

*Chartered Insurance
Institute of Nigeria
Chief Examiners' Report
October 2022*

Associateship Level (A01 - A09)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER
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

The question was intended to test the knowledge of candidates on the method of data collection, Majority of the candidates attempted the question and they performed very well.

Question 2

The question dealt with the general insurance business proposal. Majority of the candidates attempted it but performance was above average.

Question 3

The question dealt with risk in insurance and risk management. 80% of the candidates that attempted the question performed above average.

Question 4

The question is on combination, 85% of the candidates that attempted it did very well.

Question 5

The question tested candidates' knowledge on data base. 90% of the candidates that attempted the question performed above average.

Question 6

Majority of the candidates that attempted this question performed relatively above average.

Question 7

The question tested candidates' knowledge of statistics. 89% of the candidates that attempted the question performed very well.

Question 8

The question tested candidates' knowledge on advantages of arithmetic means. More than attempted the question performed above average.

Question 9

The question was intended to test candidates' knowledge of Insurance Act of 2003, and risk management. 90% of the candidates that attempted the question performed above average.

Question 10

The question had three (3) parts. Some candidates could not properly differentiate between binding and underwriting authority. The general performance was good as 94% of the candidates did very well.

Question 11

The question tested candidates' knowledge on correlation. 65% of the candidates performed above average.

Question 12

The question tested candidates' knowledge on toss and coins. Majority of the candidates that attempted the question performed excellently.

Question 13

The question dealt with statistics. Majority of the candidates that attempted the question performed very well.

Question 14

The question tested candidates' knowledge on data base. It was discovered that majority of the candidates that attempted the question performed well.

Comments on overall performance:

Overall performance was excellent as candidates recorded 79% performance.

Suggestions on improvement (if any):

Candidates should continue to prepare well for their examinations to maintain the good results.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. State any three (3) methods of data collection from any population sample size.

Solution

The methods of data collection from any population sample size are:

- * direct observation;
- * interviews;
- * experiments;
- * questionnaires.

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

2. Outline any three (3) ways through which a general insurance business proposal may be made by the insured to the insurance company.

Solution

The ways through which a general insurance business proposal may be made by the insured to the insurance company are through:

- * direct telephone;
- * written proposal form;
- * a broker;
- * online (via e-channel) means;
- * a broker slip in Lloyd's market;
- * through a formal presentation of a large commercial risk by a broker.

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

3. (a) Give two (2) definitions of a risk in insurance and risk management. **(2 marks)**
 (b) Distinguish between "financial" and "non-financial risks". **(4 marks)**

Solution

(a) Risk may be defined in any of the following ways:

- It is an uncertainty of loss
- It is a possibility of loss
- It is a combination of the probability of occurrence of an undesired outcome (loss) and its consequences.

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

(b) **Financial risks** are risks whose effect (when it eventually happens) can be expressed in monetary values. Financial risks are directly linked to insurable interest whose main feature is the capability of financial evaluation of the subject matter of insurance. Therefore, financial risks are insurable. Whereas, **non-financial risks** are not insurable solely because monetary values cannot be placed on them.

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

4. What is the value of ${}^8C_3 \times {}^5C_4$

Solution

$${}^8C_3 = \frac{8 \times 7 \times 6 \times 5 \times 4 \times 3!}{3! (8-3)!} = \frac{8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 3!}{3! \times 5!} = \frac{8 \times 7 \times 6 \times 5 \times 4}{5 \times 4 \times 3 \times 2 \times 1} = 56 \quad (2 \text{ marks})$$

$${}^5C_4 = \frac{5 \times 4!}{4! (5-4)!} = \frac{5 \times 4!}{4! \times 1!} = \frac{5 \times 4!}{4! \times 1} = 5 \quad (2 \text{ marks})$$

$${}^8C_3 \times {}^5C_4 = 56 \times 5 = 280 \quad (2 \text{ marks})$$

(Grand Total: 6marks)

5. (a) What is a data base? (2 marks)
(b) Explain the two (2) sources available for database creation. (4 marks)

Solution

(a) A database means a collection and store of related data for future use. It may also be defined as a way of describing raw material (i.e. raw data) of statistics. (2 marks for any correct but complete definition/explanation. Maximum of one (1) to be graded. Total: 2 marks).

(b) The sources of database are:

- **creation of a new database:** it is the establishment of database from a new source. This new source may be from raw data or already processed data (such as a published data).
- **marking use of an existing data base:** it is using the data base that has been in existence (though, it may or may not have been processed) for other purpose(s), but which is still considered to have certain form of relevance to the new intended purpose.

(1 mark for correctly stated source. I mark for correct and complete explanation. Maximum of 2 marks per source. Sub-Total: 4 marks) Grand Total: 6 marks.

6. Describe the following express conditions:

- (a) an excess; (b) a warranty (c) the policy exclusions.

Solution

(a) **An Excess:** is the first part of a claim that is borne by the insured. (2 marks)

(b) **A Warranty:** is an undertaking by the insured that certain things shall be done or not be done or that certain things shall be in place or not be in place. (2 marks)

(c) **The Policy Exclusions:** these are the various risks which are not covered in the ordinary course of the event. (2 marks)

(Grand Total: 6 marks)

7. (a) Find the Geometric Mean of 6, 6 and 8.
(b) Find the median of: 3/4, 6/8, 5/9, 4/7 and 2/5.
(c) Find the mode of 5, 2, 3, 2, 3, 4, 5, 4 and 5.

Solution

- (a) $3\sqrt{6 \times 6 \times 8}$ (1 mark) = $3\sqrt{288}$ ($\frac{1}{2}$ mark) = 6.60 ($\frac{1}{2}$ mark) (Sub-Total: 2 marks)
(b) $\frac{4}{7}$ (Sub-Total: 2 marks)
(c) The mode is 5. (Sub-Total: 2 marks)

(Grand Total: 6 marks)

8. State any four (4) main advantages of the arithmetic mean.

Solution

The main advantages of the arithmetic mean are:

- It makes use of all the variables given in the data.
- It is easy to calculate.
- It is easy to understand.
- It is the most known of all the averages.
- It can be used for further mathematical process.

($1\frac{1}{2}$ marks for each correct and completely stated advantage. Maximum of (4) to be graded.

Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) The Insurance Act 2003 classified insurance business into Life Insurance and general Insurance. Carefully enumerate any three (3) and any 7 (seven) categories of life insurance and general insurance businesses respectively. (10 marks)
(b) What is "risk management"? (6 marks)
(c) Enumerate and explain the "risk management process. (34 marks)

Solution

- (a) The Insurance Act 2003 classified insurance business into Life Insurance and general Insurance. Carefully enumerate any three (3) and any 7 (seven) categories of life insurance and general insurance businesses respectively.

In the case of life insurance, there shall be three (3) categories, which are:

- (a) individual life insurance business
- (b) group life insurance and pension business
- (c) health insurance business.

In the case of general insurance, these shall be eight (8) categories, which are:

- (a) fire insurance business
- (b) general accident insurance business
- (c) motor vehicle insurance business
- (d) marine and aviation insurance business
- (e) oil and gas insurance business
- (f) engineering insurance business
- (g) bonds credit guarantee and suretyship insurance business
- (h) miscellaneous insurance business.

(1 mark each for any correctly stated category. 3 under life. 7 under general business). Grand Total: 10 Marks

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

OR

As the process whereby organizations methodically address the risk attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolios of all activities.

(6 marks for correct and completely stated definition. Only one is to be graded. Sub-total: 6 marks)

(c) Organization's strategic objectives, these are long term planned objectives which an organization is set out to achieve. Risk management generally enhances organization's strategic objectives through the following; By providing a framework in terms of activities in the most sequential and guided ways for the organization

Effective and efficient allocation and use of the organization's capital as well as other resources by providing enabling environment for the people to work. It also aids decision making process through coordinated planning and direction of business activities volatility is reduced, especially in the less important aspects of the business.

(1 mark for each correctly outlined risk management process and 5 marks for the explanation and thus making a total of 6 marks in total)

1. **Risk Assessment**, which is of two (2) components;

(a) Risk analysis-

Risk identification

Risk description

Risk estimation

Risk assessment: the overall process of risk analysis and evaluation.

There are two components of risk assessment; risk analysis and risk evaluation.

- Risk analysis comprises of risk identification, description and estimation. (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 and qualitative values (i.e.) frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as

H- M- L may be employed in describing the estimate values or attributes.

H – stands for high

M –stands for medium or middle

L – stands for low

(1 mark for each correctly outlined risk management process and 5 marks for the explanation and thus making a total of 6 marks in total)

(b) Risk Evaluation: this is the second and last component of risk assessment where by opinions(judgments) are formed about the importance (value) and acceptability (appetite) of risk. **(2 marks)**.

3. Risk reporting (in terms of threats and opportunities): this reporting both the downside and upside aspects of the risks. In other words, we are reporting on what are the threats and opportunities associated with the risks under consideration.

(1 mark for each correctly outlined risk management process and 5 marks for the explanation and thus making a total of 6 marks in total)

4. Decision: Take informed decisions regarding the importance and acceptability of the risks having considered the threats and opportunities they present to the organization.

(1 mark for each correctly outlined risk management process and 5 marks for the explanation and thus making a total of 6 marks in total.

5. Risk treatment: The process of selecting and implementing measures to modify the risk and this basically include: risk avoidance; risk control; risk transfer and risk financing. Furthermore, please note that the minimum standard requirement for risk treatment method chosen is that it should be cost effective, laws and regulations compliant.

(1 mark for each correctly outlined risk management process and 5 marks for the explanation and thus making a total of 6 marks in total.

6. Residual Risk Reporting: Reporting the overall information about all the risks to the appropriate stakeholders as they are all affected separately. The stakeholders are- the board, the CEO, executive management, business units/departments, departmental heads and various individuals.

(1 mark for each correctly outlined risk management process and 5 marks for the explanation and thus making a total of 6 marks in total.

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

(1 mark for each correctly outlined risk management process and 5 marks for the explanation and thus making a total of 6 marks in total.

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Differentiate between a moral and physical hazard, with two (2) examples each. (12 marks)
- (b) Give any three (3) correct definitions of the term "underwriting" as it relates to insurance. (10 marks)
- (c) Differentiate between "binding authority" and "underwriting authority". (12 marks)

Solution

- (a) **Physical Hazards:** are the physical features of the risk (i.e., subject matter of insurance) ; while **Moral Hazards:** are the attitudes of the insured (or the insured person as the case may be)

(4 marks for each correctly stated point with accompanying example carrying two (2) marks each. Maximum of one (2) to be graded. Sub-Total: 12 marks).

- (b) **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 and conditions. Underwriting may equally be defined in any of the following ways;

- It is a risk appraisal technique.
- It is a risk selection process
- It is an equitable system of assessing all those who transfer their risks to a common pool
- It may equally be described as a risk management technique or process

(4 marks for the first definition. 3 marks each for any of the other two. Sub-Total: 10 marks).

- (c) **Binding Authority:** a 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. Please note that the risk accepted within this authority limits gives a valid cover, and therefore binds the insurer/reinsurer towards meeting their claims obligations to the client.

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). Underwriting authority may equally be granted by the reinsurer to the insurance company and reinsurance broking firms.

(3 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each term. Sub-Total per term: 6 marks. Grand Sub-Total: 12 marks)

(Grand Total: 34 marks).

11. (a) What is Correlation? (5 marks)
(b) Enumerate and explain the five (5) types of correlation. (25 marks)
(c) What is Co-efficient of Correlation? (4 marks)

Solution

(a) Correlation may be defined as the level or degree of relationship which exists between two variables. It may equal be described as the strength of association between two variables.

(5 marks for correct and complete definition. Maximum of one (1) to be graded. Sub-total mark: 5).

(b) The five types of correlation are:

- **Positive Correlation:** A positive correlation is said to exist between two variables x and y, if an increase in variable x leads to an increase in variable y. Positive correlation may also be referred to as Direct Correlation.
- **Negative Correlation:** A negative correlation is said to exist between two variables x and y, if an increase in variable x leads to a decrease in variable y. Negative correlation may also be referred to as inverse correlation.
- **Zero Correlation:** A zero correlation is said to exist between two variables x and y where there is no any form of relationship between the two variables.
- **Spurious Correlation:** This is a correlation between two variables which does not actually indicate the real relationship that is existing between the two variables.
- **Perfect Correlation:** The correlation between two variables x and y are said to be a perfect correlation if all the values of x and y are plotted against each other and all the points obtained lie on a straight line. A perfect correlation may either be a positive or negative.

(3 marks for correctly stated type. 2 marks for correct explanation. Sub-Total per type: 5 marks. Grand Sub-Total: 25 marks)

(c) This may be defined as a statistical measure which determines the level of linear relationship between two variables. It is usually represented by the symbol 'r' or 'R' furthermore it ranges from - 1 to +1. (4 marks)

(Grand Total: 34 marks)

12. (a) A fair coin is tossed thrice.
- (i) Write out the total possible outcomes. (8 marks)
 - (ii) What is the probability of getting head all through? (2 marks)
 - (iii) What is the probability of getting at least one tail? (1½ marks)
 - (iv) What is the probability of getting at least one head? (1½ marks)
- (b) A fair Coin is tossed four times.
- (i) Write out the total possible outcomes. (16 marks)
 - (ii) What is the probability of getting head all through? (2 marks)
 - (iii) What is the probability of getting at least one tail? (1½ marks)
 - (iv) What is the probability of getting at least one head? (1½ marks)

Solution

- (a) (i) HHH, HHT, HTH, HTT, THH, THT, TTH, TTT
(1 mark for each correctly stated outcome. Sub-Total: 8 marks)
- (ii) $1/8 = 0.125$ (2 marks)
 - (iii) $7/8 = 0.875$ (1½ marks)
 - (iv) $7/8 = 0.875$ (1½ marks)
- (Sub-Total: 13 marks)

- (b) i) HHHH, HHHT, HHTT, HTHH, HTHT, HTTH, HTT, THHH, THHT, THTH, THTT, TTHH, TTHT, TTTT, TTTT
(1 mark for each correctly stated outcome. Sub-Total: 16 marks)
- (ii) $1/16 = 0.0625$ (2 marks)
 - (iii) $15/16 = 0.9375$ (1½ marks)
 - (iv) $15/16 = 0.9375$ (1½ marks)
- (Sub-Total: 21 marks)
(Total: 34 marks)

13. (a) (i) What is relative frequency? (5 marks)
(ii) Complete the relative frequency of the data in the table below: (10 marks)

Premium Income (N'm)	Frequency	Relative Frequency
20 – 30	10	
31 – 40	20	
41 – 50	30	
51 – 60	40	
61 – 70	50	
Total	150	

- (b) Write short notes on the following methods of deriving probability:
- (i) A priori method; (5 marks)
 - (ii) Subjective probability method. (5 marks)
- (c) Write short notes on the following probability events:
- (i) Mutually exclusive events; (3 marks)
 - (ii) Dependent events; (3 marks)
 - (iii) Independent events. (3 marks)

Solution

- (a) (i) **Relative frequency** is the ratio of the frequency of a class to the total frequency. In other words, it is obtained by dividing the frequency of a class limit by the sum of the frequencies and it is usually expressed in percentage. (5 marks)

(ii)

Premium Income (N'm)	Frequency	Relative Frequency
20 - 30	10	$10/150 \times 100\% = 6.67\%$
31 - 40	20	$20/150 \times 100\% = 13.33\%$
41 - 50	30	$30/150 \times 100\% = 20\%$
51 - 60	40	$40/150 \times 100\% = 26.67\%$
61 - 70	50	$50/150 \times 100\% = 33.33\%$
Total	150	

(2 marks for each correctly calculated figure in colours in the table above. Sub-Total: 10 marks)

- (b) (i) **A Priori Method:** is used where all the possible outcomes of an event are known prior to the event occurring, with all the possible outcomes in most cases having equal chance. (5 marks)

(ii) **Subjective Probability Method:** in the subjective probability method, the personal judgment of third person involved is used. Therefore. Subjective probability method has to do with the belief the person involved attaches to the event under consideration. (5 marks)

(Sub-Total: 10 marks)

- (c) (i) **Mutually Exclusive Events:** Two or more events are said to be mutually exclusive if the occurrence of one excludes the occurrence of the other. (3 marks)

(ii) **Dependent Events:** Two or more events are said to be dependent events if the occurrence of one depends on the occurrence of the other. (3 marks)

(iii) **Independent Events:** Two or more events are said to be independent events if the occurrence or non-occurrence of one does not affect the occurrence of the other.

(Sub-Total: 9 marks)

(Sub-Total: 34 marks)

14. (a) Enumerate and briefly explain the two (2) sources of database. (14 marks)
(b) Enumerate any six (6) source of insurance information in any Country (Nigeria inclusive). (12 marks)
(c) State in clear terms any three (3) essential features of a good database. (9 marks)

Solution

(a) The sources of database are:

- (i) **Creation of a new database (2 marks):** it is the establishment of database from a new source. This new source may be from raw data or already processed data (such as a published data). (2 marks). Creation of a new data base is desirable in the following circumstances;

- where no database existed; (1 mark)
- where the database in existence was established for another purpose; (1 mark)
- where there are suspected inherited faults in the existing database. (1 mark)

(ii) **Making use of an existing data base (2 marks):** this is using the database that has been in existence (though, it may or may not have been processed) for another purpose(s), but which is still considered to have certain form of relevance to the new intended purpose. (2 marks)

The following are the major advantages of making use of an existing data base:

- the relative frequencies with which the data have occurred in the past is very important; (1 mark)
- no data in actual sense exist in a vacuum; (1 mark)
- it may equally be put to cost and time effectiveness advantages. (1 mark)

(Sub-Total: 14 marks)

(b) The sources of insurance information in any Country (Nigeria inclusive) are:

- National Insurance Commission' office
- Insurance Associations
- Chartered Insurance Institutes
- Professional Insurance Associations
- Central Banks
- Ministry of finance (Insurance Department)
- Bureau of Statistics/ Federal Office of Statistics
- Insurance Magazines.

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

(c) State in clear terms any three (3) essential features of a good database. (9 marks)

Solution

The essential features of a good database are:

- it is usually created gradually over a period of time;
- it must meet the purpose for which it was created;
- it must not be too long in the past (i.e., not obsolete);
- it must be very adequate and comprehensive;
- the data in the database must be systematically organised, so as to ease accessibility.

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

Grands Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2022 DIET EXAMINATION PAPER

SUBJECT A02

REINSURANCE: PRINCIPLES AND APPLICATION

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

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- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
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- 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.
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CHARTERED INSURANCE INSTITUTE OF NIGERIA

A02 – REINSURANCE: PRINCIPLES AND APPLICATION

INSTRUCTIONS TO CANDIDATES

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

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

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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

The question intended to test candidates' knowledge on "retention". Attempt was 100% with pass rate of about 95%. Generally, candidate showed good understanding of the question.

Question 2

The question tested the candidates' knowledge on facultative insurance. Attempt was above average- 90% but performance was 85%.

Question 3

The question tested candidates' knowledge on electronic trading and what to consider in choosing reinsurers. 100% of candidates attempted it while performance was 85%.

Question 4

The question intended to test candidates' knowledge on reinsurance treaty apportionment. Attempt was 76% but performance was a little above average - 65%.

Question 5

The question was to test candidates' understanding of reinsurance treaty clause. The performance rate was about 60% while attempt was 100%.

Question 6

The question tested the candidates' knowledge on technical account. Attempt was 100% and the performance was above average (56%). They are not familiar with technical accounting, need for tutorial to assist them.

Question 7

The question tested the candidates' knowledge on contra profentem rule and reinsurance warranty. Attempt was 100% but the performance was 61%. Lack of preparation is the problem of candidates.

Question 8

The question tested the candidates' knowledge on purposes of reinsurance and reinsurance slip. Attempt was 100% and the performance was 95%. The question was well understood by candidates.

Question 9

The question tested the candidate's knowledge on reinsurance claims recovery. Attempt was good because it was a compulsory question (99%) but performance was poor- 25%. Candidates need tutorial to assist them. Catastrophe excess of loss deductible should be more than that of working excess of loss deductible.

Question 10

This question tested candidates' knowledge on global best practice for rating XL reinsurance. Attempt was 35% and performance was poor (15%). This is attributable to poor preparation for examinations.

Question 11

The question tested the candidates' knowledge on alternative dispute resolution and solvency margin. Attempt was 65% but the performance was below average (45%). This is due to lack of preparation.

Question 12

The question was intended to test candidates' knowledge on "Casualty Insurance". Attempt was 55% but the performance was below average (45%). This is due to lack of preparation

Question 13

The question tested candidates' knowledge on reinsurance underwriting. Attempt was 30% but performance was below average (40%). They have no knowledge of Reinsurance Underwriting, need tutorial.

Question 14

Tested candidates' knowledge on information Technology as applied to reinsurance and also on ex-gratia payment as well as IBNR reserves. Attempt was good about 70% while the performance was above average- 56%. Some candidates did not understand the question. This is due to lack of preparation.

Comments on Overall Performance:

The candidate's performance generally is very poor (25%). This is due to lack of preparation by candidates.

Suggestions on Improvement:

We suggest that the Institute should organize candidate's forum and tutorial center.

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

1. (a) What is meant by the term “retention” in relation to insurance? (2 marks)
 (b) Enumerate any four (4) factors that an insurer will consider when setting its retention. (4 marks)

Solution

(a) The retention is the limit of liability, expressed in monetary terms or as a percentage share, which the insurer retains for its own net account after the reinsurance is ceded. (2 marks)

- (b) The factors that an insurer will consider when setting its retention are:
- its assets, capital and free reserves, and solvency;
 - size and nature of the portfolio, premium income and profitability;
 - type and patterns of losses under different combination of types of risk;
 - type of reinsurance;
 - strategic and financial considerations;
 - market environment.

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

2. Explain the term “facultative reinsurance, with at least three (3) valid characteristics.

Solution

Facultative reinsurance is an optional contract entered into between the insurer and the reinsurer for reinsurance of an individual risk. Both parties have a free choice as to whether to enter into the contract. Each risk is considered individually with the original insurer determining, whether they wish to place it as reinsurance and the reinsurer determining whether it wants to accept the risk.

There is no freedom as both parties are tied into the contract. Therefore, faith has to be placed in the underwriting ability of the underlying insurer, as the treaty cannot be cancelled prior to the end of the period.

Too much premium can be ‘lost’ to reinsurers on small good risks which an insurer would otherwise retain net for their own account. This can sometimes be overcome by writing specific types of treaty reinsurance.

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

3. (a) What is meant by the term “electronic trading” in relation to the application of reinsurance? (2 marks)

- (b) Enumerate any four (4) issues that an insurer should consider when choosing a reinsurer. (4 marks)

Solution

- (a) "Electronic trading" is the conduct of reinsurance business by means of computer-based facilities, networks or the internet, as an alternative to conventional "face-to-face" discussions. (2 marks)

- (b) The issues that an insurer should consider when choosing a reinsurer are:
- business philosophy;
 - type of reinsurance required
 - business acceptance policy of the reinsurer selected
 - communication;
 - standard of security required;
 - reputation of the reinsurer;
 - whether or not the insurer is authorized to transact the type of business;
 - strength of the reinsurer's balance sheet and solvency margin;
 - reinsurer's experience and quality of its management;
 - reinsurer's own underwriting policy;
 - ultimate ownership of the reinsurer.

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

4. A company has a net retention of ~~₦~~2,000,000.00 with a 50% quota share and a nine-line surplus treaty. The company has written a line of ~~₦~~50,000,000.00, in respect of which it has filled its proportional treaties and placed the balance facultatively, it suffers a loss of ~~₦~~30,000,000.00. How would the loss be allocated to the reinsurances?

Solution

The company has a net retention of ~~₦~~200,000, i.e. 4% (1½ marks)

The Quota share takes ~~₦~~ 200,000 also 4% (1½ marks)

The surplus treaty takes ~~₦~~3,600,000, i.e., 72% (9x ~~₦~~400,000) (1½ marks)

The remaining facultative cover takes 20%, i.e., ~~₦~~1,000,000 (1½ marks)

(Grand Total: 6 marks)

5. There are various clauses included in treaties that might affect the reinsurer's liability. Enumerate any three (3) of such clauses that might be included in the following treaties:

(a) a non-proportional property treaty;

(b) a non-proportional liability treaty.

Solution

- (a) The clauses included in a proportional property treaty that might affect the reinsurer's liability are:

* reinstatement clause; * interlock clause; * hour's clause;

* co-reinstatement clause; * applicable law clause.
(1 mark for correctly stated clause. Maximum of 3 to be graded. Sub-Total: 3 marks)

(b) The clauses included in a non-proportional liability treaty that might affect the reinsurer's liability are:

* extra contractual obligations clause; * aggregate deductible clause;
* aggregate extension clause; * indexation (or stability) clause;
* acts in force clause; * local jurisdiction clause;
* applicable law clause; * term and cancellation clause.
(1 mark for correctly stated clause. Maximum of 3 to be graded. Sub-Total: 3 marks)

6. (a) What is the basic purpose of providing technical accounts? (2 marks)
(b) Enumerate any four (4) items included in a typical profit commission statement. (4 marks)

Solution

(a) The basic purpose of providing technical accounts is to provide a summary of transactions between the parties over a defined period of time such as a calendar quarter. (2 marks)

(b) The items included in a typical profit commission statement are;

- claims paid during the current year;
 - commissions paid during the current year;
 - unearned premium reserve for the current year;
 - losses outstanding at the end of the current year;
 - reinsurer's expenses;
 - the deficit brought forward from the previous year(s).
- (1 mark for correctly stated item. Maximum of 4 to be graded. Sub-Total: 4 marks)
(Grand Total: 6 marks)

7. (a) What does the term "contra profentem" mean?
(b) What is a warranty in reinsurance?
(c) Under the Limitation Act 1980, how long does an insurer have to commence an action before the reinsurer can argue that the "cause of action" is time barred?

Solution

(a) In the event of a dispute, the contract will be construed against the interest of the person that drafted it. (2 marks)

(b) A warranty is a contractual promise made by a reinsured either to an existing state of affairs or something the reinsured would do in the future. (2 marks)

(c) An insurer has six years from the date that the action 'accrues'. (2 marks)
(Grand Total: 6 marks)

8. (a) What is the "slip" in relation to the principles of reinsurance? (2 marks)
(b) Enumerate any four (4) purposes of reinsurance. (4 marks)

Solution

(a) It is the document on which the basic outline of the reinsurance contract is summarized during the negotiation and on which in the London market the reinsurer confirms the amount of liability they are prepared to underwrite. (2 marks)

(b) Some purposes of reinsurance are:

- * risk transfer;
- * capacity;
- * stabilization;
- * portfolio management;
- * investment protection;
- * taxation;
- * catastrophe protection;
- * spread of risk;
- * development of new product

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

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) The current syllabus of the Chartered Insurance Institute of Nigeria makes provision for the acquisition of additional professional certification after becoming an Associate or Fellow of the Institute. In what areas of specialization can the post AIIN certificates (qualifications) be acquired? (10 marks)

(b) There are various external factors that have impact on the claims reserving process. Enumerate and explain any four (4) of these factors. (20 marks)

(c) An insurance has both excess of loss and catastrophe excess of loss, reinsurance arrangement as follows:

Working excess of loss: ₦2,000,000.00 excess of ₦1,000,000.00

Catastrophe excess of loss: ₦5,000,000 excess of ₦500,000.00

The insurer experience five losses due to one event as the following are shown in the table.

Risks	Gross Sum Insured (₦)	Gross Losses (₦)
1	2,500,000.00	600,000.00
2	3,500,000.00	400,000.00
3	4,500,000.00	1,800,000.00
4	300,000.00	10,000.00
5	5,000,000.00	1,000,000.00

Calculate:

- (i) Calculate the total amount of sum insured and losses retained by the insurer.
- (ii) Calculate the total net losses retained and total excess of loss reinsurance recoveries.
- (iii) Calculate the amount recovered from the catastrophe reinsurer. (20 marks)

Solution

(a) Qualification or certificate in:

- | | |
|---------------------------------|-----------------------------|
| (a) Microinsurance; | (b) Takaful insurance |
| (c) Insurance Broking Practice; | (d) Loss Adjusting Practice |
| (e) Special Risk Insurance. | |

(2½ marks each for any correctly stated post qualification certificate. Maximum of 4 points to be graded. Total: 10 marks)

(b) The external factors that have impact on the claims reserving process are:

- **Inflation:** the reserves set will have to consider whether the claims are subject to indexation clauses. The rates will change with the class of business and these will have to be factored in when assessing the claims reserves, depending on the statistical reserving method used.
- **Exchange Rates:** the claims reserving process should be undertaken in the main settlement currencies usually determined by the contract terms. This will avoid distortions caused by currency fluctuations year on year.
- **Legislation:** new legislation or changes in legislation may have an impact on the frequency and level of claims and the timing of the claim's development. The claims reserving process will have to involve a review of current development in legislation; for example, the use of Ogden tables.
- **Litigation:** there has been an increase in the use of litigation as the means of redress which has had an effect on the number of claims notifications. Changes in social attitude to litigation have also led to increased awards (or damages and liability claims have been affected by the rate of increase in court awards.
- **Data Quality:** It is vital that the data upon which projections are based is accurate.

(3 marks for each correctly stated factor. 2 marks for each correct and completely stated explanation. Maximum of 4 to be graded. Sub-Total Mark: 20 marks)

(c) From the table above,

- | | | |
|-------|---|-----------|
| (i) | The total sum insured is N 15,800,000.00 | (4 marks) |
| | The total loss retained is N 2,100,000.00 | (4 marks) |
| (ii) | The total net loss is N 3,810,000.00 | (4 marks) |
| | The total excess of loss recovered is N 800,000.00 | (4 marks) |
| (iii) | The amount recovered from catastrophe reinsurer is NIL. | (2 marks) |

Sub-Total: 20 marks
Grand Total: 50 marks.

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) With global best practice, insurance companies who require excess of loss cover prepare detailed questionnaires. For a reinsurer to be able to rate an excess of loss cover, the reinsurer requires some basic information. Summarise any two (2) of such information. (4 marks)
- (b) Explain any six (6) detail/key factors that are globally considered to be relevant to the rating process of an excess of loss cover. (30 marks)

Solution

(a) The basic information required by the reinsurer to be able to rate an excess of loss cover are:

- annual premium income over the past few years and estimated income for the coming financial period for the business to be protected;
- the structure of the proportional and non-proportional reinsurance program;
- the retention limits of the ceding office;
- the historical loss experienced by the insurance company;
- the structure of the portfolio to be protected (risk and/or loss profile).

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

(b) The detail/key factors that are globally considered to be relevant to the rating process of an excess of loss cover are as follows:

- **Original Underwriting Limits of the reinsured:** the basis of these limits (Sum insured or EML). If it is on an EML basis, the minimum factor that is applicable must be provided.
- **Claims Experience.** The number of years for which claims history is available depends upon the length of time that the reinsured has been writing the particular class of business in question. For risk and working covers, at least five (5) years' experience figures would usually be expected and this would be considerably longer for catastrophe protections. The detail required consists of both the premium income protected for each year as well as a profile of the amount and frequency of losses which would have affected the cover. Any loss amounts should be defined as to whether they are before or after the application of the proposed treaty deductible. The pure burning cost can be calculated from this information by expressing the losses that reinsurers would have been liable for as a percentage of the premium income being protected. Although this provides a basic factor for assessing the potential rate for the excess of loss cover, especially for low level and working covers, other considerations need to be applied, for example:

- Do the loss figures represent the anticipated final cost of the claims? This may not be such an issue for property claims but will be an important factor in liability classes of business;
- Are there significant or noticeable fluctuation in the cost of claims from one year to another? This may indicate an unbalanced portfolio as a result of the underwriting policy of the reinsured. The reinsurer should try to understand the reasons for such fluctuations, possibly by comparing the loss experience with that of similar treaties from same area;
- What level of loading factor would be appropriate to allow a margin for expenses and profit? These loading factors vary as 'improper' or 'top heavy' fractions, for example;

$$\frac{100}{80ths} = 25\% \text{ loading}$$

$$\frac{100}{75ths} = 33.33\% \text{ loading}$$

$$\frac{100}{70ths} = 42.5\% \text{ loading}$$

A loading should also be included to allow for claims arising before the reinsurer has been able to build a fund to meet them and for the fact that the reinsurer is supporting the reinsured with its capital and security.

- **Nature of the Account.** The reinsurer will expect that during the requested period of the reinsurance cover the reinsured's underwriting policy will not materially alter, except if agreed by both parties. However, it may be that the current portfolio is changing in comparison to previous years owing to the amendments to the company's management policy and/or the needs of the original insureds. Any such changes should be allowed for in the calculation of current price to be applied.
- **Effect of Inflation.** The existence of inflation in an economy result in increases in property values and the cost of repairs etc., which in turn results in an increase in the average size of claims. Loss details should be made available, not only for the losses that have actually exceeded the deductible, but also of those claims in previous years that are within, for example, 75% of the deductible. Similar losses in future years may result in losses attaching to the proposed reinsurance.
- **Currency Fluctuation.** Where the limits and the deductibles of a proposed cover are expressed in one currency and significant amounts of the original business to be protected are in different currencies (as in the case of a world-wide portfolio) variations in rates of exchange may seriously affect the size and number of losses attaching to the reinsurance. Excess of loss reinsurances are rated generally at the

beginning of the reinsurance period. Therefore, any upward or downward movement in exchange rates would alter burning cost calculations and these movements cannot be satisfactorily predicted in advance. In such circumstances, the use of a currency conversion clause (see chapter 6 of the coursebook for 'wordings') will limit any adverse effects on the cover.

- **Risk Profiles.** An analysis of the risks within a portfolio of business which groups the policies, aggregate sum insured and applicable premiums into specified bands should be made available. Such a profile of the risks to be protected should reveal the number and nature of the risks (i.e., domestic, commercial or industrial) which may be expected to produce the normal size and frequency of loss to risk or working excess of loss covers.
- **Catastrophe Perils.** The extent to which a portfolio of business is exposed to natural catastrophic perils must be considered. Any significant exposure should be reflected in the final rate calculated and particular attentions paid to the geographic spread of the business. Aggregated sums insured should be available for every identified geographic or seismic zone, again split by the nature of the original policies, for example, domestic, commercial and industrial.
- **Underlying Protections.** With catastrophe protections, the existences and extent of any underlying proportional or risk excess of loss should be considered. Any such covers reduce the reinsured's net retained losses arising out of any one event and consequently reduce a catastrophe reinsurer's potential exposure to loss.
- **Amount of Cover Requested** has an effect on the final rate to be quoted. This consideration varies depending on the relationship between the size of the deductible and the level of anticipated exposure that reinsurers have assumed. If the total amount of cover required is being layered, the extent to which a reinsurer is (or wishes to be) involved in more than one layer is considered in the calculation of the final premium.
- **Relationship with the Reinsured.** The majority of excess of loss covers are rearranged on an annual, twelve-month basis. This gives the reinsurer an automatic opportunity to review the basis of cover and the contractual terms and conditions. However, contracts may be arranged on a continuous basis, with tacit renewal at anniversary date, giving the reinsured and reinsurer the opportunity to build and maintain a long-term working relationship.
- **Quality of the Business.** It may be that because of the desirability of the business being offered, the final rate quoted reflects a reluctance to participate on the cover except at terms that are specifically advantageous to the insurer.

(3 marks for each correctly stated factor. 2 marks for any correct and completely stated explanation under each factor. Sub-Total per factor: 5 points. Maximum of 6 to be graded.
Grand Total: 30 marks)

11. (a) What are the six (6) main forms of alternative dispute resolution? (6 marks)
- (b) A reinsurer needs to review its business results from time to time, In addition to achieving and maintaining a solvency margin, enumerate and explain any two (2) other aims of reviewing the business. (10 marks)
- (c) A rating agency uses various factors to assess a company's claims-paying ability. These relate to a company's financial strength, operating performance and market profile. Enumerate two (2) factors each of these three elements. (18 marks)

(a) The six (6) main forms of alternative dispute resolution are: Negotiation;
 * mediation; * conciliation;
 * mini-trial or executive hearing * arbitration;
 * expert evaluation; * early neutral evaluation.
 (1 mark for each correctly stated point. Maximum of 6 to be graded. Sub-Total: 6 marks)

(b) A reinsurer needs to review its business results from time to time, In addition to achieving and maintaining a solvency margin, the other aims of reviewing the business are:

- satisfy its shareholders that the business is growing in value and is worth maintaining the management is worth supporting and, ii necessary, it is a business worth of further capital for long-term profitable growth;
- finance profitable business from existing customers and add new customers; demonstrate to retrocessionaires that they have a financially sound partner for the long term;
- satisfy its clients that the reinsurer's financial security, its promise to pay, is one that is growing in value, so that the client retains confidence in the reinsurer.

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

(c) A rating agency uses various factors to assess a company's claims-paying ability. These relate to a company's financial strength, operating performance and market profile. Some factors of each of these three elements are:

(i) Financial Strength:

- amount of capital and the company's ability to access capital;
- effectiveness of its reinsurance programme;
- quality and spread of investments;
- liquidity.

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

(ii) Operating Performance:

- profitability
- sources of business, nature of premiums and investment income;
- all aspect of its management experience and associated objectives

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

(iii) Market Profit:

- risks associated with the classes and territories in which business is written;
- competitive market research;
- general and claims management;
- underwriting and claims management;
- exposure to event risk

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

(Sub-Total: 18 marks)

(Grand Total: 34 marks)

12. The manner of treating “casualty insurances” in reinsurance is uniquely different.

(a) What does product recall insurance cover? Can it be reinsured? Justify your response with reason. **(8 marks)**

(b) What four (4) class-specific information would an underwriter require when writing a proportional employers’ liability/workers’ compensation account? **(10 marks)**

(c) Explain any four (4) classes of exclusions that are generally found under motor treaties? **(16 marks)**

Solution

(a) Products recall insurance would cover the cost of recalling all products within a particular batch that was found to be faulty. **(4 marks)** It can be reinsured but is generally excluded from standard product liability reinsurance **(2 marks)**, as it is not regarded as liability reinsurance per se **(2 marks)**. **(8 marks)**

(b) The class-specific information that an underwriter requires when writing a proportional employers’ liability/workers’ compensation account are:

- the specific classes of business cede to the treaty;
- the extent of any North American exposure;
- territorial scope of any business and whether liability is unlimited in any territory;
- limits written by the cedant if liability is not unlimited;
- a list of the usual exclusions;
- detailed loss history; and
- any history of retrospective increases in workmen’s compensation that may have affected the cedant’s portfolio previously.

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

(c) The classes of exclusions that are generally found under motor treaties are:

- those which take out dangerous activities;
- those which take out hazardous cargo;
- areas not properly covered by motor insurance;

- exposure to high-value third party property damage; and
- exclusions relating to areas of higher risk, these are often waived but only in
- consideration for higher premium.

(4 marks for each correctly explained class. Maximum of 4 to be graded. Sub-Total: 16 marks)

(Grand total: 34 marks)

13. (a) When can it be said that “overlining” has occurred in the principles of reinsurance? (4 marks)
- (b) Enumerate any four (4) of the:
- (i) main classes of marine reinsurance. (10 marks)
- (ii) areas in a hull account? (8 marks)
- (c) Enumerate and explain any four (4) concerns that a reinsurer would have with a cargo account in particular. (16 marks)

Solution

(a) Overlining occurs when underwriters write a greater risk exposure than they can prudently retain. (4 marks)

- (b) (i) The main classes of marine insurance are as follows
- hull (often called the ‘time’ account); * liabilities;
 - cargo (often called the ‘voyage’ account); * war;
 - energy (often called the ‘rig’ account);
 - assumed reinsurance; * incidental non-marine; and
 - incidental aviation

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

- (ii) The areas also included in a hull account are:
- * building risks (of vessels); * Fishing vessels; * yachts;
 - * coasters; and * river hulls and barges.

(2 marks for each correctly stated area. Maximum of 4 to be graded. Sub-Total: 8 marks)

- (c) The concerns that a reinsurer would have with a cargo account in particular are:
- the problem for reinsurance underwriter is that it is difficult to obtain an exact breakdown of the reinsured’s cargo account;
 - reinsurers will generally have to rely on a general information sheet that should include details of the normal lines written, the classes of business written or excluded, premium income for each class and the loss records;
 - are there any particularly high risks or high value commodities being covered, such as bullion or species?;
 - is there potential for accumulation of several cargoes at any location, at any time? these should be identified and advised;

- the possibility of the increase in values of a cargo or commodity during the voyage, due to changes in market trading conditions, should also be taken into account, especially with regard to the setting of the treaty limits that will be needed by the insured.

(4 marks for each correct and completely stated concern. Maximum of 4 to be graded. Sub-

Total mark: 16 marks)

(Grand Total: 34 marks)

14. (a) Information Technology (IT) has had a profound effect on the reinsurance industry, allowing the administration and calculation of reinsurance to a far greater degree than was ever conceived possible some years ago. Enumerate and explain the three (3) main areas. (27 marks)

- (b) Define (i) an ex-gratia payment (4 marks); and (ii) IBNR reserves (3 marks).

(7 marks)

Solution

(a) The three main areas Information Technology (IT) has had profound effect in the reinsurance industry include:

- **Data Storage and Administration:** it allows for a significant amount of data to be stored and retrieved in ways that are useful to a company. IT can be used as a means of sharing knowledge and information through use of group collaboration systems. IT can be used as a means of distributing knowledge and information. IT can also contribute to the creation of knowledge and information. IT as well captures and codifies knowledge and information.
- **Transaction Handling:** IT has made a significant impact on the way insurers, intermediaries and reinsurers communicate and conduct reinsurance. The communication of data and information through an electronic medium ensures greater speed and accuracy of transmission with less duplication. IT allows many different points of interaction between insurers, intermediaries and reinsurers through the internet, EDI and a wide variety of other technologies.
- **Impact on Underwriting:** IT as a risk, can assist even in Statistical analysis in underwriting assessment as a statistical support system, forecasting system, computerized graphic loss modelling as well as in designing of quotations, renewals and premium

(3 marks for each correctly stated area. 3 marks for each correct and completely stated explanation under each stated area. Maximum of 2 explanations to be graded. Sub-Total per area: 9 marks. Grand sub-Total: 27 marks)

- (b) (i) **Ex-Gratia Payment:** an ex-gratia payment means a payment as a favour and essentially implies that the loss is outside the terms and conditions of the policy. (4 marks)

- (ii) **IBNR** means Incurred But Not Reported reserves. These are an additional reserve to the existing claims reserve. The amount is intended to cater for unforeseen claims developments which have not been reported by the underlying insurer to reinsurers. (3 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER
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.

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

The question tested the knowledge of audited accounts and annual reports' usefulness. The performance was impressive (95%) as all the candidates attempted question. This indicates that candidates studied this part of this syllabus. Candidates are advised to ensure that all aspects of the syllabus are covered to enhance their performance in this kind of examinations.

Question 2

The question tested the basic concepts of accounting. It was attempted by almost all the candidates and the performance was encouraging (96%). This shows that candidates were conversant with the basic concept tested.

Question 3

The examiner tested candidates' knowledge of classifications of standard costing. The question was attempted by majority of the candidates and the performance was good (78.7%). However, some of the candidates misinterpreted the question and supplied wrong answers.

Question 4

The question tested candidates' knowledge of the types of cost accounting methods. This was attempted by all the candidates and the performance was very good (90%). However, many candidates could not differentiate between cost accounting classifications and methods. Candidates are advised to study hard.

Question 5

The question was intended to test the candidate's knowledge of the differences between the share premium and share capital, The percentage of attempt was 100% with 56% pass rate. About 44% of the candidates could not differentiate between share capital and share premium. Candidates are advised to prepare harder for their examination and ensure all the aspects of the syllabus are well covered.

Question 6

The examiner tested the candidates on types of budgeting. The percentage that attempted it is 100% with 75% pass rate which is very good. The result show s that the candidates understood clearly what the question was all about.

Question 7

The question attempted to test candidates' knowledge of the reasons that qualifies subsidiary company to be excluded from being consolidated in line with the Company and Allied Matters Act. It was attempted by all candidates but the percentage pass rate was 56% which is just a little above average. 44% of the candidates could not display

understanding of the question. Candidates are advised to ensure they cover every aspect of the syllabus.

Question 8

The question tested candidates' knowledge on the terms; assets and liabilities as well as examples of real accounts. The question was attempted by all candidates but the performance was not encouraging (about 50%). Candidates need to master basic fundamentals of accounting.

Question 9

This is a compulsory question that carries 25% of the total marks available about 55% of all candidates scored more than 50% of the marks available. While the performance was quite encouraging, candidates are advised to always prepare for questions on industry related questions.

Question 10

This question tested candidates' knowledge of the amended CAMA 2020 and some of the changes. Only about 5% of the candidates attempted the question and out of the 5% that attempted the question, 80% of them displayed a good knowledge of the question and scored above 60%. Candidates are advised to take current financial legislation very seriously as it will always be part of future examinations.

Question 11

The examiner tested candidates' knowledge of different groups that are interested in accounting figures and their interest. About 88% attempted the question while the pass rate was about 57%. Candidates are advised to study harder for better performance in future examinations.

Question 12

The question tested candidates' knowledge of the functions of the inland revenue in raising taxes and also some types of taxes. The question was attempted by about 70% of the candidates but the pass rate was about 15.6%. This indicates that candidates did not prepare well in this area. Candidates are advised not to neglect any part of the syllabus while preparing for this kind of examination. Taxation is a very important aspect of this course.

Question 13

This question tested candidates understanding of the means of raising funds by companies as well as knowledge of investment property. About 70% of the candidates attempted the question. The performance was highly impressive (about 75%). However, some candidates could not display good understanding of the terms tested, Candidates are advised to pay more attention to this aspect of the syllabus.

Question 14

This question tested candidates' knowledge about financial and management accounting as well as reasons for budgeting. 95% of the candidates attempted the question while the pass rate was about 67%. This is a text book question and it was expected that the performance would be much more impressive, Candidates are advised to study harder on difference between management accounting and financial accounting on their future examination. There is no alternative way to excel in this kind of examination than to cover every aspect of the coursebook.

Comments on Overall Performance

The general performance was highly encouraging- about 60%. This shows that candidates are taking interest in finance and accounting courses. This is good justification for making the course a compulsory subject. It is expected that the candidates will keep it up and even improve the performance in future.

Suggestions on Improvement

Candidates are encouraged to make sure they study all relevant industry releases from NAICOM, NIA, NCRIB, ILAN, e.t.c. and the equivalent bodies to these bodies in Cameroon, Liberia, Gambia, Sierra Leone and Liberia.

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

1. List four (4) parties that are interested in the audited accounts and annual reports of an insurance company.

Solution

The parties that are interested in the audited accounts and annual reports are:

- * shareholders;
- * other insurers;
- * policyholders;
- * internal management.
- * investment analyst and commentators;
- * staff or employees;
- * reinsurance security advisor;

(1½ marks for each correctly stated party. Maximum of 4 to be graded. Total: 6 marks)

2. Outline any three (3) of the basic concepts of accounting.

Solution

The 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)

3. List the three (3) classifications of standard costing.

Solution

The classification of standard accounting are:

- * basic cost standard;
- * ideal standard;
- * currently attainable standards.

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

4. Cost accounting methods are of various types. Enumerate any three (3) of them.

Solution

The different 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 concept. Maximum of 3 to be graded. Total: 6 marks)

5. Outline two (2) differences each between share premium and share capital.

Solution

Share Capital: These are monies contributed by shareholders to subscribe for the shares of the company. It is known as owner's equity. It is normally stated at par value or nominal shares.

Share Premium: This is the difference between the par value of the company share and its market value. The share premium is a capital reserve. It may only be utilized for very limited purposes. It is not available for distribution to shareholders in normal circumstances.

(1½ marks for each correctly stated difference. Maximum of 2 differences per term. Sub-Total per term: 3 marks. Grand Total: 6 marks)

6. (a) Budgeting methods are of three in type. Enumerate any two (2) of these three types. (2 marks)
- (b) Enumerate any four (4) objectives that budget enable managers to achieve. (4 marks)

Solution

- (a) The three (3) types of budgeting are:
 * fixed or flexible budgeting; * incremental budgeting;
 * zero-based budgeting.
 (1 mark for each correctly stated type. Maximum of 2 to be graded. Sub-Total: 2 marks)

- (b) The objectives that budget enable managers to achieve are:
 * plan; * co-ordinate; * communicate;
 * control; and * evaluate.
 (1 mark for each correctly stated objective. Maximum of 4 to be graded. Sub-Total: 4 marks)

7. There are certain reasons that qualify subsidiary company to be excluded from being consolidated in line with the Company and Allied Matters Act. Outline three (3) of these reasons.

Solution

Some of the reasons that qualify subsidiary company to be excluded from being consolidated in line with the Company and Allied Matters Act are:

- inclusion is not material for given a true and fair view;
 - severe long term restrictions hinder the parent company’s rights over assets or management of the subsidiary;
 - necessary information cannot be obtained without disproportional expense or undue delay;
 - the interest of the parent company is held exclusively for resale and the subsidiary has not previously been consolidated;
 - the activity of the subsidiary is so different from those of other group undertakings as to make inclusion incompatible with the true and fair view.
- (1^{1/2} mark for each correctly stated point. Maximum of 4 to be graded. Total: 6 marks)

8. (a) Define the term assets and liabilities. (4 marks)
- (b) Outline any two (2) examples of real accounts: (2 marks)

Solution

(a) **Assets:** these are the items that a company owns that can provide future economic benefits (2 marks). **Liabilities:** These are the items that a company owe other parties. (2 marks) (Sub-Total 4 marks)

- (b) Some examples of real accounts are:
 * cash; * account receivable; * buildings;
 * account payables; * inventories; * retained earnings.
 (1 mark for each correctly stated example. Maximum of 2 to be graded. Sub-Total: 2 marks)
 Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) The Nigerian Insurance Industry is an amalgam of different trade associations and professional bodies. You are required to list any five (5) of them and the arm of the industry they belong to. **(10 marks)**
- (b) There are certain items that are commonly found in statement of comprehensive income and statement of financial position. List and explain any five (5) of these items. **(20 marks)**
- (c) Define solvency Margin? Explain two (2) methods by which it could be computed. **(10 marks)**
- (d) IFRS 17 applies to some contracts. List any five (5) of such contracts. **(10 marks)**

Solution

(a)

S/N	Trade Association/Professional Body	Arm of the Industry
1	Professional Reinsurance Association of Nigeria (PRAN).	Reinsurance
2	Nigerian Council of Registered Insurance Brokers (NCRIB).	Broking/Insurance Brokers
3	Nigerian Insurers Association (NIA)	Registered Insurers
4	Chartered Insurance Institute of Nigeria (CIIN)	Insurance Education
5	Association of Registered Insurance Agents of Nigeria (ARIAN)	Insurance Agency/ Agents
6	Institute of Loss Adjusters of Nigeria	Loss Adjusting/Loss Adjusters
7	Nigerian Actuarial Society	Actuaries
8	National Association of Insurance Consumers in Nigeria	Buying public/insurance buyers

(1 mark each for correctly named trade association/professional body and 1 mark each for stating the arm of the industry correctly, total mark for each point 2 marks. Maximum of 5 associations to be graded. Total: 10 marks)

- (b) The items that are commonly found in statement of comprehensive income and statement of financial position are the:
- * statement of comprehensive income;
 - * outward reinsurance;
 - * reinsurance costs;
 - * inventory;
 - * earned premium;
 - * technical income;
 - * reinsurance commission;
 - * receivables.
 - * gross premium;
 - * administration expenses;
 - * statement of financial position;
 - * cash/bank;
 - * claim incurred;
 - * acquisition costs;
 - * property plant and equipment

(Candidates are required to explain any 5 of these. 1 mark for each correctly listed item. 1 mark for correct and complete explanation. Sub-Total per term: 2 marks. Maximum of 10 to be graded. Grand Sub-Total: 20 marks)

- c. **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 regulation.

Two methods of calculation solvency margin for general business insurance are:

Method 1 - 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. The figure is divided by the number of months in the financial year and multiplied by 12 (obviously, this only alters the figure if the financial year does not cover the normal twelve months' period. The 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 claim incurred in the last financial year. However, the percentage must not be less than 50%

Method 2- 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 premium from storm, hail or frost). Then divide this figure by the number of months in the referenced period. Multiply by 12. Thus, bringing the figure to the annual basis.

(2 marks for each correctly stated method. 2 marks for correct and complete explanation on each. Sub-Total per step: 4 marks. Grand Sub total: 8 marks) Grand Total 10 marks)

- d. Scope IFRS 17 applies to:

- insurance contracts, including reinsurance contracts, an entity issues;
- investment contracts with discretionary participation features entity issues provided the entity also issues insurance contracts;
- fixed fee service contact;
- financial guarantees;
- health insurance providers service providers that issue bundle products, such as a telecom services provider that attached insurance products to its services;
- policyholder accounting is out of scope of IFRS 17 (except for reinsurance contracts held) initial recognition on initial recognition an entity shall measure a group of insurance contract at the total of:

(2 marks for each correctly listed contract. Maximum of 5 to be graded. Sub-Total: 10 marks.

Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) List and explain four (4) characteristics of a good financial statement. (8 marks)
- (b) With reference to The Companies and Allied Matters Act 2020, explain the new provisions compared to the previous ACT in respect of the following;
- (i) changes to share capital;
 - (ii) appointment of independent directors;
 - (iii) multiple directorship
 - (iv) company seal;
 - (v) virtual general meetings/ virtual board meetings, (20 marks)
- (c) A printer is considering replacing an old machine, which he purchased for ₦1,500,000.00 three years ago, with some labour-saving equipment. The old machine is being depreciated at ₦15,000 a year. The following alternative equipment options are available for consideration.
- Machine A: The purchase price of machine A is ₦2,500,000.00 and yearly cash operating costs are ₦50,000.00.
- Machine B: The purchase price of machine B is ₦2,800,000.00 and yearly cash operating costs are ₦45,000.00.
- (a) What are the incremental costs, if any, in this alternative-choice situation?
 - (b) What are the sunk costs, if any, in this situation? (6 marks)

Solution

- a. The characteristics of a good financial statement are:
- **understandability:** one of the most important features of a financial statement is that it should be easily understood by the user.
 - **relevance:** the financial statement must contain relevant information for them to be useful to the users.
 - **reliability:** the contents of the financial statement must be reliable for all users;
 - **comparability:** the financial statement must be presented in such a way that it can be peer reviewed and also comparable with others in the industry – without any reinvention of the wheel.
 - **Legal form:** the financial statement must conform to legal requirements.
- (1 mark for each correctly listed characteristic. listing. 1 mark for correct explanation. Sub-Total per characteristic: 2 marks. Maximum of 4 to be graded. Sub-Total: 10 marks)
- b (i). **Changes to Share Capital:** There is no longer a concept of an authorised share capital. This has been replaced by a requirement that companies must have at least the minimum issued share capital required by the CAMA 2020 (₦100,000.00 for private companies and ₦2,000,000.00 for public companies, and must ensure that at least 25% of this issued share capital is paid up

- ii. **Appointment of Independent Directors:** There are three major changes in relation to independent directors. The first and most significant is that every public company must now have a minimum of three independent directors. The second change is that the CAMA 2020 makes it the obligation of anyone (i.e any shareholder) that has the power to nominate the majority of the members of Board to nominate at least three independent directors for the company. The third change is that in order to qualify appointment as an independent director, the nominee or his relatives must not, in the two years preceding the nominee's appointment to the board, have: (a) owned (directly or indirectly) more than 30% of the shares of the company; (b) been employed by the company, (c) acted as an auditor of the company; (d) paid or received from the company, sums exceeding NGN 20 million, or held up to 30% of the (or acted as a partner, director or officer) of an entity that received or made such a payment to the company.
- iii. **Multiple Directorships:** No person can be a director of more than five public companies at the same time. Any person that was on the board of more than five public companies as at the date on which the CAMA 2020 came into effect has a two-year period within which to comply. CAMA 2020 also requires persons who are nominated as directors of public companies to disclose their existing positions on the boards of other public companies, before taking up the new appointment
- iv. **Company Seal:** The use of company seals is now optional for all companies. The CAMA 2020 provides for how a company may execute certain documents in the absence of a seal.
- v. **Virtual General Meetings/Virtual Board Meetings:** The provision in CAMA 2020 that permits private companies to hold their general meetings electronically, does not extend to public companies. This means that, absent any special dispensation from the regulators (such as those granted in 2020 as a result of COVID), public companies must continue to hold their general meetings physically. Section 289(1) of the CAMA 2020 replicates 263(1) of the repealed CAMA, and neither of these provisions make it clear that board meetings can be held virtually. Prior to the CAMA 2020, companies took the precaution of ensuring that their articles authorised the board to meet virtually, otherwise board meetings had to be held physically. Section 289(1) has been clarified by Regulation 16 titled 'Electronic Meetings of Directors' Regulation 16 provides that:
- Directors may, in the exercise of their power to regulate their meeting as they think fit, hold their meetings electronically and by any means that would allow all directors to participate, speak and vote at the meeting.
 - Where the meeting of the directors is held electronically, the minutes of the meeting shall indicate that fact.
 - For the purpose of section 289(1), it shall be sufficient to reflect the registered office address of the company as the physical venue of the meeting provided that a director and the company secretary (if any) shall be present at the physical venue of the meeting

- Where the registered office address of the company cannot be used due to the absence of a director and the company secretary (if any) at such address, any other address in Nigeria would suffice for purposes of recording the minutes. (2 marks each for each correct and completely stated point. Maximum of 2 points to be graded under each term. Sub-Total per term: 4 marks. Grand Sub-total: 20 marks)

(c) (i) The incremental costs are purchase price (2 marks) and the cash operating cost (2 marks).

(ii) The depreciation on old equipment (2 marks) is a sunk cost because it represents an investment outlay made in the past.

(Sub-Total: 6 marks.)
(Grand Total: 34 marks)

11. Different groups look at accounting figures for a variety of purposes and in a variety of ways. List any four (4) of these groups and explain in basic terms any three (3) areas of interest.

Solution

The groups and the areas of interest are:

Return on the investment i.e profit, dividends, capital growth etc

- Stability of the company, its solvency and whether there may be a need for it to raise **extra capital**
- Future profitability of the company, including the type and spread if its business.

Policyholders: With the following areas of interest:

- Stability of the company including its solvency margin as a guarantee of its ability to meet its obligation to them.
- Whether they are getting value for money or are premiums including an undue profit margin
- Brand image

Investment Analysts and Commentators: With the following areas of interest:

- The performance of the company's shares, which depends on market perception of the future, influenced by spread of business, profitability, distributable reserves, dividend policy, management policy and ability as well as general economic trends.

Reinsurance Security Advisors: With the following areas of interest

- Soundness of the company's underwriting
- Security of the company as shown in its solvency
- Durability of the company
- Strength of any group to which the company belong

Other Insurers: With the following area of interest

- Underwriting and profit comparisons
- Marketing policy and development

Internal Management: With the following area of interest

- Efficiency and profitability of the company as a whole
- Efficiency and profitability of their own department or areas of influence
- Future plans

Staff: With the following area of interest

- Profitability of the company (particularly where the profit sharing exist):
- Security of the company, including possibilities of takeover
- Ability of management
- Future plans

(Candidates are required to explain each focus area. 2½ marks for each correctly stated group. 2 marks for each correctly explained area of interest. Maximum of 2 to be graded under each group. Sub-total per group: 6½ marks. Maximum of 5 groups to be graded. Sub-Total: 32 marks. 2 marks for good presentation and clarity).

(Grand Total: 34 marks)

12. (a) It is the function of Inland Revenue and the custom and excise to raise taxes in accordance with the legislation from various sources. List and explain any four (4) of these sources. (16 marks)
- (b) Briefly explain the following terms:
- (i) PAYE; (ii) CIT; (iii) Education Tax;
 (iv) VAT; (v) Telcos Tax; and (vi) Stamp Duty. (18 marks)

Solution

a. The sources by which Inland Revenue raise taxes in accordance with the legislation from various sources are:

- * wages (selling labour); * property rental
- * interest, dividends and gains from investment (selling capital);
- * self-employment (operating a business or selling a good or service);
- * royalties (rental of intellectual property); * sales; * services;
- * "other" income such as alimony, gambling winnings or prizes

(Candidates are required to explain the listed sources. 2 marks for each source listed. 2 marks for each correct and completely stated explanation. Maximum of 4 to be graded. Sub-Total: 16 marks)

b. (i) **PAYE:** paye stands for 'Pay as you Earn' An employee normally pay tax through PAYE. Every time the salary is paid to the employee, the employer deducts the income tax due to the government and remits same directly to the inland revenue. PAYE ensures that the yearly amount payable are collected evenly on each pay day over the course of the tax year. The employee may be entitled to tax credits and to tax reliefs and exemptions to reduce the amount of tax you pay.

ii. **CIT:** CIT stands for company income tax and is governed by companies' income tax Act (CITA), Cap C21, LFN 2004 (as amended). It is a tax imposed on profit of a company from all sources. Some profits are exempted from CIT provided they are not derived from trade or business activities carried out by the company e.g. Cooperative society. Every company shall pay provisional tax not later than three (3) months from the beginning of each year of assessment which is an amount equal to the tax paid in the

previous year of assessment. This is a payment on account of the year's income tax assessment. The due dates for filing returns are:

- For newly incorporated companies, within eighteen (18) months from the date of incorporation or not later than six (6) months after the end of its accounting period, whichever is earlier;
- For existing companies within six (6) months from the end of the accounting year.
- A self-assessment filer may (by application) commence payment of instalment before due date but such instalment cannot extend beyond two months after the due date;
- Companies in operation for more than four (4) years are liable to minimum tax except those specifically exempted by the tax law;
- Minimum tax under CITA arises where:
 - a company makes a loss;
 - a company has no tax payable;
 - Tax payable is less than minimum tax.

iii. **Education Tax:** Tax is a tax chargeable on all companies registered in Nigeria at chargeable profits as a contribution to the Education Tax Fund. This means that all registered companies in Nigeria are required to pay a percentage of their assessable profit into an Education Tax Fund. The tax is currently charged at 2%. It is payable within two months of an assessment notice from the Federal Inland Revenue Service (FIRS). This is in reference to the assessment and collection of tax section of the Act. Generally, many companies pay the tax on a self-assessment basis along with their CIT. For companies subject to PPT, tertiary education tax is to be treated as an allowable deduction. For other companies income profit taxes are not deductible in arriving at taxable income. However non-resident companies and unincorporated entities are exempt from the tertiary education tax

iv. **VAT:** Value added tax is a tax levied, basically on all supplies of services and goods. The general rule is that all supplies of goods or services are taxable at a particular standard.

v. **Telcos Tax:** This encompasses a range of taxes and fees that telecom companies are responsible for collecting and submitting.

vi. **Stamp Duty:** This may be described as a duty levied on the recognition of certain documents.

(3 marks for each correct and completely stated explanation. Maximum of 1 to be graded under each term. Grand Sub-Total: 18 marks)
(Grand Total: 34 marks)

13. (a) Explain the following investment terms:
- | | | |
|----------------------|-------------------------|---------------------|
| (i) ordinary shares; | (ii) preference shares; | (iii) right issues; |
| (iv) bonus issue; | (v) debentures | (15 marks) |
- (b) Define the term "investment property". List five (5) ways by which an institutional investor can invest in property. (19 marks)

Solution

- (a) (i) **Ordinary Share:** are also known as equity shares. The majority of shares issued by the company are equity/ordinary shares. This type of share is traded actively in the secondary or stock market. These shareholders have voting rights in the company meetings. They are also entitled to get dividends declared by the board of directors. However, the dividend on these shares is not fixed and it may vary year to year depending on the company's profit. Equity shareholders receive dividends after preference shareholders.
- ii. **Preference Shares:** as the name suggests, this type of shares gives certain preferential rights as compared to other types of share. The main benefits that preference shareholders have are:
- They get first preference when it comes to the payout of dividend i.e a share of the profit earned by the company;
 - When the company wind up preference shareholders have the first right in terms of getting repaid
 - Further, there are three sub-types in preference shares which are cumulative preference shares; non-cumulative preference shares and convertible preference shares
- iii. **Right Issue:** a rights issue is an invitation to existing shareholders to purchase additional new shares in the company. This type of issue gives existing shareholders securities called rights. With the rights, the shareholder can purchase new shares at a discount to the market price on a stated future date.
- iv. **Bonus Share:** a bonus issue also known as a scrip issue or a capitalization issue, is an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increasing the dividend payout. For example, a company may give one bonus share for every five shares held.
- v. **Debentures:** a debenture is a marketable security (a type of investment) issued by a business or other organisation to raise money for long-term activities and growth. It is a form of debt capital so it is accounted for as debt on the balance sheet of the issuing company.
- (1½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded. Sub-Total per term: 3 marks. Grand Sub-Total: 15 marks)

- (b) **Investment Property** is land or a building (including part of a building) or both, that is held to earn rentals or for capital appreciation or both; not owner-occupied; not used in production or supply of goods and services, or for administration and not held for sale in the ordinary course of business.

An institutor can invest in the property in a manner of ways:

- Purchasing properties (already existing or from a developer)
- Developing properties itself
- Financing a development and taking a share of the resultant's income
- Providing mortgage finance to a development company and also taking a share in the equity of that company
- Entering into sale and leaseback arrangements – a property owner, needing funds to other developments, sells his property to an investor for a sum of money, than leases it back at an annual rental.

(4 marks each for correctly stated and current definition as by IFRS. 3 marks each for correctly stated way by which institutional investor can invest in institutional property. Maximum of 5 ways should be graded. Sub-total under investment manner: 15 marks. Grand Sub-Total: 19 marks).

(Grand Total: 34 marks).

14. (a) Outline and explain any four (4) differences between “financial accounting” and “management accounting”. (30 marks)
- (b) Enumerate any two (2) reasons for budgeting. (4 marks)

Solution

- a. The differences between “financial accounting and “management accounting are:
- Aggregation:** Financial Accounting reports on the results of an entire business. Managerial accounting almost always reports at a more detailed level, such as profits by product, product line customer and geographic region. Financial accounting reports are more likely to be distributed to outsiders, while the results of managerial accounting are more likely to only be used by insiders
 - Efficiency:** Financial accounting reports on the profitability (and therefore the efficiency) of a business, whereas managerial accounting reports on specifically what is causing problems and how to fix them, while financial accounting report are used by outsiders to decide whether to invest in or lend to a business.
 - Proven Information:** Financial accounting requires that records be kept with considerable precisions, which is needed to prove that the financial statements are correct. Outside auditor rely on this information when auditing a firm's financial statements. Conversely, managerial accounting frequently deals with estimate rather than proven and verifiable facts.

- iv. **Reporting Focus:** Financial accounting is oriented toward the creation of financial statement, which are distributed both within and outside of a company. Managerial accounting is more concerned with operational reports which are only distributed within a company.
- v. **Standards:** Financial accounting must comply with various accounting standards when information is compiled for internal consumption.
- vi. **Systems:** Financial accounting pays no attention to the overall system that a company has for generating a profit, only its outcome. Conversely, managerial accounting is interested in the location of bottleneck operations and the various ways to enhance profits by resolving bottleneck issues.
- vii. **Time period:** Financial accounting is concerned with the financial results that a business has already achieved, so it has a historical orientation. Managerial accounting may address budgets and forecasts, and so can have a future orientation.
- viii. **Timing:** Financial accounting requires that financial statement be issued following the end of an accounting period. Managerial accounting may issue reports much more frequently, since the information it provides is of most relevance if managers can see it right away.
- ix. **Valuation:** Financial accounting address the proper valuation of assets and liabilities and so is involved with impairment revaluations and so forth. Managerial accounting is not concerned with the value of these items only their productivity.
- x. **Certification:** There is also a difference in the accounting certifications typically found in each of these areas. People with the Certified Public Accounting designation have been trained in financial accounting, while those with the Certified Management Accountant designation have been trained in managerial accounting
- xi. **Pay Levels:** Pay levels tend to be higher in the area of financial accounting and somewhat lower for managerial accounting, perhaps because there is a perception that more training is required to be fully conversant in financial accounting.

(3 marks for each correctly stated difference. 1 mark for each correct and complete comparison per term i.e 2 marks for each completely stated difference. Sub-Total per difference: 5 marks. Maximum of 5 differences to be graded. Grand Sub-Total 30 marks)

b. The reasons for budgeting are to:

- * plan;
- * co-ordinate;
- * communicate;
- * control;
- * evaluate.

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

Grand Total 34 marks

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

OCTOBER 2022 DIET EXAMINATION PAPER

SUBJECT A04

PRINCIPLES OF 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 OCTOBER
2022 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A04 – PRINCIPLES OF 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.

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

The question was testing understanding of candidates in area of contractor all risk policy. Majority (over 85%) of the candidates does not understand cover provided by the policy during defect liability period, only close to 15% of the candidates scored pass marks.

Question 2

Majority of candidates that attempted this question could not give correct definitions of valued policy and indemnity periods. Less than 50% scored above average pass marks.

Question 3

Over 95% of all candidates attempted this question but less than 20% scored pass mark because majority did not have idea of clause 22 perils rather were classifying peril 21 & 22 ABC.

Question 4

Over 98% of all the candidates attempted this particular question over 60% scored pass marks. However, close to 40% scored below average for failure to mention correctly what covered make award of arbitration or arbitrator to be set aside.

Question 5

This was a popular question attempted by close to 99% of all the candidates. Over 90% scored above average pass marks. Good knowledge of proximate cause definition and understanding were stated clearly.

Question 6

The question is a common one that candidates were expected to score good pass marks. Many avoided the question despite the fact that it is compulsory. Less than 45% could give good answer that fetched others that were able to do this pass marks.

Question 7

The question was straight forward on definition of explosion and accumulation risk. Over 30% attempted it but less than 40% of all that attempted it scored pass mark due to task of proper preparations for the examination.

Question 8

Close to 98% of all the candidates attempted this question over 90% scored pass marks as they were able to differentiate between types of premiums such as cross, net and earned. However, few could not score pass marks.

Question 9

The question is compulsory and carried the highest scores of 50% the question requires some mathematic / Arithmetic calculation which over 90% of the candidates performed

poorly. Provision of test solutions after release of result will assist candidate in future preparations.

Question 10

Less than 25% of the candidates attempted this question but only about 22% of the total member that attempted scored pass marks candidates need to study more on methods of reinstatement option by insurer in setting claims (property) and metropolises Act 1774

Question 11

Very few candidates attempted this question amongst which less than 40% scored pass marks because points not relevant and not contained in the test book were been stated as answer. The question were simple ones on business interruption insurance.

Question 12

Close to 60% of all the candidate attempted this question but majority could not state correctly enough requirements on the insured in the event of property claim. Over 90% of the candidates that attempted the part (b) failed to give and explain (4) four forms of cover under credit insurance.

Question 13

Over 90% of all the candidates attempted this question that wanted to test knowledge the purpose and definition of first loss likewise that of floating and blanket policies. Less than 45% of the candidates scored above average pass marks.

Question 14

Many candidates avoided this question. Less than 10% attempted same and less than 35% scored pass mark because the candidate did not study very well "CAR" policy cover and the differences between "CAR" and EAR. This resulted in poor performance that affected the overall score lines of the candidates.

Comments on overall performance:

The overall performance of candidates was far below average.

Suggestions on improvement (if any):

Some of the questions may be repeated in future for good understanding by candidates.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What cover is actually provided during the defect liability period in a contractor all risk policy?

Solution

During this period, the insurer covers damage to the contract works as a result of the contractor being on site to carry out remedial work.

(2 marks for those phrases. Total: 6 marks)

2. What is
 (a) a valued policy; (b) an indemnity period?

Solution

(a) **Valued Policy:** is used for the insurance of works of art, jewelry and other properties whose true value is often a matter of dispute at the time of claim. Insurers adopt the value stated against the property in the professional valuation report approved by the insurer as the sum insured. (3 marks)

(b) **An indemnity Period:** It is the period beginning with the occurrence of insured damage and ending not later than the maximum indemnity period stated in the policy during which the result of the business is affected by the damage. (3 marks)

(Total: 6 marks)

3. Under the JCT 1956 amendment, Clause 22 requires cover to be for "All Risks". In view of this, explain what is meant by 'Clause 22 Perils'.

Solution

Clause 22 perils are not all risks but limited to fire, lightning, explosion, storm tempest, flood, bursting and overflowing of water tanks, pipes and apparatus, earthquake, aircraft, riot and civil commotion. (6 marks)

4. Enumerate any four (4) circumstances under which the award of arbitration may be set aside.

Solution

The following are the circumstances under which the award of arbitration may be set aside:

- misconduct of the arbitrator or the proceedings;
- if the arbitrator exceeded its jurisdiction;
- if the award was improperly procured;
- if there is uncertainty in its terms;
- if the arbitrator fails to deal with all necessary features;
- if there is an error of law or fact on the face of it.

(1½ marks for each correct and completely stated circumstance. Maximum of 4 to be graded. Total: 6 marks)

5. Enumerate the five (5) critical focus in the definition of “proximate cause”.

Solution

The five (5) critical focus in the definition of “proximate cause” are:

- it is the active efficient cause;
- which sets in motion a chain of events;
- which brings about a result;
- without the intervention of any force;
- starting and working actively from a new and independent source.

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

6. The term “all risks” is a misnomer.

(a) what is the scope of cover under the policy?

(b) highlight any three (3) the different groups to which the policy exclusions may be categorised.

Solution

(a) The scope of cover under the “all risk” policy is: the policy covers accidental loss or damage to the property insured provided the cause of loss is not excluded under the policy. (3 marks)

(b) The different groups to which the policy exclusions may be categorized are:

- causes which insurers will not insure under a property policy
- causes which insurers may insure after careful underwriting
- causes which insurers may insure as buy backs
- causes or property they will insure under a specially designed policy

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

7. (a) In engineering insurance, what does the term ‘Explosion’ mean? (2 marks)

(b) What does the term “accumulation of risk” connote? And what is its effect? (4 marks)

Solution

(a) It is the sudden and violent rending of the plant by force of internal steam or other fluid pressure causing bodily displacement of any part of the pressure plant together with forcible ejection of the content. (2 marks)

(b) Accumulation of risk occurs when an Insurer insures property and pecuniary businesses for one or more firms/persons at one address or several addresses forming one risk. (2 marks) The effect of this is that an insured event may occur in one insured premises which may produce claims from many insured premises. (2 marks)

(Total: 6 marks)

8. What is: (a) gross premium; (b) net premium; (c) earned premium.

Solution

(a) **Gross Premium:** this means total of premium paid by the insured. (2 marks)

(b) **Net Premium:** this means gross premium less commission paid to intermediaries. (2 marks)

(c) **Earned Premium:** this is that proportion of the net premium which relate to the time which has elapsed from inception (or last renewed date) of each policy currently in force to the date to which the earned premium is required to be calculated. (2 marks)

Grand Total: 6 marks

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) A good corporate governance structure/framework is a necessity in every industry. The National Insurance Commission (NAICOM), as the Regulator of the Nigerian Insurance Industry, issued a corporate governance guideline for insurance and reinsurance companies. State any five (5) requirements regarding the structure and composition of Insurance and Reinsurance Companies Board of Directors. (10 marks)

(b) Use the following information to calculate loss payable following a recent fire incident at Pharez Trading Company Limited.

	₦
i. Sum insured	2,100,000.00
ii. Additional increase in cost of working item	250,000.00
iii. Gross profit last financial year	2,500,000.00
iv. Turnover last financial year	5,000,000.00
v. Standard Turnover	4,000,000.00
vi. Turnover Achieved during Indemnity period	3,100,000.00
vii. Additional cost incurred during Indemnity period 600,000 which avoids 1,000,000 reduction in turnover	
viii. Savings made during Indemnity period	100,000.00

Show all your workings.

(40 marks)

Solution

(a) The requirements regarding the structure and composition of Insurance and Reinsurance Companies Board of Directors are:

1. The Structure and Composition of the Board shall be such as to maintain the confidence of the Shareholders and Management.
2. The insurance/reinsurance company shall have not less than seven (7) members and not more than fifteen (15) members on its Board.
3. The Board shall consist of Executive and Non-Executive Directors out of which not more than 40% of the members shall be in the executive capacity.
4. In addition to the provision of Principle 2.7 of the NCCG 2018, no one person shall occupy the position of Chairman and Managing Director/CEO in related insurance companies at the same time.

5. No two members of the same family (nuclear and extended) shall occupy the position of the Chairman and Managing Director/Chief Executive of any Insurance Company.
6. No member of the Board shall draw remunerations beyond the normal entitlements for such appointment.
7. Membership of the Board shall include at least one Independent Director, who does not represent any particular shareholding interest nor hold any business interest. Corporate Governance Guidelines for Insurance and Reinsurance Companies
8. Non-Executive Directors shall not be re-nominated and appointed for more than 3 terms of 3 years each.
9. Appointment of Non-Executive Directors shall be decided by the Board through a defined selection process.
10. The Chief Executive Officer of the Company shall be the person approved by the Commission and shall be a member of the Board throughout his/her tenure.
11. Each Executive Director of the Company shall be a person approved by the Commission and shall be a member of the Board throughout his/her tenure.
12. For purposes of succession, every Insurance/Reinsurance Company shall have an Executive Director (Technical) who shall have minimum qualification and experience equivalent to that of Chief Executive Officer prescribed by the extant Rules.
13. To represent minority interests, all Public Limited Liability Insurance/Reinsurance Companies shall provide a seat for minority shareholder on the Board;
14. All nominated members of the Board shall complete and file with the Commission, Personal History Statement (PHS) Form at the point of application to the Commission.
15. All insurance institutions shall operate independently and the Board and Management shall be responsible and accountable for the conduct /operations of the company irrespective of any relationship with other companies or group,

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

- (b) (i) Calculate Rate of Gross Profit
- $$\frac{\text{Gross Profit last financial year}}{\text{Turnover last financial year}} \times 100$$
- (5 marks)**
- $$= \frac{\text{N} 2,500,000}{5,000,000} \times 100 = 50\%$$
- (5 marks)**

(ii) Calculate shortage in turnover
 Standard Turnover - Turnover Achieved during Indemnity
 = ₦ (4,000,000 - 3,100,000) = ₦ 900,000 (5 marks)

(iii) Calculate measure of indemnity
 Shortage in Turnover x Rate of Gross Profit
 = ₦ 900,000 x 50% = ₦ 450,000 (5 marks)

(iv) Pay increase in cost of working
Subject to economic limit.
 Spent ₦ 600,000 to avoid reduction in turnover of ₦ 1,000,000
 ₦ 1,000,000 x 50% = ₦ 500,000 (Economic limit) 500,000
Adjusted loss before application of Average.

	₦
Measure of Indemnity	= 450,000
Increase in Cost of Working	+ <u>500,000</u>
Less Savings	950,000
	<u>100,000</u>
	850,000

(v) Check for under-insurance

<u>Sum Insured</u>	x	Loss	
Rate of Gross Profit x Annual turnover			(5 marks)
= <u>2,100,000</u> x <u>850,000</u>		= 714,000	
50% x 500,000			(5 marks)

(vi) Application of increase in cost of working item

Cost incurred	= ₦ 600,000	
Amount covered	<u>500,000</u>	
Difference	100,000	(5 marks)

(vii) Total Adjusted Loss = ₦ 714,000
 Additional increase in Cost of Working 100,000
 Total Loss Payable 814,000 (5 marks)

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

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. Reinstatement is one of the methods Insurers use to settle a property insurance claim.

- (a) explain what you understand by the term “reinstatement”. (4 marks)
- (b) explain the reason why insurers rarely reinstate a property damaged by an insured peril. (16 marks)
- (c) enumerate any four (4) features of the Fire Prevention (Metropolis) Act 1774? (14 marks)

Solution

(a) Reinstatement means the restoration of the Property insured to the condition in which it was immediately before its destruction.

(4 marks for correct and completely stated explanation) Sub-Total: 4 marks.

(b) The reasons why insurers rarely reinstate a property damaged by an insured peril are that:

- monetary payment is simpler;
- insurers are responsible for the way the work is done;
- once insurers elect reinstatement, they cannot withdraw;
- there may be problems with the application of average;
- insurers cannot take credit for any work if a second fire occurs;
- insurers are liable if the reinstated Property is in anyway inferior to the original.

(4 marks for correctly stated reasons. Maximum of 4 to be graded. Sub-Total: 16 marks).

(c) The features of the of the Fire Prevention (Metropolis) Act 1774

- the right to reinstatement does not arise until a distinct request to reinstate the property has been made to the insurers;
- the request must be made before the claim is paid;
- the insurers are not obliged to carry out the reinstatement;
- the insurers cannot be compelled to spend more than the amount of insurance;
- the insured must be entitled to maintain a claim under the policy;
- the Act is applicable to England and Wales;
- the Act does not apply to policies subscribed to by Lloyds underwriters.

(3½ marks for correctly stated features. Maximum of 4 to be graded. Sub-Total: 14 marks)

(Grand Total: 34 marks)

11. (a) Explain the following terms in relation to Business Interruption Insurance

- (i) turnover; (4 marks)
- (ii) increase in cost of working; relate it to "economic limit" (8 marks)
- (ii) advanced profits insurance; (8 marks)
- (iv) suppliers extension. (6 marks)

(b) Enumerate any four (4) qualities and knowledge that a Loss Adjuster is required to possess when dealing with construction claims require? (8 marks)

Solution

(a) (i) **Turnover:** turnover is the money paid or payable for goods sold and delivered and for services rendered in the course of business at the Insured premises. (4 marks)

(ii) **Increase in Cost of Working:** is the additional expenditure necessarily and reasonably incurred for the sole purpose of reducing the shortage in turnover during the Indemnity period as a result of the damage (4 marks) The Policy imposes a limit on the amount spent – it must not exceed economic limit. (4 marks) (Sub-Total: 8 marks)

(iii) **advanced profit insurance:** this covers the future earnings of a future business. (2 marks). The policy will pay for loss as a result of delay in being able to use the new building or an increase in the cost of working to get the building into use on time or a combination of both. (4 marks). The delay may be due to damage to the building by an insured peril before the completion date. (2 marks) (Sub-Total: 8 marks)

(iv) **suppliers' extension:** allows the policy to be extended to cover the loss of gross profit/increase in cost of working following a reduction in turnover due to damage by a peril insured against and which occurs at the Premises of a supplier on whom the insured is dependent. (6 marks)

(Grand Sub-Total: 26 marks)

(b) The qualities and knowledge that a Loss Adjuster is required to possess when dealing with construction claims are:

- a working knowledge of construction law, policy wordings, and indemnity and insurance clauses in building contracts.
- a sound knowledge of construction accounts.
- a sound knowledge of construction tendering in order to control and monitor construction costs in remedial work.
- must give attention to detail for example when collecting witness Statements, Photograph of the relevant scene/ damage in the case of building collapse.

(2 marks for correct and completely stated quality/knowledge. Maximum of any simple

4 to be graded. Sub-Total: 8 marks).

(Grand Total: 34 marks)

12. (a) Enumerate the requirements on the insured in the event of a property claim. (10 marks)

(b) Explain and explain any four (4) of the forms of cover available in Credit Insurance. (24 marks)

Solution

(a) The requirements on the insured in the event of a property claim are:

- immediate notification to the insurer;
- take steps to mitigate the damage;
- at his expense submit claim supporting documents within the period stated in the policy;
- protect the salvage, if any;
- notify the Police Authority.

(2½ marks for correctly stated requirement. Maximum of 4 to be graded. Sub-Total: 10 marks)

(b) The forms of cover available in Credit Insurance are: .

- **Whole Turnover Policy:** this policy covers the entire credit risk of a trading organization with minor exceptions if any cover is provided at the rate of premium which averages the good with the not-so-good risks. (6 marks)
 - **Underwriting Factors:** which could be:
 - the Stratum of Trade into which the business falls;
 - the spread of risks between a small number of large accounts and a large number of small accounts;
 - the applicants own loss records;
 - the insuring company's own opinion of the standing of their customer accounts. (6 marks)
 - **Discretionary Limit:** whole turnover policy has discretionary limit. The insured is automatically covered for the credit given to any customer within this limit. If the insured wants to exceed this limit for any customer, he must get the Insurers approval. (6 marks)
 - **Specific Account Policy:** this is issued when the specified customers who present an unduly high risk, in other words, he arranges insurance only for his target risk. This constitutes selection the insurer hence not widely offered by Insurers. Where offered, insurer charges a higher-than-average risk. (6 marks)
 - **Principal Customer Policy:** this policy covers the principal customers or major customers of the Insured. The principal customers are named in the policy. Premium is calculated on turnover. Indemnity may be between 85% and 90%. (6 marks)
 - **Single Contract Policy:** this policy is usually assessed and underwritten in the same way as the specific account policy. It is rated on the contract value. (6 marks)
- (Sub-Total: 24 marks) (Grand Total: 34 marks)

13. (a) (i) Explain what is meant by First Loss policy and identify how it may be applied to in property policy. (5 marks)
- (ii) Explain briefly how the policy is utilized by both the insured and the insurer. (5 marks)
- (b) What are floating and blanket insurances? (10 marks)
- (c) Enumerate any seven (7) of the items usually contained in the Loss Adjuster's Preliminary Report. (14 marks)

Solution

(a) (i) **A first loss policy** is where an insured believes that any loss they may incur from a given peril cannot amount to more than a small proportion of the value at risk. Therefore, the sum insured is set at a much smaller amount than the full value. This may apply to certain perils, e.g theft, storm impact, flood or certain covers e.g fees, desires. (5 marks)

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

sum insured is greater. Insurers may use this type of policy to control either open ended covers such as professional fees or property in a catastrophe perils areas e.g earthquake. (5 marks)

(b) **Floating or blanket covers** this tend to work the same – machinery/building items across a number of building or stocks items across a number of sites. It is used where there is difficulty of ensuring the current values of properties particularly where property constantly moves from one site to site e.g. stock. **Floating covers** were originally designed solely for stock, where the sum insured was given to apply over a number of premises. **Blanket cover** is where the sum insured covers all buildings and another all machinery across premises. This is without identifying separate sum insured for each building or items of plant against a particular building. The benefit to the insured of insuring stock in a floating basis is that they do not have to monitor stock levels at each premises in order to prevent underinsurance provided the overall sum insured is adequate. Similarly, a blanket basis deal with the problem of fluctuating values of building and machinery across a large site, by accepting one overall sum insured for each.

(5 marks for any correct and completely stated explanation. Maximum of 1 point under each term to be graded. Sub-Total: 10 marks)

(c) The items that are usually contained in the Loss Adjuster's Preliminary Report are:

- | | | |
|-------------------------------|---|--------------------|
| * claim number; | * policy number; | * classification; |
| * name and address of insured | * trade/occupation; | * point of origin; |
| * vat status of insured; | * usage of building; | * supposed cause; |
| * time, day and date of loss; | * reserve for insurers (estimate of loss) | |
| * situation of damage. | | |

(2 marks for each correctly stated item. Maximum of 7 to be graded. Sub-Total: 14 marks).

Grand Total: 34 marks.

14. (a) As an underwriter of repute, explain the extensions of cover that can be provided in a Contractors' All Risk (CAR) cover. (20 marks)

(b) What is the major difference between Contractors' All Risks Policy (CAR) and Erection All Risks policy (EAR)? Explain, with three points, what this major difference entail. (14 marks)

Solution

(a) The extensions of cover that can be provided in a Contractors' All Risk (CAR) cover are:

- **Maintenance** - includes damage to the permanent works occurring during any maintenance or defective liability period.
- **Offsite Storage**: The cover provided is extended to include damage occurring during any maintenance or defective liability period.
- **Professional Fees**: including consulting engineers, architects or surveyors fees or other professional fees necessarily incurred in the reinstatement of the policy.
- **Debris Removal**: including disposal, dismantling and demolition, sharing up to propping up, cleaning and repairing drains and service mains on site.

- **Principal Clause:** insurance extends to indemnify any employer or principal.
- **Public Authority**
- **Escalator Clause**
- **Constructional Plants, Tools and Equipment**
- **Cover for Damage to hired in property** on the event of an insured loss, you are covered, for the value of the property destroyed and continuing hiring charges
- **Employees' Tools and Effects.**
 (2 marks for each correctly stated extension. 2 marks for correct and complete explanation.
 Sub-total for each extension: 4 marks. Maximum of 5 to be graded. Sub-Total: 20 marks)

(b) The Subject matter of a CAR policy is the civil structures (2 marks), whereas an EAR policy deals with machinery roles which need to undergo testing and commissioning (2 marks). The risk of breakdown needs a specific consideration at the commissioning stage in view of the interaction of parts with one another (1 mark).

Testing and Commissioning includes:

- Testing of various kinds, hydraulics, electrical, mechanical, pneumatic
- Commissioning the initial operation
- Maintenance - rectification of any defects manifested during the maintenance period
- Staff training
- Cooperation of the completed works may be undertaken during the construction phase and also during the phased handovers. Testing usually ceases when commercial operation begins.
 (3 marks for any correct but completely stated explanation. Maximum of 3 to be graded.
 Sub-Total: 9 marks). Grand Sub-Total: 14 marks.
 (Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

OCTOBER 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 OCTOBER
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.

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

The candidates' performance in this question is lower than average. In fact, not more than 30% scored average marks.

Question 2

85% of candidate attempted the questions but performance was below average, about 20%. Candidates did not understand the question which was about the contents of mortality table.

Question 3

More than 90% of the candidates attempted this question but the pass rate is less than 50%. That is, those who scored at least half of the allotted mark were less than 50%.

Question 4

85% of the candidate attempted the question. Performance was below average, about 20%. Candidates did not understand by the questions.

Question 5

About 95% of the candidate attempted the question. Performance was impressive, about 80%.

Question 6

90% of the candidates did not understand the question. The performance is abysmally low. The 10% that understood the question scored maximum points.

Question 7

The question was attempted by almost all the candidates. About 40% of the candidates got at least half of the marks allotted to the question.

Question 8

Allost 98% of the candidates attempted this question as this was a direct question. The pass mark recorded was above average as candidates' studies well on the unethical practices in Insurance Business.

Question 9

This question was poorly answered. It is an indication that the candidates did not understand the operation of reinsurance hence they couldn't score up to 30 of the 50 marks, less than 20% scored up to 30 points.

Question 10

The (a) aspect was not well attempted. The percentage rating of performance is about 30% of well answered question.

The (b) aspect of the question was well answered as about 80% of the candidates showed good understanding of the question.

Part (c) was poorly answered. The candidates' performance was about 25%. Candidates do not have much understanding of the question.

Question 11

The question was avoided by most of the candidates as only 12% of the candidates attempted it while none of the candidates score 50% of the marks allotted to the question.

Question 12

90% of the candidates attempted the question. Performance was above average, about 80%.

Question 13

The question tested the candidate knowledge of the proposal form, its use as its constituent parts. Few candidates struggled with the (b) part. More than 80% of the candidates attempted the question and about 77% of those that attempted, scores above average mark.

Question 14

The question tested the two key areas, namely: ethics and sum life insurance products. About 63% of the candidate attempted it while about 94% of those that attempted passed. The performance of part (a) was good while those candidates who struggled are enjoined to read more about life products.

Comments on Overall Performance:

The overall performance this diet is very poor as less than 28% scored the pass mark.

Suggestions on Improvement (if any):

Candidates are advised to study hard and ensure they cover the whole syllabus. They are encouraged to be conversant with the development in the industry especially life products.

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

1. (a) What is an annuity certain?
 (b) What is a temporary annuity?

Solution

(a) An annuity certain is the annuity payment paid to the annuitant/or his named beneficiary for a specified period of time (years), irrespective of the duration of life of the annuitant. **(2 marks)**. This type of annuity is paid only for a fixed period of time and thereafter it ceases. **(1 mark)**.

(b) A temporary annuity is the annuity payment is made to the annuitant for a fixed number of years, if the annuitant survives that period. **(2 marks)**. The annuity payment ceases if the annuitant dies within this period. **(1 mark)**.

(Grand Total: 6 marks)

2. In the context of the mortality table, write out what each of the following symbols represents:

(a) d_x (b) q_x (c) l_x

Solution

In the context of the mortality table,

(a) d_x represents the number of persons or people dying at age X according to a particular mortality table. **(2 marks)**

(b) q_x represents the probability that a person now aged X will not survive to the next age X + 1 according to a particular mortality table. **(2 marks)**

OR the probability that a person now aged X will die at age X according to a particular mortality table. **(2 marks)**

(c) l_x represents the number of persons living at age X according to a particular mortality table. **(2 marks)**

(Grand Total: 6 marks)

3. Outline the summary of the three (3) clauses of the Life Assurance Act 1774.

Solution

The summary of the three (3) clauses of the Life Assurance Act 1774 are:

i) no interest, no insurance; **(2 marks)**

ii) the person interested (the proposer) must be named in the policy; **(2 marks)**

iii) no greater sum than the interest can be recovered. **(2 marks)**

(Grand Total: 6 marks)

4. Write short notes on the Policies of Assurance Act 1867.

Solution

The Policies of Assurance Act 1867 is the Act which regulates the assignment of life policies. **(2 marks)**. The Act provides that any person becoming entitled by assignment to

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) The Nigerian Government in 1997, through NAICOM Act, established the National Insurance Commission. State any five (5) objectives for establishing the Commission.

(10 marks)

- (b) Describe in detail what you understand by "Retention Limit" in Life Business.

(10 marks)

- (c) The retention limit of ABC Life Assurance Company under its surplus treaty for 2019 was ₦5,000,000.00. In 2020, the Company has increased its retention limit to ₦7,000,000.00 and in 2021 to ₦10,000,000.00.

Use the information provided below to apportion the retention limit of ABC Life Assurance Company and the amount of risk to be ceded to the Surplus Reassurer in each scenario.

The company has issued the following life policies on the life of Mr. Egbeda Akowonjo as follows:

- A term assurance policy for ₦4,500,000.00 on January 10, 2019;
- A new term assurance policy for ₦4,000,000.00 on March 12, 2019;
- Another term assurance policy for ₦5,000,000.00 on September 15, 2019;
- An endowment assurance policy for ₦6,000,000.00 on January 30, 2020;
- A flexi-downment assurance policy for ₦6,500,000.00 on April 1, 2020;
- An educational endowment assurance policy for ₦7,000,000.00 on September 3, 2020;
- A whole life assurance policy for ₦8,000,000.00 on January 3, 2021;
- A term assurance policy for ₦12,000,000.00 on May 6, 2021. (24 marks)

- (d) State three (3) advantages and three (3) disadvantages of a treaty reinsurance over the facultative reinsurance.

(6 marks)

Solution

- a) The objectives for establishing the National Insurance Commission are to:
- i) establish standards for the conduct of insurance business in Nigeria;
 - ii) approve rates of insurance premiums to be paid in respect of all classes of insurance business;
 - iii) approve rates of commissions to be paid in respect of all classes of insurance business;
 - iv) ensure adequate protection of strategic Government assets and other properties;
 - v) regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria;
 - vi) act as adviser to the Federal Government on all insurance related matters;
 - vii) approve standards, conditions and warranties applicable to all classes of insurance business;
 - viii) protect insurance policy- holders and beneficiaries and third parties to insurance contracts;
 - ix) publish, for sale and distribution to the public, annual reports and statistics on the insurance industry;
 - x) liaise with and advise Federal Ministries, departments, statutory bodies and other Government agencies on all matters relating to insurance contained in any technical agreements to which Nigeria is a signatory.
 - xi) contribute to the educational programmes of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute.
carry out such other activities connected or incidental to its other functions under the NAICOM Act.

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

b) Retention limit in life assurance is the maximum amount of risk a life office is able to keep for its own account. **(3 marks)**. It can also be said to be the maximum amount of liability a cedant is prepared to pay per any loss occurrence on a life. **(2 marks)** It can be expressed as a flat figure or in percentages when quota share is used. **(2 marks)** In life assurance contract, retention is per life and not per policy. **(3 marks)**

(Grand Sub-Total: 10 marks)

- c) The retention limit of ABC Life Assurance Company under its surplus treaty:
- For 2019 was ~~N~~5million.
 - For 2020 it was ~~N~~7million
 - For 2021 to ~~N~~10million.

Using the information provided, the apportionment of the retention limit of ABC Life Assurance Company and the amount of risk to be ceded to the Surplus Reassurer in each scenario on the life policies on the life of Mr. Egbeda Akowonjo are as follows:

- A term assurance policy for ~~₦4,500,000.00~~ on January 10, 2019
ABC Life retains ~~₦4,500,000.00~~ (1½ marks) and Nil is ceded. (1½ marks)
 - A new term assurance policy for ~~₦4,000,000.00~~ on March 12, 2019
ABC Life retains ~~₦500,000.00~~ (1½ marks) and ~~₦3,500,000.00~~ is ceded. (1½ marks)
 - Another term assurance policy for ~~₦5,000,000.00~~ on September 15, 2019;
ABC Life retains Nil (1½ marks) and ~~₦5,000,000.00~~ is ceded. (1½ marks)
 - An endowment assurance policy for ~~₦6,000,000.00~~ on January 30, 2020;
ABC Life retains ~~₦2,000,000.00~~ (1½ marks) and ~~₦4,000,000.00~~ is ceded. (1½ marks)
 - A flexi-dowment assurance policy for ~~₦6,500,000.00~~ on April 1, 2020;
ABC Life retains Nil (1½ marks) and ~~₦6,500,000.00~~ is ceded. (1½ marks)
 - An educational endowment assurance policy for ~~₦7,000,000.00~~ on September 3, 2020;
ABC Life retains Nil (1½ marks) and ~~₦6,500,000.00~~ is ceded. (1½ marks)
 - A whole life assurance policy for ~~₦8,000,000.00~~ on January 3, 2021;
ABC Life retains ~~₦3,000,000.00~~ (1½ marks) and ~~₦5,000,000.00~~ is ceded. (1½ marks)
 - A term assurance policy for ~~₦12,000,000.00~~ on May 6, 2021;
ABC Life retains Nil (1½ marks) and ~~₦12,000,000.00~~ is ceded. (1½ marks)
- (Sub-Grand Total: 24 marks)**

d)

S/No	Advantages of Treaty Reassurance over Facultative Reassurance
1	Acceptance is automatic once the risk falls within the treaty terms
2	Ease of administration
3	No leakages of vital information to competitors
4	No loss of goodwill as there is no delay in communicating acceptance terms.
5	It attracts a higher ceding commission than a facultative business
Disadvantages of Treaty Reassurance over Facultative Reassurance	
1	It may be more expensive for few risks classification.
2	Facultative method may be sought once the treaty capacity is exhausted.
3	It is not designed for certain risks referred to as hazardous risk.
4	It has to be negotiated one by one.

(1 mark for each correct and completely stated advantage/disadvantage. Maximum of 3 under each to be graded. Sub-Total per section: 3 marks. Grand Sub-Total: 6 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) List and explain the three (3) certainties of a trust. (15 marks)
(b) Enumerate any four (4) circumstances which can lead to the replacement of a trustee. (4 marks)
(c) Enumerate and explain the three (3) types of beneficial interest under trusts. (15 marks)

Solution

(a) The three (3) certainties of a trust are:

- certainty of words; (1 mark)
- certainty of subject matter; (1 mark)
- certainty of object. (1 mark)

Certainty of Words: these are the words used in creating the trust must be definite and certain. (2 marks) In most cases, the words used contain imperative words. (2 marks)

Certainty of Subject Matter: these are the subject matter refers to the trust property (2 marks) and it must be capable of description and identification. (2 marks)

Certainty of Object: these are the object referred to as the named beneficiary(ies) (2 marks). The object must equally be capable of description of identification. (2 marks)

(Grand Sub-Total: 15 marks)

(b) The circumstances which may lead to the replacement of a trustee are where the existing trustee:

- * is dead; * becomes bankrupt/ goes into liquidation;
- * becomes physically unfit; * is a minor; * resigns his appointment;
- * leaves outside the country for more than 12 months calendar consecutively;
- * commits an act of felony.

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

(c) The three (3) types of beneficial interest under trusts are:

- * life interest; (1 mark) * reversionary interest; (1 mark).
- * contingent interest. (1 mark)

Life Interest: a life interest means that the beneficiary is entitled to the income from the trust property for life (2 marks), but cannot touch the capital (2 marks).

Reversionary Interest: a reversionary interest is the right to the trust property after the termination of a life interest. (4 marks)

Contingent Interest: a contingent interest is one that is subject to a contingency and thus may not come into possession. (4 marks)

(Grand Sub-Total: 15 marks)

(Grand Total: 34 marks)

11. (a) Describe in detail "Mortality Table". (9 marks)
 (b) Enumerate and explain any five uses of the mortality table. (25 marks)

Solution

a) Mortality table is the result of the study of the past mortality and which is used to give guidance as to the probable mortality of the future. (3 marks) It may also be described as an instrument by means of which an actuary calculates or measures the probabilities of survival and death. (2 marks)

A mortality table has three important columns from which the rate of mortality for the life premium component could be computed. (1 mark). The first column gives the different ages at which the mortality has been studied (1 mark). The second column indicates the number of persons living at each age (1 mark). The third column shows the number of persons dying at each age. (1 mark)

(Grand Sub-Total: 9 marks)

b) The uses of mortality table are:

- * in population work; * in life assurance work; * in private actuarial work;
- * by friendly societies; * determination of expectation of life.

In Population Work: a mortality table is used to make estimates for future population by some governmental bodies. (4 marks)

In Life Assurance Work: It is used to calculate premium, reserves and surrender values by life assurance companies. (4 marks)

In Private Actuarial Work: It is also being used to calculate contributions to pension schemes and withdrawal benefits. (4 marks)

By Friendly Societies: It is used for valuing life and other reversionary interests that may arise under wills and settlements. (4 marks)

Determination of Expectation of Life: A mortality table can also be used to determine the expectation of life at any particular given age. (4 marks)

(2 marks for each correctly named use of mortality table. 3 marks for each complete and correctly stated explanation. Sub-Total per point: 5 marks. Grand Sub-total: 25 marks).

(Grand Total: 34 marks)

12. (a) Describe the following Bolt-on-Options as applicable to life policies:
 (i) waiver of premium option; (ii) disability benefit;
 (ii) double accident benefit; (iv) increasing cover option;
 (v) critical illness cover. (25 marks)
- (b) Define Industrial Assurance in accordance with Industrial Assurance Act 1923. (5 marks)
- (c) List four (4) principal features of industrial assurance business. (4 marks)

Solution

(a) (i) **waiver of premium option:** this is a provision which states that if the life assured is unable to follow their normal occupation due to illness or injury, the premiums on the policy will be waived.

(ii) **disability benefit:** This is a benefit whereby the sum assured is payable on permanent disability as well as on death. The life office will need the evidence that the life assured is permanently unable to follow their normal occupation due to illness or injury.

(iii) **double accident benefit:** This benefit provides that if the life assured dies as a result of an accident (as defined in the policy) an additional payment will be made equal to the death sum assured. In other words, twice the sum assured is payable if death is as a result of accident.

(iv) **increasing cover option:** This option enables the policyholder to increase the cover by certain amounts at certain times. Usually, no medical evidence is required on increase, but the premium will be increased according to the office's ordinary rates at the time of exercise of the option.

(v) **critical illness cover:** This pays a certain sum on the diagnosis of a critical illness. The policy will define what is critical illness and definitions may vary from one office to the other. 5 marks.

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

Sub-Total per term: 5 marks. Grand Sub-Total: 25 marks)

(b) **Industrial Assurance in accordance with Industrial Assurance Act 1923** is defined as the business of effecting assurance upon human life, premiums in respect of which are received by means of collectors, and are payable at intervals not exceeding two months.

(5 marks)

(c) **The four principal features of industrial assurance are:**

- sums assured and premiums are small so that life assurance is brought within the reach of everyone
- there is a statutory requirement that premiums are payable at intervals not exceeding two months and are received by means of collectors
- claims are usually paid by the collector to the claimant in their home.
- only simple types of policy are issued (which are mainly endowment and whole life assurances)
- it is usually effected without medical examinations.

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

(Grand Total: 34 marks)

13. (a) Define a Proposal Form. (4 marks)
 (b) List out and explain any six (6) of the constituent parts of the policy document. (30 marks)

Solution

(a) A proposal form is a pre- designed form which is used to elicit all vital information, referred to as the material facts (2 marks), relating to the life or lives proposed for life assurance (2 marks).

(Grand Sub-Total: 4 marks)

- (b) The constituent parts of the policy document are:
- (i) **The Heading:** The heading consists of the name of the life office, its head office address and that of the major branch offices as well as the company’s website address and telephone lines.
 - (ii) **The Preamble or Recital Clause:** The recital clause states the parties to the life assurance contract and also refers to both the proposal form and declaration as the basis of the contract as well as to the payment of premium.
 - (iii) **Operative Clause:** This states the circumstances in which the life office is legally liable to pay the policy benefit. The operative clause must always be read in conjunction with the schedule and/or vice versa.
 - (iv) **Schedule:** The schedule contains the various benefits that are available under the policy.
 - (v) **Exception:** The exceptions to a policy are the various risks that are not covered in the ordinary course of the policy.
 - (vi) **Conditions:** The conditions are the policy rules that govern the application and interpretation of the life assurance contract as a whole.
 - (vii) **Attestation Clause:** The attestation clause is the way of executing the policy document.

(2 marks for each correctly stated part. 3 marks for each correct and completely stated explanation. Sub-Total per part: 5 marks. Maximum of 6 to be graded. Grand Total: 30 marks)

14. (a) Explain ethics in the context of society. (4 marks)
 (b) Describe each of the following life assurance products and outline five (5) uses each:
 (i) term assurance; (ii) whole life assurance;
 (iii) endowment assurance. (30 marks)

Solution

a) Ethics, in the context of society, can be explained to be the what makes the society to be better. They are based on well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues.

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

b) **Term Assurance:** in a term assurance, the sum assured is only payable if the life assured dies within the policy duration. Thus, no sum assured is payable, if the life assured survives the policy duration. Term assurance is primarily designed for life protection and loan transactions. Thus, the policy duration may be short or long depending on the purpose in which the policy is effected. A term assurance has no element of investment and as such it is always effected without participation in the profit of the life office – without profit.

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

The uses of term assurance are:

* as collateral security for loan transactions; * for life protection purposes;

* for short business trips abroad; * for tax relief;

* for investment purpose if effected as a convertible term assurance.

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

(Grand Sub-Total: 10 marks)

ii) **Whole life Assurance:** in a whole life assurance, the sum assured is payable upon the death of the life assured. It is generally regarded as the purest form of life assurance policies, especially when effected without participation in profit. The policy remains in force as long as the premium is continued to be paid by the assured and the sum assured becomes payable when the life assured eventually dies.

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

The uses of whole life assurance are:

* for life protection purposes; * as collateral security for soft loans;

* for tax relief purpose; * for capital transfer tax;

* it may also be effected by members of a partnership to purchase a deceased's partner share in the firm.

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

(Grand Sub-Total: 10 marks)

iii) **Endowment Assurance:** in an endowment assurance, the sum assured is payable at maturity or on earlier death. That is, the sum assured is payable on the occurrence of any of death or on

survival at maturity whichever is earlier. Another way to arrange an endowment assurance policy is for the sum assured to be payable upon the attainment of a specified age or at previous death. An endowment assurance may be described as the combination of a term assurance and pure endowment.

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

The uses of endowment assurance are:

- * for investment purpose;
- * as collateral security for soft loans;
- * for pension's provision;
- * for house purchase.
- * for life protection purpose;
- * for tax relief;
- * to augment pension;

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

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

OCTOBER 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 OCTOBER
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.

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 Comment:

Question 1

This is on value added tax in relation to own damage claim settlement. So also, legal personal representation cover in relation to liability section of the Private Motor policy. Performance is excellent as over 90% passed the question.

Question 2

This question tests candidates' knowledge of maximum amount insurer pays on vehicle damage claim. So also, persons covered by the Private motor policy other than the policy holder. Performance is average although candidates are expected to exhibit a better knowledge. Performance is above 45-50% where as they were expected to do better.

Question 3

The questions were very straight forward and a resounding performance was expected but surprisingly just about 60% did well i.e., performed above average. This emanated, perhaps, from inadequate preparation for the examination. They should study hard for future examination.

Question 4

The questions were very straightforward and simple. About half of the candidates performed very well. Candidates should study well and revise their course books to ensure that the course contents are well covered. This would guarantee excellent performance at next examination.

Question 5

This question was out to test candidates' knowledge on the use and relevance of ECOWAS BROWN CARD. Majority of demonstrated good knowledge of the topic. Attempt was good and over 60% passed the question whilst the rest 40% were lazy and performed below expectation.

Question 6

This centres on definition of "uberima fides" and its application in claim settlement. Majority of the candidates did well. Candidates demonstrated good understanding of the question over 80% of the attempts passed the question.

Question 7

The question is very simple. More so, as it relates to Cover Note. Many candidates did well. There are others whose performance were disappointingly very low and not encouraging. Pass rate is about 70%.

Question 8

This question centres on "Medical Expenses" and additional benefits under a Private Motor policy. It would appear as if the candidates do not have a good knowledge of this

question and this is disappointing. Average percentage pass is about 20-25%. The tutors should guide the candidates in this regard.

Question 9

Part (a) is on NAICOM's guidelines. Candidates' performance is low and averagely below expectation. They need to be well tutored and prepared for this aspect of insurance operation. Part (b) relates to settlement of accidental damage, Third Party Property Damage (TPPD), Third Party Personal Injury (TPPI), personal effects, samples, aspects of insurance etc. Performances here are far above average at say – about 60%.

Question 10

This question is out to test candidates' knowledge and understanding of processing and handling of complex issues relating to claims administration. More than 50% of the candidates performed well. With better preparation, candidates can perform more excellently well.

Question 11

This question is out to test candidates' knowledge on various forms and terminologies of insurance. About 60% of the candidates did well. Overall, candidates understood the question very well and this reflected in their answers and score recorded.

Question 12

This centres on the Role of Engineers in Motor Claims Administration as well as handling of and understanding of Personal Injury Awards. The first part was well attempted compared to the second part. Overall, the performance is below average and not quite encouraging at about 40 – 50%.

Question 13

The relevance and importance of Certificate of Insurance viz-a-viz police checking is tested here. So also, the relevance of Alternative Dispute Resolution (ADR) in dispute settlement. Less than 50% of candidates attempted the question and only eight (8) numbers scored pass mark. This is very disappointing. They should study well and prepare well for future examinations in order to guarantee success.

Question 14

This specifically tests candidates' knowledge of motor-cycle insurance underwriting and possible extensions. So also, application of "Days of Grace" to motor insurance. Over 70% attempted the question but few performed very well. Only twelve (12) candidates scored pass mark out of a total of twenty-eight (28) candidates. It is very disappointing. This is due to lack of adequate preparation. Consequently, candidates should strive to be more serious and to focus to enable them to do better in next examination.

Comments on Overall Performance

Performance generally is average, although it would appear that many of the candidates only came to attend the examination without adequate preparation.

Suggestions on Improvement

It would appear that some of the candidates did not prepare well for the examination. They should be more studious, go through their course books and past questions, revise the materials over time before coming to the examination. It appears that many of them do not attend tutorials any more.

- (i) firstly, there is the amount that is required to pay claims – expressed in percentage terms, this is known as the “claim ratio”;
 - (ii) on top of this, an allowance has been made for both fixed and variable cost. the main variable cost is that of agent commission and is a relatively straight forward calculation. other expenses are generally either fixed or variable only in the long term;
 - (iii) these are operating costs of the company such as staffing, premises, it’s equipment e.t.c. and have to be paid for irrespective of the number of policies sold, though advertising costs represent a substantial outlay, particularly for “direct” written.
- (2 marks for each correctly stated point. Maximum of 3 to be graded. Total: 6 marks)**

5. What is the ECOWAS Brown Card Scheme? Enumerate any of its objectives. (6 marks)

Solution

The objectives of the scheme are:

- Like the European Green Card, The ECOWAS Brown Card is a Certificate of Insurance adopted by member countries of ECOWAS to enable motors move about freely within the region. Principally, it relates to Motor Vehicle Third Party Liability Insurance.
- To guarantee for road accident victims, fair and prompt compensation for damage they may have sustained as a result of such accident
- Facilitate for nationals driving their vehicles within the member state, payment of compensation due from them as a result of accident they may have caused and to enable them comply with their obligations under local law and regulations on the subject.

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

6. What is the importance of the principle of “Uberima Fides” – Utmost Good Faith in a motor insurance contract on the part of the insured? (6 marks)

Solution

The importance of the principle of Uberima Fides is that *Insurance contracts are entered into on the basis of Utmost Good Faith (Uberima Fides.)* While both parties to the contract are bound by such a principle, its application was felt to be important because the precise details of an individual, insured risk are far more likely to be known by the prospective insured. Recognition of the unending position of each party has resulted in the requirement of Utmost Good Faith.

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

7. What are the two (2) main functions of the “cover note”? (6 marks)

Solution

The two main functions of a cover note are:

- i. To provide the Policyholder with the main details of the cover granted whilst awaiting the permanent documents including the Policy itself, and

- ii. to act as a temporary Certificate of Insurance which complies with the RTA
(3 marks for each correctly stated function. Total: 6 marks)
8. (a) State a typical wording of a "Medical Expenses Clause" (4 marks)
(b) Enumerate the two (2) usual additional benefits normally included in a motor policy. (2 marks)

Solution

- (a) The following is a typical wording of "Medical Expenses Clause"
"if you, your driver or any of your passengers are injured in an accident, involving your car, we will pay you the medical expenses incurred for each injured person up to the amount specified in your schedule".
(4 marks for correctly stated Clause as above. Sub-Total: 4 marks)

The main additional benefits included are personal accident cover for the policyholder and spouse (usually capital benefit only); and medical expenses of up to an amount.
(2 mark for each correctly stated point. Sub-Total: 2 marks). Grand Total: 6 marks

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) National Insurance Commission (NAICOM) has consistently introduced regulations using circulars and guidelines to ensure cohesive and progressive Nigerian Insurance Industry. Carefully enumerate any five (5) guidelines issued in the last 15 years. (10 marks)

(b) Alhaji Hassan insured his Lexus Saloon Car with Immaculate Insurance Company Limited on a Value of ₦2,700,000.00. The vehicle was involved in a ghastly motor accident while driving along Shagamu-Benin Express Road, resulting in the following:

- extensive damage to the insured's vehicle;
- injury to occupants of the insured's vehicle;
- damage to electricity pole;
- fire damage to a third-party vehicle – a Peugeot saloon car;
- loss of Alhaji's wrist watch, pair of shoes and wearing apparels;
- sample of detergent sachets;
- cash of ₦100,000.00 completely burnt in the third party's vehicle.

As the claims processor of Immaculate Insurance Company Limited, how would you make recommendations, with justifications/reasons, on each of the losses stated above if Alhaji Hassan's vehicle was insured on:

- (i) comprehensive basis (21 marks); (ii) third party only basis. (14 marks)

N.B:- Please note that the Police discovered during investigation that the Third Party's vehicle had no insurance cover at the time of the accident, in addition to the fact that Plate Number on the vehicle was fake.

(c) What is the position of the law on the discovery by the Police on the third-party's vehicle. (5 marks)

Solution

(a) Some of the guidelines are:

- * Bancassurance Guideline;
- * Takaful Guideline;
- * Webb Aggregators Guideline;
- * Market Conduct Guideline.
- * Corporate Governance Guideline;
- * Microinsurance Guideline;
- * Guidance on IFRS;

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

(b)

1. Comprehensive

- i. Extensive damage to Insured's vehicle is covered
- ii. Injury to occupant of the Insured vehicle – not covered in respect of Emergency treatment
- iii. Damage to electricity pole – covered subject to Third Party Property Damage Limit
- iv. Five damage to Third Party's vehicle – covered subject to Third Party Property Damage Limit
- v. Loss of wrist watch etc – covered by the comprehensive policy provided such policy is extended to cover personal effects etc
- vi. Sample of Detergent sachets – Not covered
- vii. Cash of N100,000.00 completely burnt in Third Party's vehicle – Not covered it is better insured more appropriately under money policy.

(3 marks for each correctly stated point. Maximum of 7 to be graded. (Sub-Total: 21 marks)

2. Thirty Party Only Cover

- i. Extensive damage to the Insured's vehicle – Not cover as policy covers only Third Party Liability Risks
- ii. Injury to occupants of Insured's vehicle – Not covered except in respect of Emergency Treatment
- iii. Damage to electricity pole – covered subject to Thirty Party Property Damage Limit of the Policy
- iv. Fire damage to Thirty Party's vehicle; a Peugeot saloon car – covered subject to Third Party Property Damage Limit of the Policy
- v. Loss of Alhaji's Hassan wrist watch etc – covered under Third Party only Policy
- vi. Sample of Detergent – Not covered

- vii. Cash of N100,000.00 burnt in a Third Party's vehicle – not covered.
It is better insured more appropriately under a money policy.

(2 marks for each correctly stated point. Maximum of 7 to be graded. (Sub-Total: 14 marks)

- (c) In consonance with the RTA provisions that no person should drive his vehicle, or cause his vehicle to be used on the road without value insurance cover or security, the third party could be taken to court to face criminal charges.

Notwithstanding, the claims settlement positions stated above would remain in consonance with relevant policy provisions. The Third Party should also be charge for using fake plate number on his vehicle.

(5 marks for correctly stated point. Total: 5 marks). Grand Total: 50 marks.

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Okeke Investment Limited insured a brand-new Siena Space Car with Excellence Insurance Company Limited on Comprehensive Basic. Six (6) months thereafter, the vehicle was hijacked by a students' mob along Lagos-Badagry Express Road. The Insured vehicle was later found towards the Seme Border badly damaged as the vehicle somersaulted several times as a result of over speeding. The corpse of a young man was found in the damaged car. The matter was reported to the Police. The relations of the dead young man insisted that the Insured and/or the Insurance Company would be held responsible for the necessary compensation to the dead.

As the claims manager of Excellence Insurance Company Limited, how would you handle this claim?

Solution

The Insured Sienna Space Car must have been insured on comprehensive basis. The Policy too must have been extended to cover Strike, Riot and Civil Commotion (SRCC).

The Insurer - EXCELLENCE INSURANCE COMPANY LIMITED is thus liable to meet the material damage claim i.e damage to the Insured's vehicle, since the Policy had been extended to cover the risk of Strike, Riot and Civil Commotion (SRCC), otherwise, the damage to the vehicle would not be covered.

Since the matter was reported to the Police and death of an unknown young man was involved, Police Report must be obtained.

As for the dead young man, we need to find out his identity. Is he a student? Is he a Police Officer? Is he a staff of the Insured? Or, is he an outsider? Who is he and how did he get into the vehicle? Was he also hijacked by the students and put into the car before the accident? Whatever angle we look at it, the dead man is a third party and we may

have to look at it from the angle of the Road Traffic Act (RTA)'s provision in respect of death and injury to third party.

(7 marks for each correctly stated point. Maximum of 2 points. Sub-Total: 14 marks).

Material Damage Aspect of the Vehicle: since the Policy was issued on Comprehensive Basis and extended to cover the risk of Strike, Riot and Civil Commotion, damage to the vehicle is covered. Please note that the loss would not be covered if the Policy was not extended to cover SRCC.

(4 marks for correctly stated point. Sub-Total: 4 marks).

The young man as a student: The Insurer may not be liable to compensate such dead student taking into consideration, the circumstances that the Insured vehicle was hijacked from the driver by force. The students use of the vehicle was illegal and so, legal right cannot result from an illegal action.

(4 marks for correctly stated point. Sub-Total: 4 marks)

Police Officer: The Police Officer died on duty and in course of employment which should be a subject of Workmen's Compensation Insurance or Employers Liability Insurance. His employer should take care of his compensation.

(4 marks for correctly stated point. Sub-Total: 4 marks)

Staff of the insured: Private Car Policy excluded "Liability for death of or injury to any person arising out of and in course of employment, by any person insured under this policy" The staff died in course of employment and should be compensated by the Employer's Liability Insurance Policy, or better still, by his Employers.

(4 marks for correctly stated point. Total: 4 marks). Grand Total: 50 marks.

As a Passenger: A passenger could be for hire or rewards or for gratuitous purposes. Whichever way, the passenger is a third party who deserves compensation by the Insured's Motor Policy. In this instance, the dead young man as a passenger, who constitutes a third party, should be compensated by the Insured's Motor vehicle Insurer.

(4 marks)

(4 marks for correctly stated point. Sub-Total: 4 marks)... Grand Total: Lady Isioma Chukwuman

11. Write short notes on each of the following:

(a) agreed valued policies; (8 marks)

(b) subrogation; (8 marks)

(c) arbitration; (9 marks)

(d) ex gratia payment. (9 marks)

Solution

(a) **Agreed Value Policies:** these will have been issued in the main for vintage or "classic" cars. Two aspects are at renewal firstly, there is usually a need to re-agree a value for the forthcoming year. An Insurer is unlikely to be prepared to continue with the same fixed figure ad infinitum. Secondly, the Insurer may wish to review the claims experience either individually, or if statics allow, by comparison with the rest of the portfolio insured on similar risks.

(4 marks for each correct and completely stated notes point. Maximum of 2 to be graded. Sub-Total: 8 marks).

(b) **subrogation:** Subrogation is another consequence of indemnity. In common law, the right to subrogation does not attach until indemnity has been provided, but at that time the Insurer can then stand in the shoes of the policyholders in exercising any right that the policyholder has of recovery from a negligent party. However, in common with other types of Insurance, the motor policy will contain a subrogation clause which will give the Insurer the right to exercise subrogation as soon as a claim has been intimated. This gives control of the claim to the Insurer and in particular, enables the Insurers to pursue recovery before an actual outlay has been incurred.

(4 marks for each correct and completely stated notes point. Maximum of 2 to be graded. Sub-Total: 8 marks).

(c) **arbitration:** the Policy calls for any dispute over quantum, ie. The amount of claim to be refund to arbitration before any legal action can be taken against the Insurer. In private motor policies, the arbitration is seldom invoked, bearing in mind that most disputes are resolved and if necessary, the ombudsman can be involved.

(4½ marks for each correct and completely stated notes point. Maximum of 2 to be graded. Sub-Total: 9 marks).

(d) **ex gratia payment:** this is a claim settlement to the Insured out of favour and NOT by right. The claimant/insured might have breached a warranty or condition of the Policy such that, ordinarily, his claim should not have been paid and perhaps because of the longstanding relationship or their vital considerations, the claim is paid.

(4½ marks for each correct and completely stated notes point. Maximum of 2 to be graded. Sub-Total: 9 marks).

Grand Total: 34 marks.

12. (a) (i) Who is the Insurance Engineer? (12 marks)
(ii) What roles does the "insurance engineer" perform? (12 marks)
(b) In relation to Personal Injury Awards, distinguish between "Special Damages" and "General Damages". Give an example on each term. (10 marks)

Solution

(a) (i) Insurance Engineers are usually recruited from amongst garage employees and have invariably worked for a number of years as a body requires and/or estimators. They will have seen it all "the other side of the fence" and are therefore, ideal for controlling the actions of the repair trade. On a day-to-day basis, the cost of repairs is controlled by Insurance Engineers. Engineers are often used in Accidental Damage Claims.

(4 marks for each correct and complete statement explanation. Maximum of 3 points to be graded. Sub-Total: 12 marks).

(ii) Engineers will agree method and cost of with garage estimators and will provide repair authority. They will then be available for consideration should something change during the course of repair and will "sign off" the final invoice.

The cost calculated by Engineers will determine whether or not any particular repair is worthwhile, taking into consideration the overall value of the damaged car.

If the repair is not economically viable, then the Engineer will declare the vehicle Insurance Write-Off. They will then go on to calculate the pre-loss value of the vehicle and, in some cases, will agree this with the vehicle owners.

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

(b) In relation to Personal Injury Awards, distinguish between “Special Damages” and “General Damages”. Give an example on each term. **(10 marks)**

Solution

“Special Damages”

Which are in respect of quantifiable financial loss, such as loss of earnings, both present and future, and medical expenses and others, “out of pocket” expenses, including the cost of services rendered to the plaintiff.

(5 marks for correctly stated examination. The pencils also should be include. oint. Sub-total: 5 marks).

“General Damages”

Which relate to non-financial loss and are less easily assessed, for example, pain and suffering, and loss of expectation of life.

(5 marks for correctly stated point. Sub-total: 5 marks). Grand Total: 34 marks.

13. (a) Whilst driving along Sagamu-Benin Express Road, Engineer Abdulsalam ran into a Police check point, where the Police demanded for his vehicle particulars. A lot of argument ensued as to why the Police should demand for his Motor Certificate of Insurance, accusing the Police of high handedness. Justify the position of the Police by demanding Engineer Abdulsalam’s Certificate of Insurance in relation to the provisions of the RTA. **(14 marks)**

(b) What is Alternative Dispute Resolution (ADR)? Explain in details the modus operandi of ADR (i.e. how ADR operates). **(20 marks)**

Solution

(a) Section 165 of Part VII of the RTA 1988 gives the Police the power to request the production of a Certificate of Insurance or Security from a motorist. If the Certificate cannot be produced immediately, then it might be produced at a Police Station within Seven (7) days, unless this is not reasonably practicable.

The Police therefore has the legal right to stop any motorist and demand for the production of his vehicle particulars (particularly the Certificate of Insurance) in consonance with the provisions of the TRA.

(7 marks for each correctly stated point. Maximum of 2 to be graded. Total: 14 marks)

(b) **Alternative Dispute Resolution (ADR)** is a method that has been formulated primarily to lighten the case-load of court of law. It is a less formal procedure

where the ultimate solution is determined by the parties themselves through mediation rather than by any judge or arbitration.

(5 marks for correctly stated point. Total: 5 marks)

Modus Operandi

A Mediator is appointed by mutual consent. It is the job of the Mediator to facilitate discussion through a series of meetings and to encourage the parties to bring various aspects of the dispute to a point where there is mutual understanding and acceptance. The solution is often a compromise which is acceptable to both parties

(5 marks for correctly stated point. Total: 5 marks)

ADR can be used to assist in all manner of disputes including complaint to insurers. It perhaps can have a particular benefit in disputes between insurer and Commercial Policyholder where otherwise there is nothing available before full arbitration and/or court action.

(5 marks for correctly stated. Total: 5 marks) Sub-Total: 20 marks).

Grand Total: 34 marks.

14. (a) Dr. Anthony has sojourned in Canada for over 15 years. He recently returned to this country and approaches M/S Mercy Insurance Company Limited to insure his Honda Motorcycle on Comprehensive Basis and specifically requested that their Policy should cover, amongst others, the following:

* accessories and spare parts; * personal effects; * personal accident.

As the Underwriting Manager of Mercy Insurance Company Limited, how would you handle this request? **(18 marks)**

- (b) How is “days of grace” applied in Motor Insurance. **(16 marks)**

Solution

- (i) Accessories and spare parts will only be covered for loss or damage whilst they are attached to the Motorcycle itself.

(6 marks for correctly stated point. Sub-total: 6 marks)

- (ii) Both Personal Effect and Personal Accident are enhanced benefits normally granted to Private Car Policyholders but not granted to Motor-Cycle Policyholders for the simple reason(s) that Motor-Cycle riders are usually unprotected and exposed easily to the risk of serious personal injury as a result of accident.

(6 marks for correctly stated point. Sub-total: 6 marks)

- (iii) Similarly, the chances of loss of Personal Effect are very high due to the fact that such items would be exposed, and not protected on a Motorcycle hence such cover would not be provided.

(6 marks for correctly stated point. Sub-Total: 6 marks)

(Grand Sub Total: 18 marks)

(b) An insurance policy is usually issued to last a period of one year after which it becomes renewable. Take for example, a Policy issued effective 1st January, 2020 would expire by 31st December, 2020, and renewable effective from 1st January, 2021. For one reason or the other, the insured may not be able to renew. This may be due to oversight, forgetfulness or non-receipt of the Renewal Notice. To take care of these lapses, Insurers usually grant Days of Grace within which, Insurers could still come to renew their policies and should a claim arise during the period, the Policy would pay Such Days of Grace varies depending on the insurer concerned, but 15 to 30 days are not unusual.

However, application of Days of Grace is not applicable to Motor Insurance because of statutory provision that a Certificate Of Insurance must be carried at all times and in addition, cover cannot be backdated. (5 marks)

To this end, when Renewal Notices are sent, usually a 15 days Cover Note is attached. This provides only the RTA cover and it takes care of the situation whereby the insured could forget to renew at the right time. (5 marks)

(Sub Total: 16 marks)

(Grand Total: 34 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2022 DIET EXAMINATION PAPER

SUBJECT A07

LIABILITY 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 OCTOBER
2022 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A07 - LIABILITY 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.

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 Comment:

Question 1

This question tested candidate knowledge on trigger events on liability policies. Attempt was good at 95% and performance at 85%. Generally, candidates exhibited good understanding of the question.

Question 2

Question 2(a) and 2(b) was intended to test candidates' knowledge on Directors' and Officers' liability insurance and product of liability insurance respectively. Attempt was good at 90% but performance was 30% on question 2 (a) while performance was 90% on question 2(b). Many candidates don't understand the specific exclusions on D&O liability insurance. Adequate preparation will enhance their future performance.

Question 3

Question 3(a) tested the candidate's knowledge on product recall policy. Attempt was good at 95% and performance at 30%. Question 3 (b) was intended to test candidate knowledge on premium factors on professional indemnity insurance. Attempt and performance were good at 95%. Over overall candidates' performance on this question was very good.

Question 4

Question tested candidates' knowledge on risk management process. Attempt was good at 90% but performance was rated at 30%. Candidates' response was a complete deviation from the question which clearly shows lack of understanding of the question. More commitment required from the candidate for future examination.

Question 5

This question dealt with the meaning of emergency accord and satisfaction and the rule Ryland V. Fletcher. Attempt was high and pass rate was also high with 80% and 70% respectively. This shows that candidates understand the questions.

Question 6

This question was intended to test candidates on general and punitive damages. Attempt and performance rate at 95% and 90% respectively. The question was well answered by the candidates.

Question 7

Candidates was tested on Limitation of Action and defences in Defamation. Attempt at 70% with about 65% pass rate. Candidates' performance was above average. Good preparation by candidates before future examination will enhance their performance.

Question 8

This question tested candidates on General Defences in Tort. Attempt was good at 90% with pass rate of 70%. Some candidates showed lack of understanding of the question. More commitment to studies is very important.

Question 9

Question 9(a) was intended to test candidates on NAICOM regulations/guidelines in the last 15years. The candidates performed woefully in this question. It shows that candidates are not current with NAICOM activities. Question(b) and (c) tested candidates' knowledge on Employers' Liability, Ryland V. Fletcher and reinsurance. Attempt was good at 100% while performance was above average. Many candidates could not give accurate definition negligence while some candidates don't understand the defences of Ryland V Fletcher.

Question 10

This question was intended to test candidates' knowledge on Employers' liability insurance and public liability insurance. Attempt was at 80% and pass rate above average which shows lack of candidates' knowledge on this question. Candidates needs to read and understand their coursebook to excel in future examination

Question 11

This question is about writing short notes on various liability terms. Attempt was about 80% of the candidates and over 90% of the candidates displayed adequate understanding of the question.

Question 12

This question was also intended to test candidates' knowledge on various liability terms. Attempt rate was above average (65%) while the pass rate was about 50%. Good preparation by candidates will enhance their future performance.

Question 13

This question tested candidate of claim Notification and Professional Indemnity Insurance. Many candidates avoided the question. Attempt rate was less than 10% with performance below average perhaps for their inadequate preparation. Adequate preparation is recommended for improved performance.

Question 14

This question tested candidates on various liability terms and Rehabilitation of Offenders Act 1974. Attempt rate was 60% with pass rate of 80%. Many candidates provided good answer to the question while few candidates showed lack of understanding. Adequate preparation is recommended for improved performance in the future examination.

Comments on Overall Performance

The overall performance was above average and 26 candidates out of 48 scored above 55% (pass-mark). Pass-rate was 54.17%.

Suggestions on Improvement

“No candidates fail exam in the examination hall” in other words, candidates need more commitment and preparation before the examination to enhance improvements in their future performances.

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

1. Briefly explain the meaning of the following trigger events used in liability policies:

- (a) manifestation; (b) losses discovered;

Solution

The **manifestation** trigger means that the policy will respond to an event that becomes manifest to the insured during the period of insurance. (3 marks).

(b) **losses discovered**: this is in respect of losses discovered during the period of insurance. Losses mean the consequence of an insured event e.g. negligent act, breach of status, breach of contract, e.t.c. (3 marks).

(Grand Total: 6 marks)

2. (a) List any two (2) specific exclusion of Directors' & Officers' Insurance policy. (4 marks)
- (b) What is the object of a product liability insurance policy? (2 marks)

Solution

(a) Specific exclusions of Directors' & Officers' Insurance Policy are:

- Improper personal gain, fraud and dishonestly.
- Prior notification i.e. circumstances which existed prior to the inception of the policy.
- Prior of pending litigation.
- Liability of directors for any environmental pollution.
- Bodily injury or damage to tangible property.

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

(b) The object of product liability insurance policy is to indemnify the insured against some of the risks which are not covered under a standard product liability policy and in particular, those which relate to the failure of the product to fulfil its intended purpose. (2 marks)

(Grand Total: 6 marks)

3. Enumerate any two (2)
- (a) risks covered by product recall policy.
- b) premium rating factors in Professional Indemnity Insurance.

Solution

(a) Risks covered by product recall policy are:

- costs incurred in recalling the defective product;
- expenses of recalling e.g. advertisement, transportation, e.t.c.
- cost of destroying the recalled product.

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

(b) Premium rating factor in Professional Indemnity policy are:

- gross fees of the firm;
- more than one office;
- age of partners or experience of the business; and
- ratio of partners to staff.

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

(Grand Total: 6 marks)

4. Enumerate and briefly explain the three-fold approach of risk management.

Solution

The three-fold approach to risk management are:

- **Identification:** risk must first be identified before they are measured or analysed;
- **Analysis:** risk identified must be analysed or measured in term of frequency of occurrence and severity impact;
- **Control:** after the impact of the risk has been analysed or measured, then control measures will be put in place to litigate them.

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

5. (a) Explain the meaning of the following defenses:

(i) emergency; (ii) accord and satisfaction. (4 marks)

(b) What is the rule of Ryland V. Fletcher? (2 marks)

Solution

(a) (i) **Emergency:** In certain situation, a person action should not be considered negligent because they acted quickly in an attempt to prevent a dangerous occurrence. The standard of care on which the defendant will be judged takes into account what a reasonable person would have done in similar circumstances. (2 marks)

(ii) **Accord and Satisfaction:** this is related to liability claims that are settled out if court before the commencement of the proceedings. The settlement of these claims forms a binding contract between the parties and the defendant is release from any further liability. (2 marks)

(b) The rule of Ryland V. Fletcher is that an occupier who brings and keeps on their land anything which is likely to cause damage if it escapes is under a strict obligation to prevent its escape and is liable for any damage cause as a result of its escape. (2 marks)

(Grand Total: 6 marks)

6. (a) Enumerate any three (3) components of general damages.

(b) Explain the term “punitive damage”.

Solution

(a) The components of general damages consist of the following:

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

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

(b) **Punitive Damage:** is damage awarded in addition to real damages to express the court's view that the defendant's conduct is deplorable or outrageous. Punitive damages are intended as punishment and not compensatory. (3 marks)

(Grand Total: 6 marks)

7. (a) Briefly explain the term "Limitation of Actions".
(b) Enumerate any two (2) defences to an action in defamation.

Solution

(a) **Limitation of Actions:** Limitation of action imposes a time limit within which a plaintiff must bring his action. This is to avoid the court having to deal with stale claims where the parties' memory of the event is vague and witnesses are unreliable. It is also to safeguard the defendant from the problem associated with defending a claim based on an incident which occurred a long time ago. (3 marks)

(b) Defences to an action in defamation are:

- * justification;
 - * consent;
 - * fair comment
 - * privileged;
 - * innocent dissemination
- (1½ marks for each correctly stated defence. Maximum of 2 to be graded. Sub-Total: 3 marks).
Grand Total: 6 marks.

8. Enumerate any six (6) general defenses to an action in tort.

Solution

General defences to an action in tort are:

- * inevitable accident;
 - * vis-major-act of God;
 - * volenti non fit injuria;
 - * contributory negligence;
 - * emergency/necessity;
 - * remoteness of damage;
 - * statutory authority;
 - * accord and satisfaction.
- (1 mark for each correctly stated defence. Maximum of 6 to be graded. Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) National Insurance Commission (NAICOM) has consistently introduced regulations using circulars and guidelines to ensure cohesive and progressive Nigerian Insurance Industry. Carefully enumerate any five (5) guidelines issued in the last 15 years. (10 marks)

(b) All Employers of labour are required to insure their legal liability to their employees against occupational hazards. They must comply with the provision of Employers' Liability (Compulsory Insurance) Act 1969.

(i) List any four (4) requirements of the above legislation. (8 marks)

(ii) What is the significance of Blyth V. Birmingham Waterworks Co. 1856. (4 marks)

(iii) The rule of Ryland V. Fletcher 1868 established the legal principle of 'strict liability'. Explain any four (4) major defences of available on this rule. (12 marks)

- (c) Explain the following terms:
- | | |
|---------------------------------|---------------------------------|
| (i) excess of loss reinsurance; | (ii) layer programme; |
| (iii) right of recovery; | (iv) nominal damage. (16 marks) |

Solution

- (a) Some of the guidelines are:
- | | |
|-------------------------------|-----------------------------------|
| * Bancassurance Guideline; | * Corporate Governance Guideline; |
| * Takaful Guideline; | * Microinsurance Guideline; |
| * Webb Aggregators Guideline; | * Guidance on IFRS; |
| * Market Conduct Guideline. | |
- (2 marks each for any correctly stated guideline. Maximum of 5 to be graded. Total: 10 marks)

- (b) (i) The requirement of Employers' liability (Compulsory Insurance) Act 1969 are:
- introduce compulsory insurance;
 - all employers are to insure their legal liability for bodily injury, death or disease of their employees;
 - the limit of liability must be at least two million pounds (£2 million) any one occurrence;
 - certificate of insurance to be displayed at each place of work;
 - the policy must be issued by authorized insurers;
 - the policy must be approved policy not subject to any prohibition conditions.

(2 marks each for each correctly stated requirement. Maximum of 4 to be graded. Sub-Total: 8 marks)

- (ii) The significance of Blyth V. Birmingham Waterworks Co. 1856 is that the case provided a classical definition of negligence, which is as follows: "negligence is omission to do something which a reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs, would do, or the doing something which a prudent and reasonable man would not do". (4 marks)

- (iii) The defences available under Rylands V. Fletcher 1868 are:
- **Statutory Authority:** if a dangerous thing is accumulated under statutory authority the rule does not apply.
 - **Consent:** it is a defence that the plaintiff has accepted the risk of escape. However, the consent must be real and not coerced.
 - **Common Benefit:** it is a defence if it can be established that the accumulation of the dangerous thing is for the common benefit of the plaintiff and the defendant.
 - **Contributory Negligence:** this defence is available if it can be shown that the escape was contributed to the carelessness of the plaintiff.
 - **Act of Stranger:** this will be a defence so long as the defendant had no control over the stranger.

(2 marks for correctly stated defence. 1 mark for each correct and completely stated explanation. Sub-total per defence: 3 marks. Maximum of 4 to be graded. Sub-Total: 12 marks)

(c) (i) **Excess of Loss Reinsurance:** this is a form of reinsurance that is most suitable for liability insurance. It is non-proportional form of reinsurance. The ceding company assistances a level of loss and losses within the agreed level of loss are paid by the ceding company. The excess of loss above the ceding company figure is reinsured with another reinsurance company.

(ii) **Layer Programme:** reinsurance is arranged in layer. The ceding company takes the primary layer and then different insurers take the cover for layers in excess of the primary insurer. An example of layers is:

- 1st layer excess of 50,000 to 100,000
- 2nd layer excess of 100,000 to 200,000
- 3rd layer excess of 200,000 to 300,000

(iii) **Right of Recovery:** in Employers' liability insurance, a breach of a policy condition by the employer is a good ground for the insurer to repudiate liability. However, because it is a compulsory insurance repudiating liability by insurer will prejudice the employee to receive compensation for the injury suffered. Therefore, all claims are met i.e. the insured (employer) is indemnified and the act gives the insurer the right of recovery i.e. the right to recover from the insured if the insurer would not have been liable to pay a claim but for the provision of the legislation.

(iv) **Nominal Damage:** there are damages that are intended to compensate and are usually small. They are recognition that a tort has been committed against the plaintiff. Nominal damages are awarded as a token of the plaintiffs legal right.

(2 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-total per term: 4 marks. Grand Sub-Total: 16 marks)

Grand Total: 50 marks.

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) In relation to liability insurance, explain the following terms:
(i) vicarious liability; (ii) housekeeping; (iii) trespass'
(iv) statutory liability. (24 marks)

(b) Explain the following in relation to employers' liability insurance:
(i) protective clothing; (ii) premium adjustment. (10 marks)

Solution

(a) (i) **Vicarious Liability:** vicarious liability means a person is liable for the tort of another i.e a person will be assume responsibility for the tort (wrong doing) by another.

There are occasions when a person is held liable for the tort committed by other person(s). this type of liability is known as 'vicarious liability'. This type of liability is common in the following areas between:

- * employer and employee;
- * principal and agent;
- * partners in business.
- * parent and children;
- * principal and independent contractor;

(ii) **Housekeeping:** housekeeping involves good management of the insured premises and proper training of employees. It also involves training and education of staff on safety procedure. Good housekeeping involves cleanliness of office premises, good maintenance culture, good communication of employees.

(iii) **Trespass:** trespass is old form of tort which involve direct and deliberate interference. Trespass involve trespass to land and good trespass to land involve direct interference with law e.g. straying onto land of another either deliberately or accidentally, allowing one's animal to stray into land, placing subject on land, e.t.c. Trespass to good is the direct physical interference in possession of another person good with lawful authority.

(iv) **Statutory Liability:** in employers' liability insurance statutory liabilities are laws created by Act of parliament for the protection and welfare of employees. They provide a remedy to workers in civil law for damages. For every Act of parliament, regulation will be issued which explain the details of the law that must be complied with and failure to comply with regulation makes the employer liable under the Act.

(3 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-total per term: 6 marks. Grand Sub-Total: 24 marks)

(b) (i) **Protective Clothing:** in employers' liability insurance, the employer must provide safe place of work to prevent accident to the employers. Also, there is a duty upon the employer to provide protective clothing and other facilities that reduce the risk of injury or disease to employees.

(ii) **Premium Adjustment:** this is a premium adjustment cause in employers' liability insurance policy. The premium charge on the policy at inception is based on the estimated salaries and wages of employees which produce provisional or deposit premium.

At the end of the period, the insured is required to declare the actual salaries paid and the premium will then be adjusted by the insurer. The premium adjustment may require the insured to pay additional premium or the insurer may be required to make a refund subject to minimum premium chargeable for the risk.

(2½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-total per term: 5 marks. Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

11. Write short notes on the following:
- (a) physical hazard (7 marks);
 - (b) territorial limit (7 marks);
 - (c) common law (7 marks);
 - (d) libel (7 marks);
 - (e) a bailee (6 marks).

Solution

(i) **Physical Hazard:** Physical hazard relates to the physical or tangible aspect of the subject matter of insurance. Physical hazard are agent which are likely to influence the occurrence and/or severity of loss. In liability insurance example of physical hazard are the place of work and safety measures in place to prevent injury to employees, tools of trade provided. How safe are they for employees to work
(3½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-Total per term: 7 marks.)

(ii) **Territorial Limit:** territorial limit refers to the geographical area where cover on liability policy will operate. All liability policies issued in Nigeria are intended to protect the insured against claims occurring within the Federal Republic of Nigeria.
(3½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-Total per term: 7 marks.)

(iii) **Common Law:** this is the main source of English civil law. It is based upon the doctrine of binding precedent in which the decisions of past counts bind present courts. Courts decisions are recorded in various published land report and most common law particularly relating to contract and tort is found by reference to the law report.
(3½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-Total per term: 7 marks.)

(iv) **Libel:** libel is one of the tort of defamation which is designed to protect a person reputation. A statement is defamatory if it injures the reputation of the plain tiff and subject him/her to hatred and public ridicule. When such statement is in writing or from radio and television, it is referred to as libel because they are in permanent form.
(3½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-Total per term: 7 marks.)

(v) **A Bailee:** a bailee is a person who has the custody of the property of another on the understanding that it will be eventually returned to that person. Example of a bailee are watch repairer, motor garages, dry cleaner etc.
(3 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-Total per term: 6 marks.)
(Grand Total: 34 marks))

- 12 (a) Discuss your understanding of the following liability terms:
- (i) custody or control of property;
 - (ii) liability of a pharmacist
 - (iii) joint tortfeasor;
 - (iv) risk frequency. (24 marks)
 - (b) List four (4) prohibited conditions in an employers' liability policy.
(10 marks)

Solution

(i) **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 third party property in his/her custody or 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 insureds' control and custody

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

(ii) **Liability of a Pharmacist:** a pharmacist may incur liability for professional negligence for error in treatment and in making up (wrong) prescription of drugs. They may also incur liability for negligent preparation of their medicament resulting from wrong formulae.

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

(iii) **Joint Tortfeasor:** joint tortfeasor are persons who collaborate to commit a tort i.e. by common design they inflict or cause bodily injury or damage to the third party. Joint tortfeasors are severally and jointly liable for their tort. At common law, a third party could sue any of the tortfeasors and recover in full.

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

(iv) **Risk Frequency:** frequency is one of the ways by which risk can be measured. Frequency is concerned with how often a risk identified can happen i.e. the number of times the risk operates. Some risks occur very frequently while some risk occur very rarely. Experience has shown that where the frequency is low, the severity is high and where the frequency is high, the severity is low.

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

(Grand Sub-Total: 24 marks)

(b) The prohibited conditions in Employers' Liability Insurance are:

- failure in claim notification;
- delay in claim notification;
- lack of reasonable care by the employer;
- breach of statutory regulation by the employer;
- failure by the employer to keep proper record.

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

Grand Total: 34 marks.

13. (a) All liability insurance policies have claims notification condition and liability claim may be repudiated due to late notification. Briefly discuss. (6 marks)

(b) In relation to Professional Indemnity Insurance, answer the following:

- (i) State the operative clause. (4 marks)

- (ii) Explain any two (2) policy exclusions. (6 marks)
- (iii) Discuss the renewal procedure. (6 marks)
- (iv) Explain what “discovery period” and “more than one office” mean. (12 marks)

Solution

(a) **Notification of Claim Condition:** all liability policies carry claim notification condition which expressly required the insured to notify the insurer within a specified period (say 30days) to any event that may give rise to a claim.

Early notification of claim is very important for the following reasons:

- It assists the insurer to conduct investigation when the matter is fresh and when eye witness account will 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.

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

(b) (i) The operative clause of Professional indemnity insurance state thus: “the company will indemnify the insured against liability as law for damages and claimant’s costs and expenses in respect of claims arising out of the conduct of the business made against the insured and notified to the company during the period of insurance”.

(4 marks)

(ii) Some exclusions of professional indemnity insurance are:

- any liability for death disease or illness of or bodily injury to an employee. Cover for this is provided by employers’ liability policy;
- any liability for third party bodily injured or damage to property unless arising out of advice, design, specification or omission perform a professional duty;
- radioactive contamination and some bangs
- pollution or contamination of any kind;
- War.

(2 marks for correctly stated exclusion. I mark for correct explanation of the stated exclusion. Sub-Total per exclusion: 3 marks. Maximum of 2 to be graded. Grand Sub-total: 6 marks)

(iii) **The renewal procedure of professional indemnity insurance is this:** it is usual for insurers in this class of business to negotiate a new contract each year. Prior to the renewal date a fresh proposal from (including a declaration regarding claims) is completed by the insured giving up-to-date details of the staff so that the premium may be recalculated. At renewal date an insured is also obliged to report (if they have not already done so) any occurrence likely to give risk to a claim.

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

(iv) In professional indemnity insurance, insurer will usually grant an extension after the policy has lapsed. The extension period may be three or six months and is meant discover claims which arise due to the negligent act during the period of insurance but which do not come to light until after the policy had lapsed. This is the **discovery period**.

In professional indemnity insurance, supervision of the business is an important premium consideration and where there is **more than one office** the risk may be increased having regard to the circumstances and with particular reference to systems for control monitoring and communication between the different locations.

(2 marks for correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total per term: 6 marks. Grand Sub-Total: 12 marks)
(Grand Total: 34 marks)

14. (a) Explain the following liability insurance terms:
- | | |
|------------------------|--|
| (i) uberrima fides; | (ii) claim made basis; |
| (iii) onus of proof; | (iv) common duty of care to a visitor; |
| (v) accrual of action. | (30 marks) |
- (b) Explain the significance of the Rehabilitation of Offenders Act 1974 to liability insurances. (4 marks)

Solution

(a) (i) **uberrima fides:** means 'utmost good faith' and is one of the insurance principles upon which all insurance contracts are built. Uberrima fides requires parties to insurance contract to exhibit utmost good faith toward each other i.e they are under duty to disclose all material information (facts) about the contract they intend to enter. The duty to disclose material information is heavy on the proposer because he/she possesses all information (facts) about the risk offered for insurance.

(ii) **claim made basis:** claim made basis is the most commonly used in public and product liability insurances and also in professional indemnity insurance. With the claim made wordings, the policy will indemnify the insured against claims that are made against the insured during the period of insurance. Claim made basis is commonly used by underwriters who wish to limit their exposure to latency losses.

(iii) **onus of proof:** in an action in Negligence and in most civil claims, it is necessary for the plaintiff to prove the facts upon which the claim is based. The main principle is that he who asserts must prove' . if the plaintiff wishes to transfer their loss to the defendant, they must establish sufficient evidence to show that their injury or damage has been caused by the defendant negligence. Accordingly, the onus of proof is on the plaintiff throughout the trial to show on the balance of probabilities that the defendant was negligent.

(iv) **common duty of care to a visitor:** in relation to the Occupier's Liability Act 1957, a visitor is any person who is invited into the premises i.e. he/she has authority to be on

the premises. Any person who are lawfully on the premises is a visitor. For example, a police officer with a warrant has authority to be on the premises so also is a postman. Common duty of care to a visitor is a duty to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purpose for which he/she was invited or permitted by the occupier to be there.

(v) **accrual of action:** accrual of action relates to limitation of action which is the time limit which the law imposes within which a plaintiff must bring his action. The general rule is that the limitation period commences from the date of accrual of the action. The date of accrual in contract is the date of the breach and in tort the date the injury or damage occurred

(3 marks for correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total per term: 6 marks. Grand Sub-Total: 24 marks)

(b) The significance of the Rehabilitation of Offenders Act 1974 to liability insurances is to ease the rehabilitation into the society of persons convicted of crime. Convictions are defined as to be 'spent' after a certain period. A spent conviction means the person convicted has not committed the offence and no reference should or publish about it. Anybody who publish the fact of the conviction after it is spent could be liable in defamation.

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

(Grand Sub-Total: 24 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA
ASSOCIATESHIP

OCTOBER 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 OCTOBER
2022 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A08 - RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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 Comment:

Question 1

This question tested candidates' knowledge of stakeholders in organizations. Majority of the candidates performed brilliantly. More than 90% passed it.

Question 2

This question tested candidates' knowledge on HAZOP. Majority of the candidate attempted it and 80% of the candidates did well.

Question 3

The question intended to test the knowledge of candidates on setting out model consequences of a fire, Majority of candidates attempted and 75% passed it.

Question 4

The question tested candidates' knowledge on assets and regulations. Most of the candidates performed very well in part (a) and this boast theirs scores while most of the candidates did not do well in (b). The pass rate is about 86%.

Question 5

The question tested candidates' knowledge on source of internal information. Majority of the candidates attempted it and they performed very well. The pass rate is 86%.

Question 6

The question tested candidates' knowledge on causes of stress. Most of the candidates did not understand the question. The pass rate is 52%.

Question 7

The question tested candidates' knowledge on risks transfer and risk committee members. Performance was average. The rate of pass is about 50%.

Question 8

The (a) part of the question was not well attempted may they don't understand the question but the (b) part was well attempted. Pass rate is about 50%.

Question 9

The question tested candidates' knowledge on the function of Nigerian Insurers Association, Policy document and Risk philosophy. All these areas was well attempted except that candidates could not relate it with risk management. The pass rate was 56%.

Question 10

The question tested candidates' knowledge on risk foundation and risk retention. The (a) part was attempted fairly while in risk foundation (part b), candidates could not differentiate memo from letter writing. The pass rate was 60%.

Question 11

The question tested candidates' knowledge on policy statement and informal source of information. Majority of the candidates did very well in this question. The pass rate is about 65%.

Question 12

The question is on the objectives of risk analysis, risk assessment on existing land and engineering fault tree. The candidate lacked knowledge of risk analysis and risk objectives, and therefore performance was above average. The pass rate was 55%.

Question 13

The question tested candidates' knowledge on corporate governance and risk changed exposure. The candidates did very well on corporate governance. The pass rate is 70%.

Question 14

The question is on self-funding, impact of use of computers and recovery plans. Majority of the candidates attempted the question and they performed averagely. The rate of pass mark is about 50%.

Comments on Overall Performance

Generally, most of the questions were standard. Majority attempted the questions very well. Overall performance is 85%.

Suggestions on Improvement

Candidates are advised to always prepare fully for the examination.

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

1. "Stakeholders can be defined as people, or organisation which could be affected by a risk incident occurring in the organisation". List any six (6) groups of stakeholders in an organisation. (6 marks)

Solutions

Stakeholders in an organization are:

- * employees; * suppliers; * customers; * distributors;
- * regulators; * media; * private investors;
- * banking industry; * quoted shareholders

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

2. (a) What is the full meaning of HAZOP? (2 marks)
 (b) What are the four (4) questions that the study of HAZOP involves. (4 marks)

Solutions

(a) The meaning of HAZOP is Hazard and Operability. (2 marks)

(b) The study if HAZOP involves the following:

- what is the part intended to achieve?
- what deviations are possible away from the usually expected delivery?
- what could be the causes of these variations?
- what could be the consequences of those variations?

(1 mark for each correctly stated question. Sub-Total: 4 marks)

(Grand Total: 6 marks)

3. In setting out to model the consequences of a fire, enumerate any six (6) focus areas that the risk manager and the engineers should consider.

Solution

The focus areas that risk manager and engineers should consider are:

- ignition and fire source;
- heat transfer to neighbouring structures and materials;
- the behaviour of those materials and structures in a fire;
- smoke movement;
- detection;
- active fire safety features;
- the way humans behave and how they will exit in the premises;
- toxicity;
- waste and run off.

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

4. (a) Enumerate the three (3) assets that are important to an organisation.
 (b) What does the Health and Safety at Work Act set out to cover?

Solution

- (a) The assets that are important to an organization are:
* human assets; * physical assets including money; * intellectual assets.
(1 mark for each correctly stated asset. Sub-Total: 3 marks)

- (b) The Health and Safety at Work Act set out to cover:
- the general duties that employers have towards their employees and to members of the public;
 - the responsibilities of that employees have to themselves and each other.
- (1½ marks for each correctly stated point. Sub-Total: 3 marks)

(Grand Total: 6 marks)

5. As a Risk Manager, some ranks of personnel are sources of internal information to you. List any six (6) of these ranked personnel.

Solution

Some ranks of personnel are sources of internal information to a risk manager are:

- * audit manager; * compliance manager; * design engineer;
* facilities manager; * legal officer;
* product development manager * company secretary.

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

6. A survey will identify some causes of stress within the work force. Enumerate any four (4) of these causes of stress.

Solution

The causes of stress within the work force are:

- * volume of work; * lack of consultation; * inadequate guidance;
* moral and the organizational climate; * being undervalued.

(1½ marks for each correctly stated cause. Maximum of 4 points to be graded. Total: 6 marks)

7. (a) There are both advantages and disadvantages to transferring risk into the insurance market. Enumerate any advantage of doing such. (2 marks)
- (b) The group risk committee has the responsibility to recommend risk decisions to the Board. List any four (4) permanent members of the risk committee in any organisation. (4 marks)

Solution

(a) The advantages of transferring risk into the insurance markets are:

- the insurer spreads risk economically over many different organisations and geographical areas;
- the insurer brings risk management and claims control expertise, resources and economies of scale;
- there is a perceived independence when negotiating liability claims. Some regulatory or statutory are satisfied.

(2 marks for any correct and completely stated advantage. Only 1 to be graded. Sub-Total: 2 marks]

(b) The permanent members of the risk committee are:

- * risk director; * compliance director; * group internal auditor;

* legal director; * finance director; * public affair director.
(1 mark for each correctly stated point. Maximum of 4 to be graded. Sub-Total: 4 marks)
Grand Total: 6 marks

8. (a) Risk retention is exposed to some threats. State any two (2) of these threats. (4 marks)
- (b) A fault tree can achieve solutions in a risk management program. Enumerate any of such solutions that a fault tree can achieved. (2 marks)

Solution

(a) The threats retention is exposed to are:

- claims handling skills and resources may be needed, either sourced internally or sub contracted elsewhere at cost;
- miscalculation of maximum possible losses or of claims frequencies;
- the potential that fluctuations in loss levels will have a short-term impact on result.

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

(b) The solutions that a fault tree can achieve are:

- it can look at the flow chat from the point of view of risk and begin to assess the chance of that supply chain being broken;
- it can also look at the risk within a process or piece of machinery and take a view on the potential for damage.

(2 marks for each correct and completely stated solution. Only 1 to be graded. Sub-Total: 2 marks).

Grand Total: 6 marks.

Part II

Compulsory Question.

This question carries 50 marks.

- 9(a) The Nigerian Insurers Association is a self-regulatory and an umbrella body for all registered insurance companies in Nigeria. Carefully enumerate any four (4) functions of the body. (10 marks)
- (b) (i) What is a policy document? (2 marks)
- (ii) An insurance policy document is part of the important existing documents being used by the Risk Manager. Analyse any three (3) of the contents of this document as it relates to risk management. (18 marks)
- (c) Fundamentally as the Risk Manager of your insurance organisation, who is responsible for implementing the risk philosophy as set by the Board of directors, illustrate four (4) areas of operational risk for which a risk manager typically carries the responsibility and give an example on each. (20 marks)

Solution

(a) The functions of the Nigerian Insurers Association are:

1. Prescription and enforcement of self-regulation and code of ethics.

2. The protection and advancement of the common interests of insurers transacting any class of insurance business in Nigeria.
3. The creation of a better understanding of insurance by all sections of the society.
4. Making input into Government policies on insurance and acting as the mouth-piece of the industry.
5. Training and development of all professionals and persons engaged in insurance business as well as sharing of experience at meetings of Technical Committees.
6. Promotion of research and dissemination of statistics.

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

- (b) (i) A policy document is the evidence of a contract of insurance.
- (ii) The contents of the policy document as it relates to risk management are:
- * all types of physical asset; * operations * information;
 - * people; * fraud.

(Candidates are required to analyse the correctly stated contents. 3 marks for correctly stating the contents. 3 marks for each correct and complete analysis. Sub-Total per content: 6 marks. Maximum of 3 contents to be graded. Grand Sub-Total: 18 marks)

- (c) Fundamentally as the Risk Manager of your insurance organisation, who is responsible for implementing the risk philosophy as set by the Board of directors, illustrate four (4) areas of operational risk for which a risk manager typically carries the responsibility and give an example on each. (20 marks)

Solution

The areas of operational risk for which a risk manager typically carries the responsibility with examples on each are:

1. **Security:** e.g. all types of physical asset; operations; information; people and fraud.
2. **Damage:** e.g. damage to asset, including reputation from a variety of causes and assets can come in many forms.
3. **Employers and Visitor Protection:** e.g. compliance with health and safety regulation; other people safety issues and environment.
4. **Management of Risk Transfer Programme:** e.g. management of the insurance portfolio and the captive insurance company and/or other financial funding schemes.
5. **Business Continuity:** e.g. catastrophe risk assessments; business continuity planning and exercising staff and/other resources to ensure awareness and preparedness.

(2 marks for each correctly stated area. 2 marks for any correctly stated example. Sub-Total per area: 4 marks. Grand Sub-Total: 20 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) In an organisation, the Risk Manager needs foundations however if the risks are to be effectively recognized, measured and managed. Explain any two (2) of these foundations. (8 marks)
- (b) As a Risk Manager of your organisation, you have adopted "risk retention" as a risk financing option for your organisation. Write a memo to the Managing Director, stating three (3) opportunities of the risk retention. (22 marks)

Solution

(a) The foundation the risk manager needs to be able to effectively recognize, measure and manage risks are given below:

- the ears of the board on highest level of management within the organization;
- an ability to communicate the risk message right across the organization to people who have the resources available and the power to affect decision making;
- a status within the organization that not only reflect the importance of the role, but ensures that others see that importance.

(4 marks for each correct and completely stated foundation. Maximum of 2 to be graded. Sub-Total: 8 marks)

(b)

From:	Risk Manager	(2 ^{1/2} marks)
To:	Managing Director	(2 ^{1/2} marks)
Subject:	Risk Retention Opportunities	(2 ^{1/2} marks)
Date:		(2 ^{1/2} marks)

(Sub-Total: 10 marks)

The opportunities of the risk retention are as follows:

- capital is retained within the organization for use until needed;
- the high costs of wholesale money swapping to find smaller claims are avoided;
- a group or local manager knowing that a risk incident will have an impact on their results, is encouraged to take an interest in, and ownership of risk;

(4 marks for each correct and completely stated opportunities. Sub-Total: 12 marks).

Grand Total: 34 marks

11. (a) Define risk policy statement in line with risk management philosophy. What is the focus of this statement. (6 marks)
- (b) Enumerate and explain five (5) items that the risk policy statement covers. (25 marks)
- (c) List any three (3) sources whereby a risk manager can informally gather required information. (3 marks)

Solution

(a) **Risk Policy Statement** is a published document designed to communicate the risk management philosophy that has been developed. (3 marks) It focuses attention on the work of the risk department and can set objectives for individual managers to achieve. (3 marks) **Sub-Total: 6 marks**

- (b) The risk policy statement covers the following:
- the role and objectives of the risk management functions and others;
 - how risks are to be identified, measured and prioritized for actions;
 - decision on which risks and which levels of impact can be retained with the organization;
 - the lines of authority and responsibility;
 - how risks are to be reported upwards and through the board;
 - the methods by which change is monitored within the organization thus ensuring that changes that could have an impact on the risks carried are identified for decisions.

(4 marks for each correct and completely stated item. Maximum of 5 to be graded. Sub-Total 25 marks)

(c) Some sources whereby a risk manager can informally gather required information are: newspapers; magazines; company report; associations; institutions and internet.

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

Grand Total: 34 marks

12. (a) Enumerate any four (4) objectives of risk analysis. (12 marks)
- (b) The Risk Manager, needs to undertake risk assessments on existing land and investigate both historic and current processes before acquisition. As the Risk Manager, enumerate the three (3) steps that need to be taken. (12 marks)
- (c) Graphically, draw an engineering fault tree. (10 marks)

Solution

(a) The objectives of risk management are:

- identify risk;
- measure risks carried against the risk levels that are acceptable to the organization;
- assist in presenting risk concepts clearly and in a consistence style;
- support decision taking about spend and other actions that may be needed to reduce the risk to the acceptable level;
- access both the operational and the cost effectiveness of any existing risk management measures that are in place;
- encourage good decision about any contingency planning that may be needed;
- Raise management awareness and the depth of understanding of the exposures that are being carried.

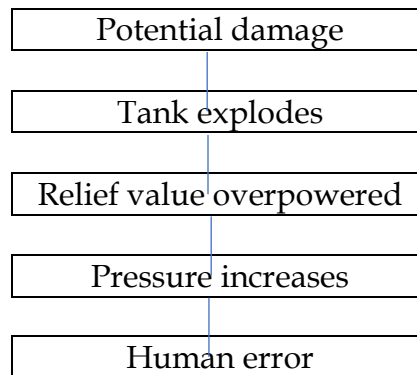
(3 marks for each correct and completely stated objective. Maximum of 4 to be graded. Sub-Total: 12 marks)

(b) As a risk manager who needs to undertake risk assessments on existing land and investigate both historic and current processes before acquisition, the steps that need to be taken are:

- checking back on the ownership and the history of land for many years prior to the current owner (this is a key part of any risk assessment);
- a survey, including boreholes if thought necessary, to test for pollutants at different levels;
- bringing this information into a risk assessment of the geology and likely “receptors” in the area.

(4 marks for each correct and completely stated step. Sub-Total 12 marks).

(c) An engineering fault tree is drawn below:



(2 marks for each correct point in the drawing. Sub-Total 10 marks).
(Grand Total: 34 marks)

13. (a) In corporate governance, enumerate eight (8) principal recommendations under the Hampel Report. (16 marks)

(b) At the last annual general meeting [AGM] of your organisation, it was announced that your organisation with effect from next month will start marketing the organisation products to a new country, specifically Europe. As the risk manager, you have been asked to list six (6) new risk these changes could expose the organisation and its people to. (18 marks)

Solution:

(a) The principal recommendations under the Hampel report are:

- annual reports which were to include narrative on how the principles of the Hampel report are implemented;
- the readiness of companies to explain their governance policies;
- the training and performance of directors;
- the role of non-executive director;
- the separation of the roles of chief executive and the chairman;

- procedures for setting directors remuneration and contract periods including the need for shareholder approval for long term incentive plans;
- the importance and the use of the voting rights of institutional investors;
- the need for an independent audit committee including a number of independent, non-executive directors;
- regular reviews;
- where one is not already in place, the need to establish an internal audit department.

(2 marks for each correct and completely stated recommendation. Maximum of 8 points to be graded.
Sub-Total: 16 marks)

- (b) The new risk these changes could expose the organisation and its people to are:
- new regulatory controls;
 - a new legal environment;
 - new political risks;
 - new compensation culture for defective products and other liabilities;
 - different security needs for people, assets and information;
 - competitor behaviours;
 - new dependencies on distributors, shipping and other service suppliers;
 - new customer behaviour patterns;
 - counterparty and contract risks;
 - exchange rate risks and currency conversion risks.

(2 marks for each correctly stated risk. Maximum of 6 to be graded. Sub-Total: 18 marks).
Grand Total: 34 marks.

14. (a) Self-funding is one of the options the risk manager has when evaluating risk financing options. Clearly enumerate any five (5) opportunities of self-funding. (15 marks)
- (b) It is said that the impact of the use of computers in the workplace has been far reaching. Clearly enumerate any three (3) impacts of the use of computer. (9 marks)
- (c) Recovery plans in the use of information technology need to fulfil quite distinct needs. List any five (5) of these distinct needs. (10 marks)

Solution:

- (a) Opportunities for self-funding are:
- the decision to use a self-funding mechanism is an extension of the decision to retain risk. the same opportunities therefore also apply;
 - self-funding mechanisms go one step further, however, and enable the organization to retain more risks internally. this would include a layer that is too large to be financed without damage to short term cash flows and the asset base;
 - more formal funding structures allow the use of taxation and location benefits in the positioning of captive companies and the fund itself;

- the mechanics of the funding can match precisely the needs and locations of the organization. there is no demand to fit funding programme into the infrastructure of an external risk carrier;
- a formal funding mechanism will allow some working capital to be released back into the organization for day-to-day use;
- a layer of formal self-funding allows the organization to gain direct access to reinsurance and capital markets for the largest exposures.

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

(b) The impacts of the use of computers in the workplace has been far reaching and some of them are:

- replacement of large number of staff with the possible loss of previously held skills;
- availability of instantaneous informations;
- increased involvement in the processing of transactions;
- the ability to impose and maintain strict control over large numbers of detailed movement thus enabling precise production and delivery needs to be matched;
- improved communication and interactions between different areas within an organization as well as those outside.

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

(c) Some distinct needs that recovery plans in the use of information technology need to fulfil are:

- limit damage, including the fast reinstatement of security and safety;
- accelerate the response through the use of trusted, authorized, resources;
- create an order and priority to the recovery process;
- meet new communicating challenges both within and beyond the organization;
- meet urgent customer and other needs;
- protect the brand names;
- keep the organization firmly within its “market place”.

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

Grand Total: 34 marks

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER
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.

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

The question aimed at testing the knowledge of candidates on segmentation of the market. Attempt was 100% with 23% success rate. Adequate preparation is recommended for improved performance.

Question 2

The question dealt with intangible clues. About 90% of the candidates attempted it with 18% performance level. Candidates could not differentiate between tangible and intangible clues candidates should master the coursebook very well.

Question 3

The question tested the knowledge of candidates on insurance offerings. 56% pass rate was achieved. Many candidates could not write 6 insurance offerings out of 14 stated by the coursebook.

Question 4

Question tested the knowledge of candidates about information that organisation should collect about competitors. 79% scored above average. Despite the fact that this is a general application question. Candidates could not use residual knowledge to answer this question.

Question 5

The question attempted to test the candidate's knowledge about matching process and factors that affect organisation setting products outside the domestic market. 77% pass rate achieved. Candidates should read more.

Question 6

The question attempted to test the knowledge of candidates about sales promotion. About 69% of the candidates scored above average. Some candidates did not know the difference between the objectives of sales promotion and the importance of sales promotion.

Question 7

The question intended to test the knowledge of candidates literal and modern market. 79% pass rate was achieved. Candidates should learn more about the market.

Question 8

Question attempted to test the knowledge of candidates about international distribution and collection of market data. 79% of the candidates did well.

Question 9

This is a compulsory question with the highest mark. 44% pass rate was achieved. The question tested knowledge of candidates about the Insurance Act of 2003 and Boston Consulting Group's growth share matrix and form that customers' satisfaction survey can take.

Question 10

The question tested the knowledge of candidates about communication mix and roles that members of staff can play in delivery of insurance. 52% pass rate achieved.

Question 11

The question tested the knowledge of candidates on the advantages and disadvantages of employing a consultant 90% pass rate was achieved.

Question 12

The question tested the main steps in creating a customer service strategy and the components of a foreign market. Performance was 30%. Many candidates were not familiar with steps in creating customer service strategy and component of foreign market. Candidates should read the coursebook very well.

Question 13

The question tested the knowledge of candidates on the way insurance brokers can assist the efficiency of marketing of insurance, different types of market and criticisms of modern marketing. 52% pass rate was achieved.

Question 14

Question tested the knowledge of candidate on "noise" in communication, categories of message transmission and short note on television shopping, product, people, place and monitoring. 80% pass rate was achieved.

Comments on overall performance:

Performance of 54% can be improved upon if candidates can put more energy to reading.

Suggestions on improvement (if any):

Marketing is critical to any organisation tutorial programme can be helpful.

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

1. (a) What is market segmentation?
- (b) Enumerate four (4) factors that will affect the choice of a market segment.

Solution

(a) Market segmentation is the process through which the total market is broken down to create distinction consumer group or market segment. (2 marks)

(b) The factors that will affect the choice of a market segment are:

- whether segment can be accurately identified;
- whether segment can be clearly defined;
- whether each segment is large enough to be profitable;
- whether each segment can be served within certain cost constraints;
- the organisation's management goals.

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

Grand Total: 6 marks.

2. Enumerate any three (3) intangible clues in insurance marketing.

Solution

The intangible clues in insurance marketing are:

- the speed with which the insurance replies to communication;
- the accuracy of record keeping and updating of clients' information;
- the appropriateness of qualification and skills of staff members;
- the attitude of staff when dealing with customer;
- the organisation's association with other quality organisations.

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

3. List any six (6) insurance offerings in insurance product marketing.

Solution

The insurance offerings in insurance product marketing are:

- financial protection in event of loss;
- participation in the risk by the insured via excesses and deductibles;
- loss prevention advice;
- premium discounts;
- discount on loss prevention equipment's;
- provision of industry information and news;
- special offers on other insurances;
- access to affiliated financial service provider such as bank;
- loyalty bonus;
- no claim discount;
- the insurance contract or policy itself;
- 24 hours emergency claim service;

- training about the insurance offering;
- a comfortable retail outlet where business can be conducted over the counter.

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

4. Information about competitors can sometimes be difficult to collect. List any four (4) sources where these information can be available.

Solution

Information about competitors can be available from:

- * publicly available annual reports;
- * the organisation's internal communication department;
- * market research;
- * media report;
- * newsletters;
- * talking to customers.

(1½ marks for each correctly stated basic. Maximum of 4 to be graded. Total: 6 marks)

5. (a) What is meant by the term “the matching process” and who does the term Identify? (4 marks)
- (b) Enumerate any factor that affect organisations whether or not they are selling products outside the domestic market. (2 marks)

Solution

(a) Matching process the matching of each organisation's capabilities with the needs of customers in order to achieve the objectives of both parties. (2 marks) The matching process identifies those groups of customers whose needs are most compatible with organisation's strengths and future ambitions (2 marks).

(Grand Sub-Total: 4 marks)

(b) The factors that affect organisations whether or not they are selling products outside the domestic market are:

- variable exchange rates;
- differences in local and foreign inflation rates;
- differences in the growth rate of different economies.

(2 marks for each correctly stated factor. Only 1 to be graded. Sub-Total: 2 marks)

Grand Total: 6 marks

6. Sales promotion is a specific activity designed to make a featured offer to define customers within a limited time-span. Enumerate any four (4) objectives for sales promotion?

Solution

The objectives of sales promotions are:

- increase sales;
- counteract competitor activity;
- encourage repeat purchases;
- encourage affiliated purchases (e.g special offer for introducing friends);
- induce a trial purchase;
- encourage payment in advance.

(1½ marks for each correctly stated objective. Maximum of 4 to be graded. Grand Total: 6 marks)

7. What is the difference between the literal and modern meaning of the term “market”?

Solution

In its literal sense, a market is a place where goods are bought and sold (2 marks). In its modern sense, a market means all of the existing and potential customers who might buy an organisation’s product (2 marks). Both terms include competitors who can sell to satisfy the same needs and wants (2 marks).

(Grand Total: 6 marks)

8. (a) Enumerate any two (2) ways of structuring international distribution? (2 marks)

(b) State four (4) reasons why the collection of market data may be inaccurate in a primary data collection exercise? (4 marks)

Solution

(a) The ways of structuring international distribution are:

- direct marketing and sales to end users;
- marketing and sales through wholesalers and distributors;
- marketing and sales through local retailers.

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

(b) The reasons why the collection of market data may be inaccurate in a primary data collection exercise are:

- interviewees who do not respond at all;
- interviewees who do not respond accurately;
- interviewees who respond dishonestly;
- interviewers who ask questions incorrectly;
- interviewers who ask questions inaccurately;
- interviewers who record answers incorrectly;
- interviewers who record answers inaccurately.

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

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) The Insurance Act 2003 Section 56 states that no insurance should be made on the life of another without insurable interest and Section 64 states that no person shall cause to be constructed any building of more than two floors without insuring with a registered insurer. Explain in details the provisions of the two sections in the Act. (10 marks)
- (b) Draw the Boston Consulting Group's growth share matrix and explain the diagram. (25 marks)
- (c) Quantitative research produces objective facts and figures about sales volumes and revenue. Qualitative research investigates subjective views of an organisations customers. Enumerate and explain and five (5) forms that customers' satisfaction survey can take. (15 marks)

Solution

(a) (i) No insurance to be made on the life of another without insurable interest (Section 56)

(1) A policy of insurance made by a person on the life of any other person or on any other event whatsoever shall be null and void where the person for whose benefit, or on whose account the policy of insurance is made has no insurable interest in the policy of insurance or where it is made by way of gaming or wagering.

(2) A person shall be deemed to have an insurable interest in the life of any other person or in any other event where he still stands in any legal relationship to that person or other event in consequence of which he may benefit by the safety of that person or event or be prejudiced by the death of that person or the loss from the occurrence of the event.

(ii) Insurance of public building (section 64)

(1) No person shall cause to be constructed any building of more than two floors without insuring with a registered insurer his liability in respect of construction risks caused by his negligence or the negligence of his servants, agents or consultants which may result in bodily injury or loss of life to or damage to property of any workman on the site or of any member of the Public.

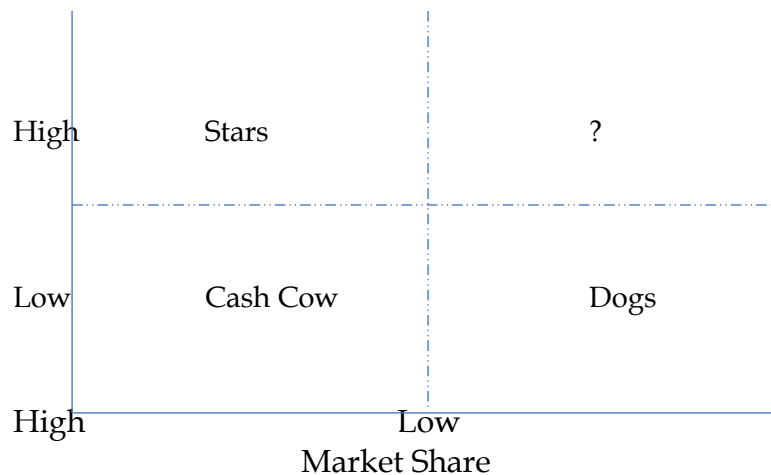
(2) The duty to insure under subsection (1) of this section shall arise when a building is under construction.

(3) A person who contravenes subsection (1) of this section commits an offence and on conviction shall be liable to a fine of N250,000 or imprisonment for three years or both.

(2½ marks for each correct and completely stated provision. Maximum of 4 to be graded.

Grand Total: 10 marks)

(b) The Boston Consulting Group's growth matrix diagram



STARS: They are those products that have achieved a high market share of a still expanding market. The cost of maintaining such a strong competition may be high. A star usually needs continuing investment in product development and promotion since a growing market tends to attract a large number of competitors.

Cash Cows: They are product with high market share whose market growth has stabilized. The organisation gets best return on investment. The market is less competitive. The surplus fund generated by the cash cow can be used to fund the development of? (New Market) and main stars.

DOGS: They are products with the poorest profile in the matrix. This tend to be a drain on the resources of the company and can be faced out
(10 marks for drawing. 5 marks each for any correctly stated explanation. Maximum of 3 points to be graded. Sub-Total: 15 marks). Total: 25 marks.

(c) Quantitative research produces objective facts and figures about sales volumes and revenue. Qualitative research investigates subjective views of an organisations customers. Enumerate and explain and five (5) forms that customers' satisfaction survey can take. (15 marks)

Solution

The forms that customer satisfaction survey can take:

- what they like about the product or service?
- what they dislike about the product or service?
- what would make them use the product more?
- what qualities they associate with the offering brand or image?
- whether they feel the offering is meeting their needs?
- how the offering compares to those of competitors?

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

Grand Total: 50 marks.

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Clearly enumerate four (4) situations when personal selling will dominate the communication mix of organisation on the sale of a product and/or service. (14 marks)
- (b) List and explain the four (4) category titles that describe the role that various members of staff might play in the delivery of insurance services to customers? (20 marks)

Solution

- (a) Personal selling dominates the communications mix when the product or service
- * is complex; *is bought in specification; * is expensive;
 - * involves negotiation over the terms of sale; * needs to be demonstrated
 - * requires after-sales service; * is sold to one a few customers.
- (3½ marks each for any correctly stated situation. Maximum of 4 points to be graded. Sub-Total: 14 marks).

(b) The role that various members of staff might play in the delivery of insurance services to customers are:

- i. **Contractors:** they are the members of staff who have frequent or regular customer contact and are typically heavily involved with conventional marketing activities, they include sales representatives;
- ii. **Modifiers:** they have frequent contact with the customers but are not really involved in its formal marketing activities. They include receptionist, credit controllers switchboard personnels;
- iii. **Influencers:** they have little or no customer contact. They include staff in product development or market research. They are likely to take part in formal marketing activities because of their back up roles.
- iv. **Isolated:** the isolated are the various support functions which neither have frequent customer contact nor a great deal to do with conventional marketing activities. These staff include purchasing department, personnel and accounts employees.

(3 marks each for each correctly stated role. 2 marks for each correct and completely stated explanation. Sub-Total per role: 5 marks. Grand Sub-Total: 20 marks)
Grand Total: 34 marks.

11. (a) There are no hard and fast rules about employing external marketing consultant. Concisely state five (5) advantages and five (5) disadvantages on this. (30 marks)
- (b) Enumerate any four (4) brand elements that can normally be trademarked. (4 marks)

Solution

(a) Some advantages of employing external marketing consultant are:

- consultant often have more specialised skills and experience than in-house staff;
- consultants are objective;
- they can be used temporarily to solve temporary marketing problems;
- they often sell their skills on the basis of a finite, lump-sum cost;
- they can apply experience gained from past similar situations to the matter in hand.

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

Disadvantages of employing a marketing consultant

- they take time to understand fully their clients' business;
- they take time to understand fully their clients' problems;
- they often expensive;
- they can tend toward being academic rather than practical;
- they may not take as much interest in the medium- to long-term consequences of their work as in-house staff do;
- they may be more difficult to communicate with than in-house staff.

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

(Grand Sub-Total: 30 marks).

(b) The brand elements that can normally be trademarked are:

* logos; * symbols; * slogans; * packaging; * signage.

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

Grand Total: 34 marks.

12. (a) Identify and explain the four (4) main steps in creating a customer service strategy? (20 marks)
- (b) What is meant by the term 'data warehousing'? (4 marks)
- (c) In order to select and prioritise overseas target markets, an organisation must analyse their different environments. List any four (4) components of a foreign market in this regard. (10 marks)

Solution

The four (4) main steps in creating customer service strategy are:

- **Identify a Service Mission:** This will distil in a few words the company's commitment and philosophy regarding customer service;
- **Set the Customer Objectives:** It is important to establish at this point how important customer service is to each particular market segment;
- **Decide on the Customer Service Strategy:** Not all customers will require the same level of service. It is important for the organisation to establish which are the most important service and segment. It should also prioritise service targets and develop service package;
- **Implement the Strategy:** This involves allocating responsibilities and setting timetables for achievement of objectives. Customer service strategy should be reviewed regularly.

(3 marks each for each correctly stated step. 2 marks for correct explanation under each step. Maximum of 1 explanation to be graded. Sub-Total per step: 5 marks. Grand Sub-Total: 20 marks)

(b) Data warehousing is the storage of names and personal details about existing and potential customers using current computer technology. (4 marks)

(c) The components of foreign market are:

- physical and geographical environment;
- legal environment;
- political environment;
- cultural environment;
- competitive environment;
- local infrastructure.

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

Grand Total: 34 marks.

13. (a) List and explain the three (3) ways in which insurance brokers can assist the efficiency of marketing for insurers. (15 marks)

(b) Enumerate any three (3) modern criticisms of marketing? (9 marks)

(c) List any five (5) different types of market. (10 marks)

Solution

(a) The three ways in which insurance brokers can assist the efficiency of marketing for insurers are:

(i) **Functional Efficiency:** Intermediaries or brokers can often perform one or more marketing activities more efficiently than a manufacturer or their customers because of their specialization and greater economies of scale. Example an insurance broker can spread cost across different insurers and achieve lower cost than if each insurer pay their own salesperson to fulfil the same function.

(ii) **Scale Efficiency:** Insurers can save on man power and administration costs by using insurance brokers branches networks to sell insurance products across a wide geographical area.

(iii) **Transactional Efficiency:** Insurance broker can offer a corporate client a range of insurance products from different insurers through a single channel.

(3 marks for each correctly listed way. 2 marks for each correct and complete explanation. Sub-total per way: 5 marks. Grand Sub-Total: 15 marks.)

(b) The modern criticisms of marketing are:

- planned product obsolescence;
- creation of an excessive materialistic society through advertising;
- high pressure selling of poor-quality products;
- wasted resources.

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

- (c) The five different types of market are:
- | | |
|---------------------------|----------------------------|
| * product-based market; | *production-based market; |
| * reluctant market; | * 'consumer first' market; |
| * 'society first' market. | |

(2 marks each for any correctly stated market type. Sub-Total: 10 marks).

Grand Total: 34 marks.

14. (a) What is noise in marketing communication? (2 marks)
- (b) Messages can be transmitted in a wider range of ways. List four (4) categories by which this can be done, with an example on each. (16 marks)
- (c) Write short notes, as it relates to marketing, on any four (4) of the following:
- | | | |
|--------------------------|------------------|---------------|
| (i) television shopping; | (ii) product; | (iii) people; |
| (iv) place; | (iv) monitoring. | (16 marks) |

Solution

(a) Noise is a marketing communications term which describes all the distractions experienced by customers as they are hit with hundreds of messages from other organisations. (2 marks)

- (b) The categories by which messages can be transmitted are:
- Face-to Face e.g personal selling, seminars;
 - Using Telecommunications Media e.g the telephone, fax video conferencing;
 - Using Printed Media e.g print advertising, brochures, direct mail, letters;
 - Using Broadcast Media e.g TV and radio advert, interviews, features;
 - Using Electronic or New Media, such as website and email which this can be done, with an example on each.

(4 marks each for any correctly stated point. Maximum of 4 point to be graded. Sub-Total: 16 marks).

(c) (i) **Television Shopping:** televisions can be used as medium for distribution and sales of goods and services. Television shopping channels have developed over recent years. These allow viewers to see and buy products and services on television and to purchase them instantaneously using credit and debit cards. Freephone numbers of call centre agents spread around at any time of the day means that organisation are now more able to cope with direct responses to advertisement.

(ii) **Product:** for marketing purposes product is a generic term that includes services in broad definition an organisation's products are the physical or actual items or services it is offering to the market. Product and services are often modified or repackaged during the life of the organisation. The product might be an insurance policy or the efficient and accurate of a legal document.

(iii) **People:** they are essential to the delivery of any service and form an integral part of the customer's perception of that service. A service delivered inefficiently or rudely

by a person is very likely to degrade that service in the eyes of the customer. The motivation, training and morale of staff are therefore extremely important.

(iv) **Place:** place is sometimes regarded as misleading name or this part of the marketing mix. It means the distribution channels for the product or service and describes the location and ways in which the buyer experiences it. For a hard product place may be a retail outlet while for accountancy practice, place may be its own premises or website.

(v) **Monitoring:** it means learning about customer's needs and concerns and reporting them to the management. This type of activity is usually carried out by staff who handle complaints, such as an insurance organisation's customer service representatives. Other members of staff may have an opportunity to monitor customer satisfaction at times when claims are reported or insurance renewal is under negotiation.

(2 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each term. Sub-Total per term: 4 marks. Maximum of 4 terms to be graded. Grand Sub-Total: 16 marks.

Grand Total: 34 marks.