 - 10	6
11 - 20	9
21 - 30	3
31 - 40	8
41 - 50	30
51 - 60	9
61 - 70	16
71 - 80	4
81 - 90	10
91 - 100	5

Find the:

- mean
- mean deviation
- standard deviation and
- co-efficient of variation.

(34 marks)

SOLUTION

Class Limits	F	Class mid points (X)	Fx	$\sum(X - \bar{X})$	$f(X - \bar{X})$	fX^2
1 - 10	6	5.5	33	$5.5 - 50.8$ $= 45.3$	271.8	181.5
11 - 20	9	15.5	139.5	$15.5 - 50.8$ $= 35.3$	317.7	2,162.25
21 - 30	3	25.5	76.5	$25.5 - 50.8$ $= 25.3$	75.9	1,950.75
31 - 40	8	35.5	284	$35.5 - 50.8$ $= 15.3$	122.4	10,082
41 - 50	30	45.5	1,365	$45.5 - 50.8$ $= 5.3$	159	6,210.75
51 - 60	9	55.5	499.5	$55.5 - 50.8$ $= 4.7$	42.3	27,722.25

61 - 70	16	65.5	1,048	65.5 - 50.8 = 14.7	235.2	68,644
71 - 80	4	75.5	302	75.5 - 50.8 = 24.7	98.8	22,801
81 - 90	10	85.5	855	85.5 - 50.8 = 34.7	347	73,102.5
91 - 100	5	95.5	477.5	95.5 - 50.8 = 44.7	223.5	45,601.25
	100		5,080		1,893.6	258,458.25

(1/4 marks for each correct figure in the table above. Total: 15 marks)

a) Mean = $EfX/Ef = 5,080/100 = 50.8$ **(4 marks)**

b) Mean Deviation = $1,893.6/100 = 18.936$ **(5 marks)**

c) Standard Deviation = $\sqrt{\frac{258,458.25}{100} - \frac{(5,080)^2}{100}}$

$$= \sqrt{2,584.58 - (50.8)^2} = \sqrt{2,584.58 - 2,580.64}$$

$$= \sqrt{3.94} = 1.985$$

(5 marks)

d) Coefficient of variation = Standard Deviation/Mean X 100%
= $1.985/50.8 \times 100\% = 3.91\%$ approximately **(5 marks)**

(Grand Total: 34 marks)

11. a) Write short note on FSA **(5 marks)**

b) Describe the four (4) FSA's statutory objectives **(16 marks)**

c) Mention five roles of the FSA **(10 marks)**

d) Outline three implications of risk-based regulation. **(3 marks)**

Solution

a) The FSA is an independent, 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. It is now the single statutory regulator responsible for regulating banking, deposit-taking, insurance, mortgage lending, friendly societies and investment business as well as intermediaries selling financial products. The FSA is funded by a levy on regulated firms.

(2 1/2 marks for any correctly stated point. Maximum of 2 points to be graded.

Total: 5 marks)

b) The four (4) statutory objectives of FSA are:

(i) **Maintaining confidence in the UK financial system** – It achieves this by supervising exchanges, settlement houses and other market infrastructure providers, and conducting market surveillance and transaction monitoring.

(ii) **Promoting public understanding of the financial system** – It works to help consumers obtain the knowledge, aptitude and skills necessary to become informed consumers, so that they can manage their financial affairs more effectively.

(iii) **Securing the appropriate degree of protection for consumers** – Authorizing only those firms and individuals that satisfy the necessary criteria to engage in a regulated activity. And once authorized, the FSA requires firms and individuals to comply with the rules and requirements, as laid down in the FSA Handbook.

(iv) **Reducing financial crime** – Work focuses on three main types of financial crime; money laundry, fraud and dishonesty and market misconduct, such as insider dealing.
(2 marks for stating the main objective. 1 mark each for each correct explanation/description under each main point. Maximum of 2 points should be graded under each point. Sub-Total: 4 points. Total: 16 marks)

c) The roles are:

- i) Set the rules, via its Handbook, Sourcebooks and other guidance
- (ii) Authorizes firms and individuals to operate within the regulated markets
- (iii) Monitors the external environment for threats to its strategic objectives
- (iv) Monitors the markets and regulated firms operating within those markets
- (v) Responds to changes, threats or other developments by amending its rules
- (vi) Acts to prevent or resolve failures, problems or breaches of its rules

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

d) Three implications of risk based regulation are that:

- (i) It influences the nature of the regulation itself
- (ii) It affects the way in which the regulator conducts itself and how it looks at firms
- (iii) It is embedded throughout the regulations themselves.

(1 mark each for any correctly stated implication. Maximum of 3 to be graded. Total: 3 marks)

(Grand Total: 34 marks)

12. 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

(3 marks for each correctly stated point. Maximum of 5 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. 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)

13. a) Define a Proposal Form? **(6 marks)**
 b) Enumerate any five (5) ways through which a proposal may be made by the proposer to the insurance companies. **(20 marks)**
 c) Differentiate between “perceived and actual risks”. **(8 marks)**

Solution

- a) A proposal form may be defined as a pre-designed form which is used to elicit all vital information relating to the risks proposed for insurance. This vital information is referred to as the material facts.

Though, in practice the contents and wordings of the proposal form vary from an insurance company to the other, but the main objective is the same, and which is to elicit all the information supplied by the proposer with a view to determining whether or not to accept the risk proposed for insurance and if it would be accepted, at what premium rate, terms and conditions.

(2 marks for any correctly stated point. Maximum of 3 points to be graded.

Total: 6 marks)

- b) The five ways through which a proposal may be made by the insured to the insurance companies
- through completion of the hard copy of the proposal form
 - through telephone calls
 - via a broker
 - via a broker slip (Lloyd’s market)
 - via the internet

(2 marks for stating the way; 1 mark for making valid point/description of the way stated. Maximum of 2 points to be graded under each stated way. Sub-Total per way = 4 marks. Total: 20 marks)

- c) **Perceived risks** are risks as being perceived by individual persons. They are generally influenced by the following characteristics:
- Familiarity
 - Level of Control
 - Personal or societal consequences
 - Frequency and severity of the risky event

(1 mark for every correctly stated point. Maximum of 4 points to be graded.

Total: 4 marks)

while **Actual risks** are those risks we can directly observe, especially through physical counting of the current or past events relating to them. Examples are the number of motor accidents, theft cases, fire incidents and number of death claims say over the last 3 underwriting years. Since these events have actually taken place and are observable, we may thus refer to them as “real or observable risk”.

(1 mark for every correctly stated point. Maximum of 4 points to be graded.

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

- 14) (a) Define regression? (5 marks)
 (b) Enumerate any three (3) uses of regression. (6 marks)
 (c)

X	Y
100	80
140	87
150	90
110	85
122	86
82	57
148	88
170	110
145	89
115	83

- (i) Draw a scattered diagram for the above data. (5 marks)
 (ii) Determine the regression line of y on x. (18 marks)

Solution

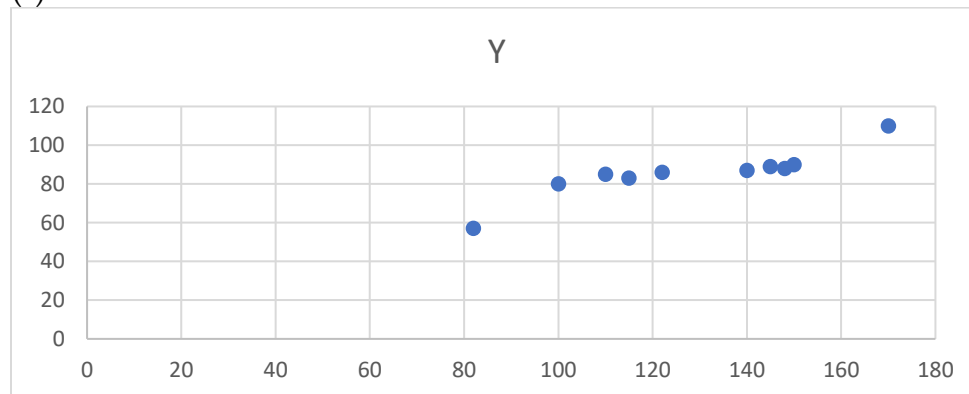
(a) Regression may be defined as the relationship which exists between two or more variables. This relationship may have to do with a change or changes which may occur to one of the variables as a result of a change or changes in the other variable.

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

- (b) Three uses of regression are –
 i) It is used to determine the relationship which may exist between two or more variables.
 ii) It is used to improve our knowledge on the variable of interest.
 iii) It is used for estimation and prediction.

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

(c)



(5 marks)

(d) Let the regression line of y on x be represented by the²

$$y = a + bx \quad (1 \text{ mark})$$

where $a = \frac{\sum y}{n} - \frac{b \sum x}{n}$ (1½ marks)

and $b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$ (1½ marks)

X	Y	XY	X ²
100	80	8,000	10,000
140	87	12,180	19,600
150	90	13,500	22,500
110	85	9,350	12,100
122	86	10,492	14,884
82	57	4,674	6,724
148	88	13,024	21,904
170	110	18,700	28,900
145	89	12,905	21,025
115	83	9,545	13,225
1,282	855	112,370	170,862

(½ mark for each bolded entry above. Total: 11 marks)

$$b = \frac{10 (112,370) - (1,282)(855)}{10 (170,862) - (1,282)^2} \quad (1 \text{ mark})$$

$$= \frac{1,123,700 - 1,096,110}{1,708,620 - 1,643,524} = \frac{27,590}{65,096} = 0.4238 \quad (1 \text{ mark})$$

$$a = \frac{855}{10} - \frac{0.4238 (1,282)}{10} = 85.5 - 54.33 = 31.17 \quad (1 \text{ mark})$$

Therefore, the regression line, $y = 3.17 + 0.4238x$ (1 mark)
(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A02

REINSURANCE: PRINCIPLE AND APPLICATION

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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A02 – REINSURANCE: PRINCIPLES AND APPLICATION

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 intended to test candidates' knowledge of reinsurer's principal sources of statistical data. The attempt was good (95%) being a short question and the performance was above average (70-75%). Some candidates misunderstood the difference between direct insurer's sources of statistical data with that of reinsurers for operational needs.

Question 2

Majority of candidates (87%) attempted this question but their performance was very poor (20-35%) as the candidates did not understand the question properly and that affected the quality of their answers.

Question 3

The question tested candidates' knowledge about reinsurance principles. Most of the candidates (85%) attempted the question but the performance was below average (40%). Candidates should familiarise themselves and read more on methods of transacting reinsurance international business.

Question 4

Good attempt by candidates (82%) but they misunderstood and misinterpreted the question with the standard exclusions as against relating it to motor insurance treaties/exclusions. Overall, candidates performed above average as 50-55% of those who attempted the question scored above average.

Question 5

The question tested candidates' knowledge about buyers of reinsurance coverage or products. Most of the candidates scored above average as 80% of them handled the question very well from practical knowledge point of view. However, a small number 20% of the candidates confused buyers of direct insurers with that of reinsurance coverage.

Question 6

- (a) The question was well attempted (81%) but the performance was just above average (60%). Candidates were not very clear about the practical application of overriding commissions in reinsurance vis-à-vis, direct insurers in co-insurance business.
- (b) Candidates performance was below average (47%) because the actual definition of OGR was not adequately stated.

Question 7

The question tested candidates' ability in areas of board of directors/company's investment policy. Over 90% of the candidates attempted the question whilst an average performance was recorded (50-55%). Candidates should concentrate and read more of insurance journals, company's annual accounts and course books.

Question 8

Most candidates (95%) attempted this question which required them to show their knowledge about non- proportional as against proportional insurance treaties. However, the performance was poor (20-30%). Candidates misunderstood the question. They stated advantages and disadvantages of proportional and non- proportional treaties instead of the common characteristics of the two.

Question 9

- (a) The question tested candidates' knowledge of the Insurance Act 2003 section 2 regarding the main classes of insurance. Performance was above average (75%) but some candidates did not refer to the classification in accordance with the Insurance Act 2003 but their practical knowledge only.
- (b) However, in the part (b) candidates' performance was woeful being a compulsory question with calculation of Reinsurance Commission Adjustment statement: only 14% scored above the average mark (20) of the 40 marks in the section (b).

Question 10

Only few candidates attempted this question; regarding surplus reinsurance but the performance was below average (25%-45%). It was obvious that candidates did not prepare very well for questions in that area.

Question 11

The (a) part was to test candidates' ability in pooling arrangements and co- insurance. Majority of the candidates attempted and candidates' performance was very good (75%) as the recorded figures revealed. The (b) part tested candidates' knowledge of the importance of reinsurance arrangement protected insurance companies' portfolio. Over 60% attempted the question and the performance could be better if candidates are well read.

Question 12

The question was attempted by a few candidates (20%) whilst the performance was below average (35%). The question was a bit technical particularly for those who did not have practical reinsurance knowledge regarding contract data in reinsurance arrangement.

Question 13

- (a) The section tested candidates' knowledge on general reinsurance claims procedures. Over 70% of the candidates attempted but only a few (30%) were able to get the right points. Candidates should study more and attend coaching classes prior to the examination.
- (b) The question tested candidates' knowledge on claims administration performance, was very poor (30%) which showed that candidates need to be more prepared for the examination on reinsurance.

Question 14

Candidates performed above average as regards the difference between captives and self-insurance. Through the calculation in part (b) of the question, candidates show that they understood the application of the treaty reinsurance arrangement relating to reinsurance protection for miscellaneous accounts. Very good attempt 55-60% scored above average.

Comments on Overall Performance:

The overall performance showed that candidates did not adequately prepare for the examination whilst most candidates (81%) lacked practical knowledge of reinsurance principles and applications. Moreover, there is unnecessary phobia about reinsurance being a "complex" aspect of insurance practices.

Suggestion(s) on Improvement (if any):

Special program should be set up for coaching candidates who intend to major in reinsurance practice ahead of the next diet and/or future examination. Moreover, examiners report, should be made available for subsequent candidates and should be encouraged to seek practical knowledge in some reinsurance department of some companies.

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Enumerate four (4) various sources that a reinsurer principally obtains statistical data from.

Solution:

A reinsurer obtains statistical data principally from the following:

- Reinsurance underwriters
- Claims department
- Retrocession department
- Technical processing department
- Finance department
- Security department

(1½ marks for each correctly stated answer. Maximum of 4 points to be graded. 6 marks in total).

2. Explain the reasons why companies with similar portfolios set different retention limits.

Solution:

Companies with similar portfolios will often set different retention limits because their **corporate objectives, risk appetite, the weight they place** on the factors which determine the retention *are unlikely to be identical*.

(2 marks for each of the bolded points. 6 marks in total).

3. As an international business, reinsurance is exposed to currency fluctuations. How can this exposure be avoided on reinsurance transactions in currency other than the normal accounting currency of the reinsurance company?

Solution:

An exact match of assets and liabilities can avoid this in the transaction currency. If a reinsurance company transacts business in many currencies, such a policy might be impractical.

In order to reduce costs, ease administrative burdens and reduce currency exchange risk, **reinsurers tend to hold relatively few but strong currencies and then link other weaker currencies and their appropriate assets and liabilities to one of those stronger currencies.**

(3 marks for each of the bolded points)

4. List any four (4) exclusions that are generally found in motor insurance treaties.

Solution

The exclusions which are generally found in motor insurance treaties are:

- i) Those who take out dangerous activities
- ii) Those which take out hazardous cargo
- iii) Areas not properly covered by motor insurance
- iv) Exposure to high-value third party property damage
- v) Exclusions relating to areas of higher risks
- vi) Consideration for higher premium

(1 ½ marks for each correctly stated exclusion. Maximum of 4 to be graded. Total: 6 marks)

5. Enumerate any six (6) buyers of reinsurance coverages or products.

Solution

The buyers of reinsurance coverages or products are:

- Direct insurance companies
- Lloyd's syndicates
- Captive insurance companies
- State insurance companies
- Reinsurance pools
- Reinsurance companies

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

6. Explain the following terms:

- (a) Overriding commission; (b) OGR?

Solution:

Overriding commission is **money paid by the reinsurer to the reinsured** in order to **cover the reinsured's costs in administering the business and ceding it to the reinsurer**. The amount given to the reinsured is dependent upon the profitability of the treaty and the management expenses of the reinsured. **(3 marks).**

Original Gross rate (OGR) is the **rate of premium applied under the original business to the sum insured**. The result of the original gross rate times the sum insured equals the original premium. **No deductions are made for commission or brokerage.**
(3 Marks).

7. When a board of directors identifies the company's investment policy, there are always identified needs of the companies that requires serious consideration and balancing in order to make a sound decision. Enumerate any three (3) of these needs.

Solution:

A board of directors will seek to balance the following needs when the directors identify the company's investment policy:

- Preserve and enhance the capital of the company
- Generate adequate level of returns compatible with risk
- Have adequate cash available in relation to cash-flow requirements
- Match assets to liabilities as and when they are expected to fall due for payment
- Consider any differential tax implications of alternative policies
- Segregate life funds from general funds
- Spread the holdings of investment so that there is not excessive reliance on any one institution or sector in the event of collapse or failure of that institution or sector

(2 marks each for correctly stated need; Maximum of 3 to be graded. 6 marks in total).

8. Concisely enumerate any four (4) common characteristics that differentiate non-proportional from proportional treaties.

Solution

The common characteristics that differentiate non-proportional from proportional treaties are:

- the size of cession is not determined case by case
- accounting operations are reduced to a minimum, but are also more elaborate
- administration costs are substantially reduced.
- the reinsurance premium is all-inclusive and not calculated on each cession, but on the whole of the cedant's portfolio in one or more branches, in order to cover losses occurring during a calendar year
- the reinsurance premium is predetermined, which enables the cedant to allow for the cost in its budget
- there is usually no profit commission
- the reinsurer does not deposit technical reserves, so that the cedant has to finance it.

(1½ mark for each correctly stated characteristic. Maximum of 4 characteristics should be graded. Total: 6marks)

Part II**Compulsory Question**

(a) All candidates are required to attempt the option (a)

(b) Candidates are required to attempt either of the option (b) and NOT both.

This question carries 50 marks.

9. (a) According to the Federal Republic of Nigeria Insurance Act 2003, Section 2 stated the main classes of insurance as two. Mention these two main classes and state the any three categories under each class. **(10 marks)**

(b) Best Insurance Company Limited has a surplus treaty protecting her fire insurance portfolio. The insurance company is allowed a provisional commission of 25% on premium ceded and the actual commission is driven by the loss ratio and subject to a pre-agreed scale.

The following are extracts from the books of Best Insurance Company Limited between 01/01/2020 – 31/12/2020:

2020	Premium Ceded (Basic) (₦)	Premium Ceded (N/Perils) (₦)	Claims Paid by the Treaty (₦)
Q1	116,438,409.00	24,855,177.00	23,132,277.00
Q2	132,113,481.00	29,232,614.00	89,744,481.00
Q3	168,879,405.00	36,025,301.00	378,542,014.00
Q4	102,608,118.00	23,079,458.00	152,375,575.00

Information:

- Outstanding loss to treaty as at 31/12/2020 is ₦303,936,744.00
- Premium Ceded in 2019: ₦342,393,210.00
- Losses outstanding as at 31/12/2019: ₦505,671,033.33
- Premium portfolio @ 40%
- Loss Portfolio @ 90%

Required:

- i. Prepare the commission adjustment statement and determine the actual commission using the underlisted sliding scale table:

(34 marks)

Commission	for	Loss Ratio
22.5%	for	60% or greater
23.0%	for	57.14% or greater but less than 60%
23.5%	for	54.29% or greater but less than 57.14%
24%	for	51.43% or greater but less than 54.29%
24.5%	for	48.57% or greater but less than 51.43%
30%	for	less than 20%

- ii. What is the additional commission payable (if any) by the reinsurers?

(3 marks)

- iii. What is the return commission (if any) due to the reinsurers? **(3 marks)**

Solution

a) The two classes of insurance, according to the Act are:

- Life Insurance Business and
- General Insurance Business.

(2 marks for each correctly stated class)

The categories are:

- **Life Insurance Business:**
 - Individual Life Insurance Business
 - Group Life Insurance and Pension Business
 - Health Insurance Business
- **General Insurance Business:**
 - Fire Insurance Business
 - General Accident Insurance Business
 - Motor Vehicle Insurance Business
 - Marine and Aviation Insurance Business
 - Oil & Gas Insurance Business
 - Engineering Insurance business
 - Bonds Credit Guarantee and Suretyship Insurance Business
 - Miscellaneous Insurance Business

(1 mark each for correct categories. Maximum of 3 to be graded per class. Sub-Total: 6 marks)
(Grand Total: 10 marks)

b)

COMMISSION ADJUSTMENT STATEMENT AS AT 31/12/20	(1 Mark)
CLASS: FIRE SURPLUS	(1 Mark)
COMPANY: BEST INSURANCE COMPANY LIMITED	(1 Mark)

Gross Premium Ceded	633,231,963	(2 marks)
Less Premium Reserve in 2020 @40% of N633,231,863	253,292,785.24	(2 Marks)
Add Premium Reserve in 2020 @ 40% of N342,393,210	136,957,284.00	(2 Marks)
EARNED PREMIUM	516,896,461.85	(4Marks)
INCURRED LOSS		
Losses Paid As @ 31/12/2020	643,794,346.72	(2 Marks)
Add Loss PTF Withdrawal @ 31/12/20 = 90% of N303,936,744	273,543,069.60	(4 Marks)

Less Loss PTF Withdrawal @ 31/12/2019 = 90% of N505,671,033.33	455,103,930.00	(4 Marks)
INCURRED LOSS	462,233,486.32	(4Marks)
LOSS RATIO = INCURED LOSS/EARNED PREMIUM X 100	89.42%	(3 Marks)
PROVISIONAL COMMISSION = 25% X N633,231,963.00	158,307,990.75	(3 Marks)
ACTUAL COMMISSION RATE BASED ON THE SLIDING SCALE TABLE IS 22.5% FOR LOSS RATIO HIGHER THAN 60% = 22.5% * N633,231,963.00	142,477,191.68	(3 Marks)

ii. Since the provisional commission of **N158,307,990.75** is higher than the actual commission of **N142,477,191.68**, there is a refund commission due to the reinsurers from the reinsured of N15,830,799.08 being the difference between the provisional commission and the actual commission i.e $N158,307,990.75 - N142,477,191.68 = N15,830,799.08$ **(2 Marks)**

Sub-Total: 40 marks)
(Grand Total: 50 marks)

OR

(b) The information below related to the reinsurance businesses of ABC Insurance Company Limited to Abuja Reinsurance Limited for 2019 and 2020

2019 Premium ceded to the reinsurance treaty

₦

First Quarter	-	29,500,000.00
Second Quarter	-	20,800,000.00
Third Quarter	-	6,600,000.00
Fourth Quarter	-	3,100,000 .00

2020 Premium ceded to the reinsurance treaty

	N
First Quarter	- 31,900,000.00
Second Quarter	- 22,800,000.00
Third Quarter	- 10,400,000.00
Fourth Quarter	- 4,900,000 .00

You are required to prepare the profit commission statement for 2020 taking into consideration the following terms of the reinsurance treaty:

- i. The ceding commission is 25%
- ii. Management expenses is 15%
- iii. Unearned premium reserve is 30%
- iv. Reserve for claims pending settlement is 10%
- v. Losses are to be carried forward till extinction
- vi. Profit share is at 35%.

Please note that there was loss of ~~N~~3,000,000.00 in 2019.

(40 marks)

Solution

a) The two classes of insurance, according to the Act are:

- Life Insurance Business and
- General Insurance Business.

(2 marks for each correctly stated class)

The categories are:

- **Life Insurance Business:**
 - Individual Life Insurance Business
 - Group Life Insurance and Pension Business
 - Health Insurance Business
- **General Insurance Business:**
 - Fire Insurance Business
 - General Accident Insurance Business
 - Motor Vehicle Insurance Business
 - Marine and Aviation Insurance Business
 - Oil & Gas Insurance Business
 - Engineering Insurance business
 - Bonds Credit Guarantee and Suretyship Insurance Business
 - Miscellaneous Insurance Business

(1 mark each for correct categories. Maximum of 3 to be graded per class. Sub-Total: 6 marks)

(Grand Total: 10 marks)

b)

PROFIT COMMISSION STATEMENT: ABC INSURANCE COMPANY LIMITED	(2 marks)
---	------------------

	OutGo (NGN)	Income (NGN)	
Gross Premium Ceded		70,000,000.00	4 marks
PTF Premium Ass.		18,000,000.00	4 marks
LOSS PTF Ass.		-	2 marks
Ceding Commission @ 0.025%	17,500,000.00		4 marks
PTF Premium Withdrawal	21,000,000.00		4 marks
Loss PTF Withdrawal	-		2 marks
15% Management Expenses	10,500,000.00		2 marks
Balance c/d	-		2 marks
Total:	49,000,000.00	88,000,000.00	2 marks
Balance for Year 2016 = 39.000,000.00			2 marks
ttTotal Income = NGN88,000,000.00			2 marks
Total OutGo = NGN49,000,000.00			2 marks
Balance for Year 2016 = NGN88,000,000.00 - NGN49,000,000.00 = NGN39,000,000.00			
Less Loss from Year 2015 of N3,000,000.00			1 mark
= 39,000,000.00 - 3,000,000.00 = N36,000,000.00			1 mark
Balance Profit as at 31/12/2019 = N36,000,000.00			2 marks
Profit Commission = 35% of N36,000,000.00 = N12,600,000.00			2 marks

Part III

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

Each question carries **34** marks.

10. a) Explain the term “surplus reinsurance? **(10 marks)**

b) Enumerate any four (4) advantages of a surplus reinsurance. **(12 marks)**

c) Enumerate any four (4) disadvantages of a surplus reinsurance. **(12 marks)**

Solution

a) Surplus reinsurance is any reinsurance that is arranged on a surplus treaty. A surplus treaty is where the cedant cedes to the reinsurer risks in excess of its net retention.

Furthermore, the net retention under a surplus treaty is called a line and the surplus treaty will thereafter be arranged as a multiple of the cedant’s net retention. Any risk which falls below the cedant’s net retention is retained 100% by the cedant, unlike in a QS, where every risk is shared between the cedant and reinsurer.

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

b) The advantages of a surplus reinsurance are that:

- it enables the cedant to express its retention in absolute monetary terms
- it enhances the cedant’s underwriting capacity
- it gives a form of protection against high frequency of loss
- it also enables the cedant to keep a higher proportion of premium
- there could be 2nd and 3rd surplus treaties, so that once the 1st surplus treaty capacity is fully utilized, the cedant moves on to the 2nd surplus treaty and so on.

(3 marks for any correctly outlined advantage. Maximum of 4 to be graded.

Total: 12 marks)

c) The disadvantages of a surplus reinsurance are that:

- there is limited protection against accumulation of losses
- it is more complex in administration when compared with a quota share
- there is a high possibility of overstating the retention
- ceding commission is equally lower when compared with that obtainable in quota share

(3 marks for any correctly outlined disadvantage. Maximum of 4 to be graded.

Total: 12 marks)

11. Are pooling arrangement and co-insurance the same? Justify your response.

(10 marks)

ii) Enumerate and explain any six (6) reasons why direct offices need reinsurance for their portfolios.

(24 marks)

Solution

a) No. pooling arrangement and co-insurance are not same. **(2 marks)**. A **pooling arrangement** is an arrangement whereby a number of companies (insurance and reinsurance) operating in a particular country or region or sub-region and the business accepted is shared amongst the participants of the pool. Therefore, the participants are commonly exposed to an accumulation of risk from the business attaching to the pool. While **co-insurance** is the sharing or spreading of a risk between two or more insurance companies

(2 marks for each correctly stated point. Maximum of 2 points to be stated under each term. Sub-Total: 4 marks on each term. Sub-Total: 10 marks)

b) The following are reasons why direct offices need the reinsurance for their portfolios:

- Further spread of risks for the direct offices.
- To comply with the regulator's requirements.
- Bigger or additional capacity to the direct offices.
- Catastrophe protection.
- Stabilization of claims ratio.
- Profit sharing arrangement.
- It brings about confidence to the direct offices.
- Product development.
- Underwriting and other financial advisory services.
- Solvency margin protection.
- Training and development programmes.

(2 marks each for every correctly stated reason. 2 marks for every correct explanation under each stated reason. Sub-Total: 4 marks per reason. Grand Total: 24 marks)

12. (a) To calculate the result of a contract, proper diligence must be observed in the recording of relevant data. List and explain three (3) sources of statistical data for reinsurance assessment. **(14 marks)**

(b) List and explain five (5) core contract data to be recorded for both proportional and non-proportional reinsurance contract. **(20 marks)**

Solution:

Sources of statistical data include:

Reinsurance Underwriters: the reinsurance underwriters are the initial source of information in relation to a reinsured. Statistical information in relation to premiums and claims will be provided by the reinsured or through an intermediary.

Claims Department: claims associated with proportional treaties accounting statement. They also collate claims data for individual risks and contracts as well as non-proportional treaties on a per risk basis. Also, information relating to catastrophe claims (if any) would be collated. All the information collated by the claims department will

be shared with their underwriting colleagues as a basis for reviewing terms for contract or reinsurance for the future.

Retrocession Department: the department will be responsible for maintaining details of each retrocession contract, allocating gross losses to the reinsurer's retrocessions and effecting recoveries through the production and submission of retrocession accounts.

(5 marks each for underwriter and claims. 4 marks for retrocession department. 14 marks in total)

(2 marks each for listing the sources and 3 marks each for correctly explaining each of the sources. But 2 marks each for listing Retrocession department and explanation. Maximum 14 marks in total).

b) **Core Contract Data consist of the following:**

- **Reinsurers underwriting reference:** this will be a unique reference identifying the contract concerned and may be arranged to identify other matters such as underwriting department, class of business, the contract type and the retrocession protections involved.
- **Name of reinsured**
- **Name of insured (for specific treaty protection).**
- **Name of the Intermediary (ies).** If applicable e.g. reinsurance brokers.
- **Inception and expiry date of the reinsurance contract:** The basis of the period e.g. risk attaching or claims made or losses occurring for non proportional or year of account or underwriting year for proportional treaty.
- **Class (es) of business protected:** General classes are often subdivided into more specific classes e.g. marine account could be subdivided to Marine cargo and Marine hull etc.
- **Types of business:** This relates to whether the contract is direct, facultative or treaty reinsurance or retrocession. Also the type of treaty e.g. quota share or surplus, working or catastrophe excess of loss.
- **Reinsured's applicable protected premium income:** The amount and the basis of premium income, which may be earned, written or accounted should be recorded. In addition whether the premium is on estimated amount or the current or future year(s) or actual amount.
- **Contract limits and deductibles:** these are the reinsurance indemnity or policy limits and retained amounts, including inner aggregate deductible.
- **Currency of limits and deductibles:** The contract will identify the currency (ies) in which the treaty limits and amounts are expressed and the settlement currency (ies). When assessing the statistical trends of a portfolio arising from multi-currency treaties, all currencies should be converted at a constant rate of exchange, whether this is the rate at the inception of the policy, treaty year, date when the information was produced or other appropriate basis.
- **Territory protected:** The reinsurance contract may provide cover on a worldwide, countries specific, particular location or area basis.
- **Reinsurers written line in terms of amount and percentage**

- **Reinsurer's signed line in terms of amount and percentage.**
- **Retrocession protection:** The Reinsurer should record sufficient information to identify all retrocession protections to which the assumed risks will be ceded, on what basis and the sequence of recovery where several retrocession protections operate.
- **Contract results:** This is an amount which reflects the underwriting position reported to the reinsurer either deficit (claims exceed premium items) or credit (premium exceed claims item. It can be contract result for one year only and/or all underwriting years in which the reinsurer undertakes.
- **Loss ratio:** This is a percentage indicating the current underwriting deficit or credit position. Incurred claims are expressed as a percentage of the premium received by the reinsurer.

(4 mark each for 5 correct and well-explained core contract data. Maximum 20 marks in all).

13. (a) The way in which claims are processed depends very much on the class of business involved and whether the claims are for major or for minor losses. Explain, with at least five concentration points, the general claims procedure.
(10 marks)
- (b) Claims are the 'shop window' of any reinsurance operation therefore the handling and payment of claims has become increasingly important. Explain four (4) reasons for having a claims department.
(24 marks)

Solution:

The the general claims procedure are usually around the following concentration points:

- **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?
- **Amendments/endorsement:** Have there been any amendments? If so, when?
- **Period of insurance:** When does the original policy commence and when does it end?
- **Perils Covered:** Is the 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 each for any 5 of the above. 10 marks in all).

b) **There are a number of reasons for having a claims department. These include:**

- Claims frequency is increasing and mounting all the time. Example is the increasing number of motor claims as a result of the increasing number of cars on the road and the rising number of accidents resulting from this.
- 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 complicated by legal and legislative developments. The increasing amount of international trade and considerations that have to be given to the laws of the individual countries from which the underlying contracts emanate.
- There are a number of requirements on the internal organisations of the company that have to be fulfilled. Information must be passed on both vertically and horizontally, to all those parts of the company concerned. This information includes:
 - Adverse development in a risk, contract, or type of business or geographical area
 - Informing underwriters and senior management of any key changes in the claims practices of any underlying reinsured.
 - Keeping the company informed of any key changes in claims handling of competitor reinsurers.
 - Informing the account department of any large request that may be required from reinsured in the settlement of claims i.e cash loss.

(8 marks for each well explained points. 24 marks in total).

14. (a) Differentiate between captives and self-insurance. **(12 marks)**

(b) Oluwalanbe Insurance Plc. has the following treaty reinsurance arrangement protecting its miscellaneous accident account in 2020 underwriting year.

Gross Retention: ₦1,000,000.00

Proportional treaty: 20 lines Surplus treaty.

Non-Proportional treaty: Risk excess of loss programme as follows

Deductible: ₦300,000.00

1st layer cover: ₦200,000.00

2nd layer cover: ₦500,000.00

The company underwrites a risk with ₦25,000,000.00 sum insured and ₦2,500,000.00 premium.

Required:

- Apportion the risk based on the sum insured and the premium. **(12 marks)**
- If there was a loss of ₦24,000,000.00, apportion the liability.

(6marks)

- What is the liability of the excess of loss programme if there is any? **(4 marks)**

Solution

a). **A captive: is an insurance company owned by its parent company (generally not an insurance company, but for example a large industrial or commercial organisation set up and managed in one of the low tax environment. The Captives accepts risks from its parent company for a premium, which it invests to meet any future losses.** A large buyer of insurance may want to remove itself from the conventional spreading of loss, with its associated pricing spread, and have the insurance risk considered entirely on the basis of its own claims experience.

Self-insurance is the most basic and the most frequently used form of ART. It is a process by which an insurance company self insures and retain some risks which would have otherwise cede or transfer to the reinsurer. The reinsurance buyer, when reviewing what has been bought, may feel that the reinsurance purchase has reduced company profit. This feeling may arise either because no claims have occurred or because the levels of claims have been predictable over a period, and that claims experience might be expected to continue into the future. **The decision to self-insure will reduce cash flow.** It should be noted that **self-insurance should be accompanied by an emphasis on risk management and more control over those claims, which do occur.**

(6 marks for each fully explained teams. The bolded points should attract 2 full marks each. A total of 12 marks in all).

b). i. Risk & Premium Apportionment

Retention = N1,000,000

Treaty Capacity @ 20 lines = 20,000,000.

Sum Insured @ N25,000,000 will be apportioned thus:

Gross Retention share = $1,000,000/25,000,000 \times 100 = 4\%$ (2 Marks)

Surplus Capacity share = $20,000,000/25,000,000 \times 100 = 80\%$ (2 Marks)

Balance which can be placed on facultative:

= $4,000,000/25,000,000 \times 100 = 16\%$ (2 Marks)

Premium Apportionment

Retained premium: $4\% \times N2,500,000 = N100,000.00$ (2 Marks)

Surplus treaty premium: $80\% \times N2,500,000 = N2,000,000$ (2 Marks)

Balance/facultative: $16\% \times N2,500,000 = N400,000.00$ (2 Marks)

ii. Claim Apportionment:

Total claim of N24,000,000.00

Retention share @ $4\% = N24,000,000 \times 4\% = N960,000.00$ (2 marks)

Surplus share @ $80\% = N24,000,000 \times 80\% = N19,200,000.00$ (2 Marks)

Balance/facultative share @ $16\% = N24,000,000 \times 16\% = N3,840,000.00$ (2 Marks).

Liability of the excess of loss programme

Oluwanlabe Ins Plc share of the claim on the surplus treaty programme of N960,000.00

will be apportioned as follows:

(1 Mark)

Deductible = N300,000.00

(1 Mark)

1st Layer XOL = N200,000.00

(1 Mark)

2nd Layer XOL = N460,000.00

(1 Mark)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A03
FINANCE AND ACCOUNTING

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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A03 – FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question tested candidate's knowledge about items that are commonly found under the prepayment and accrued income on the statement of financial position. All the candidates attempted the question, but the performance was very poor (about 35%). In-depth knowledge the coursebook is advised if the candidates desire a good success in this type of examination.

Question 2

The question tested candidates' knowledge about the accounting record prescribed by the Company Act to be kept by companies and their duties. Only about 20% of candidates that attempted the question obtained a pass mark. Candidates are therefore advised to properly prepare for improved future performance.

Question 3

The question tested candidates' knowledge on personal and impersonal accounts. Virtually all candidates attempted it and the general performance was encouraging (about 70%). However, some of the candidates could not be able to differentiate between the two (2) concepts and cite appropriate examples. Candidates need to read and understand the coursebook while preparing further examination.

Question 4

The question required the candidates to list any three (3) out of numerous types of cost accounting methods. Majority of those that attempted the question performed very well i.e. about (55%); while the few ones that did not understand it, could not obtain a pass mark in the question.

Question 5

The question tested candidates' classifications of "accounts" with examples of each. Almost all the candidates attempted the question and the performance was encouraging (about 60%). However, some candidates could not cite a good example of both. Candidates are advised to study their coursebooks very well.

Question 6

The question tested candidates' knowledge on standard costing. Almost all the candidates attempted the question, but the performance was not encouraging about (25%). It is therefore recommended that candidates should study their coursebook properly to get correct facts.

Question 7

The question tested candidates' knowledge of the documents that are to be prepared when the final accounts and their notes are produced. The attempt was good (about 95%) but performance was poor (about 22%). A reason for this could be deduced to be students

trying to write answer from their knowledge rather than the coursebook. Candidates are enjoined to always read the coursebook and use it as a guide while preparing for examination.

Question 8

The question tested candidates understanding of the basic concepts of accounting. The performance was fairly good, 51% of the candidate obtained the pass mark while 49% failed to write the answer correctly. Candidates were suggesting direct answers other than textbook answer. Candidates are advised to cover every aspect of their coursebook always.

Question 9

This is the compulsory question that accounts for 25% of the total marks available. It was attempted by the candidates but only 18% of the candidates scored a pass mark. Knowledge about preparation of final accounts and regulatory guidelines were tested. The candidates need to be more conversant with every aspect of their course book as well as the environment and regulatory aspect of the syllabus.

Question 10

The question tested candidates of the factors to be considered when selling required size for a business. The attempt was good and 70% of the candidates that attempted scored above average. The performance indicated that candidates displayed adequate understanding of the concept tested by the examiner. Candidates are advised to study harder and ensure the cover the syllabus always. This is the only way out to come out successfully in this type of examination.

Question 11

The question tested candidates' knowledge on various activity accounting ratios. The question was poorly answered. The performance was about 25%. Candidates are advised to familiarize themselves with the concept of accounting ratio as means of interpretation of financial statement.

Question 12

The question tested candidates' knowledge of general principles that guides insurers' investment of their fund. The general performance was about average (50%). Some candidates were confusing the question with the general principles of insurance. This indicated that they did not understand what was required of them. Candidates are advised to read and understand the question very well before answering any question.

Question 13

The question tested the candidates' knowledge about the importance of supervision and circumstances in which the regulator can invoke laws to withdraw the authorisation. The

question was well attempted by all candidates as they all displayed a good understanding of the concepts. The general performance was about 70%.

Question 14

The question tested candidates' knowledge on sources of taxation, expenses not allowable while computing corporation tax as well as some aspects of VAT. However, the general performance was not encouraging, about 30% of them passed. It is surprising that many candidates could not define VAT nor list the sources of taxation. Candidates are advised to take their studying seriously and ensure that every aspect of the coursebook is covered.

Comments on Overall Performance:

The overall performance of 25% pass rate is below average. There is need for students' sensitisation on how to adequately prepare for this type of examination.

Suggestion(s) on Improvement (if any):

Candidates are advised to study the coursebook and ensure that every aspect of the syllabus are covered.

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

1. There are various items commonly found under the prepayment and accrued income on the statement of financial position. List any two (2) of such items.

Solution

The items that are commonly found under the prepayment and accrued income on the statement of financial position are:

- accrued interest and rent
- deferred acquisition cost
- other prepayments and accrued income

(3 marks for each correctly stated concept. Maximum of 2 to be graded.

Total: 6 marks)

2. All companies are required by the “Company Act” to keep accounting record sufficient to show and explain the company’s transactions and to perform two duties. Concisely enumerate these two (2) duties.

Solution

The two (2) duties that the Company Act requires every company to keep on accounting record in order to show and explain the company’s transactions are:

- to disclose with reasonable accuracy, at any time, the financial position of the company at all times
- to enable the directors to ensure that any balance sheet and profit and loss account prepared for the purposes of the Act complies with its requirements.

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

3. Enumerate three (3) examples of personal accounts and three (3) examples of impersonal accounts.

Solution**Solution**

Account Type	Examples
Personal Accounts	Debtors, creditors, assets, liabilities
Impersonal Accounts	Wages, sales, premium, commission, depreciation

(1 mark for each correctly stated example. Maximum of 3 to be graded per account type. Total: 6 marks)

4. There are various types of cost accounting methods. List any three (3).

Solution

The various types of cost accounting methods are:

- * cost recording * product costing * absorption costing
- * activity based costing * variable or marginal costing * standard costing

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

5. Enumerate the two classifications of “Accounts” and provide two (2) examples of each.

Solution

The two classifications of Accounts, with examples, are:

- Real Accounts: cash, land, buildings, cows, e.t.c.
- Nominal Accounts: debtors and creditors (assets and liabilities accounts); wages, sales, premiums, commission, depreciation.

(1 mark for each corrected stated classification. I mark for each correctly stated example. Maximum of 2 examples should be graded. Sub-Total per classification: 3 marks. Grand Total: 6 marks)

6. Enumerate the three (3) broad categories that standard costing is usually classified into.

Solution

The three broad categories into which standard costings are classified are:

- basic cost standards
- ideals standards
- currently attainable standards

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

7. When the final accounts and their notes are produced by a limited company, the documents prepared may be referred to as or accounts.

Solution

When the final accounts and their notes are produced by a limited company, they may be referred to as **published accounts** or **shareholders accounts**.

(3 marks for each bolded phrase above. Total: 6 marks)

8. There are usually four basic concepts of accounting. State any three (3) of these basic concepts.

Solution

The four basic concepts of accounting are:

- * “Going Concern” * “Accruals”
- * “Consistency” * “Prudence”

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

Part II Compulsory Question. This question carries 50 marks.

9. (a) What is the full meaning of NIA? Enumerate any four (4) of roles of the body. **(10 marks)**
- (b) Annual returns of some documents and record are required to be submitted by companies limited by shares (other than those classified as small ones) to the corporate affairs commission not later than 42 days after their annual general meeting. Outline any four (4) of such required documents and records. **(10 marks)**
- (c) Next level Plc has authorized share capital of ₦20,000,000.00 divided into 600,000 ordinary shares of ₦25.00 each, 50,000 8% preference shares of ₦100.00 each. After ascertaining the net profit for the year ended 31st December 2020, the following balances remained in the ledger:

	Dr (₦'000.00)	Cr (₦'000.00)
50,000 8% Preference Shares at N100.00 each		5,000
600,000 Ordinary Shares of N25.00 each		15,000
Retained Earnings		2,380
General Reserve		2,278
Trade Receivables		830
Trade Payable		652
Inventory		1,200
Freehold Property at Cost		11,890
Plant and Machinery at Cost		14,000
Provision for Depreciation on Plant and Machinery		6,000
Furniture and Fittings at Cost		1,000
Provision for Depreciation and Furniture and Fittings		400
Cash at Bank		2,790

After extracting the above balances, it was decided to pay a full year's dividend on the preference shares and the directors decided to recommend a dividend of 7% on the ordinary shares and to transfer ₦800,000.00 to general reserve.

Required:

Prepare the statement of financial position of Next Level Plc as at 31st December 2020 in accordance with the requirements of International Financial Reporting Standards (IFRS). (Show your workings). **(20 marks)**

- d) A publicly quoted company in Nigeria is required to prepare general purpose financial statements. This is in line with IAS 1 which is on presentation of financial statements. List four (4) of those statements. **(10 marks)**

Solution

(a) Nigeria Insurers Association. (2 marks)

Some of the roles are:

- to protect, promote, and advance the common interest of insurers
- to advise members on any action by government or any authority in connection with any legislation or policy
- to advise or consult with the government regarding any act by it or its agencies with regard to any matter relating to insurance
- to guide and assist members in complying with any statute, regulation and government directive relating generally to the insurance business
- to create better understanding of insurance by all sections of the community
- to maintain constant dialogue with other trade associations
- to consult, co-operate with any individual, association within or outside Nigeria having objectives similar to those of the Association
- to promote cordial relationship among members

(2 marks for any correctly stated role. Maximum of 4 roles to be graded. Total: 8 marks)

(Grand Sub Total: 10 marks)

b) The required documents that companies limited by shares other than those classified as small ones are supposed to submit annual returns of some documents and record to the corporate affairs commission not later than 42 days after their annual general meeting are:

- annual returns and financial statements of the company
- auditor's report
- register of members of the company
- indebtedness of the company
- the directors' report

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

c) Next Level Plc

Statement of Financial Position as at 31st December 2018

	N'000	N'000
ASSETS		
NON-CURRENT ASSETS:		
Property, Plant and Equipment (W ₁)	20,000	(1mark)
CURRENT ASSETS		
Inventory	1,200	(1mark)
Trade Receivables	830	(1mark)
Cash at Bank	2,790	(1mark)
	<u>4,820</u>	(1mark)
	<u>25,310</u>	(2marks)

EQUITY AND LIABILITIES

EQUITY

600,000 Ordinary Shares at N25 each	15,000 (1mark)
50,000 8% Preference Shares at N100 each	5,000 (1mark)
General Reserve (W ₄)	3,078 (1mark)
Retained Earnings (W ₅)	1,580 (1mark)
	<u>29,658 (1mark)</u>

CURRENT LIABILITIES

Trade Payable	<u>652(1mark)</u>
TOTAL EQUITY AND LIABILITIES:	<u>25,310(2marks)</u>

WORKING NOTES

1) Property, Plant and Equipment (W₁)

Value	Cost	Accumulated Depreciation	Net Book
	N'000	N'000	N'000
Freehold Property	11,890	-	11,890
Plant and Machinery	14,000	6,000	8,000
Furniture and Fittings	1,000	<u>400</u>	<u>600</u>
	<u>26,890 (1mark)</u>	<u>6,400(1mark)</u>	<u>20,490(1mark)</u>

iv) Retained Earnings (W₄)

	N'000
Ledger Balance	2,380
Less Transfer to General Account	(800)
Ending Balance	1,580 (1mark)

v) General Reserve (W₅) = N2,278,000 + N800,000 = N3,078,500.00 (1mark)
(Grand Sub-Total: 20 marks)

d) The statements that a publicly quoted company in Nigeria is required to prepare in line with IAS 1 which is on presentation of financial statements are:

- a statement of financial position as at the end of the reporting period
- a statement of comprehensive income for the reporting period
- a statement of changes in the equity for the period
- notes comprising a summary of significant accounting policies and other explanatory information
- a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes

retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

(2½ marks for each correctly stated document. Maximum of 4 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) There are some factors which are required to be taken into consideration when trying to set the required size for a business. List and explain any six (6) of those factors. **(18 marks)**
- (b) (i) What is solvency margin? **(4 marks)**
(ii) Briefly explain the two (2) methods of calculating solvency margins for General Business Insurance. **(12 marks)**

Solution

a) The factors that should be taken into consideration while trying to set the required size are the:

- size of the insurer (net retention)
- type of business undertaken (class and geography)
- efficiency of management (i.e. claims and expense control, underwriting ability)
- risk of outstanding claims exceeding provisions thereafter
- possibility of a collapse in investment values at a time when cash is needed
- danger of default by debtors, particularly reinsurers
- harmful effects of an increase in inflation rates, whether general or specific in relation to the business. Such as motor repair costs or courts awards
- degree of exposure to exchange rate risk
- existence of equalization or other reserves counted as liabilities
- basis of valuing assets and liabilities.

(Candidates are required to give a brief explanation on all the stated factors)

(2 marks for correctly stated factor. 1 mark for explanation. Maximum of 6 to be graded. Grand Total: 18 marks)

b) (i) A solvency margin is the **excess of the value of (an insurer's) assets** over **the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulations.**

(1 mark for each bolded and coloured phrase. Total: 4 marks)

(ii) The two (2) methods of calculating solvency margins for General Business Insurance are:

Method I – Based on Premiums

The starting point is to gross worldwide general business premiums for the previous financial year in order to make sure that this is an annual premium figure, it is divided by the number of months in the financial year and multiplied by twelve (obviously, this only alters the figure if the financial year does not cover the normal twelve months' period). A figure is then calculated being 18% of the first ten million units of the account. The calculated figures are added together and multiplied by a percentage which is normally that which claims net of reinsurance recoveries bear to gross claims incurred in the last financial year; however, the percentage must not be less than 50%.

Method II – Based on Claims

Add together all claims incurred (gross) in the referenced period (the last three financial years for most classes but seven years of more than half the gross premiums from storm, hail or frost). Then divide this figure by the number of months in the referenced period and multiply by twelve – thus bringing the figure to the annual basis.

(2 marks for each correctly mentioned method. 2 marks for each correct explanation and complete explanation under each method. Sub-Total: 4 marks. Grand Total: 8 marks)

(Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

11. (a) There are various activity ratios that can be calculated on any financial statement of account. Outline any four (4) of these and indicate how they are calculated. **(16 marks)**

(b) Enumerate, three (3) advantages and three (3) disadvantages of divisionalisation. **(18 marks)**

Solution

a) Some activity ratios that can be calculated on any financial statement of account and how they are calculated are:

i) **Turnover: Net Assets** which shows how effectively the company is using its assets in generating business.

ii) **Trading Profit: Turnover** which is an indication of the average profitability of each unit of sales)

iii) **Sales: Fixed Assets**

iv) **Sales: Current Assets**

v) **Sales: Stock** although this is not appropriate for insurance

vi) **Sales (Premiums): Debtors**

(2 marks for each correctly stated activity ratio; 2 marks for each correct explanation on how the ratio can be calculated. Sub-Total per ratio: 4 marks. Maximum of 4 to be graded. Grand Sub-Total: 16 marks)

b)

S/No	Advantages	Disadvantages
1	Better quality decision	Lack of goal congruence
2	Speedier decisions	Increased costs
3	Higher motivation levels	Less control
4	Frees senior management	Less Direction
5	Trains junior management	

**(3 marks for each correctly stated point. Maximum of 3 to be graded under each column. Grand Sub-Total: 18 marks)
(Grand Total: 34 marks)**

12. (a) Insurers are required to be guided by some general principles when investing funds for their companies. List and explain any five (5) of these General Principles. **(15 marks)**

(b) i Enumerate any five (5) features of Long Term Insurance Fund – Life Assurance **(10 marks)**

ii Enumerate any three (3) features of Long Term Insurance Fund – Unit Linked Business. **(9 marks)**

Solution

a) The general principles that should guide investment by insurers are:

- **Legal:** the law requires insurers to separate funds for investment. Life fund and general business funds must be separated for different types of investments.
- **Yield:** it should be the aim of insurers investment policy to invest its funds to earn the maximum expected yield thereon.
- **Spread:** investment should be spread over the widest possible range in order to secure the advantages of favourable and minimize the disadvantages of unfavourable political and economic trends.
- **Future Trends:** offices should vary their investments in accordance with their view of probable future trends.
- **Social and Economic Factors:** offices should endeavor to orientate their investment policy to socially and economically desirable ends.
- **Sundries:** these provides most of the general guidelines e.g. a higher risk profile may be adopted by a life insurer to try and improve the attractiveness of its with-profit portfolio.

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

b) i) **Features of Long Term Insurance Fund – Life Assurance are:**

- the contracts are long term ones and as such lapse incurs losses to the insured, thus premium income tends to be constant and reliable
- outgo can be estimated reasonably accurately both as to the timing and amount – there are not likely to be sudden calls for funds
- the catastrophe risk is unlikely to be significant

- the premium takes into account income to be earned over the period of the policy. the life fund relies for its solvency on its investment income as much as on the premium stream
- investment policy is as important as the underwriting policy and considerable reserves buildup in the life fund held in trust for policyholders
- home business is still much more significant than that transacted overseas
- in view of the long term nature of the contract, some accounts frequently need to be consider inflation effects in determining the benefits ultimately payable
- annuity and bonds= business both guarantees surrender values and cash options give rise to somewhat different considerations, notably leading to a greater need for liquidity

(2 marks for correctly and completely stated feature. Maximum of 5 features to be graded. Grand Sub-Total: 10 marks)

ii) Features of Long Term Insurance Fund – Unit Linked Business are:

- they could be managed funds in a broad mix of internal and overseas fixed interests, equity and properties
- they could also be equity funds possibly concentrating on some certain factors
- they could be internationally invested with worldwide equity exposure
- they could be fixed interest fund, generally being securities only but not necessarily so
- they could also be property fund involved in really property investment, which may also be specialized
- they could be money fund which is investment in cash deposits or similar liquid financial instruments.

(3 marks for correctly and completely stated feature. Maximum of 3 features to be graded. Grand Sub-Total: 9 marks)

(Grand Total: 34 marks)

13. (a) Is supervision necessary for the insurance industry. Justify your response with at least seven (7) supporting arguments. **(24 marks)**

(b) Authorisation to write new business may be withdrawn on the discretion and/or directive of the Regulator. Enumerate any five (5) circumstances in which such power can be invoked. **(10 marks)**

Solution

a) Yes, supervision is necessary for the insurance industry. **(3 marks)**. The reasons supervision is considered necessary for the insurance industry are:

- requirements for compulsory insurance (not strictly control of insurers, but clearly related in that it creates a demand and gives the State an even stronger duty to ensure that insurers are secured)
- 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 expense charges
- financial requirements – deposits, minimum capital, solvency
- requirements for annual (or more frequent) returns
- powers of direction and other interventions (particularly relating to assets)
- controls on advertising and marketing
- controls on intermediaries, commission payment, e.t.c.
- nationalization and the probabilities of overseas competition
- compulsory compensation schemes for affected policyholders and claimants.

(3 marks for each correctly stated reason. Maximum of 7 to be graded. Sub-Total: 24 marks)

b) Some circumstances where the authorisation to write new business may be withdrawn on the discretion and/or directive of the Regulator are:

- at the request of the company
- if the company has failed to satisfy an obligation imposed by the Act
- if there exist a ground which would stop the Regulator from issuing an authorization
- if the company has ceased to be authorized in the State where its head office is situated
- where it ceases to carry on insurance business of a particular class or classes
- where it has not commenced business in a class within twelve months of authorization.

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

(Grand Total: 34 marks)

14. (a) There are various sources through which the Federal Inland Revenue Services in the country of any insurer's operation can perform its function of increasing tax revenue in accordance with legislation. List and briefly explain any three (3) of such sources. **(12 marks)**
- (b) List and briefly explain any two (2) expenses which are not allowable for consideration while computing corporation tax. **(9 marks)**
- (c) (i) What is Value Added Tax (VAT)? **(2 marks)**
(ii) How is VAT calculated? **(2 marks)**
- (iii) Explain the terms standard rated; zero-rated and exempt supplies. **(9 marks)**

Solution

a) The sources that the function of the Federal Inland Revenue Services in the country of any insurer's operation to raise taxes in accordance with legislation are through:

- **income:** Income for tax purposes can be derived from many sources such as annual profits or gains in respect of rent and similar payment from land and property in Nigeria. Tax on personal income and allowances, taxes on profit arising from public revenue, dividends payable. Taxes on emoluments from any

office or employment including pension, taxes on distribution made by companies resident in Nigeria

- **capital gain:** these are tax charges at the effective rate of income tax on any profit arising from chargeable gain on disposed tangible asset during the financial year. Chargeable gains represent the difference between the indexed cost of a chargeable assets at the end of the financial year. Capital losses are deducted from capital gains in calculating the net gains that are assessable to tax.
- **value added tax:** this is a tax levied basically on all suppliers of goods and services. It is derived from tax legislation. Supplier may be classified in several ways for the purpose of VAT (i.e. not taxable, taxable, exempt and non- exempt supplies. All suppliers of goods or services are taxable at the standard rate as determined by the federal government.
- **transfers of capital on death:** this is also called inheritance tax. The purpose is to tax the value of transfers of chargeable assets made either on the death of the individual or within the previous seven years of that death.

(2 marks for each correctly mentioned source. 2 marks for each correct explanation and complete explanation under each source. Sub-Total: 4 marks. Grand Sub-Total:12 marks)

b) The following expenses are not allowed for consideration when computing corporation tax:

- **Expenses Not Incurred Wholly and Exclusively for the Purpose of Earning Profits:** there should be some element of necessity or benefit for the company in incurring allowable expense e.g. a subscription to the professional body will be allowable but a political donation will not be allowable.
- **Appropriation of Profit:** such as the payment of dividends or corporation tax itself, will not be treated as a charge against income for corporation tax purposes.
- **Any Charge for Depreciation in the Accounts of the Company:** this is disallowed but is replaced by capital allowance which are prescribed by the statute.

(2½ marks for each correctly mentioned expense. 2 marks for each correct explanation and complete explanation under each expense. Sub-Total: 4½ marks. Grand Sub-Total: 9 marks)

c) Value Added Tax (VAT) is a tax levied basically on all supplies of services and goods in Nigeria. It is derived from Tax Legislation. **(2 marks)**

ii) It is calculated by charging the approved percentage on the amount of goods and services purchased. The general rule is that all supplies of goods and services are taxable at the approved/standard rate (currently 7.5% in Nigeria).

(2 marks)

iii)

- **Standard Rated Supplies:** include sales of furniture, fittings, catering services, management or inspection services, computer hire, internally printed stationery, e.t.c.
- **Zero-Rated Supplies:** include insurances of persons (including reinsurance), certain disposals or leases of property.
- **Exempt Supplies:** include loans to others (rewarded by interest), certain buildings (rents) and issues of shares.

(3 marks for each correct explanation. Sub-Total: 9 marks. Grand Sub-Total: 13 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A04
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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A04 - 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

Text book question to test candidates' knowledge of fidelity policy. Performance very good, close to 80%. Compulsory question.

Question 2

Text book question to test candidates' knowledge of "storm and flood". Compulsory question 65% pass rate.

Question 3

Technical question to test candidates' knowledge of material damage. Compulsory question. Pass rate above 40%

Question 4

Practical question to test collusion extension. Performance was very poor (35%).

Question 5

A coursebook question to test candidates' understanding of exclusion in theft policies. Well attempted by candidates. 70% pass rate.

Question 6

Coursebook question to test candidates' understanding of riot. Their performance was below 40% because they do not know the change made by the Public Order Act 1986.

Question 7

This is to test candidates understanding of plant all-risks cover under CAR. The good performance was about 70%.

Question 8

This is a coursebook question, but unfortunately candidates' understanding on accumulation is not encouraging. Pass rate was about 50%.

Question 9

A compulsory question on BI calculation. Candidates' performance was fair. About 70% pass rate.

Question 10

Technical question to test candidates' knowledge of covers available under Joint Contract Tribunal (JCT) 1988 Clause 22. Performance very poor: less than 40%. Poorly attempted by candidates.

Question 11

Engineering question on boiler pressure vessel and electrical equipment. Performance very poor. 40% performance.

Question 12

This is a practical question for candidates to test their understanding of cover available for fire and special perils, candidates' performance over 60%.

Question 13

Text book question to test candidates' knowledge of "Theft Act 1968". Pass rate 48%.

Question 14

The question is to test candidates' knowledge of BI knowledge of claim settlement. Performance was about 43%.

Comments on Overall Performance:

The overall performance is about 41%.

Suggestion(s) on Improvement (if any):

Candidates should be encouraged to get well prepared for the examination.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. List and briefly describe any three (3) types of fidelity policy.

Solution

The different types of Fidelity Policy are:

- **Individual:** a named employee is covered for a stated amount.
- **Collective Named:** the employees are listed; the list involved their duties. The amount insured may be set out per employee or overall.
- **Collective Unnamed:** the Employees are covered by category e.g. managers, cashier, stock keeper etc. The number insured in each category is stated. Again, the amount insured may be set out per person or overall.
- **Blanket:** it is used for large number of employees' i.e. for a large organisation.
- **Position:** it is used in local government insurance where the position is stated. Therefore, the job-holder for the period of cover is thus insured.

(2 marks each. Maximum of any 3 from the above should be graded. Total: 6 marks)

2. (a) By way of definitions, explain the difference between storm and flood perils in a material damage policy. **(4marks)**
- (b) How can a flooded factory be considered as damaged by storm rather than flood? **(2marks)**

Solution

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

- **Storm:** can be defined as atmospheric disturbance involving wind, rain, snow, hail or any **combination** of them; **while,**
- **Flood:** is defined as escape of water from the normal confines of any natural or artificial water lake, reservoir, canal or inundation from the sea whether resulting from storm or otherwise

(1½ marks each for every correctly difference; 1 mark for the actual comparative word or if drawn in a table, for the tabular comparative reasoning. Total: 4 marks)

- (b) A flooded factory can be considered as damaged by storm rather than flood if the factory was flooded by heavy rain when the escape of water is not from normal confines of any natural or artificial water etc., then the damage would be considered as storm damage and not as flood damage. **(2 marks)**

3. (a) Explain the effect of adding reinstatement clause to material damage policy.
To which item would this apply? **(4 marks)**
(b) How does average apply under this clause? **(2 marks)**

Solution

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

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

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

(Grand Total: 6 marks)

4. Explain the type of insurance policy/cover where an insured may request for collusion extensions.

Solution

A theft policy covers theft involving:

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

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

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

5. Enumerate the three (3) main exclusions usually found in theft policies.

Solution

The main exclusions found in theft policies are:

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

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

6. (a) Enumerate any four (4) elements that must exist for a situation to be defined as a "riot" according to the Public Order Act 1986? **(4 marks)**

(b) What changes did the Act made to the prior standard definition of "riot"? **(2 marks)**

Solution

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

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

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

(b) The changes made meant that;

- the number of people involved increased from three to twelve
- persons of reasonable firmness fear for their personal safety

(1 mark each. Total: 2 marks)

7. What items are usually expected to be covered under the plant and equipment section of the Contractors' All Risk Policy (CAR)?

Solution

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

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

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

8. Explain the term “accumulation of risk” in property and pecuniary insurance.

Solution

Accumulation of risk in property insurance occurs when one insurer holds several different insurable risks (for example, types of property, business interruption and book debt risks) for one or more firms or persons in respect of

- **One address, or**
- **Several addresses form in one fire or other insurance risks.**

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

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

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,
i) who is a “promoter”? **(4 marks)**
ii) mention any three (3) documents required to be submitted by a “promoter” to NAICOM at the preliminary stage of application. **(6 marks)**
- (b) The following figures were supplied by the Chief Financial Officer (CFO) of ABC Plc. **As @ 31/12/2020**

	₦
Turnover	3,000,000.00
Purchases	1,500,000.00
Opening Stock 01/01/ 2020	440,000.00
Opening WIP as @ 01/01/ 2020	190,000.00
Closing Stock as @ 31/12/ 2020	290,000.00
Closing WIP as @ 31/12/ 2020	135,000.00
Direct Wages	127,000.00
Packaging Materials	288,000.00
Carriage	75,000.00
Power	25,000.00
Rent and Rates	75,000.00
Depreciation	150,000.00

Lightening and Heating	80,000.00
Advertising	60,000.00

- i. You are expected to assist the company to calculate the sum insured for Gross Profit. **(26 marks)**

This policy is written on a standard sum insured basis and is based on a 12 month maximum indemnity period. This business is expected to grow by 10% in 2021 and 15% in 2022. Inflation rate could be in the region of 5%.

- ii. Calculate the Year 2021 Projected Gross Profit Sum Insured with Inflation. **(7 marks)**
- iii. Calculate the Year 2022 Recommended Gross Profit Sum Insured with Inflation. **(7 marks)**

Solution

a) 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 the Nigeria Insurance market** space.

(1 mark for each correctly stated/bolded point. Sub-Total: 4marks)

ii) The following are the documents

- a) letter of intent
- b) profile of directors
- c) current CV of the proposed CEO
- d) sworn declaration of non-disqualification of the proposed directors
- e) proposed company name
- f) draft memorandum of association of the proposed company
- g) draft articles of association of the proposed company
- h) evidence of financial soundness of the shareholders supported by sworn affidavit confirming such
- i) evidence of confirmation (clean bill of health) from the primary regulator and approval by the regulator (where necessary)
- j) holding company structure and funding - where applicable
- k) class of insurance to be transacted (whether general, life or reinsurance)

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

(Grand Total: 10 marks)

(b)(i)	N	
Turnover	3,000,000.00	(2 marks)
Closing stock as @ 31\12\2020	290,000.00	(2 marks)
Closing WIP as @ 31\12\2020	<u>135,000.00</u>	(2 marks)
	<u>3,425,000.00</u>	(3 marks)
Less		
Opening stock as @ 01\01\2020	440,000.00	(2 marks)
Opening WIP as @ 01\01\2020	190,000.00	(2 marks)
Purchases	1,500,000.00	(2 marks)
Packaging materials	288,000.00	(2 marks)
Carriage	<u>75,000.00</u>	(2 marks)
	2,493,000	(2 marks)
Gross Profit	<u>932,000.00</u>	(3 marks)

(Sub-Total: 24 marks)

- (ii) An allowance should be made for the effect of growth for the business for 10% in 2021 and 15% in 2022. Also, the inflation rate would be in region of 5%

2021 Projected Gross Profit Sum Insured with Inflation

$$= \text{Gross Profit} + 10\% + 5\% \quad (4 \text{ marks})$$

$$= 932,000 + 10\% + 5\% \quad (1 \text{ mark})$$

$$= 932,000 + 93,200 + 51,260 \quad (1 \text{ mark})$$

$$= \text{N} 1, 076,460.000 \quad (2 \text{ marks})$$

(Sub-Total Marks: 8 marks)

- (iii) 2022 Recommended Gross Profit Sum Insured

$$= 2018 \text{ Projected Gross Profit} + 15\% + 5\% \quad (4 \text{ marks})$$

$$= 1,076,460 + 15\% + 5\% \quad (1 \text{ mark})$$

$$= 1,076,460 + 161,469 + 61,896 \quad (1 \text{ mark})$$

$$= \text{N} 1, 299,825 \quad (2 \text{ marks})$$

(Sub-Total Marks: 8 marks)

(Grand Total Marks: 50 marks)

Part III

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

10. JCT (Joint Contracts Tribunal) 1998 Standard Form of Building Contracts as expressed by Clause 22 has some Insurance requirements. State and briefly explain the responsibilities of the various parties to the contract.

Solution

Clause 22 is in three main parts, namely:

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

CLAUSE 22A

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

(1½ marks for each correctly stated point. Maximum of 6 points to be graded. Total: 9 marks)

CLAUSE 22B

This is used mainly where the employer is a large corporation or a local authority and where insurance is probably cheaper to obtain by them through the contractor. The contractor may arrange insurance if the employer fails to do so. **(5 marks)**

CLAUSE 22C

This clause is in two parts:

Clause 22C.1: relates to existing structure being the sole risk of the employer **(2½ marks)**

Clause 22C.2: relates to the works or extension to existing structures. The cover should be in the joint names. The cover is for fire and defined perils with reinstatement value, professional fees and debris removal clause. **(2½ marks)**

(Grand Total: 34 marks)

11. (a) Concisely explain what cover can be provided under Engineering Insurance Policy for:
- i. Boiler and Pressure Plant
 - ii. Electrical and Mechanical Plant. **(17 marks)**
- (b) State the objectives of the *Pressure System Safety Regulation 2010* to what is required on owners and users of plants; and the duties imposed by the regulation; on owners and use of plants. **(17 marks)**

Solution

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

(i) **BOILER AND PRESSURE PLANT**

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

Explosion: The sudden and violent rending of the pressure plant by force of internal steam or other fluid pressure (other than pressure of chemical action ignition on the contents of ignited flue gases) causing bodily displacement of any part of the pressure plant together with forcible ejection of contents. **(4½ marks)**

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

(ii) **ELECTRICAL/MECHANICAL PLANT**

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

Damage occasioned by:

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

(4 marks)

- factoring of any part of the plant by frost which facture renders the plant in inoperative.

(4 marks)

(Sub-Total: 17 marks)

b) **The Objectives of the Pressure system safety regulations 2010 are:**

- **To prevent the risk of serious injury from a stored energy pressure system as a result of failure of the system or any part of it.** They are **concerned with the contents of the system** insofar as they are under pressure and **except in the case of steam, such as toxicity or inflammability** which is dealt with by other legislation.
(1½ marks for each bolded phrase. Maximum of 4 to be graded. Total: 7 marks)

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

- i. A system with pressure vessel(s) associated pipe work or a pipeline, all when certain or can contain a relevant fluid
- ii. The relevant fluid being steam, a fluid above a given pressure, a gas or liquid in given states.

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

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

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

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

(Sub-Total: 17 marks)

(Grand Total: 34 marks)

12. Assume that you are a practicing insurance broker whom a new client, who is in the business of Iron and Steel Production, has approached for advice on full protection through insurance for all their assets and production line. The client have a sprinkled warehouse. Discuss in your script the various property insurance you would recommend.

Solution

As a practicing Insurance Broker, the advice required to be provided to the new client who is in the business of Iron and Steel Production as requested, are:

- to put in place a **“Fire and Special Peril Policy”** which will cover:
 - ✓ Stock of raw materials and finished goods
 - ✓ Office contents
 - ✓ Buildings comprising of the factory, warehouse and offices
 - ✓ Fire, lighting, explosion, storm, flood, earthquake etc.

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

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

13. (a) Comprehensively define “Theft” under the “Theft Act 1968”. **(10 marks)**
- (b) How does the definition in (a) above differ from the definition of “Robbery and Burglary” as also defined in the Act. **(16 marks)**
- (c) Describe the cover under a basic “Theft Policy”, **(8 marks)**

Solution

- (a) Theft is defined under the “Theft Act 1968” (Section 1) as:
- i. a person is guilty of theft if he dishonestly appropriates property belonging to another person with the intention of permanently depriving the other of it, and “theft: and “steal” shall be construed accordingly
 - ii. it is immaterial whether the appropriation is made with a view to gain or is made for the thief’s own benefit.

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

- (b) **Robbery is defined in Sec. 8 as:** a person is guilty of robbery if he steals and immediately before or at the time of doing so and in order to do so, he uses force

on any person or puts or seeks to put any person in fear of being then and there subjected to force. (6 marks)

Burglary is defined in Sec. 9 as: a person is guilty of burglary if he enters any building or part of a building as a trespasser and with intent to commit any such offence as having entered any building or part of a building as a trespasser he steals or attempt to steal anything in the building or that part of it or inflicts or attempts to **inflict injury on any person therein any grievous body harm.** (3 marks)

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

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

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

(4 marks each. Total: 8 marks)

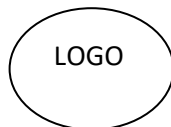
14. Business Interruption (BI) insurers in Nigeria have shown great concern that loss settlement under their policies have been reduced owing to inadequate sum insured. As a Consultant, advise the insurers on steps to be taken to provide an insurance to meet this challenge.

Solution

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

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

- If return premium is applicable, the maximum refund is 50% of the provisional premium paid
- If additional premium is due, there is **no** upper limit
- The policy provides for automatic reinstatement of sum insured
(6 marks for every correctly stated advise. Maximum of 5 advise should be graded. 4 marks for the opening response of addressing the exact question raised in the question. Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A05
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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A05 - 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

This question is intended to test the candidates' knowledge on the understanding of mortgage and the use to which it can be put. More than 90% of them responded positively and the overall performance was above average.

Question 2

The question was based on the users to which annuity products can be put highlighting the advantages and any disadvantage(s) from the use. The question was well understood by the candidates. Over 60% of them scored above 70% mark.

Question 3

The question tested the candidates' knowledge on free cover limit on life assurance and the use of facultative reinsurance. Excellent performance was recorded from above 75% of the candidates.

Question 4

This question tested the candidates' knowledge on some occupational risks with higher risk of death by diseases expecting them to list some examples of such issues. About 80% of the candidates showed high understanding and scored fairly high marks.

Question 5

This question was designed to test the knowledge or the candidates about the essence of underwriting of life assurance. The question was well attempted with very impressive performance.

Question 6

The candidates' knowledge was tested on the difference between an executor and an administrator. The attempt was good but less than 60% of them scored fairly high.

Question 7

The question, based on the candidates' knowledge on the effect of under average lives' life in life assurance and the best ways to deal with them. The response was high and the score was good.

Question 8

This question was centered on money Laundering Regulation of 1993. Performance showed that not many of the candidates read and or understood the content. Hence the poor performance.

Question 9

This is a compulsory question and hence the attempt was total. Part was based on the sources of insurance data, various contract to the offered specific group of people or situations and the use of exclusion' to reduce the risk of high exposure of life office to high claim experience. However, the performance/score was not very disappointing. It is evident that candidates need to pay more attention to those key areas of the course.

Question 10

This question was intended to test the candidates' knowledge on actuarial valuation of life business. Attempt was put at 60% of candidates and the poor performance cannot but be linked with poor preparation for the examination.

Question 11

The question on the use of some policies of life assurance was sparingly attempted and less than 25% of them scored averagely well. Candidates need to learn and be conversant with various products and the use of life products.

Question 12

This question tested the fundamental principles of insurance generally and as they affect life assurance contract. 90% of the candidates attempted the question but average performance is about 63%. Some of the candidates could not draw the line where some principles are not applicable to life assurance contract.

Question 13

This question is centered on how underwriting can be used to decide acceptance terms. As fundamental as the question is, some of the candidates (54%) could not attempt it as expected, showing lack of understanding/unpreparedness.

Question 14

The test under this question is to see the understanding of trust, various types and the use each can be put into. More than 90% attempted the question and the pass rate was good.

Comments on Overall Performance:

The overall performance for this diet is highly impressive, it is evident that the candidates worked harder or heeded the earlier advice that they should always be prepared for examinations or could it have been the fact. This is the last test under the present syllabus.

Suggestion(s) on Improvement (if any):

The suggestions remain that the candidate should always be prepared at all times. What is worth doing at all, is worth doing well.

LIFE ASSURANCE

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. (a) Distinguish between sub-mortgages and second mortgages. (2 marks)
- (b) Outline any four (4) rights of a mortgagee. (4 marks)

Solution

a) A **sub-mortgage** will arise in a situation whereby the original mortgagee needs to seek for a loan amount and makes use of the mortgage property in his custody as collateral for the loan amount, but without transferring all his rights in the original mortgage to the new mortgagee to exercise. **While**, a **second mortgage** would arise in a situation where the mortgagor seeks for another or an additional loan with the same mortgaged property from another mortgagee.

(2 marks for each correctly stated point. 1 point per term. Total: 4 marks)

b) The rights of a mortgagee are:

- a right of repayment
- a right to appointment of a “receivership”
- a right of “power of sale”
- consolidation right
- foreclosure right
- tacking right

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

2. Enumerate any three (3) uses of annuity products.

Solution

The uses of annuity products are:

- to make provision for children’s education.
- for investment purposes.
- by the breadwinner for life protection (annuity certain)
- to augment pension.
- as means of providing for one’s personal pension.

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

3. (a) There are disadvantages of a facultative reinsurance to the life offices. Enumerate any four (4) of these disadvantages. (4 marks)
- (b) Define free cover limit in life underwriting. (2 marks).

Solution

a) The disadvantages of facultative reinsurance to the life offices are:

- there is no certainty as to risk acceptance since the risks are considered individually
- it is very time consuming
- it is also very cumbersome
- it is usually more expensive than the treaty
- there may be leakages of vital information to competitors.
- It attracts lower reinsurance commission when compared to a treaty reinsurance.

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

b) Free cover limit in life underwriting is the level of sum assured which does not require medical examination in a group life business. **(2 marks)**

4. In life underwriting, there are some occupational risks with higher risk of death by diseases. List any three (3) of these.

Solution

Some examples of occupational risks with higher risk of death by diseases are:

- publicans
- miners
- chemical workers
- asbestos workers

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

5. Enumerate three (3) advantages of the underwriting process to a life office.

Solution

Three advantages of the underwriting process to a life office are:

- to ensure equitable evaluation of a proposer is carried out
- to charge appropriate premium for cover provided
- to ensure the insurer is financially strong to fulfil its obligation to all stakeholders
- to prevent anti-selection against the insurer

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

6. Differentiate between an “executor” and an “administrator” when referring to the death of an individual.

Solution

When referring to the death of an individual, the legal personal representative of a person who dies testate is referred to as **an executor**, while the legal personal representative of a person who dies intestate is referred to as **an administrator**.

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

7. (a) Enumerate the three (3) main ways of dealing with under-average lives in life assurance.
- (b) Extra risks in life assurance business are classified generally into three. Enumerate these three (3) classifications.

Solution

(a) The three main ways of dealing with under-average lives in life assurance are: i) Imposition of Special terms (ii) Postponement/Deferment (iii) Declinature. **(1 mark for each correctly stated way. Total: 3 marks)**

(b) The three (3) classification of extra risks in life business are:

(i) increasing extra risks (ii) reducing extra risks (iii) constant extra risks **(1 mark for each correctly stated way. Total: 3 marks)**

8. 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)

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) List five (5) sources of insurance information/ data in your country.
- (b) Suggest in detail what contracts might be offered to each of the following prospects:
- i. a 35-year-old salesman of a beverage company, with a gross salary of ₦1,900,000.00 per annum, who is married to a wife and they both have three (3) children aged 8 years, 5 years and 2 years respectively. **(10 marks)**
- ii. A 50-year-old company director, married with four (4) children aged 20, 16, 13 and 7 years, lives in a 7-bedroom duplex apartment in Oriyomi Housing Estate, Abuja. He is presently processing a mortgage for a ₦20,000,000.00 loan facility. **(10 marks)**

- iii. A 60-year-old married man, who has just sold his partnership interest in a textile company in the city and intends to retire to his country home.
(10 marks)

- (c) Describe how a prudent underwriter can use “exclusion” as a method of dealing with “under-average” lives.
(10 marks)

Solution

a) The sources of insurance information/ data in Nigeria are:

- (i) The Regulator (National Insurance Commission – in Nigeria)
- (ii) Insurance Association (Nigerian Insurance Association – in Nigeria)
- (iii) Professional Body (Chartered Insurance Institute/Chartered Insurance Institute of Nigeria)
- (iv) Professional Insurance Associations
- (v) Central Banks
- (vi) Ministry of Finance (Insurance Department)
- (vii) Bureau of Statistics / Federal Office of Statistics
- (viii) Insurance Magazines

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

b)

The contracts that might be offered to each of the following prospects are: -

i. **Salesman**

- Endowment Assurance - Family protection
- Family Income Benefit - Family protection
- Income Protection Insurance - Income protection on the salesman following an accident or illness

(5 marks for any correctly stated contract. Maximum of 2 to be graded. Sub-Total: 10 marks)

ii. **Company Director**

- Endowment Assurance - To augment retirement benefit.
- Mortgage Protection Assurance - As collateral for house purchase
- Personal Accident Insurance - Disability through accident
- Income Protection Insurance - Illness and accident
- Annuity - Income at old age
- Whole Life Assurance - Family protection & inheritance tax

(5 marks for any correctly stated contract. Maximum of 2 to be graded. Sub-Total: 10 marks)

iii. **Married 60 years Old Man**

The possibility here is that, having sold his partnership interest, the man is in a situation of having a large amount of capital and low income. The contracts required are therefore:

- **Immediate Annuity**: where income will start being paid immediately and for the rest of the annuitant's life
- **Joint Life and Live Survivor Annuity**: which pays annuity for the joint life times of the two annuitants and may continue to pay in full after the death of the first annuitant, but sometimes may reduce by say one-third.

(5 marks for any correctly stated contract. Maximum of 2 to be graded. Sub-Total: 10 marks)

(Grand Total: 30 marks)

- d. Under the Exclusion method of treating under average lives, the proposal may be acceptable at ordinary rates but death from the extra risk is excluded. For example, a proposal from an average life who is a boxer might be accepted at ordinary rates subject to an exclusion for death caused by boxing activities. The demerit of this method is that cover is neither complete nor available when it might be needed most. The method is most suited for occupational or pastimes extra risks such as diving, motorcycle racing e.t.c. rather than for a medical risk.

(5 marks for any correctly stated contract. Maximum of 2 to be graded. Sub-Total: 10 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Describe in detail "Actuarial Valuation of Life Business". **(10 marks)**
- (b) List and explain any five (5) purposes of actuarial valuation to a life office. **(15 marks)**
- (c) Define "surplus" in relation to actuarial valuation and enumerate 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.

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

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. 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. Total: 3 marks)

(Grand Total: 34 marks)

11. What policies will you recommend to a 45-year-old married man with three (3) children aged 11, 8 and 3 years has approached you for advice on how he can guarantee regular income for his family in case of early death or disability? Justify, with detailed explanation, on the reasons for your recommendations.

Solution

Candidates are required to state the policy(ies) to be recommended; features of the policy(ies) and some advantages of the recommended policy(ies).

The best policy to recommend in this instance is a EITHER a Family Income Protection Policy or a Trust Policy as explained below using the Trust Policy. Any Candidate that explains with any other correct type of policy, with justification, the grading should be appropriated as stated in the guide below.

For a 45-year-old married man with three (3) children aged 11, 8 and 3 years who has approached me for advice on how he can guarantee regular income for his family in case of early death or disability, I would recommend a

- that he writes a life policy under trust i.e. have a trust policy **(9 marks)**
- A trust is a means of arranging property to the benefit of other persons without giving them full control over the property
- It is often done for persons who are not capable of dealing with their property correctly e.g. minor, children, e.t.c.
- He may use it as a means of giving out property to his family while retaining some control over it by being one of the trustees in the case of disability
- It could also be for reasons of enjoying some tax benefits
- Trustees possess legal ownership of the trust property but cannot use it as their own personal property; the beneficiaries possess equitable interest
- The trustees have to use the property for the benefit of the beneficiaries according to the trust terms
- The beneficiaries can enforce their rights against the trustees by legal action if necessary
- There is usually no need for an agreement between the man and the beneficiaries, neither is there any need for consideration
- The advantage and provision of writing a life policy under trust include:
 - the policy is not part of the man's estate – on death
 - when alive (as in the case of disability), he can maintain control by appointment of trustee(s) while also nominating himself as one of the trustee(s), if he so desires
 - quicker payment to beneficiaries as there is no need to wait for grant of representative on death
 - provides flexibility as to how the proceeds are paid out
 - a power for the trustee(s) to pay premiums out of the trust property
 - a power for the trustee(s) to borrow to pay premiums
 - a power for the trustee(s) to surrender the policy, or convert it or to exercise any option as would be required at any time
 - a wide power for the trustee(s) to deal with the policy in any manner they think fit

**(5 marks for any complete and correctly stated point. Maximum of 5 points to be graded. Sub-Total: 25 marks).
(Grand Total Marks: 34 marks)**

12. (a) Briefly explain the phrase “universally acceptable principles of insurance”. State all the universally acceptable “principles of insurance”.
(7 marks)
- (b) List and explain in details, with at least one (1) example each, the three (3) legal principles of insurance which are applicable to life assurance business.
(27 marks)

Solution

a) The phrase “universally acceptable principles of insurance” can be explained as the globally or universally acceptable principles that form the bedrock of insurance business practice.
(1 mark)

The “universally acceptable principles of insurance” are:

- Insurable Interest **(1 mark)**
- Proximate Cause **(1 mark)**
- Indemnity **(1 mark)**
- Utmost Good Faith **(1 mark)**
- Subrogation **(1 mark)**
- Contribution **(1 mark)**

(Grand Total: 7 marks)

b) From the above stated principles, the three that are applicable to life assurance business are:

(i) **Utmost Good Faith (Uberrima fides)**: this is a legal principles of insurance which states that the two parties to a life insurance contract must disclose all relevant information relating to the proposed life (i.e. the life to be assured) in the life assurance contract to each other without necessarily being asked for. This relevant information in insurance are referred to as the ‘**material facts**’.

The principle of utmost good faith is considered as a fundamental principle and though it rests on both parties, it is more heavily rested on the assured/life assured. A failure on the part of either party to disclose any of the material facts, may give the aggrieved party the power to exercise his rights for breach of utmost good faith.

The remedies available to the aggrieved party as a result of breach of utmost good faith are to:

- i. repudiate the contract from inception
- ii. sue for damages in addition to (i) above
- iii. waive his rights under (i) and (ii) above.

(3 marks for correctly stating the principle. 2 marks for any correctly explanation. Maximum of 2 points to be graded. 2 marks for any correctly stated example. Grand Total: 9 marks)

(ii) Insurable Interest: Insurable interest is the legal right to insure which arises out of the financial relationship recognized at law between the assured and the event(s) or contingencies assured against, where by the assured or his named beneficiary benefits from non-occurrence of such events or contingencies assured against and would be prejudiced by their occurrence.

In life assurance, the insurable interest that governs the amount of the benefit which would be recovered at the time of the claim was that amount existing at the inception of the life assurance contract

Some of the features of insurable interest are that it must:

- be definite.
- be capable of financial valuation.
- involve the loss of a legal right.
- be legally valid and subsisting.

Some examples of how and when an insurable interest may exist in life assurance include:

- A man has a very good insurable interest in his life to any amount
- A man also has a good insurable interest in the life of his wife
- A creditor on the life of his debtor(s) to the extent of the loan amount plus any interest agreed
- A trustee in respect of the trust property.

(3 marks for correctly stating the principle. 2 marks for any correctly explanation. Maximum of 2 points to be graded. 2 marks for any correctly stated example. Grand Total: 9 marks)

(iii) Proximate Cause: This is defined in the case of **Pawsey Vs. Scottish Union and National (1907)** as an active, efficient cause that sets in motion a train of events which brings about a result without the intervention of any force started and working from a new and independent source.

Proximate cause is the legal principle of insurance that governs the events or contingencies which are covered under the life assurance policy.

**(3 marks for correctly stating the principle. 2 marks for any correctly explanation. Maximum of 2 points to be graded. 2 marks for any correctly stated example. Grand Sub-Total: 9 marks)
(Grand Total: 34 marks)**

13. (a) Some considerations are always reviewed and critically assessed when an underwriter is deciding the acceptance terms of a term assurance life policy. Enumerate and briefly explain any four (4) of those considerations.

(28 marks)

(b) What are the three (3) different categories of acceptance terms that can be offered under (a) above. **(6 marks)**

Solution

(a) The consideration that must be taken into account by an underwriter when deciding the acceptance terms of a term assurance life policy are:

- **size of the sum assured proposed:** it may be necessary to arrange for reinsurance where it exceeds the retention limit of the office
- **age of the proposer:** the higher the age at entry, the higher the risk of death
- **medical factor:** the underwriter will look out for medical factors affecting longevity i.e. any condition that can reduce the expectation of life. For example, heart diseases, cancer, kidney failure, e.t.c.
- **occupational factors:** to check the occupation whether it presents greater than average risk of death by disease and/or accident e.g. bomb disposal worker or miners (lung diseases), e.t.c.
- **residential factors:** like climate risks, political instability, war, diseases, e.t.c. Some places may present extra risk that are life threatening
- **sports and pastimes:** unusually hazardous sports or pastimes should be of concern to the underwriter because of the high risk of accidental death e.g. boxing, motorcycle racing, etc.
- **financial factors:** the size of the sum assured proposed must be noted in line with the circumstances of the proposer. If the sum assured and/or premiums are not consistent with the life assured's situation, it could be a case of overselling with the attendant risks. In addition, when a policy is sold on a "life of another basis", the insurable interest position must be checked

(5 marks for mentioning the consideration. 2 marks for explaining the mentioned point. Sub-Total: 7 marks for each correct point. Maximum of 4 points to be graded.

Grand Sub-Total: 28 marks)

(b) The three different categories of acceptance terms that can be offered under (a) above are:

- acceptance at ordinary rates of premium
- acceptance at special terms if found to be substandard (medically, hazardous occupation, sports/pastime, e.t.c.)
- alternative contract may be offered.

(2 marks for each correctly stated acceptance category. Total: 6 marks) (Grand Total: 34 marks)

14. (a) State the legal definition of a “trust”. (4 marks).
- (b) Enumerate and explain two (2) differences between a trust corporation and individual trustee. (12 marks)
- (c) Differentiate between the following types of trusts:
- i. Fixed and Bare Trusts. (9 marks)
 - ii. Statutory and Charitable Trusts. (9 marks)

Solution

a) The legal definition of a trust is an equitable obligation binding the trustee to use the trust property only for the benefit of the beneficiaries of whom he may be one and any one of whom may enforce it. (4 marks)

b) The differences between a trust corporation and individual trustee are:

S/No	Trust Corporation	Individual Trustee
1	It is assumed to be immortal	It is not immortal
2	It is more expensive	It is less expensive
3	It possesses much more experience, especially in the areas of pension scheme administration and complex pension tax matters	It is not as experienced as the trust corporation

(3 marks for any corrected stated difference. Maximum of 2 pairs to be graded. Sub-Total per pair: 6 marks. Grand Total: 12 marks)

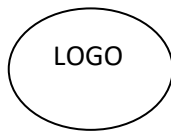
c) i) **Fixed Trusts** are trusts in respect of which the beneficiaries of the trust are fixed at the inception of the trust and as such, cannot be subsequently changed either by the settlor or himself or the trustee(s). This means that if a trust is created as a fixed trust, the beneficiaries as named from the onset cannot be changed, except through some laid down rule of law known as power of appointment trust.

(4½ marks)

while **Bare Trusts** are trusts where the sole responsibility of the trustee is to transfer the trust property to a named beneficiary. Therefore, after transferring the trust property to the sole named beneficiary or beneficiaries, the trust shall automatically come to an end.

(4½ marks)

ii) **Statutory Trusts** are trusts which have been specifically created by the statute. (4½ marks) while **Charitable Trusts** are trusts created for the benefit of the public. They are trusts with charitable interests and they are sometimes referred to as Public Trusts. (4½ marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A06
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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A06 – 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

The question dealt with law reform (Husband and Wife Act 1962). Attempt was good as about 90% candidates exhibited good understanding of the question.

Question 2

Candidates' performance was below average. Question was out to test understanding extent of the policy. Candidates attempted to answer the question in their own choice of words. A lot of them enumerated exceptions without classifying them into the two broad categories required for in the question.

Question 3

This consists of documentation. Most candidates performed very well as performances was exceptionally okay and about 90% passed.

Question 4

The pass rate on this question was 50%. It tested the efforts of insurance companies in setting the tempo of renewals.

Question 5

This centered on third party liability section of the motor-cycle policy. Attempt was especially good at average of about 80% and candidates performed far above average.

Question 6

This question centered on principal rating factors applicable to private and public hire cars. Very straight forward. Candidates performed exceptionally well as pass rate was about 80%. The question was clear, direct and unambiguous.

Question 7

The question centered on "motor trade policy rating". It appeared very straight forward and pass rate was above 50%. Motor Trade insurance business is not popular in the Nigerian insurance market as it is not well patronised by motor dealers in the Nigerian market.

Question 8

This question is on renewal of commercial vehicle policy. Candidates' knowledge and understanding of the question was fair and their performance was above average - at least above 50%.

Question 9

Candidates do not seem to understand the parts of the questions that related to registration with NAICOM. We suggest that candidates should be given adequate tutorial on this or relevant coursebook made available for them to enable them

understand what is at stake. Their performance in this area was very woeful. Candidates performed fairly well in the other parts of the question.

Question 10

This question centered on car modification and its insurance application. Attempt was fair but performances not too encouraging as it would appear that candidates do not thoroughly understand the question.

Question 11

This question centered on the attitude of insurers to third party personal injury claims and insurance of invalid carriages. Candidates failed to identify the points requested for in the question.

Question 12

The question centers on the geographical area of use and salvaging in private car rating. It was fairly attempted, and performance was average.

Question 13

The question centered on motor renewal and special type vehicles. Attempt was poor so also their level of performance. It would appear that candidates either did not prepare well for the exams or did not understand the question.

Question 14

This question centered on features of the PSA, motor trade and private car/ commercial vehicle policies. Candidates only fared well in the area of private/commercial vehicle policies compared to others. It would appear that they did not prepare well for the examination.

Comments on Overall Performance:

Average performance.

Suggestion(s) on Improvement (if any):

Candidates should be addressed to be more serious and answer question in line with the position in the coursebook.

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

1. What is the main purpose of the Law Reform (Husband and Wife) Act 1962?

Solution

The main purpose of the Law Reform (Husband and Wife) Act 1962 was that the amendments allowed husband and wife to be able to sue each other in tort. Prior to this reform, husband and wife were treated as one, and therefore, it was not possible for one partner to sue the other.

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

2. State a standard sample wording of a motor policy exception.

Solution

A standard sample wording of a motor policy exception is **“this policy does not apply when any vehicle covered by it is being”**:

- driven by or is in the charge of any person not permitted to do so by your certificate of motor insurance
- used other than for the purposes specified in your certificate of motor insurance.

(3 marks for the opening preamble quoted and bolded above. 3 marks for any correctly stated exclusion. Total: 6 marks)

3. Enumerate three (3) of the essential documents required in a Motor Insurance contract.

Solution

The essential documents required in a Motor Insurance contract are the:

- proposal form
- certificate of insurance
- policy document
- schedule
- renewal notice
- endorsement

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

4. Insurers place a great deal of importance upon renewal of policies. State two (2) reasons why this is so.

Solution

Insurers place a great deal of importance upon renewal of policies because:

- it is considerably more cost effective to renew a policy than to take up a new one
- in addition, there is a comfort in having known the risk for a year or two
- the percentage of cases renewed rather than lapsed is a very important measure of success of an account.

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

5. List the covers provided by the Third Party Liability Section of a Motor Cycle Policy.

Solution

The third party liability section of a motorcycle policy will provide indemnity for any accident where the policyholder is riding their motorcycle resulting in:

- death or injury to any person including passers-by or sidecar passengers
- damage to other people's property
- legal costs incurred with the insurer's consent in connection with such a claim

N.B.: Legal costs, emergency treatment and use abroad are dealt with in the same way as for private car insurance.

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

6. Enumerate any three (3) principal rating factors applicable to private and public hire cars.

Solution

The principal rating factors applicable to private and public hire cars are:

- type of vehicle
- user of the vehicle
- area/district where vehicle will usually be situated
- policy cover
- details of drivers.

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

7. Enumerate any three (3) principal elements used for a point basis motor trade risk.

Solution

The principal elements used for a point basis motor trade risk are:

- hire vehicles
- motorcycles
- other vehicles
- trade plates
- drivers.

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

8. What other two (2) factors (other than price) may be relevant when an insured considers renewing a commercial vehicle policy?

Solution

The other relevant factors, aside from price, to be considered when an insured consider renewing a commercial vehicle policy are:

- the relationship with the insurer
 - experience of the way that claims have been handled in the past; and
 - possible relevance of other commercial insurance businesses.
- (3 marks for any correctly stated factor. Maximum of 2 factors to be graded. Total: 6 marks)**

Part II

Compulsory Question.

This question carries 50 marks.

9(a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,

- i) who is a “promoter”? **(4 marks)**
- ii) mention any three (3) process or action to be taken at the registration stage of the application. **(6 marks)**
- (b) Give four (4) examples of exceptions on each of the following policy types.
- i. Standard Private Car Policy **(4 marks)**
- ii. Personal Accident Section of the Private Motor Policy **(4 marks)**
- (c) i. What is compulsory excess? **(2 marks)**
- ii. Mention four (4) other excesses, apart from the compulsory excess, applicable in Motor Insurance. **(10 marks)**
- (d) Write short notes on the following terms:
- | | |
|----------------------------|---------------------|
| (i) Admission of Liability | (ii) Negligence |
| (iii) Moral Hazard | (iv) Repair Invoice |
| (v) Total Loss. | (20 marks) |

Solution

a) i) 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 the Nigeria Insurance market space.**

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

ii) The following are the processes or actions to be taken at the registration stage of the application:

- pre-registration interview
- publication of applicant to members of public
- notification of success or otherwise after 21 days of publication
- issuance of letter of success
- evidence of payment of registration fee

(f) issuance of certificate of registration.

(2 marks for each correctly stated document. Maximum of 3 to be graded.

Total: 6 marks)

(b) Policy Exceptions are risks that are not covered by the Motor Policy. In other words, these are risks that are not insured under the Motor Policy and consequently claims arising from these (excepted) risks or perils would neither be admitted nor processed by the insurers. **(2 marks)**

(c) Some examples of exceptions on each of the following policy types are:

i. **Standard Private Car Policy:**

- any “excess” amount(s) as stated in the schedule
- loss of use, depreciation, wear and tear
- damage to tyres from braking, e.t.c.
- loss, destruction or damage caused directly by pressure waves resulting from aircraft, e.t.c.
- any reduction in the market value of the insured car, following any repair, e.t.c.
- loss of or damage to telephone or communication equipment of any kind
- loss of or damage as a result of a deliberate act by the insured person
- loss of the insured car from deception by someone who claims to be a buyer or a selling agent

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

ii. **Personal Accident Section of the Private Motor Policy:**

- the benefit will not be payable if the bodily injury is the result of suicide or attempted suicide
- the benefit will not be payable if the injured person has reached the age of 65 years
- if the insured and his wife or husband hold any other motor insurance policy with the insurer, then the benefit will be paid under one policy only
- death, loss of eye(s) or limbs arising more than three (3) months after the event leading to the condition
- the benefit will not be payable if the injured person was at the time of the injury, under the influence of alcohol or drugs

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

(d) i. **Compulsory Excess** is the first part or a certain percentage of the claim

amount that the insured must bear in the event of a claim – on each and every admitted claim during the policy term. **(2 marks)**

- ii. Some other types of excesses, apart from the compulsory excess, applicable in Motor Insurance are:
- voluntary excess
 - compulsory accidental damage excess
 - fire and theft excess
 - young and inexperienced drivers' excess

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

- (e) i. **Admission of Liability:** should the policyholder or driver admit blame to a third party claimant, then the position of the insurer may be prejudiced. The policy calls for no such admission to be made, but as long as the outcome of any civil litigation is not affected by any small admission, say in a case where the policyholder or driver is in any event liable – then the insurer is not likely to take any action.
- ii. **Negligence:** is defined as an omission to do what a prudent man would do under normal circumstances. This is a situation where the insured is the cause of an accident to the insured vehicle. Such accident should have been avoided, if reasonable care and caution are exercised, but the accident was as a result of his carelessness, thus resulting in a claim.
- iii. **Moral Hazard:** this has to do with human nature or character of the insured. It could be good or bad e.g. a bad moral hazard is an insured who stage-manages a loss so as to claim from the insurer.
- iv. **Repair Invoice:** once repairs are completed, the insured will be asked to sign a form. Traditionally, this form has been termed a “satisfaction note” but lately, it has been renamed a “collection note”. The aim is to obtain the insured’s acceptance that the vehicle has been returned in a satisfactory state and that it has been checked and confirmed to have been properly repaired. Upon collection of the vehicle, the insured will be required to pay any agreed contributions which could be from excess, to VAT, to cost of carrying out any private work (that was not as a result of the insured event) on the vehicle and any contribution for betterment.
- v. **Total Loss:** occurs when a vehicle has been damaged beyond economic repairs, i.e. when the estimated cost of repairing the damage is equivalent to or more (or sometimes not much less) than the market value of the vehicle. It may be difficult to determine the true market values of the vehicle at the time of the total loss but effort should be made to do so if the principle of indemnity is to be applied.

(2½marks for any correctly and complete stated point. Maximum of 2 points to be graded per term. Sub-Total per term: 5 marks. Maximum of 4 terms to be graded.
Grand Total: 20 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) i. Enumerate the two (2) types of car modifications that exist and what effects do such modifications have on Motor Insurance? **(8 marks)**
ii. What is the underwriting approach to such modifications?(**4 marks**)
(b) State and briefly explain the four (4) sub-categories of hired vehicles/cars? **(12 marks)**
(c) How is the rehabilitation period determined under the Rehabilitation of Offenders Act 1974? **(10 marks)**

Solution

- (a) i. The two types of car modifications that exist are:
• body changes or enhancements and **(3 marks)**
• mechanical changes. **(3 marks)**

The effect of these two types of changes in Motor insurance is that the risk is not accepted using the standard motor insurance policy rating, terms and conditions, but rather, the vehicle will be specifically underwritten and the terms to be imposed will be uniquely “germaine” to the risk. **(2 marks)**

ii. The underwriting approach to such body changes or enhancements modifications are that invariable the modification that enhances or increases a vehicle performance will generate a change in the rating and it often will result in an increased premium or even a refusal to cover the particular alteration. The extent of any specifications is normally the subject of specific questions on the proposal form as insurers need to know the details.

If the changes are mechanical in nature, the insurer may put the risk using engineering insurance terms/consideration especially if the modification has not been carried out by a professional motor engineer.

(2 marks for each correctly stated point under each of the two types. Maximum of one point to be graded under each term. Total: 4 marks)

- (b) The four sub-categories of hired vehicles/cars are:
• **public hire vehicles:** i.e. vehicles that can ply for hire, which means a taxi or hackney carriage
• **private hire vehicles:** these are not licenced and cannot therefore ply for hire, but may be booked through the operator’s office or agency. This can also include limousines

- **self-drive hire vehicles:** these are vehicles (either private or smaller commercial type used for passenger carrying) that are hired out to the public without a driver
- **hearses and funeral cars:** these are vehicles that are used to carry corpses and also used during funeral ceremonies only.

(2 marks for correctly stating the sub-category. 1 mark for correct explanation. Sub-Total: 3 marks for each sub-category. Grand Total: 12 marks)

(c) The rehabilitation period determined under the Rehabilitation of Offenders Act 1974 is determined as follows:

- it commences with the date of conviction rather than the date of the offence and this differs depending on the severity of the penalty imposed.
- convictions resulting in penalty of imprisonment below 30 months are rehabilitated with very stringiest underwriting terms and closer than usual monitoring
- convictions resulting in penalty of imprisonment exceeding 30 months are never said to be rehabilitated.

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

11. (a) What is the attitude of insurers to third party personal injury claims?

(21 marks)

(b) Define "invalid carriage" under a motorcycle policy. How do underwriters generally go about the insurance of invalid carriages?

(8 marks)

(c) What reasons could be deduced for developing the ABI Statement of General Insurance Practice?

(5 marks)

Solution

(a) The attitude of insurers to third party personal injury claims are as explained below:

- Usually, third party personal injury claims are less numerous than other types of motor claims. However, they are, on the average, more complex to settle as they account for a substantial proportion of insurers' total claims outlay.
- Once the degree of negligence has been established, the next stage is to ascertain the extent of the injury, the prognosis and the number of dependants
- Minor injuries, with little likelihood of causing further problems, can be settled comparatively easily.
- More severe injuries might take a longer time to settle because of the natural reluctance of legal advisers of injured plaintiffs to agree to settlement terms until the full consequence of the injuries is well established.

- Thereafter, the respective awards for damages might be high; awards of several thousands of Naira to a single person suffering severe injuries in a road accident are relatively common.

(7 marks for any complete and correctly stated point. Maximum of 3 points to be graded. Total: 21 marks)

- (b) “Invalid Carriage” under a motorcycle policy is defined by Section 143(4) of the RTA 1988 as “a mechanical propelled vehicle the weight of which does not exceed the approved weight and which is specifically designed and constructed and not merely adopted for the use of a person, suffering from some physical defects or disability and used solely by such persons”. **(4 marks)**

Underwriters generally go about the insurance of invalid carriages as follows:

- if a motorcycle policy is to be used to insure an invalid carriage, then all references to the RTA should be deleted
- driving will also be restricted to the insured alone, therefore, the driving other extension will be deleted
- the insured vehicle can only be used as an invalid carriage all through the period of insurance

(4 marks for any complete and correctly stated point under the reasons. Only one point should be graded. Sub-Total: 4 marks. Grand Total: 8 marks)

- (c) The reasons to be deduced for developing the ABI Statement of General Insurance Practice are to put into practice a set of guidelines for insurers in the conduct of their business, following the philosophy embraced by the “Unfair Contract Terms Act” and to ensure it is complied with. **(5 marks)**

12. (a) Enumerate three (3) relevancies of “Geographical Area of use and/or Garaging” in Private Car Insurance Rating. **(12 marks)**

(b) How is the premium of the Comprehensive Road and Garage Policy under the Motor Trade Insurance determined? **(12 marks)**

(c) List the four (4) key features of direct motor underwriting companies? **(10 marks)**

Solution

(a) The various relevancies of “Geographical Area of use and/or Garaging” in Private Car Insurance Rating are as follows:

- the area in which the vehicle is used makes a difference to the risk. In heavily populated areas, there is more likelihood of collision even when the policyholder is not at fault e.g. a hit whilst parked by a hit-and-run driver. On the other hand, there is less chance of collision where there are fewer cars on the road.
- The theft risk also differs from location to location with larger cities being top on the list.

- The area of use of the vehicle is one indicator of the theft risk but perhaps more importantly is the place where the vehicle is kept overnight.
- The theft risk can also be reduced if the vehicle is kept in a locked garage and reductions in premiums can be obtained.

(4 marks for any correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)

(b) In view of the breadth of cover that can be required under such a policy, the various premium sub-totals for both the commercial property and motor aspects must be added together to produce a final total.

One of the simplest methods is to add together the premiums payable under a “third party and damage” road risks policy (rated on appoints basis) and a “third party and damage” internal risk policy, plus a surcharge for the additional cover provided for those other core provisions of the standard policy.

If the policyholder then seeks further optional benefits, these will generate additional premium.

It may also be that the vehicle based policies will be subject to a no claim discount.

However, one alternative and simpler method is to calculate the premium solely on the capacity of the premises. One particular contract in the global insurance market adopts this approach and this obviates the necessity for fixing sums insured.

(4 marks for any correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)

(c) The four key features of direct motor underwriting companies are:

- no intermediaries are involved
- a call centre is set up to ensure rapid response to enquiries
- a highly sophisticated component system is used
- expense ratios are kept to a minimum

(2½ marks for each correctly stated feature. Total: 10 marks)

13. (a) Insurers do renew existing Motor Policies in order to ensure retention of such accounts. However, there are occasions that they may not be willing to renew on automatic basis. Enumerate and explain two (2) of such circumstances.

(8 marks)

(b) List the underwriting considerations of insurers for the following mobile plants:

- Ready-Mixed Concrete Carriers
- Tippers and other Types of Road Construction Vehicles
- Tankers
- Factory Trolleys and Fork Lifts Trucks.

(20 marks)

- (c) Enumerate the two (2) principal requirements that warranted the introduction of "Motor Legislation". **(6 marks)**

Solution

- (a) Insurers do renew existing Motor Policies in order to ensure retention of such accounts, However, there are occasions that they may not be willing to renew on automatic basis. Two of such circumstances are:
- when if a risk was originally proposed, there was a history of motoring convictions notwithstanding the fact that these were unconnected with claims incidences. However, the underwriters felt at renewal to impose a substantial own damage excess and a modest premium loading. Two years have now passed without any claim incidents and no further convictions.
 - when a very large third party personal injury claim has occurred under the policy three months before renewal and the claim is still outstanding
 - when the frequency (and/or severity) of the policyholder's reported claim is above the average and not within acceptable limits of the underwriter.

(4 marks for any fully explained point. Maximum of 2 to be graded. Total: 8 marks)

- (b) The underwriting considerations of insurers for the following mobile plants are:
- Ready-Mixed Concrete Carriers:** with this type of plants, the loss and damage cover will invariably exclude the risk of the concrete load and associated claims. Such damage will often render the machine inoperable. At the very least, the drum may need replacing and this sort of problem will invariably be covered under an engineering policy.
 - Tippers and other Types of Road Construction Vehicles:** this will often be insured under fleet policies although in a specialised area of the motor insurance market. The terms imposed are usually specific to each type of tipper insured and the insured's risk profile, along with past claim history is highly reviewed before coming up with acceptance terms.
 - Tankers:** tankers used to transport hazardous goods will normally be covered under a flat type of policy, when they are carrying the operators own goods. The risk becomes greater when the goods are hazardous and/or the policyholder is a haulage contractor. With the carriage of flammable or dangerous loads, insurers may impose a third party property damage limit. However, the insured may wish for the limit to be waived or at the very least, extended.
 - Factory Trolleys and Fork Lifts Trucks:** these type of plants, while not constructed for road use will not normally be covered under a motor policy, unless there is the likelihood of RTA use. Certainly, non-motor commercial policies would be extended to cover the third party working risk while the vehicle is used as a tool of trade.

(2½ marks for each correctly stated point. Maximum of 2 points to be graded under each plant. Sub-Total: 5 marks. Grand Total: 20 marks)

(c) The two principal requirements that warranted the introduction of “Motor Legislation” are:

- the protection and assistance of those who are the victims of negligent drivers
- the need to ensure that a policyholder who has arranged insurance cover will be guaranteed the appropriate protection.

(3 marks for each corrected stated requirement. Total: 6 marks)

14. (a) Enumerate three (3) crucial features must be present at the time of an accident for the Third Party Sharing Agreement (TSA) to operate. **(12 marks)**

(b) Enumerate the wide scope of cover provided under the “Material Damage Section” of “Combined Road and Garage Policies”. **(12 marks)**

(c) List the differences in cover between a “Comprehensive Private Car” policy and a “Comprehensive Commercial Vehicle” policy? **(10 marks)**

Solution

(a) The three crucial features that must be present at the time of an accident for the Third Party Sharing Agreement (TSA) to operate are:

- there must be actual collision between two or more vehicles. “Attempt to avoid a collision” are not included under such agreement.
- The vehicles involved must be insured against liabilities to third parties.
- Injury must be sustained by a third party to damage done to their property, provided the third party is not one of the drivers involved in the accident.

(4 marks for correctly stated point. Total: 12 marks)

(b) The wide scope of cover provided under the “Material Damage Section” of “Combined Road and Garage Policies” is that this will provide cover for loss or damage to property (normally defined in the schedule) but including property

(i) belonging to the insured

(ii) in the insured’s custody or control; or

(iii) for which the insured may be responsible – whether under a lease, hire, rental or similar contractual agreement.

The policy will clearly provide cover in respect of theft of vehicles from the insured’s own premises, excluding theft by employee, partners, directors, e.t.c. i.e. dishonesty.

The policy may provide cover on all risks basis and it includes comprehensive cover on vehicles in the insured’s capacity or control which are garaged away from the insured’s normal business premises.

(4 marks for each correctly stated point. Maximum of 3 points to be graded. Total: 12 marks)

(c) The differences in cover between a “Comprehensive Private Car” policy and a “Comprehensive Commercial Vehicle” policy are that for private cars, there will be the following in place, which will not be for commercial vehicles:

- cover for accessories and spare parts unless attached to the vehicle
 - personal effects cover; and
 - personal accident benefits
- (5 marks for any correctly stated difference. Maximum of 2 difference to be graded. Total: 10 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A07
LIABILITY 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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A07 - LIABILITY INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

Tested candidates' knowledge in torts. Simple and direct question with pass rate of about 90%. Candidates showed good knowledge of the requirement of the question.

Question 2

This question was intended to test candidates' knowledge on liability insurance policies. It was a simple and direct question and hence all the candidates got it correctly. There was overall excellent performance.

Question 3

This question tested candidates on the purpose of employer's liability insurance) Act 1969. The performance level of the candidates was high which shows good preparation and knowledge of the question.

Question 4

The question tested candidates' knowledge on significance of Limitation Act 1980. Candidates' performance was excellent which shows their good understanding and preparation of the examination.

Question 5

This question was intended to test the candidates' knowledge of the concept of "Defamation". Candidates' performance was about average. This is a simple coursebook question yet candidates' performance was not encouraging. Candidates' need to read and master their coursebook.

Question 6

The question was intended to test candidates' knowledge in general principle of action for negligence. Part (a) recorded 90% pass rate and 60% pass rate on part (b). Overall performance was good and candidates are commended accordingly.

Question 7

This question was intended to test candidates' knowledge on "Disclaimer Liability". Candidates' performance was above average.

Question 8

This question tested candidates' knowledge on third party liability claims. Performance was good at about 70%, while some candidates lacked of understanding of liability claims.

Question 9

This is the compulsory question which intended to test the candidates' knowledge on various liability projects. Part (a) question was poorly answered which shows that students are not current with the industry regulator (NAICOM). About 90% pass rate on sources of civil law, 80% pass rate on concept of reinsurance, most candidates failed to give examples of private and public insurance. Poor performance on "loss control audit" and many candidates lacked understanding of employers' liability to their employees.

Question 10

This question is intended to test candidates' knowledge on practical application of liability insurance policies and liability claims. Attempt was good at 95%. Pass rate was average, candidates failed to apply their knowledge to answer this question. Part (b) question was answered very well which showed their understanding. Part (c) question was answered poorly. Generally, better preparation by candidates will improve their overall performance.

Question 11

This question was intended to test candidates' knowledge of various liability topics (escape of fire, hotel proprietor, Ryland V. Fletcher etc.). Attempt was 60% and performance was about 45%. Most candidates do not understand what the question requires. Questions on contract and trust were well answered.

Question 12

This question tested candidates' knowledge on how premium pay-a-bill on public liability, employer's liability and professional indemnity insurances are determined. Attempt was good at about 80% but performance was below average. It was observed that candidates' lack understanding of this question and they are advised to study their tuition material very well.

Question 13

This question was to test candidates' knowledge on basic liability insurance terms. Attempt was about 50% and candidates' performance was about average. Many candidates were busy writing irrelevant responses. Better preparation will enhance their future performances.

Question 14

This question was intended to test candidates' knowledge on liability terms, insolvency act and directors' and officers' liability insurances. Very low attempt as most candidates avoided the question. Few candidates who attempted the question demonstrated lack of in-depth knowledge and consequently, low marks were recorded. Better preparation by the candidates will enhance their future performance.

Comments on Overall Performance

The overall performance is 50.34% i.e. average performance

Suggestion(s) on Improvement (if any):

Better preparation and commitment by the candidates will enhance future performance.

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

1. a) Define "tort"? (2 marks)
b) Enumerate four (4) forms of tortious liability. (4 marks)

Solution

a) Tort is a civil wrong which must be capable of giving rise to an action for unliquidated damages. (2 marks)

b) The various forms of tortious liability are:

- negligence
- nuisance
- breach of statutory duty
- rule of Ryland v. Fletcher (1808)
- defamation: libel and slander
- other strict liabilities

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

(Grand Total: 6 marks)

2. (a) Enumerate any four (4) liability insurance policies you are familiar with. (4 marks)
(b) Most liability insurance policies referred to "Third Party" in the operative clause. Explain who the "third party" is. (2 marks)

Solution

a) Some examples of liability insurance policies are:

- Employers' Liability
- Public Liability
- Product Liability
- Professional Indemnity
- Motor Insurance (Third Party)
- Directors' and Officers' Liability Insurance
- Personal Liability Insurance

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

b) A third party in most liability insurance policies is any member of the public who is not a party to the insurance contract. Such a person could be a victim of the negligent act of the insured – directly or indirectly. (2 marks)

(Grand Total: 6 marks)

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

Solution

The purpose of Employers' Liability (Compulsory Insurance) Act 1969 is to provide security for employees if they meet with an accident or incur an illness in the course of their employment and their employer is responsible. **(6 marks)**

4. "The Limitation Act 1980 has a significance. Briefly explain the significance".

Solution

The significance of this Act is that it imposes a time limit which a plaintiff must bring his/her action. This is to avoid the court having to deal with stale claims where the parties' memory of events is vague and witness are unreliable. It is to safeguard the defendant from challenges associated with defending a claim based on an incident that would have occurred a long time prior to the time of action.

(3 marks for any complete and correct explanation. Maximum of 2 points to be graded. Total: 6 marks)

5. Concisely explain the term "defamation".

Solution

Defamation is a law that is designed to protect a person's reputation. For a statement to be defamatory, it must subject the plaintiff to hatred and public ridicule. Both libel and slander are torts of defamation. Libel is a defamation in permanent form such as writing or published article while slander is not in permanent form – it is oral i.e. words spoken.

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

6. (a) Explain the maxim "res ipsa loquitor".

(b) Enumerate any three (3) components of general damages.

Solution

a) In an action for negligence, it is necessary for the plaintiff to prove the fact upon which the claim is based. The main principle is that he who asserts must prove. However, there are situations where adequate information is not in the plaintiff possession to discharge their burden of proof, the plaintiff will have to rely on the maxim "res ipsa loquitor" which means that "the thing speaks for itself". This will shift the burden of proof to the defendant.

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

b) The components of general damages consist of the following:

- pain and suffering
- loss of amenities
- future loss of earnings
- loss of earning capacity

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

(Grand Total: 6 marks)

7. Concisely explain the phrase “disclaimer liability”?

Solution

Disclaimer liability refers to those forms and conditions of a contract which attempts to limit in some ways either the performance of that contract or liability in tort. For example, a building contract may require the contractor to indemnify the principal for third party liability arising from the execution of the contract or when it is stated that “vehicles are parked at owner’s risks”

(4 marks for complete and correct definition. 2 marks for example. Total: 6 marks)

8. Enumerate three (3) claim supporting documents for a third party bodily injury.

Solution

The claim supporting documents for a third party bodily injury claim are:

- completed claim form
- medical examination report
- medical bill
- excuse duty certificate
- discharge certificate
- employee pay slip.

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

Part II

Compulsory Question.

This question carries 50 marks.

9(a) According to Section 6, 6.1.0 – 6.1.4 of the Market Conduct and Business Practice Guidelines issued by NAICOM,

- i) who is a “promoter”? (4 marks)
- ii) mention any three (3) process or action to be taken at the registration stage of the application. (6 marks)
- (b) (i) Civil law has its roots in three (3) main sources. Explain these sources. (9 marks)
- (ii) Explain the concept of “nuisance”. (6 marks)
- iii. Explain with examples the two (2) general types of nuisance in existence. (10 marks)
- iv. Enumerate any three (3) roles of the “Loss Control Auditor”. (3 marks)
- v. List six (6) sources of liability of an Employer to an employee. (12 marks)

Solution

9) a) i) 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 the Nigeria Insurance market** space.

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

ii) The following are the processes or actions to be taken at the registration stage of the application:

- (a) pre-registration interview
- (b) publication of applicant to members of public
- (c) notification of success or otherwise after 21 days of publication
- (d) issuance of letter of success
- (e) evidence of payment of registration fee
- (f) issuance of certificate of registration.

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

(Total: 10 marks)

b) i. The sources of civil law are:

- **Custom:** this is the law that has its root from the custom of people as well as their trade custom. This law is used to settle or resolve mercantile disputes, the principle being that the law would follow the custom of a particular trade. This law can still be of importance in modern law if custom can give business efficacy to an agreement.
- **Common Law:** this is the most important source of civil law. It is based upon the doctrine of binding precedent in which decisions of past courts bind present courts. Court decisions are recorded in various published law reports and most common law is found by reference to law reports.
- **Legislation:** this is the law made by the Parliament and it is the most potent source of law. Many law reform statutes have been passed by the Parliament in order to deal with the perceived anomalies in common law. Some statutes directly change a particular area of law while others attempt to place limitations on the action of parties especially in contracts. Parliament is the highest form of law and it overrides the other two sources. It has become the most important source when amendments in the law are quickly required.

(2 marks for mentioning the source. 1 mark for any correct explanation. Maximum of 2 explanations to be graded. Sub-Total: 9 marks)

ii. “Nuisance” is about “unlawful interference”. Nuisance has been defined as “a wrong done to a man by unlawfully disturbing him in the enjoyment of his property (a

private nuisance) or in some cases in the exercise of a common right (public nuisance). There are two types of nuisance: Public Nuisance and Private Nuisance. In both nuisance, test of reasonability applies. Nuisance also concentrates on the protection of right or interest associated with land.

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

iii. The two (2) general types of nuisance in existence are:

- **Private Nuisance:** this is interference with the use or enjoyment of a person's property. Example are wrongful disturbance of right attaching to land, right to light and air, wrongful causing or allowing the escape of noxious things such as smoke, smell, noise, gas, vibration, encroachments i.e. tree roots, blocked drains and culverts. These nuisances will interfere with a person's health, comfort, convenience or enjoyment of his property. If these states of affairs exists and continues which threatens actual damage, the aggressive person may seek court injunction requiring the tortfeasor to desist from their actions.
- **Public Nuisance:** this is a crime. It is a nuisance against the community as a whole or at least sufficiently large number to constitute a class. Examples of public nuisance are running a brothel, selling food unfit for public consumption and obstructing a high way. An action for damages based on the commission of a public nuisance is only available if the plaintiff can show that they have suffered damage over and above that of the general populace.

(2 marks for each correctly stated type. 1½ marks for any correct explanation of each type. 1½ marks for any correct example on each type. Sub-Total on each type: 5 marks. Grand Total: 10 marks)

iv. The roles of the "Loss Control Auditor" are to:

- keep up to date with statutory and technological development
- be up to date on trade processes and labour relations with particular reference to safety
- be fully conversant with policy cover and underwriting issues
- be knowledgeable in features which are likely to cause accident
- pay attention to all aspects of risks e.g. housekeeping, condition of stairways, lightening, guarding of machinery, e.t.c.
- visualise how accidents can happen and suggest ways of avoiding them
- liaise closely with the insured's own safety personnel, educating them about risk improvement methods and ensuring that their recommendations for risk improvement are implemented.

(1 mark for each correctly stated role. Maximum of 3 roles to be graded. Total: 3 marks)

v. The sources of liability of an Employer to an employee are:

- personal negligence of the employer

- failure to select competent employees
- failure to provide safe place of work
- failure to provide safe and suitable plants (tools)
- failure to provide safe system of work
- vicarious liability for the negligence of fellow employees
- breach of statutory duties

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) A manufacturing company is exposed to various liability risks in the course of their operation and they may incur legal liability if any of such risks occurs. List and explain any three (3) of such risks. **(15 marks)**
- (b) What is the importance of early notification of claim in liability insurance claim process? **(10 marks)**
- (c) Explain briefly what you understand by the following as it relates to liability insurance:
- (i) Minor (ii) Unborn Children (iii) Persons of Unsound Mind.

(9 marks)

Solution

- (a) The liability risks that a manufacturing company is exposed to in the course of their operation and from which they may incur legal liability if any of such risks occurs are:
- **Risk of Legal Liability to their Employees in the Course of their Employment:** the management of the company through their negligence may incur legal liability to their employees for bodily injury, death, disease or illness in the course of their employment. This risk is common where there is Employer/Employee relationship. The employer is expected to provide a safe place of work, safe tools and equipment, safe system of work, comply with statutory provisions, employ competent employees, e.t.c. If the employer is found wanting in any of these responsibilities, the employer will be exposed to risk of legal liability from this shortcoming to their employees.
 - **Risk of Legal Liability to Members of the Public:** this may arise through the negligence of their employees in the course of carrying out the business operations which may result in bodily injury, death and damage to property of any member of the public. This could be whether or not the manufacturing company is operating in an environment within their business premises and elsewhere (work away) where their business activities are being carried out. The management of

the company is vicariously liable for the negligence of their employees which may result to bodily injury or death to any member of the public.

- **Risk of Product Liability Arising from Defect in their Products to Members of the Public:** it has been established that a product manufacturer is liable to the ultimate consumer of the product. Hence, the company may incur legal liability for third party bodily injury, death or disease arising from the defect in their products manufactured, distributed or supplied.
- **Liability Risk of Professional Negligence:** i.e. error, omission, mistake, e.t.c. from professional advice given to their client. A professional owe duty of care to the client and must exercise due care and skill as expert in their profession. When a client relies on the professional advice coming from the company and consequently suffer a financial loss, the company will be guilty of professional negligence.
- **Risk of Legal Liability to third Parties for Bodily Injury, Death and Damage to Property:** through the operation of the company's motor vehicles in the course of business.

(3 marks for any correctly stated type of liability. 2 marks for any correct explanation. Sub-Total per liability: 5 marks. Maximum of 3 types of liability to be graded. Total: 15 marks)

(b) The importance of early notification of claim in liability insurance claim process are:

- to comply with the notification condition of the policy. All liability policies contain a condition which requires a claimant to notify the insurer within a stipulated time
- it assists the insurer to conduct investigation when the matter is fresh and when eye witness account will be readily available
- it helps the insurer to reserve adequately for the claim
- it helps the insurer to notify their reinsurers or co-insurers accordingly
- it enables quick processing and settlement of the claim

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

(c)i. **Minor:** a minor is somebody under 18 years of age, a minor can sue or be sued only through their friend i.e. their parent or legal guardian. The law will not allow a minor to be sued in tort if the action is tantamount to the child being sued in contract.

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

ii. **Unborn Children:** it has been argued that a foetus was not a legal person. The Congenital Disabilities (Civil Liability) Act 1976 now recognises the right of an unborn child. The Act states that a child injured whilst still in the womb may still bring an action after birth if a duty of care would have been owed to the parent.

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

iii. **Persons of Unsound Mind:** this liability of persons of unsound mind will depend on the degree of insanity. If the insanity is so serious that the defendant is reduced to an automation, there should be a complete defence, if they are aware of the nature and quality of their act, they will be liable. The test is whether or not the defendant has the state of mind to commit the tort in question.

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

(Sub-Total: 9 marks)

(Grand Total: 34 marks)

11. (a) A person can incur legal liability for the “Escape of Fire”. Explain with a relevant case law. **(15 marks)**
- (b) Discuss the liability of an Hotel Proprietor. **(5marks)**
- (c) Enumerate and briefly explain four (4) defences to the rule of *Ryland v. Fletcher 1868*. **(10 marks)**
- (d) Distinguish between contract and tort. **(4 marks)**

Solution

- (a) Liability for the escape of fire **is a strict liability** based on the rule of *Rylands v. Fletcher 1868*. A person will incur legal liability for escape of fire although people do not often bring and store fire on their land and allow it escape, however, they do bring inflammable materials onto their land, which if badly stored can catch fire and escape i.e. spread to third party property.

In *Mason v. Levy Auto Parts of England Limited (1967)*, the defendants used a yard for the storage of combustible materials, including petrol, grease and oil. A fire broke out in the defendants yard and spread to neighbouring premises. The court found the defendant guilty under the rule of *Ryland v. Fletcher*.

(3 marks for stating the 1st bolded point. 3 marks for phrase to *Ryland v. Fletcher*. 5 marks for correctly stating the case law (if not explicitly stated but correctly explained, the candidate gets the full 5 marks. 2 marks for any other complete and correctly stated point. Maximum of 2 points to be graded Sub Total: 4 marks. Grand Total: 15 marks)

- (b) At common law, an hotel proprietor **has a strict liability for the safety of his guests and their personal effects**. This is **contained in the Hotel Proprietor Act 1956**. The **Act imposes a monetary limit** of GBP50.00 for any one article of a guest up to an

aggregate amount of GBP100.00. This limit can **only be relied upon if the hotelier displays a statutory notice providing details of the Act on a conspicuous place** on their premises.

(2 ½ marks on any of the bolded points above. Maximum of 2 of such points to be graded. Total: 5 marks)

(c) The following are the defences to the rule of *Ryland v. Fletcher 1868*:

- **Statutory Authority:** if a dangerous thing is accumulated under statutory authority, the rule does not apply
- **Consent:** if there is consent between the two parties on the issue i.e. the plaintiff and the defendant. The consent must be and not coerced
- **Common Benefit:** if the accumulation of the danger is for the common benefit of the plaintiff and the defendant e.g. for a case of piped water in a block of waters – an escape of water from one flat to another will not be actionable under the rule
- **Contributory Negligence:** this defence will be available if it can be shown that the plaintiff carelessness also contributed to the loss
- **Act of Stranger:** this will be a defence as long as the defendant had no control over the stranger and cannot really have fore seen or prevented the loss
- **Act of God:** this is a full defence if the defendant can show that it was an act from God and not within his control or influence.

(1 mark for correct defence mentioned. 1 mark for correct explanation. Sub-Total per defence: 5 marks. Grand Total: 10 marks)

(a) A contract is an agreement between two or more people giving rise to obligations which are enforceable or recognised by law. Entering into a contract is voluntary and when there is violation of agreement, only the parties to the contract are involved. A contract will give rise to an action for liquidated damages.

While a tort is a civil wrong. Tort always implies some breach of duty which lies on everyone to take care that injury or damages is not caused to other people. Tort is a more frequently cause of action because it involves the general public. A tort will give rise to an action for unliquidated damages.

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

12. (a) Enumerate, with a very brief explanation, three (3) rating basis for a public liability insurance. **(15 marks)**

(b) Explain how the premium charged on Employers’ Liability Insurance is determined. **(9 marks)**

(c) Explain how the premium charged on Professional Indemnity is determined. **(10 marks)**

Solution

(a) The following rating basis are considered as appropriate to arrive at premium payable on a public liability insurance, while noting that the premium arrived at may be subject to declaration and annual adjustment:

- **turnover:** a rate is applied on the company's turnover to provide the premium
- **wage roll:** the total estimated wage roll of all the employees will produce a base
- **number of beds:** this will be relevant for hospital, nursing homes and hotels
- **number of students:** this is appropriate for education establishment
- **seating capacity:** this is appropriate for stadia and event centre.

(3 marks for any correctly stated basis. 2 marks for the brief explanation. Sub-Total per factor: 5 marks per factor. Maximum of 3 points to be graded. Grand Total: 15 marks)

(b) The premium charged on Employers' Liability Insurance is based on the total estimated annual earnings of all employees engaged in the business and the types of business or trade involved. A rate (based on the insured occupation) is applied on the estimated annual earnings of all employees to produce the initial premium known as deposit premium. The deposit premium is subject to declaration and adjustment.

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

(c) The premium charged on Professional Indemnity is usually determined by applying a rate either to the total gross fees or to the amount of indemnity plus a per capita average for each person employed in the business.

The premium arrived at may be loaded in consideration of the following:

- **more than one office:** where there is more than one office, the risk may be increased because of the problem of control, monitoring and communication
- **claims experience:** past claims experience may influence the premium payable
- **age of partners:** an increased premium may be charged where the partners are young or where the business is only recently established
- **ratio of partners to staff:** there must be an acceptable ratio between "supervisory" and "other staff". If the ratio will not guarantee good supervision and control, the basic premium may be loaded or attract a loading.

(3 marks for any correctly stated consideration. 2 marks for the explanation.

Sub-Total per consideration: 5 marks. Maximum of 2 considerations to be graded. Grand Total: 10 marks)

13. Write short notes on each of the following:

- | | | |
|------|----------------------------------|------------------|
| i. | Accrual of Action | (6 marks) |
| ii. | Custody or Control of Property | (7 marks) |
| iii. | Liability of an Insurance Broker | (7 marks) |
| iv. | Product Recall | (7 marks) |
| v. | Utmost Good Faith. | (7 marks) |

Solution

i. **Accrual of Action:** is the date when the plaintiff has a valid cause of action and is the provision of limitation of actions e.g. the date of accrual of action in a contract is the date of the breach and in tort, it is the date that the injury or damage occurred. **(3 marks for any correctly stated point. Maximum of 2 points to be graded. Total: 6 marks)**

ii. **Custody or Control of Property:** this is one of the underwriting factors that will be considered for accepting a public liability risk. The insured may have property to third parties in his custody and control. Public liability policy will indemnify the insured for loss or damage to third party property through their negligence. It is therefore important to ascertain the nature of the property in the insured's control and custody.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

iii. **Liability of an Insurance Broker:** insurance brokers are professionals who undertake to give advice on matters involving insurance profession. They must exhibit reasonable degree of skill and knowledge as experts in insurance profession. They owe a duty of care to their clients and if they are found wanting, they are open to a charge of professional negligence. They must arrange adequate insurance cover for their clients' properties and must carry out their clients' instructions and give them proper advice.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

iv. **Product Recall:** standard product liability policy will not cover expenses incurred by a supplier or manufacturer in recalling defective product from the market. After the product has been put on to the market, it may be discovered that it has dangerous faults. This may make it necessary to withdraw the product completely and replace it or recall it to have the fault corrected. Insurance for product recall covers the expenses incurred in recalling the product or arranging its destruction.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

v. **Utmost Good Faith:** this is one of the fundamental principle of insurance practice. Utmost Good Faith (uberrima fides) applies to insurance of liability and it involves voluntary disclosure of material facts by the proposer to the insurer as regards the subject matter of insurance. Material facts are facts which will enable the insurer to decide whether to accept the risk proposed and also assist in determining the premium (price) payable for accepting the risk.

(3½ marks for any correctly stated point. Maximum of 2 points to be graded. Total: 7 marks)

14. (a) Explain what you understand by the following terms as it relates to liability insurance:
- i. Future Loss of Earnings
 - ii. Special Damages
 - iii. Latency
 - iv. Loss Control Audit. (20 marks)
- (b) What is your understanding of the effect(s) of the “Insolvency Act 1986” on a Company’s Director? (6 marks)
- (c) Mention any four (4) of the other factors, apart from the limit of indemnity, taken into consideration when rating a Directors’ and Officers’ Liability Insurance. (8 marks)

Solution

- (a) i) **Future Loss of Earnings:** is one of the components of general damages in personal injury action. Claims involving personal injury are perhaps the largest single source of litigation. A claim for future loss of earnings presupposes some form of permanent disability or a disability which will last some time into the future. Future losses may be total or partial. A plaintiff may not be able to work at all because of their disability or they may not be able to work for such long hours or work overtime. They may have to take a less strenuous job for less money.
(2½ marks for any complete and correctly stated points. Maximum of 2 points to be graded. Sub-Total: 5 marks)
- ii) **Special Damages:** constitute losses which are capable of evaluation and are sustained from the date of the accident to the date of the trial. They will include loss or damage to clothing, the cost of pharmaceuticals and medical treatments. The most common head of special damage is loss of income. The calculation of loss of wages is straightforward i.e. an average weekly wage loss is calculated and multiplied by the number of weeks off work.
(2½ marks for any complete and correctly stated points. Maximum of 2 points to be graded. Sub-Total: 5 marks)
- iii) **Latency:** seeks to identify the gap in time between the start of a chain of events and its result. For example, the time an employee catches a disease through the hazard of place of work and the manifestation of the disease may be very difficult to predict with accuracy. Some occupational diseases develop gradually (latent) and its manifestation may take some time.
(2½ marks for any complete and correctly stated points. Maximum of 2 points to be graded. Sub-Total: 5 marks)
- iv) **Loss Control Audit:** is a critical examination of an industrial operation in its entirety to identify potential hazards and level of risk. Audits are often undertaken by multidisciplinary teams. Individual members should have a good knowledge of legal requirements and industry practice. In many companies, this expertise is readily available

and so in some cases, audits tend to be undertaken by external specialists such as consulting engineers acting independently or employed by insurance companies.

(2½ marks for any complete and correctly stated point. Maximum of 2 points to be graded. Sub-Total: 5 marks)
(Grand Total: 20 marks)

(b) The “Insolvency Act 1986” on a Company’s Director is a major source of claims against directors of a company. Section 214 state that when a director indulges in wrongful trading that may result in liquidation, the liquidator is permitted to seek a personal contribution of director to salvage the company. The extent of the contribution required from a director is a matter for the court’s discretion in the light of all the circumstances. The contribution from the director was the amount by which the company’s assets were considered by the court to have depleted as a result of their continuing to trade after they should have recognised the company’s inability to do so.

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

(c) The factors, apart from the limit of indemnity, taken into consideration when rating a Directors’ and Officers’ Liability Insurance are:

- turnover and gross assets
- company activity and organisational structure
- financial position of the company
- geographical areas of the company operation
- number of directors and officers
- millennium compliance strategy.

(2 marks for any correctly stated factor. Maximum of 4 points to be graded. Sub-Total: 8 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A08

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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A08 - INSURANCE 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

100% of the candidates attempted. 77% provided correct answers of fire risk assessment steps in the health and safety executive booklet. Candidates that scored below pass mark must study the portion of the coursebook properly.

Question 2

The question was intended to test candidates' knowledge on group risk policy that was specifically mentioned in the coursebook. About 58% scored pass mark, whilst the remaining 42% scored below pass mark because they failed to study the coursebook properly.

Question 3

The question was on flow chat. Majority that understood this scored above the pass mark. Those candidates that poorly prepared for the examination scored below average pass mark.

Question 4

This question was lifted directly from coursebook on flowchart; few of the candidates could not state the order of the sequence and they scored below the pass mark.

Question 5

The question was lifted directly from the coursebook but majority of candidates demonstrated low understanding of the wrong approach to insurance cover/arrangement for risk, which is an elementary aspect of risk management in insurance.

Question 6

Attempted by all candidates. Less than 40% scored the pass mark and/or above it, because instead of providing solution/answer as contained in the coursebook, they relied on day-to-day office experience which was professionally incorrect. Candidates must study the coursebook to score pass marks in future.

Question 7

Close to 90% of the total candidates attempted the question. However, less than 45% scored average/pass marks. Those that could not score pass mark were able to give satisfactory definition but failed to explain the effective use of risk model.

Question 8

This question intended to test candidates' knowledge of crisis management plan. Over 95% attempted the question and about 60% of those that attempted it scored above pass mark because they demonstrated a good understanding of the question. Close to 40% provided wrong answer hence scored below pass mark.

Question 9

This is a compulsory question attempted by all the candidates, 100% of the candidates provided correct answer to part 'a' hence scored above average pass marks. However, over 90% of the candidates could not identify turnbull report, its adoption and competitive advantages; this affected negatively the total score on this compulsory question.

Question 10

Out of 104 candidates that attempted this paper, about 49% attempted this question but less than 37% scored pass marks, due to inadequate preparation for the examination. The questions were testing candidates' understanding of reason why organisations can fail to perform, clearly contained in the textbook.

Question 11

The question required candidates' understanding of the need of review period and direct questions on advantages/usefulness of insurance covers. The answers are in the coursebook. Many candidates that scored below pass mark could not present the points, those that did score the pass mark.

Question 12

Optional question and over 92% of the candidates attempted the question and about 94% of the total candidates scored above the pass mark. They displayed a good understanding of probability, severity and preservation of matrix. Those that scored below pass mark did opposite of this.

Question 13

- (a) The question tested candidates' knowledge of security risk. 90% of the candidates attempted and close to 80% gave satisfactory and scored above the pass mark.
- (b) This part was also well attempted and over 60% scored above the pass mark for the section.

Question 14

This question was avoided by majority of the candidates. Less than 10% attempted. Out of those that attempted the question, about 50% scored above the pass mark. It required candidates' close study of regulatory requirement on risk management and the section of the coursebook on same.

Comments on Overall Performance:

Overall candidates' preparations for the examination is very low. Over 60% of the candidates had difficulties in application of studied content to practical development. Close to 40% of the total candidates that sat for the course book and could not apply the contents to be able to score above the pass mark.

Suggestion(s) on Improvement (if any):

The institute needs to continue emphasising reasons candidates must adequately study and prepare for examinations. Generally, professionals must know practical application. Risk management is an important course in the field of insurance.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Enumerate the five steps for assessing Fire Risks as given in the Health and Safety Executive booklet on Fire Safety.

Solution

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

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

STEP 2: Identify the fire hazards

STEP 3: Evaluate the risks

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

STEP 5: Update and revise assessment as necessary.

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

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

Solution

A Group Risk Policy will address the following:

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

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

3. Define a flow chart and state why a flowchart is useful.

Solution

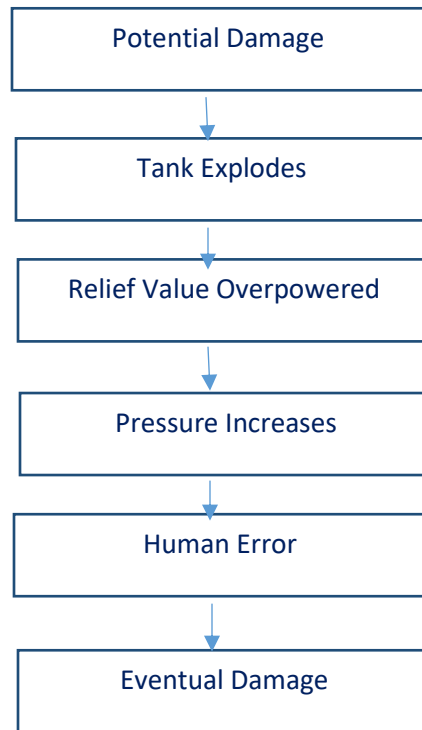
A flow chart is a diagram that pictures the route taken by all of the crucial ingredients of the final product, through the completion and final delivery. It therefore shows the bottlenecks and crucial dependencies within the process. With these flow charts, the risk manager can begin to see when the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

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

4. An Engineer knows that a pressure vessel will explode once the pressure within the vessel exceeds its design load plus any margin of error that was built in by the

designer. Present the above graphically with an engineering fault tree following just a single chain of events.

Solution



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

5. Enumerate any two (2) meaning of inappropriate insurance arrangement or protection.

Solution

The meaning of inappropriate insurance arrangement or protection are:

- arranging insurance cover that does not suit the purpose intended insuring for less than the actual amounts;
- choosing short indemnity periods for business interruption covers;
- lack of deep understanding of both potential/extent of damage.

(3 marks each; Maximum of 2 points to be graded. Total: 6 marks}

6. List any four (4) objectives of the business recovery plan.

Solution

The following are the objectives of the business recovery plan:

- limit damage, including fast reinstatement of security and safety;
- accelerate the response by using trusted and authorized resources;

- create an order and priority to the recovery process;
- meet new communication challenges, both within and beyond the organization
- meet urgent customer and other needs
- protect the brand name and
- keep the organization firmly within its marketplace

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

7. Define the risk model and how can it be used effectively?

Solution

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

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

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

8. Explain the phrase “Crisis Management Plan”.

Solution

“Crisis Management Plan” means:

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

OR

- is a working paper/document that summarize and also represents the planning that has taken place to meet the identified crisis exposure. **OR**
- is the art of identifying, analyzing, monitoring, reviewing and communicating all the risk concepts in a context that include operations, trade, speculative, political, currency and investment risks. These risks could threaten the survival of an enterprise in its entirety and the management of such risks to acceptance level

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

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) According to the Federal Republic of Nigeria Insurance Act 2003, Section 2 stated the main classes of insurance as two. Mention these two main classes and state the any three categories under each class. **(10 marks)**
- (b) The head of your Legal Department recently received a letter from the regulator, NAICOM, on corporate governance and consequently requested for additional information he can include in his report to the management from UK practice as it relates to corporate governance which can give the company edges above her competitors.

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

Solution

- a) The two classes of insurance, according to the Act are:

- Life Insurance Business and
- General Insurance Business.

(2 marks for each correctly stated class)

The categories are:

- **Life Insurance Business:**
 - Individual Life Insurance Business
 - Group Life Insurance and Pension Business
 - Health Insurance Business
- **General Insurance Business:**
 - Fire Insurance Business
 - General Accident Insurance Business
 - Motor Vehicle Insurance Business
 - Marine and Aviation Insurance Business
 - Oil & Gas Insurance Business
 - Engineering Insurance business
 - Bonds Credit Guarantee and Suretyship Insurance Business
 - Miscellaneous Insurance Business

(1 mark each for correct categories. Maximum of 3 to be graded per class. Sub-Total: 6 marks)

(Grand Total: 10 marks)

b)

XYZ HOLDINGS NIGERIA LIMITED
INTERNAL MEMO

Date: 6th October 2021
From: The Chief Risk Officer
To: The Head, Legal Department
Subject: Corporate Governance Requirements

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

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

Memo Format - 5 marks

Marks for

Date - 1 mark

From - 1 mark

To - 1 mark

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

question)

Contents Section: 3 marks per section as tabulated below.

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

4 marks for appropriate conclusion/ending.

Grand Total: 50 marks

Contents Section

Adoption of Turnbull Report - 3marks

A-*Competitive Advantage

-It has involvement of the Institute of Chartered Accountants in England and Wales

- Code backed by London Stock Exchange

- Failure to comply by organization required explanation on reason for such

Scores - 3marks for each point correctly stated, 2points to be graded.

B-*Purpose of Code and intention of Turnbull

- Attempt to produce robust and practical guidance to organisations/companies on effective risk management
- Give guidelines on control systems
- Insistent that Board responsibility is not, could or would be delegated elsewhere in the Company.

Scores - 3marks for each point, 3points to be graded.

C-*Turnbull Code requires Board to understand

- Nature and extent of the risks it faces
- Extent and categories of risks that is considered acceptable
- Likelihood of risks occurring
- when risk occurred how to reduce the risk incidence and possible impact
- Cost/benefit of controlling the risk compare to cost of the risk when it materializes

Scores - 3marks for each point correctly stated. 3points to be graded.

D-*What the code covered when board approach is formally established are:-

- Initial risk assessments and action plans for managers
- Risk policies which include the roles of directors and managers
- Clearly established reporting system
- Annual assessment

Scores - 3marks for each point correctly stated. 3points to be graded.

Maximum scores for the sub- section = 36marks

***CONCLUSION**

Candidate to focus on how all the above are similar to risk management guidelines of NAICOM particularly on board roles/responsibilities. It gives timeline. -

Score -4 marks.

Total will be: 10+36+4= 50.

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Enumerate any four (4) incidents that could cause an organisation to significantly fail to perform. **(16 marks)**
- (b) In considering alternative methods of working, whilst an ineffective computer is being replaced or repaired, the risk manager will need to consider carefully and fully the values the computer brought to the processes. Enumerate any six (6) of these values. **(18 marks)**

Solution

(a) The incidents that could cause an organisation to significantly fail to perform are:

- failure of central computer and communications infrastructure
- critical failure of local computer and communication structures
- destruction of buildings and other equipment that are needed for processing and delivery
- crucial information, whether it be on paper or within computer databases
- individual key employees, teams or where there are concentration of employees felt to be at one risk or the other
- essential service supplier and distribution chains

(4 marks for each correctly stated point. Maximum of 4 points to be graded.

Total: 16 marks}

(b) Some of the values to be considered are:

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

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

Total: 18 marks)

(Grand Total: 34 marks}

11. (a) Enumerate three (3) advantages and three (3) disadvantages of setting review periods for individual aspects of risk. **(18 marks)**

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

Solution

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

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

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

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

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

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

(Grand Sub-Total: 18 marks)

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

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

otherwise loose cash resources or at least need to invest some funds in a way that they can be cashed quickly.

(4 marks for each correctly stated point. Maximum of 4 points to be graded.

Total: 16 marks)

(Grand Total: 34 marks}

12. (a) Draw a risk matrix showing how probability and severity can be demonstrated. Show on the matrix how it can illustrate a level of acceptance risk profitability and risk severity. **(27 marks)**
- (b) What factors other than probability and severity could affect an organization's decision to manage risk? **(7 marks)**

Solution

(a)

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

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

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

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

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

2 marks for explaining what the shaded are mean.

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

- i) the risk of committing illegal acts
- ii) statutory/regulatory requirements
- iii) the Company's Management's own cultural approaches and references.

(1 mark for appropriate opening sentence. 2 marks each for the stated points.

Maximum of three marks to be graded. Total: 7 marks)

13. (a) Risk Managers used to consider security risks. Enumerate three (3) types of security exposures may be faced achieving this. **(9 marks)**
- (b) What are the key requirements of the Health and Safety at Work Act 1974? **(25 marks)**

Solution

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

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

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

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

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

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

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

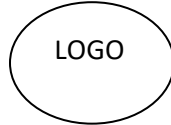
Solution

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

The points that need to be mentioned mostly are:

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

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

APRIL 2022 DIET EXAMINATION PAPER

SUBJECT A09
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 or more parts, this instruction does 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 APRIL 2022
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A09 – 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

The question tested candidates' knowledge of ways by which advertising can be used to break down barriers in communication process. The performance was encouraging about 83% out of 97% that attempted the question. Candidates displayed a good understanding of the concept tested and are advised to keep it up in their future preparation.

Question 2

The question tested four (4) components involved in formulating marketing strategy for services. The question was well attempted (81%) and the performance was well encouraging (86%). It is observed that many candidates expended much time writing irrelevances instead of listing the components as requested by the examiner. Candidates should read the questions and not do beyond examiners' request to avoid time wasting.

Question 3

The question tested the fact that influence the amount of competition affecting a given product or service. The question was well attempted by almost all candidates (97%) while the performance was above average (55%). Candidates need to read and understand the coursebook well.

Question 4

The question was meant to list in correct order, the four (4) main steps in creating a customer service strategy. Majority of the candidates attempted the question (79%) but the performance was poor (22%). Some candidates supplied wrong answers while some could not arrange the steps in the required order. Candidates should note that the only way out to a good performance in this kind of examination is to study their coursebook harder.

Question 5

The question tested candidates' knowledge about product and marketing concepts. About 95% attempted the question while the pass rate was just about 47%. This is a typical coursebook question. The poor performance boils down to lack of adequate preparation. Candidates again are reminded and advised to be friendly with their coursebook.

Question 6

The intention of the examiner, was to test the knowledge of candidates on the basic structures for managing international marketing. Candidates demonstrated good knowledge of the topic tested. About 91% attempted the question and the performance was above average 57%. It is hope that candidates will read their coursebook more in future examination to enhance their performance.

Question 7

The question tested knowledge of how consumers evaluate insurance services. 82% attempted this question but the pass rate of 42% was not encouraging for this straight forward coursebook question. The poor pass rate indicated that candidates did not read and understand their coursebook.

Question 8

The question tested candidates' knowledge of market structures. It was attempted by all the candidates and about 76% of them obtained a pass mark. The pass rate indicated that the candidates are quite familiar with the aspect of the course tested. Candidates are still advised to be prepared in the future so as to further reduce the failure rate.

Question 9

This is a compulsory question which tested understanding of the compulsory insurance, condition for successful marketing exchange transactions. The question was well attempted (about 92%) and the pass rate was encouraging (65%). However, candidates are advised to always prepare for regulatory and compliance questions in addition to studying every aspect of their syllabus while preparing for the examination.

Question 10

The examiner tested candidates' knowledge of methodical and typical steps or stages of market research. The attempt was good (about 85%). The performance was above average (53%). Candidates are advised to study harder by covering every part of the course book very well to enhance their performance in future.

Question 11

The question tested candidates' knowledge on direct marketing and how insurance organisations must strive to match its offering to satisfy their customers. The question was attempted by 68% of the candidates while the performance was quite encouraging (71%). Some of the candidates supplied wrong answers to the question. Candidates are advised to create time to study and to ensure proper understanding of concepts tested before answering the question.

Question 12

The question tested candidates' knowledge of the concept of information technology and electronic applications in marketing i.e. influence of internet in marketing. About 65% attempted it, while the pass rate was poor (38%). Candidates are advised to read the coursebook instead of relying on general knowledge.

Question 13

The question tested candidates' knowledge of SWOT analysis, competitive business strategies and action plan. The question was avoided by many candidates as only 41% attempted it. Those that attempted the question demonstrated a good knowledge of the

concept tested. The performance was encouraging (73%). Candidates are advised not to neglect any part of the coursebook while studying for future examination.

Question 14

The question tested the objectives why organisations design marketing distribution channel, franchising and effects of intermediaries in distribution channel. About 32% of the candidates attempted the question while the pass rate was only 41%. Candidates are advised to get themselves familiar with every aspect of the syllabus to enhance their performance.

Comments on Overall Performance:

The overall performance was still below average. Candidates can do more to enhance their performances.

Suggestion(s) on Improvement (if any):

Candidates are advised to study their coursebook instead of relying on general knowledge as some of the questions are direct coursebook questions on which the candidates' performance were below average.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Advertising can be very effective in breaking down barriers in the communication process overtime. Enumerate three (3) ways by which advertising helps in this process.

Solution

Unawareness	Make impact Fly the flag Inform about product/ service Overcome forgetfulness
Awareness	Convey specificity Inform about what the product/service does Provide assurance
Comprehension	Establish credibility Reduce hostility Emphasise benefits Demonstrate fitness
Conviction	Overcome apathy Get customer to take action Encourage ownership Generate demand
Action	Get customer to take action

(1 mark for each correctly stated “means” and 1 mark for any correctly stated action by which the “means” is done. Maximum of 3 means to be graded. Total: 6 marks)

2. There are four components involved in formulating a marketing strategy for services. State any three (3) of these four components.

Solution

The four (4) components involved in formulating a marketing strategy for services are:

- establishing the corporate concept
- analyzing both the external and internal environments
- formulation of a marketing strategy
- implementation, control and evaluation of the whole process

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

3. A number of factors influence the amount of competition affecting a given product or service. Enumerate two (2) of such factors.

Solution

The factors that influence the amount of competition affecting a given product or service are:

- organisations operating in the market
- consumers interest in buying products and services in the market
- factors external to the market.

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

4. When an organization recognises the importance of customer service as a device for developing new business and preserving existing business. It is essential that the marketing manager is clear about how it will be created and used. There are four main steps in creating a customer service strategy. List, in the correct arrangement, these four (4) steps.

Solution

The customer service strategy steps that will be created and used are:

- identify a service mission
- set the customer objectives
- decide on the customer service strategy
- implement the strategy

(1 mark for each correctly identified step. 2 marks for correct arrangement of the steps. Total: 6 marks)

5. To bring about an exchange of goods and services, the seller must perform five acts. Enumerate any three (3) of those acts.

Solution

The acts that the seller must do in order to bring about an exchange of goods and services are:

- identifying the potential buyers
- developing appropriate solutions to their needs, whether products or services
- communicating information to those potential buyers about these solutions
- making the exchange
- delivering the offering.

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

6. There are two main structures for managing international marketing operations. Enumerate the two (2) main structures.

Solution

The two (2) main structures for managing international marketing operation are:

- centralised marketing and
- decentralised marketing.

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

7. The evaluation of insurance services are in two (2) folds. Evaluate them.

Solution

The two folds that the evaluation of insurance services are;

- when disaster strikes, the service must meet or exceed the customer's expectation
- if disaster never strikes, the customer must feel pleased that they have bought the insurance, even though all they have experienced is peace of mind.

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

8. 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:

- large number of both buyers and sellers in the market;
- no single buyer or seller is large enough to influence the market prices;
- all products 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)

Part II Compulsory Question. This question carries 50 marks.

9(a) List the five (5) compulsory insurances according to NAICOM directive for the Nigerian Insurance Industry.

(b) List, explain and give an example on each of the five (5) conditions that must be met before a successful marketing exchange transaction can be said to have occurred. **(25 marks)**

(c) From a seller's perspective, the conditions necessary for an exchange can only be met after the seller or some exchange specialist acting on the seller's behalf - has successfully performed several risks. Enumerate and explain any five (5) of those risks. **(15 marks)**

Solution

(a) The five (5) compulsory insurances according to the NAICOM directive for the Nigerian Insurance Industry are:

- (i) Statutory Group Life Insurance
- (ii) Builders' Liability Insurance
- (iii) Occupiers' Liability (Public Building) Insurance
- (iv) Healthcare Professional Indemnity Insurance
- (v) Motor Third Party Insurance
- (vi) Marine (Import Insurance)

(2 marks for each correct answer. Total: 10 marks)

(b) The five (5) conditions that must be met before a successful marketing exchange transaction can be said to have occurred are:

- i. there must be at least two parties
- ii. both parties must offer something of value (e.g. money, goods, services, an idea)
- iii. both parties must be aware of each other's existence
- iv. both parties must be capable of communication and delivery
- v. both parties must be free to accept or reject the other party's offer
- vi. both parties must be willing and able to negotiate terms of exchange that they find acceptable.

(2 marks for each correctly listed condition; 2 marks for each correct explanation of the listed condition. 1 mark for each completely and correctly stated example. Sub-total per condition = 5 marks. Grand Sub-Total: 25 marks)

c) Those risks from a seller's perspective that the seller or its representative needs to perform are:

- i. identify potential buyers
- ii. develop appropriate solutions to the buyers' needs
- iii. communicate information to those buyers about the available solutions
- iv. make the exchange
- v. deliver the offering

(2 marks for each correctly listed risk; 1 mark for each correct explanation of the listed risk. Sub-total per risk = 3 marks. Grand Sub Total: 15 marks) (Grand Total: 50 marks)

Part III

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

Each question carries **34** marks.

- 10a Market research is methodical and typically follows an ordered series of six (6) steps or stages. List and fully explain these six (6) stages. **(12 marks)**
- (b) With the aid of diagram, articulate the value chain analysis for an insurance company. **(12 marks)**
- (c) New product development is best done as a series of steps. List and briefly explain the five (5) stages of new product development. **(10 marks)**

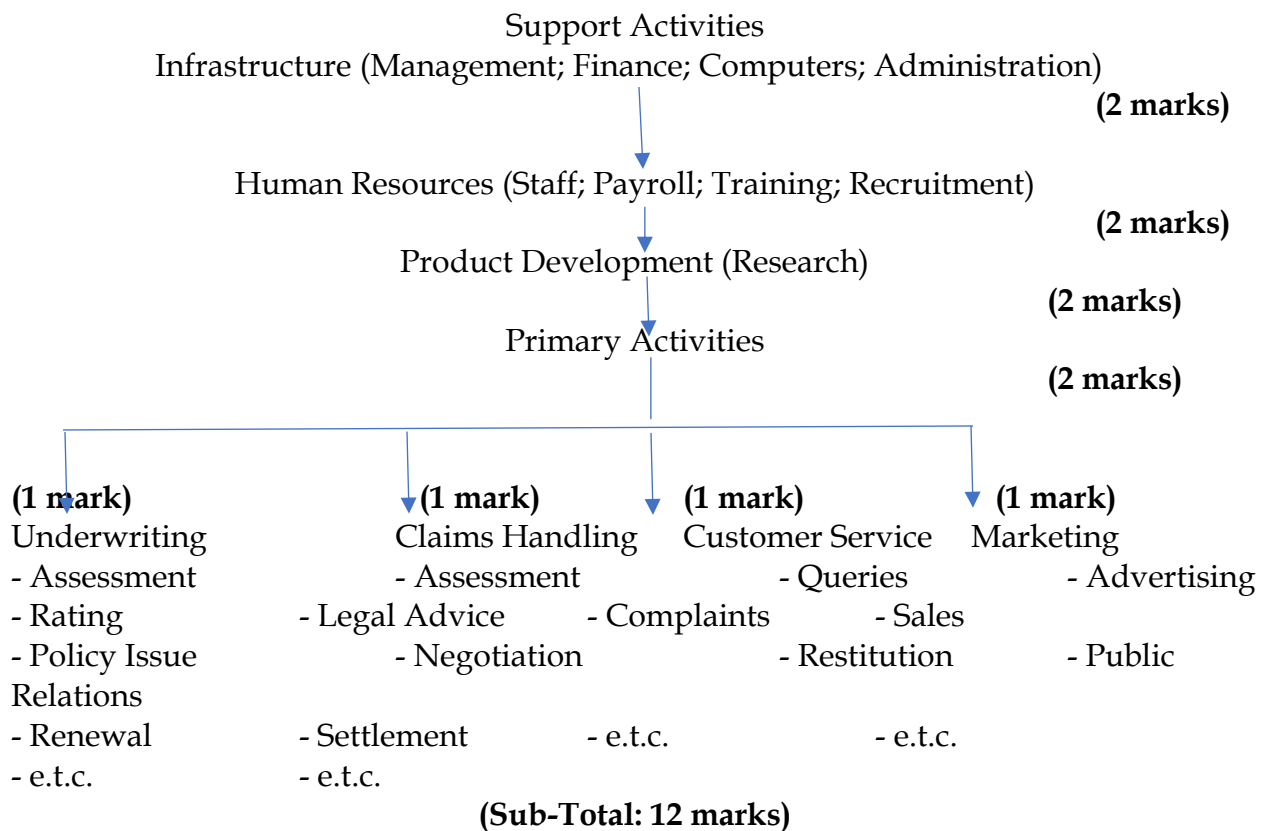
Solution

a) Market research is methodical and typically follows an ordered series of six (6) steps or stages. These steps are:

- **Identifying the Missing Information:** this is done by identifying the information required by the organisation and the questions for which the market research will provide answers
- **Determining the Data Needs and Sources:** researcher need to identify what kind of data they need and the likely sources of such data e.g. historical record to show the trend, street interviews to determine public perception and awareness of organisation's products and services
- **Research Design:** questions which will produce the unambiguous answers need to be formulated. Quantitative and unequivocal factual answers can be recorded in a number referenced way

- **Design of Sample Size and Characteristics:** need to identify a target group from whom the information will be gathered. Selecting a sample that represents a wide cross-section of types within the group will minimize the risks of bias answers
 - **Data Collection:** data can be collected in a variety of ways. Data collection can be distorted by the following:
 - interviewee who do not respond at all
 - interviewers who ask questions incorrectly
 - interviewers who record answers incorrectly
 - **Tabulation and Analysis:** the raw data need to be tabulated to make it easier to draw inferences about needs and average behavior from the aggravated answers
- (1 mark for each correctly stated step. I mark for any correctly stated explanation. Sub-Total perStep = 2 marks. Total: 12 marks)**

b) The value chain analysis for an insurance company in diagram is:



c) The five (5) stages of new product development are:

- **Objectives and Strategies for New Products:** this is aimed at securing future volume and profit growth for the organisation. It may also aim at maintaining its position in the market as an innovator or at defending its current market share.

- **Idea Generation and Processing:** this is focused on new ideas on how to exploit the market opportunities and it could come from any source e.g. customers, organisation's own staff, competitors, government, academia, e.t.c. The new ideas need to be thoroughly screened before taking a final decision on them.
 - **New Product Design:** the process is to first have an initial "rough" idea of the product to be developed, then identify the key benefits in the products for the customer, the key product features, determine how to position the product within the existing market, evaluate the product within the existing market and then redesign the "rough" idea to incorporate the developmental work done on it.
 - **Testing:** this is aimed at using panels of experts drawn from the industry to carry out consumer tests and also testing the effectiveness of the proposed marketing mix.
 - **Commercialisation:** this is when significant financial investment is made on the new product for marketing, production and physical distribution of the product.
- (1 mark for correctly stated stage. 1 mark for correct explanation on each correctly stated stage. Sub-Total per stage - 2 marks. Grand Sub-Total: 10 marks) (Grand Total: 34 marks)**

11. (a) Direct marketing encompasses a number of media and is one of the most popular forms of advertising for insurance organisations. It comprises of four (4) main methods. List and explain these methods. **(12 marks)**
- (b) There are four (4) main strategies for improving the insurance service process so as to improve the effects of marketing. List and explain these four (4) strategies. **(12 marks)**
- (c) The insurance organization must strive to match its offering to groups whose needs it can best satisfy, and these groups will differ according to certain factors. List and give examples of each of the four (4) factors used in stratifying these groups. **(10 marks)**

Solution

- a) The four (4) main methods used in direct marketing as a form of advertising for insurance organisations are:
- Direct Mail:** unsolicited letters are sent to a list of potential customers whether these are already policyholders or those who have not yet bought from the organisation.
 - Direct Response Advertising:** advertising which invites interested people to contact the insurer for more information, often about a special offer.
 - Telemarketing/Telesales:** unsolicited telephone calls are made to a list of potential customers.
 - Internet Marketing:** emails are sent to a list of potential customers.
- (2 marks for each correctly listed method; 1 mark for each correct explanation of the listed method. Sub-total per method = 3 marks. Grand Sub-Total: 12 marks)**

b) The four (4) main strategies for improving the insurance service process as it relates to improving the effects of marketing are:

- i. **Reducing Divergence:** by standardizing the service and limiting the extent to which it might be customized to individuals. While this offers the prospects of reducing costs and improving productivity, it can also alienate those customers who should benefit from customization.
- ii. **Increasing Divergence:** by allowing for greater customization and flexibility for which it might be possible to charge premium prices, this may be a suitable strategy for niche positioning of the insurance market.
- iii. **Reducing Complexity:** by omitting steps and activities from the process. This has the effect of making control easier since some peripheral activities disappear.
- iv. **Increasing Complexity:** by adding more services to the core insurance offering. These additional services are intended to be for the customers' benefit but they can also make the process so complicated that customers are reluctant to waste the effort they have already made by moving to a competitor.

(2 marks for each correctly listed strategy; 1 mark for each correct explanation of the listed strategy. Sub-total per strategy = 3 marks. Grand Sub-Total: 12 marks)

c) The four (4) factors used in stratifying the groups that insurance organization strives to match its offering to, in order to best satisfy their need are:

- i. **demographic factors:** i.e. age, gender, education, occupation
- ii. **buying behavior:** i.e. heavy/light users of insurance
- iii. **geographical location:** i.e. where the customers are based or where they are working or where they located their businesses
- iv. **behavioural factors:** i.e. do customers take or avoid risks?

(1½ marks for each correctly listed factor; 1 mark for each correct explanation of the listed factor. Sub-total per factor = 2½ marks. Grand Sub-Total: 10 marks)
(Grand Total: 34 marks)

12(a) Owing to advances in technology, many products and services are delivered without the customer and supplier ever meeting. Enumerate and explain any two (2) examples of these distribution channels. **(12 marks)**

(b) Broadly speaking, the internet presents four distinct distribution features. Outline these four (4) features. **(12 marks)**

(c) Outline five (5) different components of foreign market. **(10 marks)**

Solution

a) The examples of the distribution channels where owing to advances in technology, many products and services are delivered without the customer and supplier ever meeting are:

- **Telecommunications and Call Centres:** development in database management systems combined with advances in communication technology have led to the growth of call centres. These are groups of telephone agents who are also

computer operators linked sometimes electronically as well as vocally by telephone lines.

- **Television Shopping and Direct Response:** television can also be used as a medium of distribution and sales of goods and services. Television shopping channels have also been developed over the years. It allows viewers to see and buy the products and services.
- **Internet and E-Commerce:** the net allows computer users to communicate cheaply, quickly and internationally. E-commerce is the conduct of business electronically using the internet. Businesses are carried out swiftly and efficiently, with instant payment for goods electronically.

(2 marks for each correctly stated channel. 2 marks for any correctly stated explanation. Maximum of 2 complete explanations to be graded per channel. Sub-Total per System = 6 marks. Grand Sub-Total: 12 marks)

b) The four (4) distinct distribution features of the internet are:

- a direct link between customers and businesses to complete transactions or swap information more easily
- technology that lets companies bypass traditional distributors
- a way for organizations to develop and deliver new products and services for customers
- a way for organizations to become the dominant player in their field e.g. by controlling access to customers and setting new business rules.

(3 marks for each correctly stated feature. Sub-Total: 12 marks)

c) The different components of foreign market are:

- physical and geographical environment
- legal environment
- political environment
- cultural environment
- competitive environment
- local infrastructure

(2 marks for each correctly stated component. Sub-Total: 10 marks).

(Grand Total: 34 marks)

13(a) With the aid of a table/diagram, explain SWOT (Strength, Weakness, Opportunities and Threat) analysis. **(12 marks)**

(b) As far as competitive strategies are concerned, Miles and Snow classify businesses into four strategic types. List and explain these four (4) types.

(12 marks)

(c)i. Define the term “action plan” with reference to marketing. **(2 marks)**

ii. An action plan for marketing should be worked out for each separate project, campaign or area and should include certain points. List four (4) of

these points.

(8 marks)

Solution

a) SWOT analysis.

<p>Strengths Size and status of the organisation Experience and track record National coverage Quality of service provided Quality of staff Willingness to innovate Close relationship with customers Advances in technology deployment</p>	<p>Weakness Poor coordination between regional/branch offices Shortage of some key skills Inconsistency of quality standards across departments Existence of too many mismatched clients Inexperience new recruits to the workforce</p>
<p>Opportunities Increase in home ownership by young people Use of other non-insurance services to attract more insurance clients Extension of regional coverages in places where not currently operating Deployment of the IT facilities to more effective and better usage</p>	<p>Threats Economic downturn Loss of key personnel Challenges of recruiting the right caliber of people Deregulation of insurance services leading to stiffer and more competition If expansion is not curtailed, it could lead to stretched resources and consequent inefficiencies</p>

(1½ marks for each correctly listed point under each term. Maximum of 2 to be graded under each term. Sub-total per term = 3 marks. Grand Sub-Total: 12 marks)

b) As far as competitive strategies are concerned, Miles and Snow classify businesses into four (4) strategic types. These are:

- i. **prospectors:** these pursue growth through the early development of new products and services. In new markets, they operate on a broad market that is occasionally redefined. They compete by stimulating and meeting new market opportunities. They may not maintain strength over time in all the markets. They are suitable for volatile and/or unstable environments.
- ii. **defenders:** these attempt to locate and maintain a secure position in relatively stable service or product areas while paying less attention to new product development. They offer a limited range of services compared to their competitors and try to protect their domain.
- iii. **Analysers:** these attempt to maintain a strong position in their markets but seek to expand into new product markets. They try to sustain a stable, limited line of products and services; and also follow a selected set of promising new developments in their industry
- iv. **Reactors:** these are the businesses with no clearly defined business strategy. They tend not to have as consistent a customer-orientation focus unlike their

competitors; and are not as willing to assume the risks of new products development as other competitors.

(2 marks for each correctly stated type; 1 mark for each correct explanation of the stated method. Sub-total per method = 3 marks. Grand Sub-Total: 12 marks)

c) i) An action plan, with reference to marketing, is the document on the marketing strategy, that shows the measures and projects which has been adopted, a timetable, an allocation of responsibility and how resources are to be allocated.

(2 marks)

ii) The following are the points that an action plan for marketing should include:

- objectives of the plan which must be specific, measurable, achievable, relevant and time-defined
- strategy for achieving these objectives
- specific activities which will be undertaken
- allocation in specific responsibility for carrying out each activity
- dates for starting and finishing each activity
- specific estimated resource requirement (based on time estimates) for the period of implementation
- expected cost of the activities
- expected result (sometimes called milestones) on completion of each activity.

(2 marks for each correctly stated point. Maximum of 4 to be graded. Sub-Total: 8 marks)

(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

14(a) Outline five (5) main objectives why organisations design marketing distribution channels. **(10 marks)**

(b) (i) What is "franchising"? **(4 marks)**

(ii) Mention and give examples of four (4) main franchise systems. **(8 marks)**

(c) With reference to the operations and involvement of intermediaries in distribution of insurance services, explain the following terms:

- (i) functional efficiency
- (ii) scale efficiency; and
- (iii) transactional efficiency.

(12 marks)

Solution

a) The five (5) main objectives why organisations design marketing distribution channels

- to make the product or service available to customers
- to ensure that promotional effort is devoted to the product or service as close as possible to the customer
- to provide the highest level of customer service
- to gather feedback from customer/intermediaries
- to take advantage of economies of scale.

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

b) i) “Franchising” is a method of distribution that gives third parties the right to participate in the organisation’s business provided they accept the terms of the franchise and of the franchisee fee. **(4 marks)**

ii) The four (4) main franchise systems are:

- Manufacturer-Retailer Franchise Systems e.g. car dealer
- Manufacturer-Wholesaler Franchise Systems e.g. soft-drink bottling franchise
- Wholesaler-Retailer Franchise Systems e.g. franchised pharmacies
- Service Sponsor-Retailer Franchise Systems e.g. car-drive, fast food, hotel chains.

(1 mark for each correctly stated system. 1 mark for any correctly stated example. Sub-Total per System = 2 marks. Grand Sub-Total: 8 marks)
(Grand Sub-Total: 12 marks)

c) a) **Functional Efficiency:** intermediaries may perform one or more marketing activities more efficiently than manufacturers or their customers because of their specialization and greater economies of scale. For example, an insurance broker can spread costs across different insurers and perform selling functions at lower cost per insurer.

(b) **Scale Efficiency:** by purchasing large quantities of goods from manufacturers, storing them and then breaking them down into smaller quantities that their customers prefer to purchase, wholesalers and retailers enable manufacturers and their customers to operate at the most efficient scale.

(c) **Transactional Efficiency:** by purchasing goods from a variety of suppliers and then storing, promoting and selling them, wholesalers and retailers make it possible for customers to acquire wide assortments of products from a single source with one transaction. It reduces time and effort that would have been expended at sourcing for the products individually.

(2 marks for each correctly stated explanation. Maximum of two explanations to be graded under each term. Sub-Total per term = 4 marks. Grand Sub-Total: 12 marks)
(Grand Total: 34 marks)