



*Chartered Insurance  
Institute of Nigeria*

*Chief Examiners' Report*

*April 2023*

*Associateship*

*(A01-A09)*

# GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

| DO'S  | DON'TS   |
|---|--|
| Start studying for the next diet early (from November/December for April diets and May for October diets)   | <b>Concentrate all your time and effort on Part 1 @ the detriments of Parts B &amp; C (Diploma &amp; Advanced)</b> |
| Start each question on a fresh page   | <b>Write after invigilators have declared "time-up"</b>  |
| Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)   | <b>Write your name on any part of the answer scripts</b>   |
| Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.  | <b>Nurture fear on any subject. There is no subject that distinction cannot be obtained.</b>                       |
| Attend the Annual Students' Forum   | <b>Avoid the Annual Students' Forum</b>  |
| <b>CANDIDATES SHOULD VISIT &amp; UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS ETC ON THE FOLLOWING SITES <a href="http://naicom.com">naicom.com</a> (NAICOM), <a href="http://nigeriainsurers.org">nigeriainsurers.org</a> (NIA); <a href="http://ncrib.net">ncrib.net</a> (NCRIB); <a href="http://nigeriailan.com">nigeriailan.com</a> (ILAN); <a href="http://cinigeria.com">cinigeria.com</a> (CIIN)</b> |  |
| <b>INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPIT. ANY CANDIDATE CAUGHT AND/OR FOUND TO BE CHEATING/HAVE CHEATED, WILL BE BARRED FROM PARTICIPATING IN ANY OF THE INSTITUTE'S EXAMINATION ACTIVITY FOR TWO (2) YEARS AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).</b>   |  |
| <b>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</b>   |  |

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT A01

RISK, REGULATION AND CAPITAL ADEQUACY

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A01 - RISK, REGULATION AND CAPITAL ADEQUACY

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question designed to test the candidates' knowledge on data base. It was attempted by almost all the candidates with pass rate of about 80%.

### **Question 2**

The question was to test the candidates' knowledge on the reinsurance security. It was attempted by almost all the candidates with the good performance above 85%. And the success rate of 82%

### **Question 3**

The question tested the candidates' knowledge on how the general insurance proposal may be made by insured to an insurance company. It is also a course book question. It was attempted by almost all the candidates and the pass rate was about 75%.

### **Question 4**

The question tested the candidates' knowledge on the generic meaning of risk. This question was attempted by majority of the candidates and the overall performance was about 65%. About 60% of the candidates performed very well and the pass rate was about 60%.

### **Question 5**

The examiner tested candidates' knowledge on geometric mean. Almost all the candidate attempted this question and the average performance was encouraging about 68% pass rate.

### **Question 6**

The question tested the candidates' knowledge on the factors contributed to the rise in prominence of risk management by the insurance company. It was well attempted with a pass rate of about 80%.

### **Question 7**

The question tested the candidates' knowledge on the use of organization chart as a risk identification technique. Over 80% of the candidates attempted this question with over 75% pass rate. It is a course book question.

### **Question 8**

The question tested candidates' knowledge on the differences between financial and non financial risk. Majority of the candidates attempted it but the pass rate was about 60% money.

### **Question 9**

This question is a compulsory question and is been divided into four parts (a),(b) ,(c )and (d) .Part (a) tested the candidates' knowledge on NAICOM, part (b) and (c ) tested candidates' knowledge on Normal Distribution while part (d) tested candidates' knowledge on the probability. All the candidates attempted the question but the performance was average pass rate of 52%.

### **Question 10**

This question is been divided into four parts (a),(b) ,(c )and (d) .Part (a) tested the candidates' knowledge on different between moral and physical hazard part (b) and (c) tested candidates'

knowledge on underwritten authority while part (d ) tested candidates' knowledge on the terms used in insurance policy. Almost all the candidates attempted the question perform above average (about 82%) with the pass rate of 80%.

### **Question 11**

This question is been divided into two parts (a) and (b), part (a) tested the candidates' knowledge on probability of tossing a dice while part (b) tested candidates' knowledge on component of Risk assessment and under risk management. Almost all the candidates that attempted this question perform very well, with the pass rate of 87%.

### **Question 12**

This question is divided into three parts (a),(b) and (c ) .Part (a) tested the candidates' knowledge on relative frequency and its calculation, part (b) tested candidates' knowledge on method of deriving probability while part (c) tested candidates' knowledge on probability events. Almost all the candidates attempted this question and the pass rate was 75%.

### **Question 13**

This question is divided into five parts (a),(b)(c ),(d) and (e ) .Part (a) tested the candidates' knowledge on relationship between mean, median and mode, part (b),(c) and (d) tested the candidates' knowledge on probability while part (e) tested candidates' knowledge on the benefit of risk . Almost all the candidates attempted this question perform above average and the pass rate was 78%.

### **Question 14**

This question is been divided into two parts (a) and (b), part (a) tested the candidates' knowledge on component of life insurance premium while part (b) tested candidates' knowledge on statistics using method of deviation. Almost all the candidates that attempted this question perform very well, with pass rate of 71%.

### **Comments on overall performance:**

The performance of the candidates was above average because over 50% of the candidates were able to secure a pass mark.

### **Suggestion on improvement (if any)**

Candidates are advised to study their course book thoroughly and take their preparations for the examination with more seriousness.

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

1. (a) What is a database? (2 marks)  
 (b) Enumerate and briefly 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 and complete definition/explanation)

(b) The two sources available for database creation are:

(i) **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).

(ii) **making use of an existing database:** 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.

(1 mark for each correctly stated source. 1 mark for each correct and completely stated explanation.

**Sub-Total per source: 2 marks. Grand Sub-Total: 4 marks)**

**(Grand Total: 6 marks)**

2. Enumerate any six (6) main purpose of reinsurance security.

**Solution**

The main purpose of reinsurance security are:

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

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

3. Enumerate any three (3) ways through which a general insurance proposal may be made by an insured to an insurance company.

**Solution**

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

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

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

4. Enumerate any three (3) generic meaning of risk.

**Solution**

The generic meanings of risk are:

- i. risk as the main cause of an undesired outcome;

- ii. risk as the object (otherwise referred to as the subject matter);
- iii. risk as the probability (i.e. likelihood) of an undesired event taken place;
- iv. risk as a course of action to be undertaken (i.e. taking a risk)

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

5. What is the geometric mean of 125, 150 and 200?

**Solution**

$$\begin{aligned} \text{Geometric Mean} &= \sqrt[3]{(125 * 150 * 200)} && \text{(3 marks)} \\ &= \sqrt[3]{(3,750,000.00)} && \text{(2 marks)} \\ &= 155.36 && \text{(1 mark)} \end{aligned}$$

**(Grand Total: 6 marks)**

6. Enumerate any four (4) factors which have contributed to the rise in prominence of risk management by the insurance companies in the recent years.

**Solution**

The factors which have contributed to the rise in prominence of risk management by the insurance companies in the recent years are:

- (i) corporate governance issues;
- (ii) financial services reforms;
- (iii) discoveries of new risks;
- (iv) nonchalant attitude of the society as a whole to accept risk;
- (v) an increase in both the frequency & severity in man-made and natural disasters such as terrorisms and hurricane;
- (vi) more awareness for financial compensation by the aggrieved parties;
- (vii) government intervention on business regulations and legislations.

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

7. Outline any three (3) main advantages of using organisational chart as a risk identification technique.

**Solution**

The main advantages of using organisational chart as a risk identification technique are:

- it takes a broad of risk, unhindered by details which might cloud or obscure the broader picture;
- it helps the risk identifier to become familiar with the structure of the company itself;
- it involves others in the construction of the chart, and in this way may encourage them to think about risk in the context of the whole organisation;
- it is good at highlighting areas of particular dependency or concentration of risk.

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

8. Distinguish between financial and non-financial risk. Give an example of each.

**Solution**

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. Examples are cars, houses, laptops, e.t.c; whereas, non-financial risks are not insurable solely because monetary values cannot be placed on them. Examples are risks with no financial



implications and those with financial implications, but which cannot be measured. E.g. some artistic works, antique vehicles, e.t.c.

**(2 marks for each correct and completely stated explanation. 1 mark for any correctly stated example. Sub-Total per term: 3 marks. Grand Total: 6 marks)**

## Part II

### Compulsory Question.

**This question carries 50 marks.**

9. (a) NAICOM requires that on receipt of a claim by an insurer, the insurer shall open a claim file which must contain some crucial information. Enumerate any five (5) of the crucial information in the document of minimum standards required by NAICOM on claim processing. **(10 marks)**
- (b) What is Normal Distribution? **(2 marks)**
- (c) Outline any five (5) main features of the normal distribution. **(10 marks)**
- (d) A post graduate class of insurance has ten men and five ladies as students. Three students are selected at random from the class, one after the other without any replacement.

Calculate the probability that:

- (i) The first two are men and the third is a lady.
- (ii) The first and third are men and the second is a lady.
- (iii) The first and third are of same gender and the second is of opposite gender
- (iv) If the first and third are of same gender and the second is of opposite gender, what is the probability that the second student selected is a lady? **(28 marks)**

### Solution

(a) The minimum standards required by NAICOM by every insurance institution on claim processing are that on receipt of claim the insurer shall open a claim file which must contain the following information:

- |                             |   |                             |
|-----------------------------|---|-----------------------------|
| * policy number(s);         | * name of policyholder;                 | * claim number;             |
| * information on claimant;  | * description of loss;                  | * claim file number;        |
| * claim form;               | * reporting date;                       | * date of loss or accident; |
| * progress report schedule; | * check list of all relevant documents; |                             |
| * progress report schedule; | * opening date of file.                 |                             |

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

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

(c) The main features of the normal distribution are:

- (i) it is a theoretical distribution; (ii) it is a continuous distribution;
- (iii) the mean lies at a point under the peak of the curve; (iv) it is symmetrical;
- (v) the two tails of the theoretical do not touch the horizontal axis;
- (vi) it is used in much statistical work concerned with sampling;
- (vii) there are specific areas under the curve lie certain standard deviations above and below the mean.

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

(d) (i) P(The first two are men and the third is a lady)

$$= \frac{10}{15} * \frac{9}{14} * \frac{5}{13} \quad (4 \text{ marks})$$

$$= \frac{5 * 3}{7 * 13} = \frac{15}{91} \quad (2 \text{ marks})$$

$$= 0.165 \quad (2 \text{ marks})$$

(Sub-Total: 8 marks)

(ii) P(The first and third are men and the second is a lady)

$$= \frac{10}{15} * \frac{5}{14} * \frac{9}{13} \quad (4 \text{ marks})$$

$$= \frac{5 * 3}{13 * 7} = \frac{15}{91} \quad (2 \text{ marks})$$

$$= 0.165 \quad (2 \text{ marks})$$

(Sub-Total: 8 marks)

(iii) P(The first and third are of same gender and the second is of opposite gender)

$$= \frac{10}{15} * \frac{5}{14} * \frac{9}{13} \text{ OR } \frac{5}{15} * \frac{10}{14} * \frac{4}{13} \quad (3 \text{ marks for either})$$

$$= \frac{5 * 9}{3 * 7 * 13} \text{ OR } \frac{5 * 4}{3 * 7 * 13} \quad (2 \text{ marks for either})$$

$$= \frac{45 + 20}{273} = \frac{65}{273} \quad (2 \text{ marks for either})$$

$$= 0.238 \quad (1 \text{ mark})$$

(Sub-Total: 8 marks)

iv) There are only two ways to this selection (i.e. the first and third students are of same gender and the second is of opposite gender) and out of these two ways, it is only in the way in which the second is a lady. (2 marks)

Therefore, the required probability would be equal to:  $1/2 = 0.5$ . (2 marks)

(Sub-Total: 4 marks)

(Grand Sub-Total: 28 marks)

(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Differentiate between moral and physical hazards. Give an example of each. (6 marks)
- (b) Give any four (4) correct definitions of underwriting. (12 marks)
- (c) Differentiate between “binding authority” and “underwriting authority”. (6 marks)
- (d) Write short notes on the following express conditions in an insurance policy:
- (i) an excess; (3 marks) (ii) a warranty; (3 marks)
- (iii) policy exclusions (4 marks).

### Solution

(a) **Physical Hazards:** are the physical features of the risk (i.e. subject matter of insurance) Some examples are the proximity of an insured house to a petrol filling station, security devices installed in a car, fire extinguishers in a property insured against a fire peril, e.t.c.

**Moral Hazards:** – these are the attitudes of the insured (or the insured person as the case may be). Some examples are a difficult proposer at the time the contract is being negotiated and a proposer specifically asking for removal of some of the major policy exclusions.

(2 marks for each correct and completely stated explanation. 1 mark for any correctly stated example. Sub-Total per term: 3 marks. Sub-Total: 6 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 & 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.

(3 marks for each correct and completely stated definition. Maximum of 4 to be graded. Sub-Total: 12 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 risks accepted within this authority limits gives a valid cover, and therefore binds the insurer/reinsurer towards meeting their claims obligations to the client

Six marks

**Underwriting Authority** – This 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. Sub-Total: 6 marks)

(d) (i) **An excess:** is each and every amount of claim which is borne by the insured. (3 marks)

(ii) **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. (3 marks)

(iii) **policy exclusion:** are the various risks which are not covered in the ordinary course of the policy. (4 marks)

(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

11. (a) Two fair dice are tossed at once.
- (i) Write out the total possible outcomes. (12 marks)
  - (ii) What is the probability of obtaining a total score of exactly 9? (6 marks)
  - (iii) What is the probability of obtaining a total score of more than 9? (6 marks)
  - (iv) What is the probability of obtaining a total score of less than 10? (6 marks)

(b) Risk assessment, under risk management, has two components. State these two components and briefly explain them. (4 marks)

### Solution

- (a) (i) The total possible outcomes are:
- (1,1), (1,2), (1,3), (1,4), (1,5), (1,6) (2 marks)
  - (2,1), (2,2), (2,3), (2,4), (2,5), (2,6) (2 marks)
  - (3,1), (3,2), (3,3), (3,4), (3,5), (3,6) (2 marks)
  - (4,1), (4,2), (4,3), (4,4), (4,5), (4,6) (2 marks)
  - (5,1), (5,2), (5,3), (5,4), (5,5), (5,6) (2 marks)
  - (6,1), (6,2), (6,3), (6,4), (6,5), (6,6) (2 marks)

Tabular representation is also acceptable.

(Grand Sub-Total: 12 marks)

- (ii) The probability of obtaining a total score of exactly 9 or 10 =  
 $P(x = 9 \text{ or } x = 10) = \frac{4}{36} + \frac{3}{36}$  (3 marks)  
 $= \frac{7}{36}$  (2 marks)  
 $= 0.194 \text{ OR } 0.19$  (1 mark)

(Grand Sub-Total: 6 marks)

- (iii) The probability of obtaining a total score of less than 9 =  
 $P(x = \text{a total score of less than } 9) = \frac{26}{36}$  (3 marks)  
 $= \frac{1}{6}$  (2 marks)  
 $= 0.722 \text{ OR } 0.72$  (1 mark)

(Grand Sub-Total: 6 marks)

- (iv) The probability of obtaining a total score of more than 10 =  
 $P(x = \text{a total score of more than } 10) = \frac{3}{36}$  (3 marks)  
 $= \frac{1}{12}$  (2 marks)  
 $= 0.0833 \text{ OR } 0.083$  (1 mark)

(Grand Sub-Total: 6 marks)

**(b) Solution**

The two components of risk assessment are: **risk analysis** and **risk evaluation**.

**Risk analysis** comprises of risk identification, description and estimation (2 marks); while **risk evaluation** is the second and last component of risk assessment whereby opinions (judgments) are formed about the importance (value) and acceptability (appetite) of risk (2 marks).

(Sub-Total: 4 marks)

(Grand Total: 34 marks)

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

| Claims<br>(N'm) | Cost | Frequency | Relative<br>Frequency |
|-----------------|------|-----------|-----------------------|
| 0 – 150         |      | 20        |                       |
| 150 – 300       |      | 10        |                       |
| 300 – 450       |      | 5         |                       |
| 450 – 600       |      | 3         |                       |
| 600 – 750       |      | 2         |                       |
| Total           |      | 40        |                       |

- (b) Write short notes on the following methods of deriving probability:  
(i) A Priori Method; (ii) Subjective Probability Method (10 marks)
- (c) Write short notes on the following probability events:  
(i) Mutually Exclusive Events; (ii) Dependent Events  
(iii) Independent Events. (9 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)

| Claims Cost (₦'m) | Frequency | Relative Frequency                     |
|-------------------|-----------|--|
| 0 – 150           | 20        | 20/40 X 100% = 50.00% <b>(2 marks)</b> |
| 150 – 300         | 10        | 10/40 X 100% = 25.00% <b>(2 marks)</b> |
| 300 – 450         | 5         | 5/40 X 100% = 12.50% <b>(2 marks)</b>  |
| 450 – 600         | 3         | 3/40 X 100% = 7.50% <b>(2 marks)</b>   |
| 600 – 750         | 2         | 2/40 X 100% = 5.00% <b>(2 marks)</b>   |
| Total             | 40        |  |

**(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 judgement of the 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. **(3 marks)**

**(Sub-Total: 9 marks)**

**(Grand Total: 34 marks)**

13. (a) State the empirical relationship between the mean, median and mode. **(8 marks)**  
 (b) Define “probability” in relation to an event (E) occurring. **(5 marks)**  
 (c) If three fair coins are all tossed at once. List out all the total outcomes. **(12 marks)**  
 (d) If a car is worth ₦15,000,000.00 and there is also a pre-determined probability of a total loss occurring at 20%. What is the expected loss value? **(3 marks)**  
 (e) Briefly explain any two (2) benefits of risks. **(6 marks)**

**Solution**

(a) Mean – Mode = 3(Mean – Median)  
**(2 marks) (2 marks) (4 marks)**

**(Sub-Total: 8 marks)**

(b) The Probability of an event (E) occurring is the ratio of the total number of times event (E) can occur to the total number of possible outcomes. **(5 marks)**

(c) HHH, HHT, HTH, HTT, THH, THT, TTH and TTT.  
**(1½ marks for each correctly stated outcome. Sub-Total: 12 marks)**

- (d) Expected Loss Value = ~~N~~15,000,000.00 \* 0.2 (2 marks)  
 = N3,000,000.00 (1 mark)  
 (Sub-Total: 3 marks)

- (e) The benefits of risks are:  
 (i) it creates the hope for profit;  
 (ii) risk is a bar to entry into the marketplace for ventures which are unsound, or likely to be short-lived;  
 (iii) risk encourages a safety culture.  
 (3 marks for each correct and completely stated benefit. Maximum of 2 to be graded. Sub-Total: 6 marks)  
 (Grand Total: 34 marks)

14. (a) Outline and explain the four (4) components of life assurance premium. (12 marks)  
 (b) The following scores have been obtained by 40 students of the department of insurance at the Lagos State University of Technology in the Risk Regulation Continuous Assessment:

| Marks   | Frequency (f) |
|---------|---------------|
| 3 – 7   | 4             |
| 8 – 12  | 6             |
| 13 – 17 | 15            |
| 18 – 22 | 8             |
| 23 – 27 | 7             |
|         | 40            |

Find the mean deviation. (22 marks)

**Solution**

- a) The four components of life assurance premium are  
 (i) **Mortality:** this is the chance or probability of death from age to the other. It increases with age. Thus, the older the life proposed is, the higher the mortality rate and thus, increased premium rate.  
 (ii) **Expenses:** these are the expenses incurred by the life office in running the business. The higher the expenses of a life insurance company, the higher the premium rate.  
 (iii) **Interest Rate/Investment:** the rate of returns that would be received by the life insurance companies from investing certain portion of the premium.  
 (iv) **Contingencies:** these are reserves created to meet unexpected contingencies.  
 (1 mark for correctly outlines component. 2 marks for correct explanation. Sub-Total per component: 3 marks. Grand Sub-Total: 12 marks)

b)

| Class limits | Frequency (f) | Class Midpoints (X) | fX  | /X – X/ | f/X – X/ |
|--------------|---------------|---------------------|-----|---------|----------|
| 3 – 7        | 4             | 5                   | 20  | 11      | 44       |
| 8 – 12       | 6             | 10                  | 60  | 6       | 36       |
| 13 – 17      | 15            | 15                  | 225 | 1       | 15       |
| 18 – 22      | 8             | 20                  | 160 | 4       | 32       |
| 23 – 27      | 7             | 25                  | 175 | 9       | 63       |

|  |    |  |     |  |     |
|--|----|--|-----|--|-----|
|  | 40 |  | 640 |  | 190 |
|--|----|--|-----|--|-----|

(½ mark for each correctly computed figure in blue. 2 marks for each correctly computed figure in purple.  
**Sub-Total: 14 marks)**

$$\text{Mean } (\bar{X}) = \frac{\sum f(x)}{\sum f} \quad (2 \text{ marks})$$

$$= \frac{640}{40} \quad (1 \text{ mark})$$

$$= 16 \quad (1 \text{ mark})$$

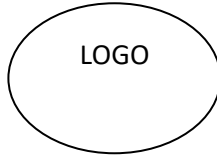
$$\text{Mean Deviation} = \frac{\sum Ef/\bar{X} - \bar{X}}{\sum f} \quad (2 \text{ marks})$$

$$= \frac{190}{40} \quad (1 \text{ mark})$$

$$= 4.75 \quad (1 \text{ mark})$$

**(Grand Sub-Total: 22 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2023 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:**

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
DIET CANDIDATES' INSTRUCTIONS.**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

A02 – REINSURANCE: PRINCIPLES AND APPLICATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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 on facultative reinsurance arrangement which is a direct question, but unfortunately only 46% of the candidates performed above average.

### **Question 2**

The question tested candidates' knowledge on computer mode and the pass rate for the question was 62%, which is above average.

### **Question 3**

The question was set to test candidates' knowledge on reasons for reinsurance in risk transfer and 40% of the candidates passed the question. This shows that majority of the candidates got the questions wrongly.

### **Question 4**

The question tested candidates' knowledge on capital base risk in the first year of operation, with 90% of the candidates passing the question. This is a direct question that is well understood by candidates.

### **Question 5**

The question was intended to test candidates' knowledge on the objectives of reinsurance, and 99% of the candidates attempted it with 95% pass rate. The question was well understood by the candidates.

### **Question 6**

The question being a compulsory one was on solvency margin and with a pass rate of 70%.

### **Question 7**

The question tested candidates' knowledge on the difference between overriding commission and original gross rate. Most candidates attempted the question (98% of the candidates) with a pass rate of 75%. This is a direct question.

### **Question 8**

50% of the candidates attempted this question on factors in charge of reinsurance brokers. Candidates were expected to perform better in this question.

### **Question 9**

This is a compulsory question that tested on aviation, board issues and reinsurers' method of charging premium. Almost 100% of candidates attempted the question with about 36% of them passing it. The reason may be as a result of the inclusion of aviation and board issues.

### **Question 10**

This is an optional question that is on reinsurance and how reinsurers exercises control of its business. This is not a popular question among the candidates as only 5% of them pass it.

**Question 11**

The question tested candidates' knowledge of foreign exchange exposure with 52% of the candidates attempting it, while 40% of the candidates passed the question.

**Question 12**

A popular question on methods of treaty reinsurance. 85% of the candidates attempted the question but 60% of the candidates understood it. This is above average performance.

**Question 13**

The question tested candidates' knowledge of reinsurance contract. Not a popular question with about 40% of candidates attempting it and the pass rate being below average.

**Question 14**

An elective question on retrocession which was attempted by 57% of the candidates, with a pass rate of 27%, which is below average. The reason for this poor performance should be attributed to knowledge gap on the subject.

**Comments on Overall Performance:**

Overall performance was below average, an evidence that candidates did not prepare well for the examination. Most of the questions are from the course book.

**Suggestions on Improvement (if any):**

Candidates should endeavour to read and prepare for the examination. They should avail themselves with questions and answers in each chapter of the course book as part of the preparations.

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

1. Enumerate four (4) instances when a facultative arrangement might be used.

**Solution**

The instances when a facultative arrangement might be used are:

- the risk falls outside the scope of the treaty e.g. territorial scope or excluded perils;
- for specialist type of business;
- large industrial risk reinsured on a layered basis with large deductible;
- for hazardous risks;
- sum insured exceed treaty capacity.

**(1½ marks for each correct and completely enumerated instance. Maximum of 4 to be graded. Total: 6 marks)**

2. Why can retentions not be set solely mathematically or by computer models? Explain with three (3) explanations.

**Solution**

Retentions cannot be set solely mathematically or by computer models because the retention figure is usually a compromise between that which would best satisfy the overall aims and wishes of the prospective reinsured, their risk appetite, the demand of the reinsurer and some other subjective factors. Although in theory, mathematical formulae and computer models can assist the reinsured in arriving at a desirable level of retention, in practice well-tried market custom and usage plays a major role.

**(2 marks for each correct and completely enumerated explanation. Maximum of 3 to be graded. Total: 6 marks)**

3. Why is it important to evaluate a reinsurer's security, and why might a rating agency evaluation of a reinsurance company's claims-paying ability be worth consulting in making such an evaluation?

**Solution**

One of the main reasons for reinsurance is to transfer risk. This purpose is negated if the reinsurer is unable to fulfill its obligations if that reinsurer becomes insolvent. An independent rating agency will not only have access to the reinsurance company's published information, but also meets with the management of that reinsurer and has access to non-published corporate material. In providing a rating of claims paying ability, rating agency also gives a comparative perspective from its analysis of many similar companies operating in a particular market place. Hence, they have access to variety of information and are able to assess the company and give their professional advice.

**(3 marks for correct and completely stated explanation on the importance of the security; 3 marks for the correctly answered "why". Total: 6 marks)**

4. Why might a new insurance company put its entire capital base at risk in the first years of operation?

**Solution**

A new insurance company might put its entire capital base at risk in its first years of operation because commercial pressures may require it to offer a larger capacity than normal, or to apply competitive premium levels; although lack of reserves and high expenses offer no financial cushion'.

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

5. Enumerate any three (3) principal objectives of a reinsurance programme.

**Solution**

The principal objectives of a reinsurance programme are:

- \* automatic cover;
- \* adequate capacity;
- \* sufficient scope;
- \* economic advantage;
- \* security
- \* continuity

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

6. (a) What is solvency margin?  
(b) Enumerate any two (2) amounts of solvency funds applicable to a reinsurance treaty.

**Solution**

(a) Solvency margin is the product of a calculation of the assets of a company after taking all its liabilities into account. Different regimes use different formulae for determining whether or not an insurer is able to pay claims on the business that it underwrites. It is to ensure that insurance companies have sufficient assets to meet their liabilities. **(3 marks)**

- (b) The amounts of solvency funds applicable to a reinsurance treaty are:  
(i) required margin of solvency; (ii) guaranteed fund; (iii) minimum guarantee fund  
**(1 ½ marks for each correctly stated amount. Maximum of 2 to be graded. Sub-Total: 3 marks)**  
**(Grand Total: 6 marks)**

7. Differentiate between overriding commission and original gross rate (OGR).

**Solution**

Overriding commission is money paid by the reinsurer to the reinsured in order to cover the reinsured's costs in administering the business and ceding it to reinsured. The amount given to the reinsured is dependent upon the profitability of the treaty and the management expenses of the reinsured. **(3 marks)**  
Original gross rate (OGR) is the rate of premium applied under the original business to the sum insured. The result of the original gross rate times the sum insured equals the original gross premium. No deduction are made for commission and brokerage. **(3 marks)**  
**(Grand Total: 6 marks)**

8. (a) What two (2) factors should a reinsured consider in changing reinsurance brokers?  
(b) What disadvantage might there be for a reinsured changing its brokers?

**Solution**

(a) In changing reinsurance brokers, the reinsured should consider whether the price differential is worth the time and cost involved when changing reinsurers especially when the reinsured has already established a healthy credit balance with its existing reinsurers as a result of several years of good experience.  
**(1½ marks for each correct and completely stated factor. Maximum of 2 to be graded. Sub-total: 3 marks)**

(b) The disadvantage that might be for a reinsured to change its brokers is that changing reinsurance brokers may lead to the risk of loss of loyalty, stability and security.  
**(3 marks)**  
**(Grand Total: 6 marks)**

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) (i) Who controls Air Navigation in Nigeria? (2 marks)  
(ii) Enumerate any four (4) responsibilities of whoever occupies the position in (a) above. (8 marks)
- (b) What needs should a board of directors seek to balance when the directors agree with the company's investment policy? Explain any six (6) of those needs. (18 marks)
- (c) List and explain three (3) methods by which reinsurers charge premium under a non-proportional treaty arrangement. (22 marks)

### Solution

- (a) (i) The Minister of Aviation (or simply 'The Minister') controls air navigation in Nigeria. (2 marks)
- (ii) The responsibilities of the minister of aviation include:
- promotion of Civil Aviation in Nigeria;
  - encouragement of Civil Aviation in Nigeria;
  - provision of efficient services to air carriers and other aviation and allied services providers;
  - provision of safe services to air carriers and other aviation and allied services providers;
  - provision of greater access to air transport in a sustainable manner;
  - ensuring that Nigeria's obligations under international agreements are implemented.

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

(Grand Total: 10 marks)

- (b) The needs that a board of directors of directors seek to balance when the directors agree with the company's investment policy are:
- preserve and enhance the capital of the company;
  - generate adequate levels of return compatible with risk;
  - have adequate cash available in relation to cash flow requirements;
  - match assets and liabilities as and when they are expected to fall due for payment;
  - match currency assets to currency liabilities so that the effect of currency gains or losses are minimized;
  - spread the holdings of investments so that there is not excessive reliance on any one institution or sector in the event of collapse or failure of that institution or sector;
  - consider any differential tax implications of alternative policies;
  - segregate life funds from general funds;
  - fit the policy with the social policy (if any) of the company; and identify countries;
  - where local investment is a legal requirement or subject to controls.

(3 marks for each correctly stated and fully explained need. Maximum of 6 to be graded. Sub-Total: 18 marks)

(c) The methods by which reinsurers charge premium under a non-proportional treaty arrangement are:

- **use of a flat premium:** which is a fixed monetary amount. With a flat premium there is no subsequent adjustment of the premium as with the other two methods. The reinsurer must therefore be confident that the premium set is sufficient to cover expected losses and that the reinsured's premium income is not going to be substantially more than projected.
- **use of a fixed premium:** which is a percentage of the reinsured's premium income for the account that is being protected. However, as the reinsured's premium income figures will generally not be known until the end of the reinsurance period and the reinsurer will not wish to wait this long before they receive any premium, a 'provisional' payment will be made by the reinsured. This premium can take the form of a deposit premium. It will normally be subject to a minimum premium, and then an adjustment premium.
- **use of a rate determined by the loss ratio of the contract (a burning cost premium):** a burning cost premium operates by calculating the ratio of the reinsurers incurred losses (i.e. paid and outstanding elements to layer) to the reinsured's subject matter premium income and then applying a loading factor (commonly 100/70ths, 100/80ths) to determine the reinsurance premium rate. This is then applied to the reinsured's premium income for the account protected year.

$$\text{Burning Cost Rate} = \frac{\text{Incurred loss to reinsurer}}{\text{Reinsured's premium income}} * 100 * \text{loading factor}$$

(3 marks for each correctly stated method.

2 marks for each complete and correct explanation under each method. Maximum of 2 to be graded under each method. Sub-Total per method: 7 marks.

Burning cost formulae to attract an additional 1 mark. Grand Sub-total: 22 marks)

(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Enumerate and explain any three (3) options that are open to a reinsured when reviewing its reinsurance contracts. (12 marks)
- (b) What are the three (3) ways in which a reinsurer exercises control of its business? (10 Marks)
- (c) Enumerate and explain any three (3) options that are open to a reinsurer once it has reviewed its book of business. (12 Marks)

### Solution

- (a) The options open to a reinsured when reviewing its reinsurance contracts are:
- arrange new or different types or combinations of facultative and treaty contracts;
  - negotiate the terms and conditions of existing treaties;
  - change reinsurer and / or broker;
  - arrange alternatives to conventional reinsurance contracts.

(Candidates are required to explain all stated options. 2 marks for each correctly stated option. 2 marks for each correct explanation. Sub-Total per option: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

- (b) The three ways by which a reinsurer exercises control over its business are:
- underwriting;
  - ensuring an acceptable return on capital employed;

- management of financial resources.

(4 marks for the first correctly stated way. 3 marks for each of the other 2. Maximum of 3 to be graded. Sub-total: 10 marks)

- (c) The options open to a reinsurer once it has reviewed its book of business are to:
- cease to write a certain class of business;
  - not renew certain contracts;
  - increase rates;
  - reduce costs;

(Candidates are required to explain all stated options. 2 marks for each correctly stated option. 2 marks for each correct explanation. Sub-Total per option: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

11. (a) How can exposure to currency gains or losses be avoided on reinsurance transactions in currencies other than the normal accounting currency of the reinsurance company? Why is this not always practical? **(10 Marks)**
- (b) How might a company alleviate the strain on liquidity of its investment portfolio? **(8 Marks)**
- (c) When might a flat rate reinsurance commission be an appropriate commission to apply to a proportional treaty? **(8 Marks)**
- (d) Differentiate between overriding commission and Original Gross Rate (OGR). **(8 Marks)**

### **Solution**

(a) Exposure to currency gains or losses is avoided by an exact match of assets and liabilities in the transaction currency. If a reinsurance company transacts business in many currencies, such a policy might be impractical. In order to reduce costs, ease administrative burdens and reduce currency exchange risk, reinsurers tend to hold relatively few but strong currencies and then link other weaker currencies and their appropriate assets and liabilities to one of those stronger currencies.

(3 marks for each of the bolded points, 10 marks in all)

(b) There is need for proper planning and projections. The actual amount of cash required can be determined from an analysis of the monthly cash-flow figures with some margin to allow for unforeseen contingencies. This planning should preclude having to borrow money at short notice and pay high rates of interest for that special borrowing. The balance of investments can be held longer term related to the maturity profile of anticipated liabilities. Investment will normally have regard to the average maturity profiles of the liabilities so that there should be no shortfall in cash. (3 marks each for the bolded points. Maximum 8 marks in all )

(c) If a proportional treaty is expected to provide stable results, a flat rate commission might be negotiable. (8 marks).

(d) Overriding commission is money paid by the reinsurer to the reinsured in order to cover the reinsured's costs in administering the business and ceding it to reinsured. The amount given to the reinsured is dependent upon the profitability of the treaty and the management expenses of the reinsured. (4 Marks)

Original gross rate (OGR) is the rate of premium applied under the original business to the sum insured. The result of the original gross rate times the sum insured equals the original gross premium. No deduction are made for commission and brokerage. (4 Marks)



12. (a) Enumerate and briefly explain the two (2) main types of reinsurance. (6 marks)
- (b) State four (4) advantages and four (4) disadvantages of the types of reinsurance. (16 marks)
- (c) The types of reinsurance can be further divided into two basic methods. Enumerate and discuss these two (2) methods. (12 marks)

### **Solution**

(a) The main types of reinsurance are Treaty and Facultative reinsurance (2 marks)  
Treaty reinsurance is a contract that automatically accepts a large number of similar risks. Instead of having to place all risks individually with the reinsurer and having the possibility that each separate one could be accepted or rejected, the solution was to develop an obligatory contract where the insurer is bound to cede a fixed amount of its business and the reinsurer is obliged to accept. The treaty is a contract that outlines what terms and what share of risk is to be placed with a reinsurer.

Facultative reinsurance; this is an individual reinsurance of large or hazardous single risks. Facultative means optional; both parties have a choice as to whether to enter into the contract or not. Each risk is considered individually with the original insurer determining whether they wish to place it as reinsurance and the reinsurer determining whether they want to accept the risk.

**(1 mark for each correctly stated type. 2 marks for each correct and complete explanation of each type. Sub-Total per type: 3 marks. Grand Sub-Total: 6 marks)**

- (b) Advantages of treaty reinsurance are:
- the reinsured has automatic reinsurance cover;
  - the reinsured receives a contribution towards costs (ceding commission) for proportional treaties;
  - the reinsured can receive an additional contribution if the business is profitable (profit commission) for proportional treaties;
  - administration is quicker and easier than for facultative reinsurance, particularly for proportional treaties;
  - accounting procedures can be simplified by the use of quarterly accounting;
  - as treaties generally deal with large number of homogeneous risks, computer technology can be used for data storage and analytical techniques.

### **Disadvantages of treaty reinsurance are:**

- there is no freedom since both parties are tied into the contract. hence there is so much reliance on the underwriting ability of the underlying insurer;
- too much premium can be lost to reinsurers on small good risks which an insurer would otherwise retain net for their own account.

### **Advantages of facultative reinsurance are:**

- risks are considered individually. Reinsurers can negotiate a suitable premium for the actual risk concerned rather than having to consider it as part of an overall portfolio of risk.
- facultative reinsurance increases the insurer's competitive edge within its chosen market;

- there is freedom to offer any risk (by the insurer) which may be accepted or declined (by the reinsurer). this option allows the reinsurer to select a portfolio of risks which corresponds to their underwriting policy;
- an insurer's treaty reinsurance could be protected by facultative reinsurance of particular risks to ensure better overall result and lower premiums in the long term;
- an insurer might benefit from the specific knowledge of the facultative reinsurer with regard to the nature and potential of the risk;
- there is an opportunity for both parties to develop a successful professional relationship.

**Disadvantages of facultative reinsurance include:**

- as risks is considered individually, the cedant cannot be certain of the placement of the facultative reinsurance and this could affect their ability to underwrite the underlying risk
- the administration involved is labour intensive and expensive
- the insurer has to disclose full information regarding its underwriting of the risk. this could be a problem if the reinsurer is also seen as a competitor in the field.
- there is the possibility of the reinsurer exercising a certain amount of influence over the insurer's underwriting by asking them to improve the risk offered or influencing unduly their assessment of the premium on the original risk.
- the insurer may lose control over the handling of the risk. for example claims control and cooperation.

(2 marks for each correct and completely stated advantage and disadvantage. Maximum of 2 each to be graded under each section. Sub-Total to be graded: 8. Grand Sub-Total: 16 marks)

(c ) Both treaty and facultative reinsurance can be arranged with two methods, which are the proportional and non-proportional reinsurance.

- **proportional reinsurance:** this is where an insurer (the cedant) cedes a proportion of each risk. The reinsurer accepts that share in the risk, a commensurate share of the premium and pays the same proportion of the claim. For example, if the reinsurer accepts a 50% quota share of the insurers Bond account, it would take 50% of the premium and pay 50% of the claims. Example of proportional reinsurance are surplus and quota share treaty.
- **non-proportional reinsurance:** is based on the size of the loss and not the reinsurer's share in the risk. Non-proportional reinsurance is usually referred to as excess of loss as the loss has to exceed a certain retention or deductible (usually a monetary amount) before a claim can be made against the reinsurer. For example, if the insurer's motor account was protected by a reinsurance of ₦20,000,000.00 in excess of ₦5,000,000.00, the reinsurer would indemnify the insurance company for a loss once it exceeds ₦5,000,000.00 but only up to maximum indemnity of ₦20,000,000.00 available under the contract for that loss. Once the loss exceeds ₦25,000,000.00 the contract would not indemnify the insurer further.

(2 marks for each correct and completely stated arrangement type. 2 marks for each correct and complete explanation under each type. Maximum of 2 explanations under each type. Sub-Total per type: 6 marks. Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

13. After reviewing the outcome of a reinsurance contract, a number of options is available to the reinsured. One of these options is to arrange new or different types or combinations of different contracts available based on factors that guide in picking the available options. Discuss eight (8) factors that could support this decision or option. Give an example of any of the four (4) factors discussed.

### **Solution**

After reviewing the outcome of a reinsurance contract, a number of options is available to the reinsured. One of these options is to arrange new or different types or combinations of different contracts available based on factors that guide in picking the available options. The factors that could support this decision or option are:

- the need of the reinsured may have altered and existing contracts may be unsuitable. For example, a quota share treaty may have been arranged when business was new and when the reinsured needed capacity, protection and guidance. as the reinsured gain more experience and strength, it may be unnecessary to cede a fixed percentage of each and every risk, and the reinsured may therefore opt for a surplus or an excess of loss 'per risk' treaty both of which will enable it to retain more reinsurance income and provide a sharing of losses;
- the reinsured's solvency margin may be under pressure, and the cession of premiums under a quota share arrangement may provide a quick and effective short-term solution;
- unusually and rare risks, previously protected by facultative covers, may be more common, and a new proportional or non-proportional treaty or a facultative obligatory arrangement may be attractive;
- the review of the reinsured's net retention under a quota share may lead to an increase, which will require a negotiation of the percentage ceded. similarly, the number of lines under a surplus treaty may be reduced;
- the reinsured may need more capacity to compete in the market place in order to take larger lines and, therefore, may seek more lines under a first surplus or create new second and third surplus;
- as statistical information develops, and the reinsured's financial strength is enhanced, it may consider that a surplus treaty, which requires ceding of premiums for risks over a certain value, is unnecessary and opt to bear all losses itself up to a specified amount. in this case, an excess of loss per risk may be more attractive. the commission terms under a proportional treaty also needs to be considered;
- growth in the portfolio may result in the accumulation of risks and the aggregation of liabilities in one location. in these circumstances, the reinsurer would consider effecting an excess of loss event treaty;
- the growth in the size of risks may necessitate higher units or more layers on an excess of loss programme;
- in normal circumstances, the terms of the existing contracts are not capable of being changed except at renewal or anniversary date;
- some classes of business of the reinsured may have expanded, while others may have declined; the opportunity may therefore arise to combine more than one class under the same treaty;

- the mix or programme of all contracts, facultative and treaty, proportional and non-proportional may be changed to provide the most effective coverage for the reinsured's current and future needs;
- the excess of loss ratio treaty or a cover written on an aggregate deductible basis may be suitable if the reinsured wishes to protect its account against volatile or excessive loss ratios.

(4 marks for each correct and completely stated factor. Maximum of 8 to be graded. Sub-total: 32 marks. ½ mark for each correctly stated example. Maximum of 4 to be graded. 1 example under any 4 factors. Sub-Total for example: 4 marks. Grand Total: 34 marks)

14. (a) What is retrocession? Enumerate any two (2) principal objectives for a reinsurer when designing a retrocession programme? (8 marks)
- (b) A portfolio of reinsurance business differs from an insurance portfolio in two main ways. Highlight these two (2) important ways. (6 marks)
- (c) Enumerate and discuss two (2) different lines in which a retrocession programme is usually arranged. (12 marks)
- (d) It is more hazardous to write retrocession business than insurance or reinsurance business because the Retrocessionaire is more remote than the original business. State two (2) effects of this. (8 marks)

### Solution

(a) Retrocession is a means by which reinsurers arrange cover to protect its portfolio of reinsurance business. A factor in the underwriting of reinsurance contracts is the availability to the reinsurer of reinsurance facilities to protect its own writings/ exposures. (4 marks)

The principal objective for a reinsurer when designing a retrocession programme are:

- increase acceptance capacity;
- limit the exposure to loss;
- give greater stability to the results.

(2 marks for any correctly stated objective. Maximum of 2 to be graded. Sub-total: 4 marks)  
(Grand Sub-Total: 8 marks)

(b) A portfolio of reinsurance business differs from an insurance portfolio in the following two important ways:

- the reinsurance receives little or no information about the individual risks re-ceded to them under a reinsurance treaty. they are only aware of the maximum limits of the treaty per risks or per event;
- the reinsurer have no means of calculating precisely total exposure.

(3 marks for each correct and completely stated way. Sub-Total: 6 marks)

(c) The retrocession programme will usually be arranged on the following lines:

- **facultative business:** protection is arranged either on a pro-rata basis (quota share or surplus or by an excess of loss per risk cover).
- **treaty business:** a retrocession pool may be established and consists of fixed or variable shares of each inwards acceptance. This pool will be used to reduce exposure on each treaty to an acceptable level. Separate retrocession programme may be arranged for pro-rata and non-proportional business, and for each of the main classes of insurance business; property, motor, marine, liability and aviation.

- **whole account protection:** once a reinsurer has arranged separate protection for each part of its portfolio, the reinsurer may decide to take out additional excess of loss cover to protect against the accumulation of losses from different types of business arising from a single event.

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

(d) It is more hazardous to write retrocession business than insurance or reinsurance business because the retrocessionaire is more remote than the original business. The two effects of writing retrocession are:

- the premium received will have been reduced from the original premium by the deduction of commission, reinsurance commission, overriding commissions and brokerage;
- it becomes more difficult for the retrocessionaire to identify its exposures.

**(4 marks for each correct and completely stated effect. Sub-Total: 8 marks)**

**(Grand Total: 34 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2023 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:**

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- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
- The answer to each question must be commenced on a separate page. Where however, a question consists of two or more parts, this instruction does not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
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 candidates' knowledge on the advantages of double entry method over the old method of just listing the items.

All the candidates (100%) attempted the question but only 43% pass rate was recorded. This indicated that answers provided by the candidates were guess work as against answers stated in the course book. Candidates are advised to pay more attention to details in the course book.

### **Question 2**

The question was meant to test candidates' knowledge on the purposes of directors' report. All the candidates attempted the question but the pass rate was 73%. This shows a good understanding of the concepts tested by the candidates. Candidates are advised to keep it up.

### **Question 3**

This question was meant to test candidates' knowledge of the difference between subsidiary and associated companies. All the candidates (100%) attempted the question but the pass rate was about 35%. About 70% of the candidates did not know what an Associated company is, hence they could not give correct answers. Candidates need to study harder in order to close this gap.

### **Question 4**

This question tested the candidates' knowledge of underwriting profit as distinguished from the insurance profit. Being a compulsory question, almost all the candidates attempted it but the pass rate is less than 30%. This is a course book question. Candidates are advised to be closer to their course books and ensure that all parts of the course books are covered while preparing for examination.

### **Question 5**

The question tested candidates' knowledge on what standard costs is, its usefulness and examples. Almost all the candidates attempted the three (3) parts question (about 95%). The average performance is just above average (about 53%). Many candidates could not define standard cost, some could not state its usefulness and a large percentage of candidates could not cite a correct example of standard cost. The overall performance was not encouraging. Candidates' performance indicated poor preparation for this subject. Candidates are therefore advised to study harder and ensure that they cover every aspect of the course book while preparing for the examination.

### **Question 6**

The question tested candidates' knowledge on the ways by which foreign exchange risks can be controlled. The question was attempted by about 98% of the candidates, but the pass rate is far below 60%. The reason for this is that many candidates do not know how foreign exchange risks may be controlled. Candidates are advised to study harder and cover every aspect of the syllabus.

### **Question 7**

The question asked candidates to enumerate factors that affect the size of solvency margin. The question was attempted by many candidates (about 90%). About 50% of the candidates displayed



a good knowledge of the question and obtained pass marks. Candidates' performance was impressive and encouraging.

### **Question 8**

The examiner tested candidates' knowledge of accounting classifications of insurance business. The question was attempted by about 92% of the candidates. However, the pass rate is not impressive as only about 40% of those that attempted the question got above average. This is because most candidates could not enumerate the classification of insurance business for accounting.

### **Question 9**

This is a compulsory question which tested the candidates' knowledge of accounting ratios. Almost all the candidates attempted this important question, but less than 25% got a pass-mark. Candidates are expected to be conversant or versed in the interpretation of final accounts as there is no way they can avoid this aspect of the syllabus.

### **Question 10**

The question tested candidates' knowledge about the kind of accounting records a company must keep, show and explain to relevant stakeholders. The second part of the question was on the constituent bodies of FRCN. About 55% of the candidates attempted the question but only 32% of them obtained a pass-mark. It is obvious that most candidates lack in-depth understanding of the question. Candidates are advised to master this aspect of the syllabus by studying harder and cover the whole area of the course book.

### **Question 11**

The question was on cash flow statement, its usefulness as well as the issue of distributable profit by companies. About 25% of the candidates attempted the question, but only about 5% obtained a pass mark. Many of the candidates could not define cash flow statement nor list its usefulness. Candidates should know that cash flow statement is an important aspect of accounting and they should strive to know it.

### **Question 12**

The question tested candidates' knowledge about steps of effective planning process, types of budgeting, advantages and disadvantages of budgeting as well as reasons why budget review is important. About 90% of the candidates attempted the question but the average performance was about 60%. Candidates did well in the first part of the question while they use head knowledge for the second and third parts of the question. Candidates approach to the question indicated that their preparation for the examination was poor. They are advised to study harder for their examinations.

### **Question 13**

The examiner tested candidates' knowledge of users of financial accounting information, their respective interest as well as the advantages and disadvantages of "divisionalisation". About 96% of the candidates attempted the question while 73% obtained a pass mark. This is a clear indication that most of the candidates understand the question. Candidates are advised to keep it up.

**Question 14**

The question tested candidates' knowledge about ways an insurer can invest in property market and the factors that can affect the growth of invested assets by Nigeria insurers. About 35% of the candidates attempted the question. About 37% of the candidates could not understand what the examiner asked them, particularly the part B and C of the question. Candidates need to study harder and create more time for preparation for their examination.

**Comments on Overall Performance:**

The overall performance is not encouraging as the pass rate was much less than average.

**Suggestions on Improvement (if any):**

Candidates are advised to study the coursebook in preparation for the examination as most of the questions are course book questions. More time should be created to study.

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

1. Enumerate the three (3) reasons why the double-entry method of book keeping is an improvement over the previous simple listing.

**Solution**

The double-entry method of book keeping is an improvement over the previous simple listing because it:

- i. brought in a sense of order;
- ii. enabled a simple test of accuracy- a balance to be introduced;
- iii. brought a true recognition of the duality of transaction.

**(2 marks for each reason correctly stated. Total Marks: 6 marks)**

2. Enumerate the two (2) purposes of directors' report and state the person who signs the report.

**Solution**

The two purposes of directors' report in the financial statements are that:

- i. it gives a fair review of the development of the business during the financial year;
- ii. it gives the position of the business at the end of the financial year.

The person who signs the report is usually any of the Directors or the Board Secretary.

**(2 marks for each correctly stated purpose and any correctly stated person who signs. Total: 6 marks)**

3. Differentiate between a subsidiary company and an associated company.

**Solution**

The difference between a subsidiary company and an associated company is that a subsidiary company is owned or controlled by its parent whereas an associated company is one that is an undertaking in which an undertaking included in the consolidation has a participating interest and over whose operating and financial policy it exercises a significant influence and which is not a subsidiary undertaking or a joint venture.

**(3 marks for any correctly stated difference under each term. Total: 6 marks)**

4. (a) What is the difference between underwriting and insurance results?  
 (b) What is the difference between a profit centre and a cost centre?

**Solution**

(a) The insurance result is generally the underwriting result adjusted by attributable investment income. **(3 marks)**

**(6 marks for a correctly stated difference. Only one difference should be graded. Total; 6 marks)**

(b) A profit centre is a centre that has a manager responsible for profitability, including the control of assets **(1½ marks)**; while a cost centre is a centre that has a manager with less responsibility, being responsible only for costs **(1½ marks)**.

**(Grand Total: 6 marks)**

5. What are standard costs? State two (2) of its usefulness. Give an example.

**Solution**

Standard costs are pre-determined costs-target costs related to efficient achievable output They help in identifying reasons for variances and also in comparing the performance of one organisation from the other, using common parameters as basis of comparison e.g. rent payable, utilities payable, salaries payable to office staff, office supplies, e.t.c.

**(3 marks for correct definition. 2 marks for any correctly stated usefulness. 1 mark for any correct and completely stated example. Total: 6 marks)**

6. Enumerate and explain any two (2) ways by which foreign exchange risks can be controlled.

**Solution**

Foreign exchange risks may be controlled by:

- \* currency accounts;
- \* buying or selling forward;
- \* using options.

**(Candidates are required to explain any two stated ways. 2 marks for each correctly stated way. 1 mark for correct explanation of each way. Sub-Total per way: 3 marks. Grand Total: 6 marks)**

7. Enumerate any six (6) factors affecting the size of solvency margin.

**Solution**

The factors affecting the size of solvency margin are:

- \* the size of the insurer;
- \* the type of business undertaken;
- \* the efficiency of management;
- \* effect of increase in inflation rate;
- \* the risks of outstanding claims exceeding provisions;
- \* the possibility of a collapse in investment values at a time when cash is needed;
- \* the danger of default by debtors, particularly reinsurers;
- \* the degree of exposure to exchange rate risks;
- \* the existence of equalisation or other reserves counted as liabilities;
- \* bases of valuing assets and liabilities.

**(1 mark for each correct and completely stated factor. Maximum of 6 to be graded. Grand Total: 6 marks)**

8. Enumerate any six (6) of the ten classifications of insurance business for accounting purposes.

**Solution**

The ten classifications of insurance for accounting purposes are:

- \* accident and health;
- \* aircraft damage and liability;
- \* motor vehicle (including damage to other land vehicles) damage and liability;
- \* ships, damage and liability;
- \* goods-in transit;
- \* property damage;
- \* general liability;
- \* pecuniary loss;
- \* non-proportional treaty reinsurance;
- \* proportional treaty reinsurance.

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

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) (i) What accounting standards must a company listed on the Nigerian Stock Exchange use to prepare its consolidated accounts? (2 marks)
- (ii) Explicitly summarise any four (4) importance/use of your country's Corporate Governance Code. (8 marks)
- (b) The following are the financial statements of Emilokan Limited for the year ended 31<sup>st</sup> December, 20X2.

#### Income Statement for the year Ended 31<sup>st</sup> December, 20X2

|                           | ₦'000           | ₦'000         |
|---------------------------|-----------------|---------------|
| Sales (Revenue)           |                 | 99,500        |
| Cost of Sales:            |                 |               |
| Opening Inventory         | 15,000          |               |
| Materials                 | 25,500          |               |
| Labour                    | 16,000          |               |
| Factory Overheads         | 20,500          |               |
| Depreciation              | 4,500           |               |
| Closing Inventory         | <u>(15,500)</u> |               |
| Gross Profit              |                 | <u>66,000</u> |
| Expenses:                 |                 | 33,500        |
| Salary and Administration | 12,400          |               |
| Finance Cost (Interest)   | <u>3,500</u>    |               |
| Profit Before Taxation    |                 | <u>15,900</u> |
| Taxation                  |                 | <u>17,600</u> |
|                           |                 | <u>6,500</u>  |
|                           |                 | <u>11,100</u> |

#### Statement of Financial Position as at 31<sup>st</sup> December, 20x2

|                               | N'000        | N'000          |
|-------------------------------|--------------|----------------|
| Non-Current Assets:           |              |                |
| Property, Plant and Equipment |              | 76,500         |
| Current Assets:               |              |                |
| Inventory                     | 15,000       |                |
| Trade Receivables             | 17,000       |                |
| Bank                          | <u>5,000</u> |                |
| Total Assets                  |              | <u>37,500</u>  |
| Equities:                     |              | <u>114,000</u> |

|                              |               |                |
|------------------------------|---------------|----------------|
| Ordinary Share Capital       | 45,000        |                |
| Retained Profit              | <u>10,500</u> | 55,500         |
| Non- Current Liabilities:    |               |                |
| Loan                         |               | 22,000         |
| Current Liabilities:         |               |                |
| Trade Payables               | 23,500        |                |
| Others                       | <u>13,000</u> |                |
|                              |               | 36,500         |
| Total Liabilities            |               | <u>58,500</u>  |
| Total Equity and Liabilities |               | <u>114,000</u> |

You are required to calculate any ten (10) of the following:

- |  |   |
|--|---|
| (i) Gross profit percentage;                     | (ii) Net profit as percentage of sales; |
| (iii) Current ratio;                             | (iv) Acid test or quick asset ratio;    |
| (v) Trade receivables collection period in weeks | (vi) Inventory turnover;                |
| (vii) Shareholders equity ratios;                | (viii) Times interest earned;           |
| (viii) Return on assets;                         | (x) Return on equity                    |
| (xi) Return on capital employed                  | (xii) Total assets turn-over            |
| (xiii) Non-current assets turn-over              |   |

(40 marks)

### Solution

(a) (i) A company listed on the Nigeria Stock Exchange must use the Nigerian-adopted International Financial Reporting Standards (IFRS) when preparing its consolidated accounts.

(2 marks)

(ii) For/In Nigeria:

- The Nigerian Code of Corporate Governance was issued in 2018 by the Financial Reporting Council of Nigeria
- The issuance of the code stemmed from the suspension of the national code of corporate governance in 2016 by the Federal Government;
- The Code is aimed at companies of varying sizes across different industries and organisations;
- It seeks to institutionalise global corporate governance best practice in the country;
- It promotes public awareness of essential corporate values;
- It enhances integrity of the business environment.

(Candidates are free to state the one applicable to their country. The only difference will be the first point stated in the solution above. 2 marks for any correct and completely stated importance/use. Maximum of 4 to be graded. Sub-Total: 8 marks)

(Grand Total: 10 marks)

(b)

$$\begin{aligned}
 1. \text{ Gross Profit \%} &= \frac{33,500,000}{99,500,000} \times 100\% \\
 &= 33.7\%
 \end{aligned}$$

$$2. \text{ Net Profit \%} = \frac{17,600,000}{114,000,000} \times 100\%$$

|    |   |   |  |   |                   |
|----|---|---|--|---|-------------------|
|    | Sales   | = | 99,500,000                                   |   |                   |
|    |   | = | 17.7%  |   |                   |
| 3. | Current ratio   | = | <u>Current assets</u>                        | = | <u>37,500,000</u> |
|    |   |   | Current liabilities                          |   | 36,500,000        |
| 4. | Acid test ratio   | = | <u>Current assets – Inventory</u>            |   |                   |
|    |   |   | Current liabilities                          |   |                   |
|    |   | = | <u>37,500,000 – 15,500,000</u>               |   |                   |
|    |   |   | 36,500,000                                   |   |                   |
|    |   | = | 0.6 : 1                                      |   |                   |
| 5. | Trade receivables payment period in weeks:                        |   |  |   |                   |
|    | On the assumption that all sales are credit sales                 |   |  |   |                   |
|    | Average weekly credit sales =                                     |   | <u>99,500,000</u>                            |   |                   |
|    |   |   | 52   |   |                   |
|    |   | = | 1,913,462                                    |   |                   |
|    | Therefore, number of weeks it takes for trade receivables to pay: |   |  |   |                   |
|    |   | = | <u>Trade receivables</u>                     |   |                   |
|    |   |   | 1,913,462                                    |   |                   |
|    |   | = | <u>17,000,000</u>                            |   |                   |
|    |   |   | 1,913,462                                    |   |                   |
|    |   | = | 8.9 weeks                                    |   |                   |
|    |   | = | 9 weeks                                      |   |                   |
| 6. | Inventory turn-over   | = | <u>Cost of sales</u>                         |   |                   |
|    |   |   | Average inventory                            |   |                   |
|    | Average inventory   | = | <u>Opening inventory + Closing inventory</u> |   |                   |
|    |   |   | 2  |   |                   |
|    |   | = | <u>N15,000,000 + 15,500,000</u>              |   |                   |
|    |   |   | 2  |   |                   |
|    |   | = | N15,250,000                                  |   |                   |
|    | Cost of sales   | = | N33,500,00                                   |   |                   |
|    | Therefore inventory turn-over                                     | = | <u>33,500,000</u>                            |   |                   |
|    |   |   | 15,250,000                                   |   |                   |
|    |   | = | 2.2  |   |                   |
| 7. | Shareholders' equity ratio  | = | <u>Owners' equity</u> x 100%                 |   |                   |
|    |   |   | Total assets                                 |   |                   |
|    |   | = | <u>55,500,000</u>                            |   |                   |
|    |   |   | 114,000,000                                  |   |                   |
|    |   | = | 48.7%  |   |                   |
| 8. | Time and interest earned  | = | <u>Profit before interest and tax</u>        |   |                   |
|    |   |   | Interest payment                             |   |                   |

$$\begin{aligned}
&= \frac{N17,600,000 + 3,500,000}{3,500,000} \\
&= \frac{21,100,000}{3,500,000} \\
&= 6 \text{ times}
\end{aligned}$$

9. Returns on assets =  $\frac{\text{Profit before interest and tax}}{\text{Total assets}}$

$$\begin{aligned}
&= \frac{21,100,000}{114,000,000} \times 100\% \\
&= 18.5\%
\end{aligned}$$

10. Return on equity =  $\frac{\text{Profit after interest and tax}}{\text{Owners' equity}} \times 100\%$

$$\begin{aligned}
&= \frac{11,100,000}{55,500,000} \times 100\% \\
&= 20\%
\end{aligned}$$

11. Return on capital employed:

|                  |               |  |
|------------------|---------------|--|
| Capital employed | N'000         |  |
| Owners' equity   | 55,500        |  |
| Long-term loan   | <u>22,000</u> |  |
|                  | <u>77,500</u> |  |

Return on capital employed =  $\frac{\text{Profit before interest and tax}}{77,500,000} \times 100\%$

$$\begin{aligned}
&= \frac{21,100,000}{77,500,000} \times 100\% \\
&= 27.2\%
\end{aligned}$$

12. Total assets turn-over =  $\frac{\text{sales}}{\text{Total assets}} \times 100\%$

$$\begin{aligned}
&= \frac{99,500,000}{114,000,000} \times 100\% \\
&= 87.3\%
\end{aligned}$$

13. Non-current assets turn-over =  $\frac{\text{sales}}{\text{Non-current assets}} \times 100\%$

$$\begin{aligned}
&= \frac{99,500,000}{76,500,000} \times 100\% \\
&= 1.30\%
\end{aligned}$$

14. Gearing ratio =  $\frac{\text{Long-term debt}}{\text{Equity}}$



$$= \frac{22,000,000}{55,500,000}$$

$$= 0.4 : 1$$

(4 marks for each correctly calculated solution. Maximum of 10 to be graded. Sub-Total: 40 marks)  
(Grand Total: 50 marks)

### Part III

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

Each question carries 34 marks.

10. (a) What accounting record must every company keep and what must they show and explain to relevant stakeholders? **(20 marks)**  
(b) Enumerate any seven (7) constituent bodies of Financial Reporting Council of Nigeria. **(14 marks)**

#### Solution

(a) The accounting record that every company must keep and what must they show and explain to relevant stakeholders are:

- the company's financial year and the preparation of annual accounts which will show and explain the company's transactions;
- disclose with reasonable accuracy, at any time, the financial position of the company at that time;
- enable the directors to ensure that any balance sheet and profit and loss account prepared for the purposes of the Act complies with its requirements;
- the director of every company shall prepare for each financial year of the company a balance sheet as at the last day of the year, which shall give a true and fair view of the state of affairs of the company as at the end of the financial year.
- the director of every company shall prepare for each financial year of the company a profit and loss account which shall give a true and fair view of the profit or loss of the company for the financial year.

**(5 marks for each record and what they show, maximum of 4 to be graded. Sub-Total: 20 marks)**

(b) The constituent bodies of Financial Reporting Council of Nigeria are:

- \* Central Bank of Nigeria;      \* Corporate Affairs Commission;
- \* Federal Inland Revenue;      \* Federal Ministry of Commerce;
- \* Federal Ministry of Finance;      \* Auditor-General of the Federation;
- \* Accountant-General of the Federation;
- \* Security Exchange Commission;      \* Nigerian Accounting Association;
- \* Nigerian Association of Chambers of Commerce, Industry, Mine and Agriculture;      \* Nigerian Deposit Insurance Corporation;
- \* Institute of Chartered Accountants of Nigeria;
- \* Nigerian Institute of Estate Surveyors and Valuers;
- \* Association of National Accountants of Nigeria;
- \* Chartered Institute of Taxation of Nigeria;

- \* Chartered Institute of Stockbrokers; \* Nigerian Security Exchange;
- \* National Insurance Commission;
- \* National Pensions Commission.

**(2 marks for each correctly stated body. Maximum of 7 to be graded. Sub-Total: 14 marks)**  
**(Grand Total: 34 marks)**

11. (a) What is a cash flow statement? Why are cash flow statements considered useful to users of a non-life insurance company? **(14 marks)**
- (b) What profits may a company distribute and what distribution can a company make to its members? What additional restrictions are there on a PLC company? **(20 marks)**

### **Solution**

- (a) Cashflow statement gives the transparent account of the movement of cash into and out of a company. **(4 marks)**

The cash flow statements are considered useful to users of a non-life insurance company because:

- it is required by IFRS-1;
- it shows information about the cash flows of the business in the reporting period;
- when used in conjunction with profit and loss accounts and balance sheet they can assist the reader to obtain a rounded picture of financial performance;
- it can also be used to shown the financial position of a business;
- it also shows the adaptability or otherwise of a business to its operating environment.

**(5 marks for each correct and completely stated reason. Maximum of 2 to be graded. Sub-Total: 10 marks. Grand Sub-Total: 14 marks)**

- (b) A company may only distribute to its members its profits that has been earmarked and approved for distribution to its members **(4 marks)**.

For a Plc company, distribution can be in form of cash or otherwise, except distribution by way of:

- an issue of shares as fully or partly paid bonus shares;
- the redemption or purchase of any company's own shares out of capital or out of unrealised profits;
- the reduction of share capital by extinguishing or reducing the liability of any of the members on any of the company's shares in respect of share capital not paid up, or by paying off paid up share capital;
- a distribution of assets to members of the company on its winding up.

**(4 marks for each correct and completely stated restriction. Maximum of 3 to be graded. Sub-Total: 12 marks)**

A public company may only make a distribution at any time:

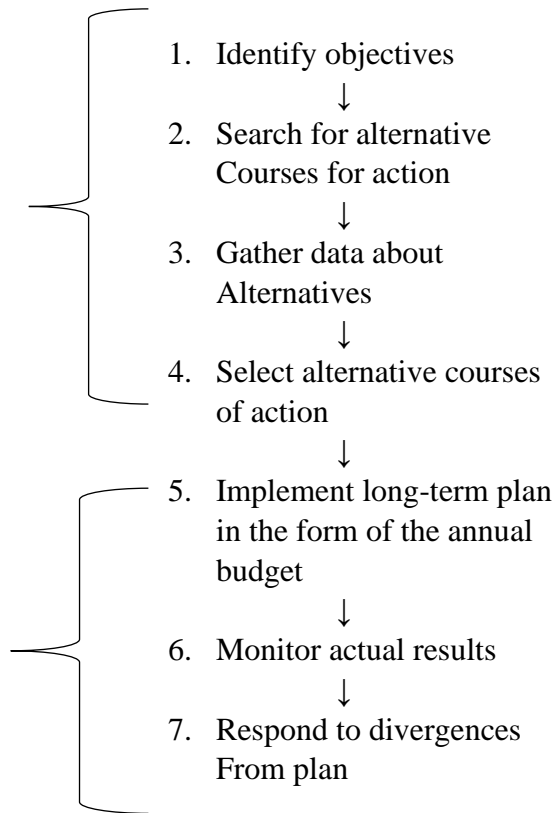
- if at that time the amount of its net assets is not less than the aggregate of its called-up share capital and un-distributable reserves and
- if, and to the extent that, the distribution does not reduce the amount of those assets to less than that aggregate.

(4 marks for each correct and completely stated restriction. Maximum of 1 to be graded. Sub-Total: 4 marks)  
 (Grand Sub-Total: 20 marks)  
 (Grand Total: 34 marks)

12. (a) By the aid of diagram, outline the seven (7) stages of the effective planning process. (14 marks)
- (b) Identify the various types of budgeting. Enumerate two (2) each of their advantages and disadvantages- (12 marks)
- (c) Why is budget review important? (8 marks)

**Solution**

(a)



(2 marks each for correct label. Sub-Total: 14marks)

- (b) The various forms of budgeting are:
- \* fixed budgeting
  - \* incremental budgeting;
  - \* flexible budgeting;
  - \* zero based budgeting.

**Fixed Budget**

**Advantages**

- \* simple;
- \* appropriate in industry with high cost.

**Disadvantages**

- \* it may be wrong to assume fixed in the level of costs in some industries;

- \* it is wrong to assume that if premium transactions shows marked increase there will be no increase in claim, commission or expenses for instance.

**Flexible Budgeting:** unlike fixed budgets (which are developed assuming a specific level of activity in certain conditions) flexible budgets are able to reflect the increased costs likely to be associated with increased activity. Flexible budgets are more realistic than fixed budgets, particularly in those industries where activity is relatively volatile.

**Incremental Budgeting:** budgets are set by allowing for increments in operations or expenditure which will occur during the budget period. There is a tendency for users of incremental budgeting to rely too heavily upon the past as a guideline for the future and, in certain circumstances, budgets can merely become previous year PLUS inflation.

**Advantages**

- \* simple;
- \* easy to understand;
- \* quick.

**Disadvantages**

- the major disadvantage is that it perpetuates past inefficiencies.

**Zero-Based Budgeting**

**Advantages**

- \* can maximise and the use of resources and give optimum value for money (VFM);
- \* reduce work duplication;
- \* reduce costs whilst increasing motivation;
- \* ALL expenditure has to be justified – not just the increase.

(1 mark each for each correctly stated type of budgeting. Sub-Total per types stated: 4.

2 marks for each correctly stated advantage and disadvantage. Maximum of 2 to be graded under any 2 of the stated type. Sub-Total: 8 marks

Grand Sub-Total: 12 marks)

(c) Budget review is important because:

- it enables Management to identify items that are not proceeding according to plan;
- it enables Management to take corrective action;
- Management by exception may be exercised;
- it helps to evaluate actual performance and re-appraise future plan;
- it may give rise to a revised budget.

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

(Grand Total: 34 marks)

13. (a) Highlight six (6) categories of persons people (natural or non-natural) who would be key users of Management and Financial Accounting information and any two (2) of such information which they will be interested in, under each category.

(24 marks)

(b) Enumerate three (3) advantages and two (2) disadvantages of divisionalisation.

(10 marks)

## **Solution**

- (a) The categories of persons people (natural or non-natural) who would be key users of Management and Financial Accounting information and such information which they will be interested in, under each category are:

**Shareholders** will be interested in:

- the return on their investment –profits, dividends, capital growth;
- the stability of the company, its solvency and whether there may be a need for it to raise extra capital;
- the future profitability of the company, including the type and spread of its business.

**Policyholders** will be interested in:

- the stability of the company including its solvency margin as a guarantee of its ability to meet its obligations to them;
- whether they are getting value of money or are premiums including an undue profit margin.

**Investment analysts and commentators** will be interested in:

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

**Reinsurance security advisors** will be interested in:

- the soundness of the company's underwriting;
- the security of the company as shown in its solvency
- the durability of the company;
- the strength of any group to which the company belongs

**Other insurers** will be interested in:

- underwriting and profit comparisons;
- marketing policy and developments.

**Internal Management** will be interested in:

- the efficiency and profitability of the company as a whole;
- the efficiency and profitability of their own departments or areas of influence;
- future plans.

**Staff** will be interested in:

- the profitability of the company (particularly where profit sharing exists);
- the security of the company, including possibilities of takeover;
- the ability of management;

- future plans.

(2 marks for each interested user stated. Maximum of 6 to be graded. Sub-total: 12 marks)

I mark for each correctly stated information that such user will be interested in. Maximum of 2 to be graded under each user. Sub-total per user: 2 marks. Grand Sub-total: 12 marks.

Grand Sub-Total: 24 marks)

(b) **Advantages of Divisionalisation**

- **better quality decisions:**
  - decisions are made by people with day-to-day, operational knowledge. they should, therefore, be more informed.
- **speedier decisions:**
  - there is no need to use bureaucratic communication channels hence long delays in the decision-making process should be avoided.
- **higher motivation levels:**
  - managers have greater freedom, greater responsibility and more demanding targets. this heightens motivation and helps individuals feel fulfilled.
- **frees senior management:**
  - top management are free to concentrate on strategic issues rather than concern themselves with the day-to-day running operational units.
- **trains junior management:**
  - divisions present an excellent training ground for up and upcoming managers

**Disadvantages of Divisionalisation**

- **lack of goal congruence:**
  - There is a danger that divisions may compete with each other excessively and that, as a consequence, the profit of the group suffers.
- **increase costs:**
  - In a divisionalised company there may tend to be duplication of costs as structures are mirrored across the group.

(Candidates are NOT required to explain, they are required to simply enumerate.

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

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

Grand Sub-total: 10 marks)

(Grand Total: 34 marks)

2 ½ marks for and against divisionalisation stated. Maximum of 2 each to graded. Total: 10 marks)

14. (a) Explain any four (4) ways through which an insurer can get involved in the property market. (12 marks)
- (b) State any four (4) factors that affect the growth in invested assets by Nigerian insurers. (10 marks)
- (c) The Financial Services Act has introduced the concept of polarization for non-broker intermediaries. Concisely enumerate any four (4) controls that are in operation for non-brokers intermediaries? (12 marks)

## Solution

(a) An insurer can get involved in the property market through the following ways:

- purchasing properties –already existing or from a developer;
- developing properties itself;
- financing a development and taking a share of the resulting income;
- providing mortgage finance to a development company;
- also taking a share in the equity of that company;
- entering into sale and leaseback arrangements- a property owner, needing funds for other developments, sells his property to an investor for a sum of money, then leases it back at annual rental.

**(3 marks for each correct and completely explained way. Maximum of 4 to be graded. Sub-Total: 12 marks)**

(b) The factors that affect the growth in invested assets by Nigerian insurers are:

- \* present dividend;
- \* interest rate (cost of fund);
- \* security of revenue;
- \* appreciation possibilities;
- \* depreciation;
- \* inflation;
- \* confidence/expectation
- \* government policies;
- \* technological development (i.e. productivity of capital);

**(2½ marks for each correct and completely stated factor. Maximum of 4 to be graded. Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**

(c) The Financial Services Act has introduced the concept of polarization for non-broker intermediaries. The following are the controls that are in operation for non-brokers intermediaries:

- \* general sales principles;
- \* existing policyholders;
- \* disclosure of underwriting information;
- \* documentation;
- \* explanation of the contract;
- \* accounts and financial aspects.

**(3 marks for each correct and completely stated control. Maximum of 4 to be graded. Sub-Total: 12 marks)**

**(Grand Total: 34 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2023 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 APRIL 2023  
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**

Popular question on what basic fire policy covers. It is a compulsory question and common to all. Attempted by 100% of the candidates and over 95% scored 100% marks allocated, while less than 10% scored below average pass mark.

### **Question 2**

This question was lifted from the text book directly, compulsory and popular amongst the candidates. Attempted by 100% of the candidates, close to 55% scored pass mark. Candidates can still improve their knowledge on application of blanket.

### **Question 3**

This question is testing elementary knowledge of candidates on other forms of revenue type coverable/ insurable under business interruption. Average number of the candidates show average understanding of the question and scored slightly above average pass mark.

### **Question 4**

The question set out to test candidates understanding of application of package policy to a specified need (shops). Over 88% of the candidates gave unrelated answers and poor application, hence were not sure, while over 95% scored below pass mark.

### **Question 5**

Candidates were requested to show understanding of physical and moral hazard as related to business interruption insurance. Close to 25% did not attempt the question despite being compulsory, while about 75% of the candidates that attempted it scored below pass marks (poor performances). Candidates must be made to study and prepare for examinations questions in future

### **Question 6**

Close to 50% of the candidates avoided answering this compulsory question. None amongst the remaining 50% of the candidates that attempted the question could score a pass mark.

### **Question 7**

Compulsory and attempted by all the candidates (100%), but less than 20% showed good understanding of the question and scored above average. Technically related question that all insurance candidates should be able to answer correctly.

### **Question 8**

Compulsory and attempted by all the candidates (100%), about 40% showed understanding of the question (that is repeated from other diets) and scored pass mark. However, candidates can do better particularly those that scored below pass mark.

### **Question 9**

This is another compulsory question. The first part was on information about industry player (NIA), and over 50% scored below average mark allocated. While the second part was on stock and declaration that involves simple calculations, but close to 98% of the candidates scored abysmally low hence many failed to score pass mark, which then affected the general performance.

**Question 10**

The question set out to test how candidates will practically apply what is studied to daily challenges and advice to insuring public, and was attempted by close to 65% of all the candidates, but none scored the pass mark.

**Question 11**

This question was on candidates' understanding of contract work and related insurance covers. It was attempted by close to 60% of the candidates but close to 100% score below pass mark because of poor understanding. Many of the candidates needs to study more and be familiar with the coursebook.

**Question 12**

The first part of this question was a straight forward test on candidates' knowledge of necessary engineering insurance for refinery whilst the second part was on getting overseas involvement on home foreign particularly London market. It was attempted by close to 65% of the candidates but none covered score pass marks. Candidates must prepare very well for examination and study the coursebook regularly.

**Question 13**

Straight forward question on engineering policies and simple claim adjustment. Attempted by close to 35% of the candidates. Those that attempted the question showed a little understanding and poor claim adjustment hence scored far below pass mark.

**Question 14**

This question was lifted directly from the textbook and is on challenges facing (off-shore) outside insurer's location, machinery breakdown business interruption insurance. Attempted by over 75% of all candidates, however all demonstrated very poor knowledge on business interruption on machinery breakdown, hence then scored far below pass mark.

**Comments on Overall Performance:**

Overall performance of candidates is generally very low. The pass rate was 0%.

**Suggestions on Improvement (if any):**

This course is very important for candidates in the Industry. Efforts should be made to encourage the candidates to always have time for self-study of the coursebook.

**Part I**

**Answer ALL questions in Part I.**

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

1. Enumerate any three (3) perils that standard fire policy as part of property insurance covers.

**Solution**

The perils that standard fire policy as part of property insurance covers are:

- \* fire;                   \* lightning;   \* limited/domestic explosion

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

2. In blanket/floating insurances, list the three (3) types of property that can be insured and where the value will be allowed to “float” at all or any of the several sums insured.

**Solution**

In blanket/floating insurances, the three (3) types of property that can be insured and where the value will be allowed to “float” at all or any of the several sums insured are:

- \* buildings (not building);                   \* contents (not content);                   \* stock.

**(2 marks for each correctly stated peril. Candidates that state building (without s), content (without s) and stock should get 4 marks (i.e. 1, 1, 2). Total: 6 marks)**

3. List any three (3) other revenue type covers that are insurable under business interruption insurances.

**Solution**

The other revenue type covers that are insurable under business interruption insurances are:

- loss of gross revenue for solicitors and other professionals;
- loss of gross fee for private schools, hospital, cinema;
- loss of net revenue/takings for retailers;
- loss of net rents (landlord of let property).

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

4. Enumerate four (4) types of cover expected to be provided in a package policy for shops.

**Solution**

The types of cover expected to be provided in a package policy for shops are:

- \* restricted cover on All Risk;                   \* business interruption;  
\* refridgerated stock;                   \* personal accident;  
\* goods in transit.

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

5. In a typical business interruption insurance under risk assessment, give one (1) example of physical hazard and two (2) examples of moral hazard that could be experienced at inception or during renewal.

**Solution**

Examples of physical hazard that could be experienced at inception or during renewal in a typical business interruption insurance under risk assessment are:

- production passes through a bottle-neck which has a high fire hazard;
- storage of hazardous product chemicals;
- allowing use of naked light fire and smoking where flammable products are kept.

Examples of moral hazard that could be experienced at inception or during renewal in a typical business interruption insurance under risk assessment are:

- unwilling to provide two or more channels for production;
- unwilling to remove or reduce hazard and or hazardous materials;
- unwilling to keep fire-fighting appliances or regular servicing of same;
- failure to involve security personnel in regular patrol;
- not keeping adequate books of records and accounts.

**(2 marks for each correctly stated example. Maximum of 2 to be graded under moral and 1 under physical. Grand Total: 6 marks)**

6. To achieve equitable insurance contributions to protect, specify any three (3) systems that are needed to be set up by insurers and state the reasons why they are needed to be set up.

### **Solution**

To achieve equitable insurance contributions to protect, the systems that are needed to be set up by insurers. With reasons are:

- accounting systems / so as to record transactions per action item and record per class of business
- statistical systems / so as to be able to supply the much-required analytical information required for decision making by various stakeholders;
- email system / for effective communication both internally and externally;
- document archiving system / for easy tracking of correspondences, e.t.c.

**(1 mark for each correctly stated system. 1 mark for each correct and completely stated reason example. Maximum of 3 to be graded. Grand Total: 6 marks)**

7. List any four (4) headings that are expected to be found in a final report of a loss adjuster (after a preliminary report).

### **Solution**

The headings that are expected to be found in a final report of a loss adjuster (after a preliminary report) are:

- \* sum insured;
- \* adjusted loss;
- \* previous payments;
- \* balance claim payable;
- \* salvage/recoveries;
- \* adjuster's fee & expenses

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

8. Explicitly state four (4) situations where an insured can apply to the Court to have an award from an arbitration process set aside.

### **Solution**

The situations where an insured can apply to the Court to have an award from an arbitration process set aside are:

- when there is misconduct of the arbitrator/proceedings;
- when the arbitrator exceeded their jurisdiction;
- when fresh material evidence has been discovered since the award;
- when award was improperly procured;

- when there is an error of law or fact on the face of it;
- when there is uncertainty in its terms.

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

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) (i) What is the full meaning of NIA. (2 marks)
- (ii) Enumerate any four (4) roles of NIA in the insurance industry. (8 marks)
- (b) Enumerate any five (5) principles guiding/forming the basis of stock insurance. (10 marks)
- (c) You are provided with the following stock details as insured under Fire/Perils & Burglary insurances (policies):
- (i) determine average declarations on each;
  - (ii) determine total declarations on each;
  - (iii) determine total premium on sum insured;
  - (iv) determine provisional premium;
  - (v) determine additional premium.

|              | <b>FIRE</b>  | <b>BURGLARY</b>  |
|--------------|--|--|
| <b>MONTH</b> | <b>MONTHLY DECLARATION</b>   | <b>MONTHLY DECLARATION</b>                                       |
| January      | 200,000  | 200,000  |
| February     | 100,000  | 200,000  |
| March        | 200,000  | 200,000  |
| April        | 100,000  | Nil  |
| May          | 250,000  | 200,000  |
| June         | 250,000  | 160,000  |
| July         | 250,000  | 180,000  |
| August       | 390,000  | 390,000  |
| September    | 400,000  | 200,000  |
| October      | 210,000  | 210,000  |
| November     | 250,000  | 180,000  |
| December     | Nil  | 120,000  |
| Sum Insured  | 400,000  | 200,000  |
|              | No Declaration at all in December but business was on.<br>Premium Rate: 0.5% | No supply in April. Nil Declaration made.<br>Premium Rate: 1.25% |

(30 marks)

**Solution**

- (a) (i) NIA – Nigerian Insurers Association
- (ii) The roles of NIA in the insurance industry are:
- prescription and enforcement of self-regulation and code of ethics;
  - the protection and advancement of the common interest of insures transacting any class of insurance business in Nigeria;
  - the creation of a better understanding of insurance by all sections of society;

- making positive impact into government policies on insurance and acting as the mouth piece of the industry;
- training and development of all professionals and persons engaged in insurance business;
- promoting researches and dissemination of statistics.

(2 marks for each correct and completely stated role. Maximum of 4 to be graded. Sub-Total: 8 marks)  
(Grand Total: 10 marks)

(b) The principles guiding/forming the basis of stock insurance are that:

- it is arranged on indemnity basis;
- it is preferably covered/insured on declaration basis, either monthly, half yearly or yearly declarations;
- declaration basis remove effects or over insurance and over payment of premium;
- declaration is mandatory with policy warranty(ies);
- no declaration means the sum insured applies for the month not declared;
- nil declaration by the insured is regarded as declaration and will have no amount but average will still be by division with 12 months;
- subject to provisional payment of 75% premium;
- maximum declaration will not be allowed to be over or above agreed sum insured;
- insured to ensure sum insured maximum to be deleted value is based on amount at which the goods/stock can be replaced.

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

(c) Fire Sum Assured: ₦400,000.00

Maximum Stock: ₦400,000.00

**Declaration**

January: ₦200,000.00

February: ₦100,000.00

March: ₦200,000.00

April: ₦100,000.00

May: ₦250,000.00

June: ₦250,000.00

July: ₦390,000.00

August: ₦400,000.00

September: ₦210,000.00

October: ₦250,000.00

November: ₦250,000.00

December: ₦400,000.00

Total: ₦3,000,000.00

(3 marks)

Average Declaration: ₦250,000.00

(3 marks)

Premium on Sum Insured: ₦400,000.00 \* 0.5% = ₦2,000.00

(3 marks)

Provisional Premium: 7.5% \* 2,000.00 = ₦1,500.00

Additional Premium (if applicable):

Provisional Premium Paid: ₦400,000.00 \* 0.5% = ₦2,000.00

= ₦2,000.00 \* 7.5% = ₦1,500.00

(3 marks)

Average Declaration and Actual Sum at Risk for 12 months: ₦250,000.00 \* 0.5%

|  |                                 |          |
|--|---------------------------------|----------|
| Actual Annual Premium Due:   | ₦1,250.00                       | (1 mark) |
| Additional Premium Due:  | ₦1,250.00 – ₦1,500.00 = NIL     | (1 mark) |
| Refund to be Worked Out On:  | ₦1,500.00 - ₦1,250.00 = ₦250.00 | (1 mark) |
| Refund as per policy term and condition to be worked out of excess premium ₦250.00 paid. |                                 | (1 mark) |

### **Burglary**

|                                |                                 |           |
|--------------------------------|---------------------------------|-----------|
| Maximum Value:                 | ₦200,000.00                     |           |
| Sum Insured                    | ₦200,000.00                     |           |
| January:                       | ₦200,000.00                     |           |
| February:                      | ₦200,000.00                     |           |
| March:                         | ₦200,000.00                     |           |
| April:                         | Nil                             |           |
| May:                           | ₦200,000.00                     |           |
| June:                          | ₦160,000.00                     |           |
| July:                          | ₦180,000.00                     |           |
| August:                        | ₦200,000.00                     |           |
| September:                     | ₦200,000.00                     |           |
| October:                       | ₦200,000.00                     |           |
| November:                      | ₦180,000.00                     |           |
| December:                      | ₦120,000.00                     |           |
| Total:                         | ₦2,040,000.00                   | (3 marks) |
| Average Declaration:           | ₦2,040,000.00/12 = ₦170,000.00  | (3 marks) |
| Premium:                       | ₦170,000.00 * 1.25% = ₦2,125.00 | (1 mark)  |
| Premium on Sum Insured:        | ₦200,000.00 * 1.25% = ₦2,500.00 | (1 mark)  |
| Provisional Premium Paid:      | ₦2,500.00 * 75% = ₦1,875.00     | (3 marks) |
| Additional Premium Due:        | ₦2,125.00 – ₦1,875.00 = ₦250.00 | (3 marks) |
| <b>(Sub-Total: 30 marks)</b>   |                                 |           |
| <b>(Grand Total: 50 marks)</b> |                                 |           |

### **Part III**

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

**Each question carries 34 marks.**

10. Someone you have known to be a building painter turned design and building contractor, approaches you to package professional indemnity cover for him. In the letter he wrote to you appointing you as insurance consultant, he requested that the policy should cover all known risks related generally to all aspects of his work. Explain to him, in a letter format, what professional indemnity covers, extensions available for design and building, bringing to his attention any five (5) exclusions apart from the market generally agreed exclusions.

#### **Solution**

Policy issued covering the Professional Activities and Duties in respect of which cover is granted by the policy shall mean the performance by the insured of any professional: -

- design or specification;
- supervision of construction;
- feasibility study;
- technical information calculation surveying;



- covering liability for financial or economic losses unaccompanied by physical damage or bodily injury.

Based on request particular extensions will need to be granted on:

- indemnity in respect of costs and expenses necessarily incurred in respect of any action taken to mitigate a loss or potential loss that otherwise would be the subject of a claim under the policy;
- indemnity in respect of any liability arising out of any act of negligence by specialist designers or and others engaged in the performance of the professional activities and duties defined in the policy;
- right of recourse to or against such specialist or consultant must not be waived or otherwise impaired.

Exclusions (excluding market general exclusions)

- libel and slander;
- consortium or joint venture participants;
- previous event, previous similar insurance cover and previous claims;
- arising from property owned by insured, directors of companies where insured work as architect or contractor or his own company or associated companies;
- non-contribution exclusions of any claim covered by any other policy;
- fraud and dishonesty of any partner, principal or director;
- claims arising out of the performance warranties, penalty clauses or liquidated damages.

**(Candidates are required to provide the response in a letter format: 4 marks.**

**The response must contain some of the above.**

**At least 3 explanations on professional indemnity covers. 3 marks for each correct and completely stated explanation. Maximum of 3 to be graded. Sub-Total: 9 marks.**

**At least 3 explanations on extensions for design and building. 3 marks for each correct and completely stated explanation. Maximum of 3 to be graded. Sub-Total: 9 marks.**

**At least 4 explanations on exclusions apart from the market generally agreed exclusions. 3 marks for each correct and completely stated explanation. Maximum of 3 to be graded. Sub-Total: 12 marks). (Grand Total: 34 marks)**

11. As a consultant, explain in a letter format to a developer, what a contract work policy set out to cover. Also explain in the same letter, what will happen when a speculative building work cover is requested for by the same developer.

### **Solution**

**(Candidates are required to provide the response in a letter format and the response must contain some of the above.**

- policy is a first party, material damage cover not interested in being involved in others such as professionals;
- the indemnity may be the repair reinstatement or replacement of any property lost or damaged or a monetary payment of the same amount. usually and in practice a monetary payment us made as define regarding;
  - the insured
  - in respect of loss or damage from any cause
  - to the property insured

- occurring during any period of insurance
- on or adjacent to the site of any contract or in transit within the country

The speculative building work candidate in the reply letter should conclude some of the following:

- the variation will only commence after practical completion of the building;
- the cover variation is a rider for only six months for developer cover granted on items such as show houses and their contents while awaiting sale;
- the policy extension will be properly worded with memorandum on prospective purchaser's tenants' choice of decorations and/or final fitments;
- negligent breakdown of plant;
- indemnity to plant owner; and continuing hire charges covered;
- there will be monetary limit per item per day
- cost of hire, use, installing and reward of scaffolding and tower cranes excluded

**(Candidates are required to provide the response in a letter format: 4 marks.**

**The response must contain some of the above.**

**Maximum of 6 explanations from any of the points listed above to be graded when correctly and completely stated. Sub-total: 30 marks)**

**(Grand Total: 34 marks)**

12. (a) The Federal Government of Nigeria is about revamping refineries in Nigeria and has thrown open the bid for all interested parties. Omobolaji Group is setting up a petrochemical refinery in Lekki Free Zone in Lagos State. What effect will this development have on London home foreign market as the largest market for all types of engineering insurance business? Discuss six (6) classes of engineering business likely to experience an increase in Nigeria as a result of Omobolaji Group's entry as a very strong force to be reckoned with in the refinery set up. **(25 marks)**

- (b) Considering global economy, the effects of COVID-19, Ukraine/Russian War and fluctuating exchange rate, explain any two (2) ways by which the Nigerian Insurance market will approach towards retaining larger amounts on the scenario in 'a' above.

**(9 marks)**

### **Solution**

- (a) The effect that the development will have on London home foreign market as the largest market for all types of engineering insurance business are as follows:

- the fact that British insurers have pioneered various classes of insurance including engineering;
- market now international;
- home foreign operations;
- major UK composite companies writing engineering business;
- UK registered subsidiaries of foreign company worldwide;
- Lloyd's syndicates;
- Professional reinsurers

The various classes of engineering insurance available are:

- Machinery Breakdown

- Boiler/Pressure vessel
- Erection Risk EAR
- CAR
- Computer and contractor plant insurances
- Civil Engineering completed risks insurance
- Engineering Business Interruption
- Crane, lift and miscellaneous

(Candidates are free to discuss the effects using any of the stated focal point above, which is not exhaustive. And also link the explanation to five (5) different calluses of engineering insurance. 2 marks for each correctly stated class. 1½ marks for each explanation. Maximum of 2 to be graded. Sub-total per class: 5 marks. Maximum of 5 to be graded. Grand Sub-Total: 25 marks)

(b) The ways by which the Nigerian Insurance market will approach towards retaining larger amounts on the scenario in 'a' above are:

- (i) **Fronting Capacity:** Local insurers (from Nigeria) present risk as direct insurance.  
(2 marks for correctly stated way. 2 marks for correct explanation of the term. Sub-Total: 4 marks)
- (ii) **Admitted:** The authorised insurer can be allowed to underwrite business in the country of origin only retaining only a small share. The leading underwriter is in London normally decides the terms and conditions of cover. Alternatively, Nigeria underwriters may take some to and for reinsurance in the London market. Brokers' slip can be channeled through a leading engineering insurer by the Nigerian Insurance companies. This will be done subsequently all other insurers writing engineering business share in the business until the whole risk is underwritten. The above will make Nigeria insurer be able to handle the engineering risks met are already emerging.  
(2 marks for correctly stated way. 1½ marks for correct explanation of the term. Maximum of 2 to be graded. Sub-Total: 5 marks. Grand Sub-Total: 9 marks)  
(Grand Total: 34 marks)

13. (a) Distinguish between inspected and contingency classes of cover in engineering Policies.

(b) Policy Schedule on Boiler and Pressure Plant

| Nos. | Items                                       | Sum Insured (₦) |
|------|---|-----------------|
| 1.   | Boiler and Pressure Plant                   | 10,000,000      |
| 2.   | Cabling and Trunking                        | 1,000,000       |
| 3.   | Steam Piping                                | Nil             |
| 4.   | Own Surrounding Property                    | 5,000,000       |
| 5.   | Surrounding Property of Third Party         | 4,500,000       |
| 6.   | Inspection Fee                              | 1,000,000       |
| 7.   | Third Party Death/Property Damage Limit     | 500,000         |
| 8.   | Employees Death/ Bodily Injury Onsite Limit | 500,000         |

Periods: 1<sup>st</sup> June 2022 to 31<sup>st</sup> June 2023.

**Statements of Claim**

| S/N | Items                              | Estimate (₦) |
|-----|------------------------------------|--------------|
| 1.  | Plant Repairs                      | 1,500,000    |
| 2.  | Own Surrounding Property Damage    | 4,000,000    |
| 3.  | Surrounding Property Third Parties | 1,750,000    |

|    |                                 |         |
|----|---------------------------------|---------|
| 4. | Bodily Injuries Employees       | 300,000 |
| 5. | Bodily Injuries Third Parties   | 250,000 |
| 6. | Steam Piping Repair/Replacement | 750,000 |
| 7. | Examination/Inspection Fees     | 500,000 |
| 8. | VAT on Inspection Fee           | 37,500  |

You are required to do an in-house adjustment of the claim. Recommend or otherwise, strike out, each item in the statement of claim, giving reasons.

**Solution**

(a) (i) **Inspected Policy:** this policy is written on condition that there must be inspection and report of the same from qualified/competent person. Such policies are on boilers and related plants/equipment whenever they suffer breakdown or explosion no VAT charges on such statutory examination/inspection fee.

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

(ii) while, **Contingency Policy:** This are for plants not involving inspection services. Cover is designed to provide comprehensive insurance package catering for the actual repair/replacement cost and other financial consequences in respect of loss or damage to thread-in-plant computer

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

(Grand Total: 10 marks)

(b) **In-House Adjustment**

| S/N | Item/Recommendation                |                 | Amount (₦) |          |
|-----|------------------------------------|-----------------|------------|----------|
| 1.  | Plant                              | Recommended     | 1,500,000  | (1 mark) |
| 2.  | Own Surrounding Property           | Recommended     | 4,000,000  | (1 mark) |
| 3.  | Surrounding Property Third Parties | Recommended     | 1,750,000  | (1 mark) |
| 4.  | Bodily Injuries Employees          | Recommended     | 300,000    | (1 mark) |
| 5.  | Bodily Injuries Third Parties      | Recommended     | 250,000    | (1 mark) |
| 6.  | Steam Piping Repair/Replacement    | NOT Recommended | Nil        | (1 mark) |
| 7.  | Examination/Inspection Fees        | Recommended     | 500,000    | (1 mark) |
| 8.  | VAT on Inspection Fee              | NOT Recommended | Nil        | (1 mark) |

**Recommendation Notes:**

Item 1: The plant is covered for explosion with adequate sum insured of ₦10,000,000.00  
(2 marks)

**Item 2:** Own surrounding property is specially covered by the policy standard liability policy and fire/peril policy will not pay as it could fall under exclusion/exempted perils. (2 marks)

**Item 3:** Recommended because of reason on item 2 above but general public liability policy can contribute. (2 marks)

**Item 4:** Recommended because of reason on item 2 above. However, compensation can still be bought from NS1TF as per ECA2010 in Nigeria. (2 marks)

**Item 5:** Recommended because of reason in item 2 above. (2 marks)

**Item 6:** Not specifically insured separately or under blanket hence not recommended for payment. (2 marks)

**Item 7:** Specifically insured with adequate amount recommended for payment. (2 marks)

**Item 8:** Because of insurance involvement for the use of inspection, the fee will not attract used 7.5% VAT, hence not recommended for payment. (2 marks)

**(Sub-Total: 24 marks:**

**(Grand Total: 34 marks)**

14. (a) As an astute insurance marketer cum underwriter, write a business proposal to convince a factory/plant owner to take up a business interruption insurance for machinery breakdown for his factory/plant. (22 marks)

(b) Jemiat Burg Nigeria Limited won various construction contracts in South Africa and is about to tender for another in Kigali, Rwanda. Your company is the major insurer to Jemiat Burg Nigeria Limited and your teamlead has directed you to advice Management on six (6) important things to be wary about on pitfalls when tendering for overseas work for the client. (12 marks)

### **Solution**

(a) As an astute insurance marketer cum underwriter, commissioned to write a business proposal to convince a factory/plant owner to take up a business interruption insurance for machinery breakdown for his factory/plant, the following points will be featured:

- cover to protect the business if there is stoppage in production(breakdown);
- premium to be paid will be far lower than what will be lost;
- it will take time for repairs if machine/plant is to be replaced time of placing order and arrival there will be loss of production?
- wherever repaired or reinstated machine is restored, it will take time for business to be reactivated;
- full production may take longer time to achieve then accepted;
- failure by repairer or manufacturer to meet up with time of delivery cash can dry up;
- the factory owner will have some standing charges paid or continue to be settled before business is reached rated;
- wages must be paid, even during the period of the disruption;
- creditor will have to also be settled;
- shareholders will be looking forward for profit through return on investment;
- the above effect will be minimised when machinery business interruption policy is effected by the factory/plant owner.

**(2 marks for presentation and referring to the solution as a business proposal. 4 marks for each correct and completely stated justification. Maximum of 5 to be graded. Sub-Total: 20 marks. Grand Sub-Total: 22 marks)**

(b) The following are the important things to be wary about on pitfalls when tendering for overseas work for the client: (12 marks)

- Julius Berger must check what the bias legislation says on insurance;
- must all or selected class of insurance place in location of contract;
- what is the position of indemnity and insurances clauses;

- are all areas of risk exposure, available for cover in location;
- confirm in what currency claim will be paid;
- what will be the position of policy excess/deductible or franchise;
- liability and limit for damage to surrounding property could be very high, can policy provide;
- liability to third party position in case of delay in completion of job and attendant loss of revenue or profit to employer;
- proper checking and interpretation of policy wordings;
- efficiency of location insurers in settlement of claims.

**(2 marks for each correct and completely stated probable pitfall. Maximum of 6 to be graded. Sub-Total: 12 marks)**

**(Grand Total: 34 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT A05

LIFE ASSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
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 intention of the examiner was to test the candidates' criteria in selecting a suitable life assurance life provider. The understanding was very shallow and discouraging. The pass rate is 7% as candidates answered the question out of context, writing on factors in selecting types or methods in product development components of life assurance premium and calculation of solvency margin.

### **Question 2**

The question was on two forms of taxation, few candidates were able to give and distinguish CTA and income tax. Many candidates could not even enumerate asset disposal as the main thrust. The pass rate was 18%.

### **Question 3**

A good question and was beautifully answered. The performance was encouraging and candidates demonstrated good understanding of types of grants used for proof of title. The pass rate 72%.

### **Question 4**

The question intended to test candidates' knowledge on annuities' taxation. Attempts was good at 84% but the performance was poor, 12% pass rate. The candidates did not prepare well for the examination.

### **Question 5**

The question was to test candidates' knowledge on Policies of Assurance Act of 1867. 92% attempted the question while the pass rate was far below average.

### **Question 6**

The question dealt with business ethics as well as computer hardware and software. It was a bonus question for candidates. Attempt was 100% and performance was 98%.

### **Question 7**

The question tested candidates' knowledge on the benefits of social security and was poorly answered with a 21% pass rate.

### **Question 8**

The question seeks to elicit from candidates' essential requirement of a valid assurance contract, which indeed is the same for all insurance contracts. The performance was a little above average, with some candidates mentioning all while some erroneously took this for principles of insurance cover concept.

### **Question 9**

(a) Compulsory question with 50 marks. Most of the candidates did not understand the goals and objectives of CIIN.

(b) The candidates used their common knowledge to answer the computer related question.

(c) This part was poorly attempted as less than 10% of the candidates understood how actuarial reserve is arrived. Overall pass rate for (a) to (c) was 32%.

#### **Question 10**

The first part of the question dealt with extra benefits attaching to life assurance policies while the second part dealt with candidates' understanding of industrial life assurance. It was attempted by majority of the candidates, and many performed well by describing the extra benefits, while the second part on industrial life was also answered satisfactorily. Overall performance was good as more than 80% scored above average.

#### **Question 11**

The question dealt with the concept of reinsurance and was a popular question with the candidates. Many had general understanding of the various areas and could distinguish between treaty and facultative reinsurance. It was noticed however that many could not differentiate between automatic acceptance limit and retention limit, while the performance was above average.

#### **Question 12**

Almost all candidates attempted this question the pass rate is 60%. Despite the 60% pass rate, candidates lost marks for listing the features of standard policy without full illustration while most candidates confused preamble or recital clause with operative clause hence loss of marks.

#### **Question 13**

The pass rate was 52%. It was to test on documentation in the context of settling death claim, and this was fragmented into roman figure i. to v. Candidates lengthily supplied one or two factors without giving the reason and importance of such documents, the date and place of death.

#### **Question 14**

The question was intended to test the candidates' knowledge on joint tenancy and tenancy in common. 20% attempted the question and 83% performed well. The candidates did not know the answer especially the question "d" 'priority rule' under notice of assignment.

#### **Comments on Overall Performance:**

The performance was not encouraging as pass rate was 40%.

#### **Suggestions on Improvement (if any):**

Candidates are encouraged to study well ahead of the examination to ensure good success in future examinations.

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

1. Enumerate any four (4) factors which are relevant in the selection of a product provider in life assurance.

**Solution**

The factors which are relevant in the selection of a product provider in life assurance are:

- \* premium rate;           \* level of charges;   \* past investment record;
- \* future investment prospects;       \* financial stability;
- \* standard of service for client;       \* standard of back-up for intermediary.

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

2. (a) What is a Capital Gains Tax (CGT)?  
(b) What is a Corporation Tax?

**Solution**

- (a) A Capital Gains Tax (CGT) is a tax on gains arising from the disposal of capital assets. **(3 marks)**

- (b) A Corporation Tax is the tax charged on the profits of companies (including unincorporated bodies such as clubs and associations, but excluding partnerships). **(3 marks)**

**(Grand Total: 6 marks)**

3. Enumerate the two (2) main types of grants normally used for proof of title; and what they are used for.

**Solution**

- (i) A grant of probate: used when a valid will naming executors was left. **(3 marks)**

- (ii) A grant of letters of administration: used when no valid will was left. **(3 marks)**

**(Grand Total: (6 marks)**

4. State how the following annuities are taxed:

- (a) purchased life annuities; (b) purchased annuities certain; (c) deferred annuities.

**Solution**

- (a) Purchased Life Annuities: partly taxed as savings income and partly tax-free. **(2 marks)**

- (b) Purchased Annuities Certain: partly taxed as investment income and partly tax-free. **(2 marks)**

- (c) Deferred Annuities: taxed as purchased life annuity when annuity is taken. **(2 marks)**

**(Grand Total: 6 marks)**

5. Write any three (3) distinct short notes on the Policies of Assurance Act 1867.

**Solution**

- (i) The Policies of Assurance Act 1867 is the Act which regulates the assignment of life policies. **(2 marks)**

- (ii) The Act provides that any person becoming entitled by assignment to a life policy has the legal power to sue in his name to recover the monies payable. **(2 marks)**

- (iii) Therefore, an assignee can sue the life office in his own name without involving the assignor. **(2 marks)**

**(Grand Total: 6 marks)**

6. (a) Define ethics in the context of business. (2 marks)  
 (b) Write short notes on the following two categories of computer equipment:  
 (i) hardware; (ii) software. (4 marks)

**Solution**

(a) Ethics in business in the context of business means more than just remaining within the law; everything which is legal not necessarily ethical. (2 marks)

(b) (i) **Hardware:** the actual machinery, including the central processing unit and all the associated terminals, printers, and other peripherals. (2 marks)

(ii) **Software:** the programs that are run on the equipment/hardware. (2 marks)

**(Grand Total: 6 marks)**

7. Outline any four (4) of the benefits which are usually provided by any social security system.

**Solution**

The benefits which are usually provided by any social security system are:

- \* old age pension; \* statutory sick pay; \* incapacity benefit;
- \* widow's pension; \* widow's payment; \* widowed mother's allowance.

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

8. Enumerate the five (5) essential requirements of a valid life assurance contract.

**Solution**

The five essential requirements of a valid life assurance contract

- \* offer and acceptance (2 marks); \* consideration (1 mark);
- \* capacity to contract (1 mark); \* insurable interest (1 mark);
- \* consensus ad idem (1 mark).

**(Grand Total: 6 marks)**

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

- 9 (a) List any four (4) goals and objectives of the Chartered Insurance Institute of Nigeria. (10 marks)  
 (b) There are great many uses to which computer processing may be utilised by Life Offices. Concisely outline five (5) uses each which computer can be used by a life office under: (i) new business; (ii) existing business; (iii) claims administration. (30 marks)  
 (c) Use the data below to calculate the actuarial reserve for each policy year:

| Policy Year | Age Next Birthday | Amount at Risk |
|-------------|-------------------|----------------|
| 1           | 45                | 500            |
| 2           | 46                | 470            |
| 3           | 47                | 410            |
| 4           | 48                | 390            |

|   |    |     |
|---|----|-----|
| 5 | 49 | 330 |
| 6 | 50 | 300 |

(10 marks)

### Solution

(a) The goals and objectives of the Chartered Insurance Institute of Nigeria are to promote insurance education through any of the following:

- conducting professional examinations for the purpose of registry of eligible persons as insurance practitioners;
- conducting certificate examination for the purpose of registry of eligible person as insurance practitioners;
- encourage and assisting insurance professionals to regularly update their knowledge in order to respond positively to changes;
- providing and maintaining libraries and study centers comprising books and publications for the advancement of insurance knowledge;
- upholding and encouraging members to adhere strictly to the observance of the industry codes of conduct;
- promoting social networking among members through various social activities; e.g annual picnic/sport dinners producing publication in respect of insurance related subject.

(2½ marks for each correct and completely stated goal/objectives. Maximum of 4 to be graded. Sub-Total: 10 marks)

(b) (i) **For new business, computer systems are used to:**

- a. maintain an alphabetical index of lives assured and/or proposed;
- b. produce quotations;
- c. check whether non-medical limits are being exceeded or not;
- d. produce standard letters to request medical attendant's reports and medical examinations;
- e. produce and issue acceptance letters;
- f. produce policy documents;
- g. set up the initial policy record;
- h. pay commission to the company representatives;
- i. produce sales figures for individual company representatives;
- j. produce sales figures for geographical areas or socio-economic classes for marketing and sales management purposes.

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

(ii) **For existing business, computer systems are used to:**

- a. collect premiums;
- b. operate arrears procedures by issuing standard letters telling policyholders about arrears and their consequences;
- c. allocating units each time a premium is paid on a unit-linked contract;
- d. operating mortality deductions and morbidity deductions on unit-linked life and IPI policies;

- e. administering fund switches on unit-linked contracts;
- f. allocating bonus and issuing bonus notices on with-profits policies;
- g. maintain the record of notices of assignment required by the Policies of Assurance Act 1867;
- h. administering reinsurance arrangements as regards premiums and claims;
- i. producing persistency statistics to show the quality of business produced by individual company representatives;
- j. recording changes of name and/or address of policyholders.

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

(iii) **For claims administration, computer systems are used to:**

- a. produce and issue letters regarding impending maturities, calculate the maturity value, keep track of cases and issue settlement cheques when possible;
- b. produce and issue letters on death claims and issue cheques in settlement;
- c. calculate surrender values and issue letters and cheques when required;
- d. process policy loan applications;
- e. pay regular withdrawals under unit-linked policies;
- f. pay regular instalments of capital under family income benefit policies;
- g. pay annuity instalments to policyholders' bank accounts;
- h. pay monthly benefit of IPI claims;
- i. produce death claims and IPI claims statistics to aid underwriters and actuaries.

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

(Grand Sub-Total: 30 marks)

(c)

| <b>Policy Year</b> | <b>Age Next Birthday</b> | <b>Amount at Risk</b> | <b>Actuarial Reserve</b> |
|--------------------|--------------------------|-----------------------|--------------------------|
| 1                  | 45                       | 500                   | 0 (2 marks)              |
| 2                  | 46                       | 470                   | 30 (1½ marks)            |
| 3                  | 47                       | 410                   | 90 (1½ marks)            |
| 4                  | 48                       | 390                   | 110 (1½ marks)           |
| 5                  | 49                       | 330                   | 170 (1½ marks)           |
| 6                  | 50                       | 300                   | 200 (2 marks)            |

(Grand Sub-Total: 10 marks)

(Grand Total: 50 marks)

**Part III**

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

Each question carries **34** marks.

10. (a) Describe the following Riders as applicable to life assurance policies:
- (i) waiver of premium option;
  - (ii) disability benefit;
  - (iii) 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) Enumerate any two of the 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 for each correct and completely stated description. 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 principal features of industrial assurance are:

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

**(2 marks for each correct and completely stated feature. Maximum of 2 to be graded. Sub-Total: 4 marks)**  
**(Grand Total: 34 marks)**

11. (a) Explain “automatic acceptance limit”. State an explicit example. (8 marks)  
 (b) Explain what you understand by “retention limit” in life assurance business. (8 marks)  
 (c) Differentiate between treaty and facultative reinsurance. (8 marks)  
 (d) State three (3) advantages and two (2) disadvantages that a treaty reinsurance has over the facultative reinsurance. (10 marks)

### Solution

(a) **Automatic Acceptance Limit:** this is the level of sum assured of the initial or original risk proposed in which the life office needs not contact its re-assurer before going ahead to accept the risk. It is usually expressed as a multiple of the retention limit of the life and in practice it ranges between a multiple of between 2 and 5 of the retention limits of the life office. Thus, the higher the retention limit of a life office, the higher the automatic acceptance limit.

(3 marks for each correct and completely stated explanation. Maximum of 2 to be graded. 2 marks for correct and completely stated example. Sub-Total: 8 marks)

(b)

- The limit of retention 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.

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

(c) **Treaty Reinsurance** – A prior arrangement between the insurance company and a reinsurance company to place and accept certain businesses that fall within the Treaty terms and conditions. (4 marks)

**Facultative Reinsurance** – It is the placement and acceptance of business on an individual basis depending on its merit. That is, in a facultative reinsurance, there is no obligation on both the direct office and reinsurance company to place or accept the risk being placed. (4 marks)

(Grand Sub-Total: 8 marks)

(d) **Treaty main advantages over facultative are as follows:**

- acceptance is automatic once the risk falls within the treaty terms;
- ease of administration;
- no leakages of vital information to competitors;
- no loss of goodwill as there is no delay in communicating acceptance terms;
- it attracts a higher ceding commission than a facultative business.

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

**Treaty main disadvantages over facultative are as follows:**

- it may be more expensive for few risks classification;



- facultative method may be sought once the treaty capacity is exhausted;
  - it is not designed for certain risks referred to as hazardous risk.
- (2 marks for each correctly stated disadvantage. Maximum of 2 to be graded. Sub-Total: 4 marks)  
(Grand Total: 34 marks)

12. (a) Define a Proposal Form, linking it to the “material fact” term. (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 may be defined as a pre- designed form which is used to elicit all vital information relating to the life or lives proposed for life assurance (2 marks). This vital information is referred to as – the material facts. (4 marks) (Grand Sub-Total: 6 marks)

- (b) The constituent parts of the policy documents are:
- |                     |                                   |              |
|---------------------|-----------------------------------|--------------|
| * The Heading;      | * The Preamble or Recital Clause; |              |
| * Operative Clause; | * Schedule;                       | * Exception; |
| * Conditions;       | * Attestation Clause              |              |

(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. (4 marks)

(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. (4 marks)

(iii) **Operative Clause:** This states the circumstances in which the life office are legally liable to pay the policy benefit. The operative clause must always be read in conjunction with the schedule and/or vice versa. (4 marks)

(v) **Schedule:** The schedule contains the various benefits that are available under the policy. (4 marks)

(vi) **Exception:** The exceptions to a policy are the various risks that are not covered in the ordinary course of the policy. (4 marks)

(vii) **Conditions:** The conditions are the policy rules that govern the application and interpretation of the life assurance contract as a whole. (4 marks)

(viii) **Attestation Clause:** The attestation clause is the way of executing the policy document. (4 marks)

(1 mark for each correctly stated part. 4 marks for correct and completely stated explanation. Sub-total per part: 5 marks. Maximum of 6 to be graded. Grand Sub-total: 30 marks)  
(Grand Total: 34 marks)

13. Write short notes on the following in the context of death claims in life assurance:
- |                                 |                                     |
|---------------------------------|-------------------------------------|
| (i) proof of death; (8 marks)   | (ii) Presumption of death (8 marks) |
| (iii) cause of death; (6 marks) | (iv) proof of title (6 marks);      |
| (v) proof of age (6 marks).     |                                     |

### Solution

(i) **Proof of Death:**

- proof of death is vital for admission of a death claim;
- deaths are proven by an official Death Certificate;
- only the original certificates should be accepted as a proof of death;
- photocopy certificates are often submitted but should not be accepted as there is a danger of forgery;
- the full name of the deceased together with the date and place of birth, occupation and address should be checked against the details on the life office files to make sure that it is the life assured that has died.

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

**(ii) Presumption of Death:**

- it sometimes happens that a life assured disappears and there is no direct evidence of death;
- disappearing is not the same as dying and as such caution should be therefore be exercised in dealing with claims where it is alleged that the life has died, but the deceased's body is not found and therefore no death certificate issued;
- under cases of disappearance, there are circumstances where it may be concluded that the life assured has died (i.e. plane crashes);
- aside the circumstances where it can easily be concluded the life assured has died, the procedures to follow for presumption of death under life assurance death claims would largely be dependent on the laws of the country involved.

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

**(iii) Cause of Death:**

- the life office should take care note of the cause of death shown on the death certificate;
- there is a possibility that the life assured died as a result of some activities that were excluded from the cover provided by the policy, for example private flying or mountaineering;
- also, if death has occurred within a comparatively short period since the issue of the policy, the office should pay heed to the possibility of non-disclosure;
- the place of death should also be checked as some policies contain restrictions as to travel or residence abroad;

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

**(iv) Proof of Title:**

- proof of title will be required before a claim is paid;
- if the policy is a life of another contract, payment will be made to the assured-on production of the policy;
- if it is a trust policy, payment will be made to the trustees on production of the policy;
- if the claim is being made by an assignee, both the policy and deed of assignment will be required;
- if the policy is an own life policy which has not been assigned, payment will be made to the estate;

- where an executor or an administrator is involved, the title is proven through a grant of probate or grant of letter of administration.

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

(v) **Proof of Age:**

- proof of age will be required on a death claim;
- where proof of age is required, it is advisable to add to any quotation of the sum payable on death that is subject to age having stated correctly;
- proof of age is important in that premiums are based on the age of the life assured and if the age differs from that stated on the proposal, then an incorrect premium has been charged;
- age is normally proven production of an official birth certificate;
- it is recommended that the original be sighted;
- other documents through which age may be proven are baptismal certificate, adoption certification, marriage certificate (especially for married women), international passport and naturalization certificate, where at least two other documents through which age may be proven are mentioned by the candidate.

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

(Grand Total: 34 marks)

14. (a) Define an assignment in the context of life assurance policy administration. (4 marks)
- (b) Differentiate between joint tenancy and tenancy in common. (10 marks)
- (c) Write short notes on the Policies of Assurance Act 1867. (10 marks)
- (d) Outline any four (4) of the five exceptions to the “priority rule” under “notice of assignment”. (10 marks)

**Solution**

- (a) An assignment is a transfer of ownership from one person to another. (4 marks)

(b) **Joint Tenancy:** under the joint tenancy, if one joint tenant dies his interest passes automatically to the survivor(s) and on the death of the last survivor, the property passes to his legal personal representatives (5 marks). While, **Tenancy in Common:** a tenancy in common differs from a joint tenancy in that on the death of a tenant in common, his interest passes to his estate and can this be disposed of by will (5 marks). (Sub-Total: 10 marks)

(c) **Policies of Assurance Act 1867:**

- (i) The Policies of Assurance Act 1867 is the Act which regulates the assignment of life policies. (2 marks)
- (ii) The Act provides that any person becoming entitled by assignment to a life policy has the legal power to sue in his name to recover the monies payable. (2 marks)
- (iii) Therefore, an assignee can sue the life office in his own name without involving the assignor.

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

- (d) The five exceptions to the “priority rule” under “notice of assignment” are:
- i) A trustee in bankruptcy takes the debtor’s property subject to all existing equities.
  - ii) The rule does not apply to voluntary assignments
  - iii) The rule does not apply between assignee and assignor
  - iv) The rule does not apply where there is evidence of willful blindness on the part of assignee for value.
  - v) The rule does not apply to mortgages for unlimited amounts

**(2½ marks for each correct and completely stated exception. Maximum of 4 to be graded. Sub-Total: 10 marks)  
(Grand Total: 34 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT A06

MOTOR INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
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 Comments**

### **Question 1**

The question was to test candidates' knowledge of an insured's obligation to a third party in the event of an accident. Most of the candidates avoided this question. Candidates attitude was disappointing, even though the question was very simple and straight forward. Pass rate was 3%.

### **Question 2**

Most candidates avoided this question, which tested the candidates' knowledge of the class of use in motor insurance. For the few candidates' that attempted the question, the performance was very bad and disappointing. It is evident that they did not prepare well for the examination. Pass rate was 23%.

### **Question 3**

This is a question on motor trade main schemes. About 70% of the candidates attempted the question and more than 60% passed satisfactorily. Pass rate was 56%.

### **Question 4**

The question was to test candidates' knowledge on the difference in cover under Third Party Only (TPO) Private Motor Policy and Road Traffic Act Only (RTA) Policy. Almost all the candidates attempted the question and performance was below average. Pass rate was 19%.

### **Question 5**

This was set to test candidates' knowledge on betterment in motor claims administration. Most of the candidates were able to define the term but could not connect it to real life situation. Overall, 70% of the candidates did justice to the topic. Pass rate was 53%.

### **Question 6**

This centers on the thrust of Transport Act 1985 and the purpose. Overall response was poor. Only 30/35% were able to explain the usage of the Transport Act. This depicts poor preparation for the examination by candidates. Pass rate was 13%.

### **Question 7**

This centers on the roles of internet in motor insurance selling. Candidates did not seem to understand the question hence many of them avoided it. For those who attempted it, performances are poor and below average. Pass rate was 32%.

### **Question 8**

This question tested candidates' knowledge on "Retained Risk. Candidates did not seem to understand the question hence many of them avoided it. For those who attempted it, performances were poor and below average. Pass rate was 18%.

### **Question 9**

The question centers on candidates understanding of the regulatory/supervisory operations in the insurance industry. They performed very well here. The second part centers on motor insurance practice claims administration. Here performance is fair and above average. Most candidates demonstrated good knowledge of the question. Pass rate was 81%.

**Question 10**

This centers on underwriting of motor insurance (Personal Accident Section) of the motor policy and also motorcycle insurance. More than 70% did not attempt the question but at least 40% that attempted it performed satisfactorily. Pass rate was 70%.

**Question 11**

The question tested the knowledge of candidates on claim administration and ratings. More than 60% attempted the question and few of them (less than 15%) failed. A very good performance. Pass rate was 87%.

**Question 12**

This tests the effect of insured's driving under the influence of alcohol and the resultant claim. The proximate cause of the accident is at play. Here, majority of the candidates understood the question and performed excellently well. The issue of accurate rating also featured here. The candidates performed very well as they demonstrated good knowledge of the subject matter. Pass rate was 86%.

**Question 13**

This centers on the issues of negligence on the part of the policyholder vis-a-vis handling of the insured vehicle. Majority understood the tips resulting in about 70% of them being awarded the maximum points. The other part was on rating factors in private car insurance. Performance was excellent as they demonstrated good knowledge of the question. Pass rate was 93%.

**Question 14**

Designed to test candidates on underwriting approach to 'kit cars'. The question was technical but at least 50% of the candidates passed the question. The other part centers on risks specifically excluded under Internal Risks Motor Trade Policy. Many of the candidates avoided this aspect of the question. Pass rate was 40%.

**Comment on Overall Performance:**

Overall performance is above average. If the candidates are more serious, attend tutorials and group studies, devote more time and learn how to answer questions rather than guess-work, they should be able to perform better. Overall pass rate was 48%.

**Suggestions on improvement (if any):**

It was an average performance by the candidates. However, I strongly advise that they should be more serious, study their coursebook and attend tutorials rather than banking on guess work. They should learn how to answer questions directly and avoid discussing a matter without concluding the matter.



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

1. In the course of driving his Peugeot Saloon Car from Ibadan to Ikire, Alhaja Ameenat was involved in an accident. A third party was injured and at the same time, a third-party vehicle was damaged. Enumerate the responsibilities placed on Alhaja Ameenat (as a driver) by the Road Traffic Act.

**Solution**

In consonance with Section 170 of the RTA, Alhaja Ameenat must:

- stop; (2 marks)
- upon being required to do so by anyone having reasonable grounds give name and address, name and address of the vehicle owner and identification marks of the vehicle; (2 marks)
- where personal injury is involved, give details of insurance to a police constable or to someone having reasonable grounds to request them. (2 marks)

**(Grand Total: 6 marks)**

2. What does “Class 2 (or B) Use” include and what does it exclude?

**Solution**

“Class 2 (or B) Use” **include:** Pleasure use and business use by the Policyholders and other drivers are included. (3 marks)

“Class 2 (or B) Use” **exclude:** use in connection with the motor trade, racing, commercial travelling, hire and reward. (3 marks)

**(Grand Total: 6 marks)**

3. Enumerate the three (3) main Schemes under a Road Risk Motor Trade Policy.

**Solution**

The three main Schemes under a Road Risk Motor Trade Policy are:

- \* Named Basis;
- \* Trade Plate Basis;
- \* Point Basis.

**(2 marks for each correctly stated scheme. Grand Total: 6 marks)**

4. Enumerate three (3) covers granted under a Third Party Only Private Motor Policy when compared with an RTA Policy.

**Solution**

The covers granted under a Third Party Only Private Motor Policy when compared with an RTA Policy are:

- \* vehicle not on the road;
- \* costs of defence in a court of summary jurisdiction;
- \* driving other cars extension.
- \* TPDD cover unlimited in amount;

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

5. Briefly explain what is “Betterment”, its use and operations in Motor Insurance Claims Administration.

**Solution**

In order to preserve the general principle of indemnity, the vehicle should not be returned to the Policyholders in a better condition than it was prior to the accident. Sometimes betterment is inevitable for example, where repair or replacement has been carried out to a corroded Panel – and in such instances, the insured may be required to contribute to the cost in accordance with the amount of betterment received.

It is often quite difficult to calculate the true value of betterment. For consumable parts such as tyres, exhausts etc that have a relatively predictable life span, the amount of betterment can be expressed as a proposal of the cost equal to the percentage of life used. For other aspects, it may be necessary to gauge by now much the overall value of the car has been enhanced, if at all.

Invoices, less the Policyholder's contributions, are passed to Insurers for payment.

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

6. What is the thrust of the Transport Act 1985? Enumerate any two (2) purposes that the permit it is issued on would be used for.

**Solution**

The Transport Act 1985, superseding the Minibus Act 1977, states that a special small bus permit may be sought in limited, circumstances and the issue of such a permit would mean that the requirements of the Public Service Vehicle Regulations would apply. (2 marks)

The permit would be issued where the vehicle is being used for the following purpose:-

- \* education;                                  \* religion;
- \* social welfare;                          and   \* other activities beneficial to the community.

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

(Grand Total: 6 marks)

7. Enumerate any three (3) roles that internet play in Motor Insurance Selling Mechanism.

**Solution**

The roles that internet play in Motor Insurance Selling Mechanism are:

- ease of communication;                          \* less cost of selling on the long run;
- immediate accessibility by clients and potential clients;
- wide reach than conventional methods.

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

8. Outline three (3) of out of the options available on how “retained risks” can be financed.

**Solution**

The options available on how “retained risks” can be financed are:

- To be handled as an expense    (2 marks)
- \* as a loan;    \* as a contingency fund;
- \* to insure it through a Captive Insurance Company.

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

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) As at today, the insurance industry landscape in any country is made up of operators, trade associations and regulator. Enumerate explicitly any five (5) of these players. **(10 marks)**

(b) Alhaji Balogun insured his Opel Saloon Car with M/S Darlington Insurance Company Limited on comprehensive basis. After the third-year renewal, he purchased another brand new Volvo car and decided to sell the old Opel car.

Eventually, he sold the car to one Engr. (Mrs.) Osude, She ran into a Police check point, where her vehicle particulars were demanded for. Surprisingly, the Police discovered that the Certificate of Insurance still bears the name of Alhaji Balogun. When confronted by the Police, she claimed to have bought the car along with the Insurance Certificate.

How would you react to this statement by Engr. (Mrs.) Osude? **(15 marks)**

(c) Chief Joseph, an Estate Management Consultant, insured his Opel Saloon car with Integrity Insurance Company Limited on a comprehensive basis. On a Friday evening, whilst driving along Lekki-Epe Express Road, Lagos, he was attacked by armed robbers resulting in the theft of the insured car. He (Chief Joseph) immediately reported the matter to the Police and also notified his Insurers, who eventually settled the claim.

Three (3) years thereafter, the Police recovered the stolen vehicle during one of their patrols. However, Stephen who was found with the vehicle insisted that he legally procured the vehicle and presented some “relevant” documents to the Police. Stephen still insisted that he had a legal and valid title.

The Police, however, discovered during investigation that the vehicle had, in fact, passed through two (2) separate hands, after the theft, before being finally sold to Stephen.

Comment on Stephen’s claim that he has a legal title on the vehicle, taking into cognizance the case of NEM vs. Jones (1988). **(15 marks)**

d. Alhaji Abolore insured his Opel Saloon Car with M/S Reeler Insurance Company Limited on a comprehensive basis. He had insured his vehicle with the same Insurer for two (2) years. His policy expired on 7th June, 2014. The insurer sent to him (the insured) in the normal way, a renewal notice with a (15 days) temporary cover note and Certificate of Insurance on the 17th June, 2014. Alhaji Abolore was stopped by Police, while driving the Insured vehicle from Ijebu-Ode to Ore, and asked to produce his current Certificate of Insurance. He produced to the Police his old Insurance Certificate which had expired on 7th June, 2014, and fresh cover note from another Insurance Company with effect from 18th June, 2014.

As the Manager of Reeler Insurance Company Limited, how would you assess this situation in relation to the case of Taylor Vs. Allon (1966). (10 marks)

**Solution**

- (a) The operators in the insurance industry landscape in any country are:
- \* the regulator;
  - \* insurance brokers;
  - \* insurers association;
  - \* ministry of finance.
  - \* reinsurance companies;
  - \* insurance agents;
  - \* institute of insurance;
- \* insurance companies  
\* loss adjusters;  
\* college of insurance;
- (2 marks for any correctly stated operator. Maximum of 5 to be graded. Total: 10 marks)

b) Motor Insurance is actually a Personal Contract such that the Motor Insurance Policy or Certificate is not transferable. For instance, when the proposer completes the Proposal Form, his personal detail e.g Name, Address, Occupation, Age, Use, Insurance History, Claims Experience etc are filled therein and these details are normally considered by underwriters in assessing the risk as to whether or not to accept. Where the risk is accepted, premium is paid and policy issued. These details cannot be the same with another person to whom the policy/certificate is transferred.

Consequently, Engr. (Mrs.) Osude’s claim that the Certificate was bought along with the car is legally wrong. On the acquisition of the car, she should have arranged for her own insurance where her personal details would have been obtained in determining whether or not to accept the risk by the underwriters and at what rate of premium.

(3½ marks for each correct and completely stated point. Maximum of 4 to be graded. Sub-Total: 15 marks)

c) “Good title does not arise where a vehicle is sold on by a thief. Even where subsequent buyers acquire the car, there can never be a good title and the claimant can never recover their stolen property”.

This was the decision in NEM Vs. Jones (1988). Here the car had already been sold by a thief and a number of transactions occurred before the property came into the possession of the defendant. It was held that as Mr. Jones title was derived from a thief, he could not claim good title.

In the light of the above, therefore, Stephen cannot claim to have a good or legal title, having derived his title from a thief.

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

d) In the similar case of Taylor vs. Allon, the Police prosecuted the defendant on the ground that he was not insured on the day when he was stopped by the Police, and despite a statement from company ‘A’ that they would have considered themselves “on risk” on that date, and would have dealt with any claim that may have arisen on that date, the defendant was convicted on a charge of driving whilst uninsured.

It was held that the defendant had never shown that he intended to accept the offer to renew made by company “A” which offer had been communicated on their renewal notice.

The fact that the defendant did not produce the temporary certificate to the Police when he was first asked to present proof of insurance was held to imply that he was unaware of either the importance of the certificate or even its existence. In fact, the temporary certificate was not produced until the case came to court and it was decided that the defendant had not proved that he:

- \* knew of the existence of the cover; \* had acted in reliance on it, and therefore;
- \* had accepted the offer made by company "A".

In brief, he could not have accepted an offer of which he clearly was not aware.

In line with the above case, the fact that Alhaji Abolore did not produce the temporary certificate issued by Reeler Insurance Company Limited to the Police when he was first asked to present proof of insurance, tantamounts to the fact that he was not aware of the importance of the certificate even its existence and consequently has violated the provision of the Road Traffic Act.

**(2½ marks for each correct and completely stated point. Maximum of 4 to be graded. Sub-Total: 10 marks)**

**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. (a) Enumerate and explain four (4) main Exceptions to cover provided in Personal Accident Insurance Section of the Private Motor Policy. **(20 marks)**
- (b) Outline and explain any four (4) measures applied by Insurers in the underwriting of Motorcycle Policy. **(14 marks)**

### **Solution**

(a) The main Exceptions to cover provided in Personal Accident Insurance Section of the Private Motor Policy are:

- (i) the benefit will not be payable if the bodily injury is the result of suicide or an attempted suicide;
- (ii) the benefit will not be payable if the injured person has reached the age of 65 years;
- (iii) if the policyholder holds more than one policy with the insurer, the benefit will be paid under one policy only;
- (iv) death, loss of eye(s) or limit(s) cruising more than three months after the event leading direct to the condition;
- (v) the benefit will not be payable if the injured person was at the time the injury occurred driving, or in charge of for the purpose of driving a vehicle and was under the influence of drink or drugs and/or had a concentration of alcohol in his body greater than the limits prescribed in the road traffic acts.

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

(b) The measures applied by Insurers in the underwriting of Motorcycle Policy are:

- i) accessories will only be covered for loss or damage whilst they are attached to the motorcycle;
- ii) spare parts will only be covered for loss or damage whilst they are attached to the motorcycle;
- iii) the loss or damage section follows the basic cover under a private car policy;
- iv) Personal Accident and Personal Effect Benefits are not covered;
- v) Higher Excess is applied on the Motorcycle, as the Motorcycle is more prone to being damaged superficially or stolen.

**(3½ marks for each correct and completely stated measure. Maximum of 4 to be graded. Sub-Total: 14 marks)**  
**(Grand Total: 34 marks)**

11. (a) What are the functions of Courtesy Cars and what has been the effect of its use on both repairers and insurers? Revert with four (4) complete and correct answers. **(20 marks)**  
(b) What are the relevancies of the term “district” as a rating factor in Commercial Motor Insurance Rating? **(14 marks)**

**Solution**

(a) The functions of Courtesy Cars and what has been the effect of its use on both repairers and insurers are as explained below:

- most reasonable sized repairers now offer some of alternative transport while they have a customer’s vehicle in for repair and these are commonly known as courtesy cars;
- the size, type and quality of such cars differ greatly from repairer to repairer, as does their source e. g own vehicles, lease vehicles and rental vehicles;
- most insurers insist upon availability of courtesy cars from their panel of repairer and indeed than use this fact in their publicity;
- the pressure placed upon repairers to provide courtesy cars has led to some difficulties over the past few years. in order to satisfy demand, repairers have had to hold sizeable fleets of such vehicles and/or make arrangement for rental availability courtesy cars are still bulled as being free but the cost has to come into estimation somehow;
- a number of insurers have recognized the cost factor and have agreed a separate charge for courtesy cars. some insurers have gone as far as arranging their own source of rental vehicles. all of this can cause difficulties when endeavoring.

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

(b) The relevancies of the term “district” as a rating factor in Commercial Motor Insurance Rating are:

- in a similar way to private motor, it is the district in which the vehicle is normally garaged that will be considered mainly in the underwriting;
- where it is evident that long-distance haulage work is to be undertaken and therefore the vehicle will be exposed overnight anywhere in the country; this will also be considered;
- the classification of districts will vary from insurer to insurer, it is clear that the largest contribution will form the highest rated areas, rural area being rated lower.

**(7 marks for each correct and completely stated relevance. Maximum of 2 to be graded. Sub-Total: 14 marks)**  
**Grand Total: 34 marks)**

12. (a) Roland drove his insured Opel Saloon Car along Ore-Benin Express Road and was involved in a lone accident resulting in extensive damage to his car. Roland got trapped in the car that had an accident and was rescued by passers-by and other good Samaritans. He sustained injury to his left leg. He drove under the influence of alcohol, and thereafter lodged an accidental damage claim of ₦550,000.00 with M/S Reliable Insurance Company Limited (his insurers). However, his claim was declined by the Insurers on the basis that the loss was not proximately caused by an insured peril. Roland wrote a very strong letter of protest to the insurers insisting that his claim must be met having duly paid the prescribed premium.

(i) What is “proximate cause”?

(ii) What is the relevance of “proximate cause” in the settlement of a motor claim with particular reference to Roland’s claim? **(20 marks)**

(b) What are the resultant effects of accurate rating of risks in Motor Insurance Business? **(14 marks)**

### **Solution**

(a) (i) Proximate cause was defined in the leading case of Pawsy vs. Scottish Union and National Insurance Company (1908) as “Proximate Cause means the active efficient cause that sets in motion a train of events which bring about a result, without the intervention of any force started or working actively from a new or independent sources”. **(Sub-Total 10 marks)**

(ii) This doctrine relates to the rules which are employed as a guide in determining whether or not a loss which is the subject of a claim was brought about by an insured peril. **(Sub-Total: 5 marks)** Roland’s claim would not be met as it was proximately caused by an Exception of the policy i. e driving under the influence of alcohol his protest letter notwithstanding. **(Sub-Total: 5 marks)**  
**(Grand Sub-Total: 20 marks)**

b. The resultant effects of accurate rating of risks in Motor Insurance Business is that the accurate rating of risk can make difference between profit and loss for an Insurer. Setting too low a rate for a particular type of Motor Insurance risk will result in a loss for each Policy written and, particularly with the advent of computers quotations systems, such “bargains” will be found out, thus leading to a flood of similar non-profit making business. Conversely, a higher rate than is warranted will lead to potentially profitable business going to a cheaper competitor. The process whereby the market place will seek out and exploit weakness in rating structures is known as “selection” and can destroy an account.

**(7 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 14 marks)**  
**(Grand Total: 34 marks)**

13. (a) Chief (Mrs.) Essien, a financial expert insured her Mercedes Benz Saloon Car with Reliable Insurance Company Limited on comprehensive basis for a sum insured of ₦3,000,000.00. The Policy contains a Clause which reads as follows:-  
“The policy does not cover loss and damage arising from theft whilst the ignition keys of your car have been left in or on the car”.

The Insured travelled from Uyo to Asaba to attend a social outing. Whilst there, she parked the car neatly in front of a church, but inadvertently left the ignition key on the car. In the meantime, a thief entered the car, started the car and sped off whilst the Insured was still enjoying herself at the party.

Chief (Mrs.) Essien has lodged a claim with Reliable Insurance Company Limited, demanding for the sum of ₦3,000,000.00., representing the value of the stolen vehicle.

As the Claims Manager of Reliable Insurance Company Limited, how would you handle this claim taking into consideration the recent Court of Appeal decision in Hayward Vs. Norwich Union? **(20 marks)**

(b) What are the main rating factors used in Private Car Insurance? **(14 marks)**

### **Solution**

(a) Reliable Insurance Company Limited would have to repudiate liability. **(5 marks)**

Other crucial considerations are:

- Insurance, in general, cover fortuitous risks and are subject to Utmost Good Faith which continues throughout the life time of the Policy. What is more, Policyholders are expected to act as though uninsured;
- The Exclusion is clear enough that the Policy does not cover loss and damage arising from theft whilst the ignition keys are left in or on the car. Consequently, the insured acted in violation of the Exclusion of the Policy;
- The Court Of Appeal decision in Hayward Vs. Norwich Union (2001) arose as a result of the theft of Mr. Hayward's Porsche from a garage fore court. After filing the patrol, Mr. Hayward left the keys in the ignition and also failed to remove the control unit, located under the driver's seat. Moreover, the doors were also unlocked;
- This had in fact been the normal practice of Mr. Hayward, but he had complete faith in the Vehicle Immobilizer System;
- The fact of the case is that on one particular occasion, Mr. Hayward was paying at the kiosk for the petrol, having parked no more than 25 yards away, when a thief entered his car who was somehow able to disengage the immobilizer, possibly by means of a code grabbing device, although this particular aspect was never fully explained or clarified.
- Mr. Hayward made attempts to block the thief from driving off, yet the thief sped off. It was held that the key had been left in the vehicle – the purpose of the clause was to encourage Policyholder to take elementary precautions in relation to the keys, in order to reduce the chances of opportunist thefts.
- The Insurers appealed the original decision, the main focus of the Appeal being the question of whether the ignition key had been left in the vehicle. It was held that the key have left in the vehicle - the purpose of the clause was to encourage Policyholders to take elementary precautions in relation to keys, in order to reduce the chances of opportunist thefts.

**(3½ marks for each correct and completely stated consideration. Maximum of 4 to be graded. Sub-Total: 15 marks)**

**(Grand Sub-Total: 20 marks)**

(b) The main rating factors used in Private Car Insurance are:

- |                                    |                                     |
|------------------------------------|-------------------------------------|
| * the proposer and other drivers;  | * the vehicle;                      |
| * use to which the vehicle is put; | * area or district of use (garage); |
| * scope of cover required.         |                                     |

**(2 marks for each correctly stated factor. Sub Total: 10 marks)**

**(Grand Total: 34 marks)**

14. (a) What is the underwriting approach of insurers to “Kit Cars”? **(22 marks)**

(b) What are the four (4) risks specifically excluded under an Internal Risks Third Party and Damage Policy? **(12 marks)**

### **Solution**

(a) Kit cars have grown in popularity over the last few years. At one time this type of risk involved manufacturers combining various parts of a car from other manufacturers, and then providing a body, moulded out of plastic or perhaps fiberglass. **(7 marks)**



Nowadays, sports cars may be in kit form (e.g. Caterham) and the Insurance market takes a more flexible view towards underwriting of these risks, realizing that in the main, such vehicles will be a treasured possession and they are generally used infrequently. **(7 marks)**

There may be a maximum mileage limitation imposed and also a large own damage excess applied. **(4 marks)**

Alternatively, indemnity for parts only may be provided under the own damage section which may produce a reduction in the premium to reflect the reduced risk. **(4 marks)**

**(Grand Sub-Total: 22 marks)**

(b) The risks specifically excluded under an Internal Risks Third Party and Damage Policy are:

\* fire; \*explosion; \* theft; \* weather conditions;

**(3 marks for each correct and completely stated risk. Grand Sub-Total: 12 marks)**

**(Grand Total: 34 marks)**

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT A07

LIABILITY INSURANCES

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
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 Comments**

### **Question 1**

This question was intended to test candidates' knowledge on tort. Attempt was at 60% which was encouraging, but performance was very poor at 47%. It appears that candidates did not prepare adequately for this diet examination. Candidates are advised to go for tutorials.

### **Question 2**

This question was compulsory for all the candidates. It was 100% attempted and the pass rate was 72%, which showed that the candidates understood what negligence is all about.

### **Question 3**

This question dealt with knowledge of the importance of "Hedley Byrne V. Heller and Partner 1963. Attempt was high at 93% and good performance was impressive at 79%.

### **Question 4**

This question tested candidate's knowledge on arbitration. It was well attempted and the pass rate was 60%. To enhance future performance, the candidates need to study the course book.

### **Question 5**

This question was intended to test candidates' knowledge on "Master and Servant Relationship". The performance showed that candidates were conversant with this question. Attempt was high at 79%, while performance was excellent at 90%.

### **Question 6**

The candidates pass rate on this question was poor at 23%. The question was well attempted but most of them did not understand the legal doctrine of "res ipsa loquitor". They need to read more for better performance in future examinations.

### **Question 7**

This question was on Employers' liability insurance as it related to exemptions and limit of indemnity. It was well attempted but the pass rate was 53%.

### **Question 8**

This question was intended to test candidates' knowledge on some defences used in liability insurances. Attempts and performance were excellent at 93%, which showed good understanding of this question by the candidates.

### **Question 9**

This is the compulsory question. Part (a) tested candidates' knowledge on insurance industry operators. Candidates' performance was excellent. Part (b) tested candidates' knowledge of underwriting factors required for public liability insurance. Average performance by candidates was recorded on this section. Many candidates wasted time in writing irrelevant things. Part (c) was intended to test candidates' knowledge on how to rate public liability insurance. Half of the candidates lack understanding of this question. Overall performance of this question was about 30%.

### **Question 10**

This was an optional question with a 79% attempt rate and a 60% pass rate. The question was on breach of reasonable precaution condition of Employer's liability insurance. Candidates need to read and understand the coursebook as well as seek tutorials to enhance their understanding.

### **Question 11**

This question tested candidates' knowledge on some liability terms e.g., remoteness, damnum e.t.c. Attempt was at 67%, while the performance was very poor at 30%. Better preparation and commitment of candidates will enhance their future performances.

### **Question 12**

This question tested candidates on the concept of a bailee in part (a) and meaning of some decided cases law e.g., Hayness V. Harwood and Ryland V. Fletcher. Attempt was poor at 28%, and also performance was very poor at 15%. Generally, candidates lack understanding of this question. They are advised to take tutorials.

### **Question 13**

This question was intended to test candidates' knowledge on some liability terms, rating of professional indemnity insurance and claim, supporting document for third party bodily injury. Attempt was good at 84%, but performance was over average at 60%. Candidates' mis-interpreted loss of earning to mean consequential loss. Adequate preparation will help the candidates to do better in their future examination.

### **Question 14**

This question was to test the candidates' knowledge on risk improvement and Directors' Liability Insurance. Attempt rate was 40%, and performance was very poor at 16%. Candidates need to study hard most especially on Directors' Liability Insurance.

### **Comments on Overall Performance**

Overall performance was about average 49%. This is not encouraging in view of the fact that the questions are course book questions.

### **Suggestions on Improvement (if any):**

- (a) Better preparation and commitment to study well
- (b) They are advised to go for tutorials.

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

1. “Omission to do something which a reasonable man ...”
  - (a) Complete the definition of “omission” above.
  - (b) State the decided case law relevant to the above definition.
  - (c) The above definition is about a particular tort. What is the name of the tort.

**Solution**

- (a) “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”. (2 marks)
  - (b) Blyth v. Birmingham Waterworks Co. (1856) (2 marks)
  - (c) Negligence. (2 marks)
- (Grand Total: 6 marks)**

2. Enumerate three (3) of the four factors a plaintiff must prove to succeed in an action for negligence.

**Solution**

The factors that a plaintiff must prove to succeed in an action for negligence are:

- (i) that the defendant owes a duty of care to the plaintiff;
- (ii) the defendant is in breach of that duty;
- (iii) that the breach has caused damage or loss to the plaintiff;
- (iv) that the damage is foreseeable.

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

3. Briefly comment on the importance of ‘Hedley Byrne v. Heller and Partner 1963’ with focus on the importance and the principle that the case established.

**Solution**

The importance of this case is that duty of care is now owed for negligent misstatement (3 marks). The case established that there will be liability for negligent advice which results in financial loss (3 marks).

**(Grand Total: 6 marks)**

4. Explain the roles that “arbitration” is intended to deal with in the settlement of liability policies.

**Solution**

In liability policies, arbitration is intended to settle disputes that may arise between the insurer and the insured as regards claim. Arbitration condition which requires dispute to be referred to Arbitration instead of legal proceedings. Arbitrators are to deal with any disputes that may arise as to the quantum (amount) of a claim with the view to arrive at amicable settlement between the two parties.

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

5. Enumerate three (3) of the four tests that determine master and servant relationship.

**Solution**

The following four (4) tests will determine whether there is a master and servant relationship:

- the master's power of selection of the servant;
- the payment of wages and other remuneration;
- the master's right to control the method of doing the work;
- the master's right of suspension or dismissal.

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

6. Briefly explain the liability maxim "res ipsa loquitur", with at least three (3) explanations.

**Solution**

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

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

7. Briefly explain the following terms in connection with Employers' Liability (Compulsory Insurance) Act 1969:

- (a) exemption;                      and                      (b) minimum indemnity limit.

**Solution**

a. **Exemption:** The Employers' Liability (Compulsory Insurance) Act 1969 exempt domestic servant and some close relatives. Certain employers e.g. nationalized industries, police authorities, government department and most local authorities are exempted. (3 marks)

b. **Minimum Indemnity Limit:** Regulation 3 of Employers' Liability (compulsory Insurance) Act 1969 required the minimum sum to be insured in respect of any claim by one or more employees arising out of one occurrence to be €5 million. This figure is inclusive of cost and expenses incurred in relation to any such claim. (3 marks)

8. Briefly explain the meaning of the following defenses used in liability insurance:

- (a) volenti non fit injuria;                      and                      (b) inevitable accident.

**Solution**

a. **Volenti Non Fit Injuria:** this maxim can be translated 'No injury is done to a willing person'. Thus, it is a defense to show that the plaintiff either expressly or impliedly consented to the risk of injury or damage. However, the consent must be real and not obtained by duress. (3 marks)

b. **Inevitable Accident:** the defense of inevitable accident may be raised if an accident happens despite the exercise of reasonable care on the part of those concerned. In other words, there is no evidence of negligence to prove a claim. (3 marks)

(Grand Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) As at today, the insurance industry landscape in any country is made up of operators, trade associations and regulator. Enumerate explicitly any five (5) of these players. (10 marks)
- (b) As a liability insurance underwriter, discuss five (5) underwriting factors that should be considered before accepting a public liability insurance proposal. (20 marks)
- (c) Enumerate and discuss five (5) rating basis for public liability insurance. (20 marks)

### Solution

- (a) The operators in the insurance industry landscape in any country are:
- |                         |                              |                         |
|-------------------------|------------------------------|-------------------------|
| * the regulator;        | * reinsurance companies;     | * insurance companies   |
| * insurance brokers;    | * insurance agents;          | * loss adjusters;       |
| * insurers association; | * institute of insurance;    | * college of insurance; |
| * ministry of finance.  | * supplier services provider |                         |
- (2 marks for any correctly stated operator. Maximum of 5 to be graded. Total: 10 marks)
- (b) The underwriting factors that should be considered before accepting a public liability insurance proposal are:
- **The Insured:** it is important to know the insured i.e. the identity of the insured, the owners and the management. How the company is structured, the makeup of the company i.e. partnership, limited or enterprises with or without associated company. The date the company commenced business may be important to determine their experience and competent;
  - **Occupation:** the occupation of the insured is very important to determine the level of their risk exposure. The occupation shows how hazardous the business of the insured i.e. whether the business involve high, moderate or low risk. The occupation of the insured is a good factor in rating to determine the premium payable;
  - **Multi-Tenant Premises:** liability risk may be very high in multi-tenanted premises involving various business operation with various degrees of hazard. The risk of fire spreading is imminent and this increases the potential liability to third parties;
  - **Nature of Surrounding Property:** it is important for liability underwriter to ascertain the business processes carrying on in the surrounding environment/premises. The main risk to surrounding property is that of spreading fire and explosion. It is also important to ascertain the use of storage of flammable or explosive material in the surrounding property.
  - **Visitors:** visitors to the insured premises is very important underwriting factor. The extent to which visitors (third parties) will be on the premises and the part of the premises to which they will have access need to be considered.
  - **Custody or Control of Property:** The insured may have property belonging to third party in his/her custody and control. The nature of such property should be considered as this may increase the potential liability to third parties.
  - **Passer-by:** it is important to consider the potential liability for bodily injury to passers-by. This is important in a construction site. Besides, where loading and unloading take place close to the public pavement, falling load can cause injury to pedestrians.



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

- (c) The rating basis for public liability insurance are:
- **Turnover:** a rate is applied on the company's turnover to produce the premium;
  - **Wage-Roll:** a rate is applied in the total estimated wage roll of all the employees to produce the premium;
  - **Number of Beds:** an amount will be charged per bed, multiply by the hotel number of bed to produce the premium. This method is suitable to hospital, nursing homes and hotels;
  - **Number of Students:** An amount will be charged per student, multiplied by the total number of students to produce the premium. This is appropriate for education establishment;
  - **Seating Capacity:** This is appropriate for stadia and event centres.

(2 marks for any correctly stated basis. 2 marks for correct and completely stated explanation under each basis. Sub-Total per basis: 4 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) In Employers' Liability Insurance, the insured must comply with the "reasonable precaution condition". If there is a claim and it was established that the insured failed to take reasonable precaution, it is not enough to repudiate the claim. Discuss. (14 marks)
- (b) In Employers' Liability Insurance, list four (4) factors that constitute as a safe system of work. (12 marks)
- (c) Explain the term "premium adjustment" and state its purpose in Employers' Liability Insurance. (8 marks)

### Solution

(a) The focus solution for the question is the understanding behind the **Reasonable Precaution Condition**. This is to protect the insured from failure of the insured to take reasonable precaution is not enough ground to repudiate an Employers' Liability claim. Although absence of reasonable precaution indicates negligence on the part of the employer (the insured) rigid application of reasonable precaution condition would nullify the contract and will defeat the purpose of the Act which is intended to provide employees with compensation for bodily injury, illness or death arising in the course of their employment. Regulation no 2 of the Act prohibits any policy terms (reasonable precaution inclusive) which exclude the insurers' liability. However, the policy will contain a condition by which the insured would be required to repay to the insured all sums paid by the insurers which they would not be liable to pay but for the regulation 2

(2 marks for any correct and completely stated justification. Maximum of 4 to be graded. Sub-Total: 20 marks)

- (b) In Employers' Liability insurance, the following factors will constitute safe system of work:
- planning of work of men or development;
  - co-ordination of work of men or development;

- layout of machinery;
- provision of protective clothing;
- provision of instruction, training and supervision.

(3 marks for any correct and completely listed factor. Maximum of 4 to be graded. Sub-Total: 12 marks)

(c) In Employers' Liability Insurance, premium adjustment relates to the condition of wages declaration. The premium on this policy is naturally based on estimated annual wages/salaries of the employees and such, the initial premium at inception is regarded as provisional premium or deposit premium. The declaration condition on this policy require the insured to submit or declare to the insurer the actual wages/salaries paid to the employees at the end of the period of insurance for the purpose of premium adjustment. The purpose of premium adjustment is to ensure the insurer charge adequate and commensurate premium for the liability risk covered under the policy. **2 marks for each correct and completely stated point. Maximum of 3 to be graded under "premium adjustment" and 1 under purpose. Sub-Total: 8 marks)**

(Grand Total: 34 marks)

11. (a) Write short notes on each of the following:
- |  |                                      |
|--|--------------------------------------|
| (i) remoteness of damage;              | (ii) damnum sine injuria;            |
| (iii) breach of warranty of authority; | (iv) liquidated/unliquidated damages |
- (16 marks)
- (b) Negligence is not actionable per se. Discuss. (10 marks)
- (c) Directors' and officers' (D&O) liability Insurance can be arranged in two ways. Explain these two (2) ways. (8 marks)

### Solution

(a) (i) **Remoteness of Damage:** a claimant may be able to show that the damage suffered by him has been proximately caused by the activities of the defendant, he may not recover in full the extent of his loss as some may be considered too remote from the original act to be recoverable. The principle of law is that a man should only be held responsible for the probable consequences of his act i.e. the test is a reasonable foreseeability. If damage suffered is not foreseeable, then it is too remote.

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

(ii) **Damnum Sine Injuria:** this means 'harm done without the commission of a legal wrong'. Tort is the breach of a duty which a person owes to his fellow men in general. In tort, not all action (or failure to take action) which cause injury or damage is actionable i.e. failure to take action in certain circumstances may not give right to a claim. For instance, there is no duty to save a person drowning if one can swim very well.

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

(iii) **Breach Of Warranty of Authority:** This may arise where an agent acting on behalf of a principal exceeds their authority whether express or implied. The agent may have acted in good faith on behalf of his principal but the principal will be vicariously liable.

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

(iv) **Liquidated/Unliquidated Damages:** **Liquidated damages** are damages that can be assessed by monetary valuation. For example, on liability claims involving damage to third party property e.g. motor vehicle, the repair cost can be assessed by financial valuation of the damaged property. When the value of the property is ascertained, the court will use it as the basis for the

award if damage to be paid by the negligent person. **On the other hand, unliquidated damages** are damages that cannot be assessed by reference to evidence of value i.e. the damage cannot be ascertained by reference to market price. Examples is pain and suffering.

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

**(Grand Total: 20 marks)**

(b) It is correct to say that negligence is not actionable per se. In other words, to succeed in an action for negligence is not automatic. The plaintiff has to prove the following facts in order to succeed in an action for negligence:

- that the defendant owes a duty of care to the plaintiff;
- that the defendant is in breach of that duty;
- that the breach has caused damage or loss to the plaintiff;
- that the damage caused by the plaintiff is foreseeable.

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

(c) Directors' and Officers' Liability Insurance can be arranged in two ways as follows:

- **Directors' and Officers' Liability:** this provides indemnity to the directors and officers for their wrongful act committed during the period of insurance which resulted in financial loss to the company.
- **Corporate Reimbursement:** This provides indemnity to the company for financial loss arising from any of the Directors' negligent act.

**(2 marks for each correctly stated way. 2 marks for explanation under each term. Sub-Total: 8 marks)**

**(Grand Total: 34 marks)**

12. (a) Who is a Bailee? State two distinct examples. **(5 marks)**

(b) Enumerate and explain two (2) forms by which the act of a bailee might be performed and explain how liability of each of them may arise. **(15 marks)**

(c) Explain the legal decisions in the following decided case laws:

(i) Hayness v. Harwood 1935; and (ii) Ryland v. Fletcher 1868. **(14 marks)**

### **Solution**

(a) A bailee is a person who has custody of the property of another on the understanding that it is to be eventually return to that person. Examples of bailee are pawnbroker, drycleaner, motor mechanic (motor garage proprietor) watch repairers, drycleaners etc.

**(2 marks for correct definition. 1½ marks for each correctly stated example. Maximum of 2 examples are to be graded. Sub-Total: 5 marks)**

(b) The forms by which the act of a bailee might be performed and how liability of each of them may arise are as explained below:

(i) **Bailee for Reward:** this is a person to whom goods are entrusted for a particular purpose and who is paid for his service. Bailee for reward must exercise reasonable care for the safety of the property and they will be responsible for the loss or damage to the property in their possession.

(ii) **Gratuitous Bailee:** goods or properties are entrusted to him/her but they are not paid for the service rendered. The liability of gratuitous bailee may be less than that of a bailee for reward. At common law, the onus is always on the bailee whether he is a bailee for reward or a

gratuitous bailee to prove that the loss or damage of a good bailed to him was not caused by his negligence.

(3½ marks for correctly stated form, definition. 2 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each form. Sub-Total per form: 7½ marks. Grand Sub-Total: 15 marks)

(c) (i) **Hayness v. Harwood 1935:** this is one of the important cases that proffer solution to the maxim 'Volenti non fit Injuria'. This maxim state that 'no injury is done to a willing person' i.e. there must be consent on the part of the plaintiff. It was decided that the facts of this case is an exception to the maxim of 'volenti non fit Injuria'. In this case, the defense of Volenti was rejected against a policeman on duty who was injured in his attempt to stop a runaway horse.

(ii) **Ryland V Fletcher 1868:** the following was decided in this case:

- an occupier who brings onto and keeps on his land anything which is likely to cause damage if it escapes is under strict obligation to prevent its escape and is liable for any damage caused as a result of its escape;
- that liability exists irrespective of negligence i.e. the defendant will be liable even though he has exercised reasonable care.

(3½ marks for correct and completely stated explanation. Maximum of 2 to be graded under each term. Sub-Total: 7 marks. Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)

13. (a) Briefly explain the following liability terms:

- |  |                              |            |
|--|------------------------------|------------|
| (i) Loss Control Audit;  | (ii) Future Loss of Earning; |            |
| (iii) Product Recall;  | (iv) Minor                   | (20 marks) |
| (b) Explain how the premium charged on professional indemnity insurance is determined. |                              | (10 marks) |
| (c) List any four (4) claims supporting documents for a third-party bodily injury.     |                              | (4 marks)  |

### Solution

(a) (i) **Loss Control Audit:** This is a critical examination of an industrial operation in its entirety to identify potential hazard and level of risk. Audits are often undertaken by multidisciplinary terms. Individual members should have a good knowledge of legal requirement and industry practice. In many companies, this expertise is readily available and so in some cases, audits tend to be undertaken by external specialist such as consulting engineers acting independently or employed by insurance companies.

(ii) **Future Loss of Earning:** This is one of the components of the general damages in personal injury action. Claims involving personal injury are perhaps the largest single source of litigation. A claim for future loss of earnings presupposes some form of permanent disability or disability which will last some time into the future. Future losses may be total or partial. A plaintiff may not be able to work at all because of their disability or they may not be able to work for such long hours or work overtime. They may have to take less strenuous jobs for less money.

(iii) **Product Recall:** The standard product liability policy will not cover expenses incurred by a supplier or manufacturer in recalling defective product from the market. After the product has been put in to the market, it may be discovered that it has dangerous faults. This may make it necessary to withdraw (recall) the product completely from the market and replace it or recall it to

have the fault corrected. Insurance for product recall covers the expenses incurred in recalling the product or arranging its destruction.

(iv) **Minor:** A minor is somebody under 18 years of age. A minor can sue or be sued only through their friend i.e. their parent or legal guardian. A minor cannot be sued for breach of contract which can be a tort. The law will not allow a minor to be sued in tort if the action tantamount to the child being sued in contract.

(2½ marks for correct and completely stated explanation. Maximum of 2 to be graded under each term. Sub-Total: 5 marks. Grand Sub-Total: 20 marks)

(b) The premium charged on professional indemnity insurance is determined by applying a rate either to the total gross fees or to the amount of indemnity plus a per capita average for each person employed in the business. The premium arrived at maybe loaded in consideration of the following:

- **More Than One Office:** Where there is more than one office, the risk may be increased because of the problem of control, monitoring and communication;
- **Claim Experience:** Past claims experience may influence the premium payable;
- **Age of Partners:** An increased premium may be charged where the partners are young or where the business is only recently established;
- **Ratio of Partners to Staff:** There must be an acceptable ratio between supervisory and other staff. If the ratio will not guarantee good supervision and control, the basic premium may be loaded or attract a loading.

(2½ marks for correct and completely stated explanation. Maximum of 4 to be graded under each term. Sub-Total: 10 marks)

(c) Some claims supporting documents for a third-party bodily injury are:

- |                            |                               |                 |
|----------------------------|-------------------------------|-----------------|
| * completed claim form;    | * medical examination report; | * medical bill; |
| * excise duty certificate; | * employee pay slip.          |                 |

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

(Grand Total: 34 marks)

14. (a) Concisely explain the term “risk improvement”. (10 marks)

(b) Enumerate and explain two (2) ways a company can achieve risk improvement in their daily operations. (15 marks)

(c) Briefly discuss the effect of the Insolvency Act 1986 on a Company Director with at least three (3) explanations. (9 marks)

### Solution

(a) **Risk Improvement:** A business organisation have goals or objectives they intend to achieve. Risk is inherent in their daily operation and when they crystalize, it may cause interruption in the company operation and hinders them from achieving their set goals. It is therefore in the interest of the insured to reduce the number and cost of accident by putting in place effective risk improvement measures. Expenditure on risk improvement should be seen as a good investment because it will reduce the frequency and severity of loss.

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

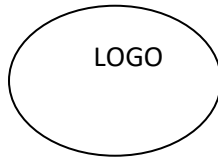
(b) A company can achieve risk improvement in their daily operations by performing any of the following activities:

- (i) **Housekeeping:** This involves the following
- good management of the insured's premises;
  - proper training of the employees on safety procedures;
  - safe working method;
  - good supervision of the employees good communication at all level.
- (ii) **Labour Relations:** This involves the following
- cordial relationship between the employer and the employees;
  - given employee sense of belonging will create good labour relation;
  - good communication between management and employees;
- (iii) **Risk Survey/Inspection:** This involves physical inspection to the company's premises and inspect the operation to identify source(s) of risk with appropriate recommendation for risk improvement.

**(3½ marks for correctly stated activity. 2 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each term. Maximum of 2 activities to be graded. Sub-Total per activity: 7½ marks. Grand Sub-Total: 15 marks)**

(c) The effect of the Insolvency Act 1986 on a Company Director can be explained that the Insolvency Act 1986 is a major source of claims against a director of a company. Section 214 of the Act makes a director liable if he/she indulges in wrongful trading by permitting their insolvent company to continue trading until liquidation becomes inevitable. A director of a company is expected to take reasonable steps with a view to minimizing the potential loss of their insolvent company; and when a developer failed to act wisely, the Act permits the liquidation of an insolvent company to seek a personal contribution from the negligent director towards the deficiency of the company's assets. The extent of the contribution required from the director is a matter for the court's discretion in the light of the circumstances.

**(3 marks for correct and completely stated explanation. Maximum of 3 to be graded. Sub-Total: 9 marks)  
(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2023 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:**

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- Fill in the information requested on the answer booklet and on form B.
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**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A08 - RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

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



## **Chief Examiner's Comments**

### **Question 1**

This question was set to test candidates' knowledge on fire and special perils covers. All the candidates attempted the question. 85% passed while 15% failed.

### **Question 2**

This question tested the knowledge of candidates on the responsibilities and values relating to risk analysis. 93% of the candidates attempted the question. 63% scored above average marks. 30% scored below average. 7% did not attempt the question

### **Question 3**

This question was set to test the candidate's knowledge of abbreviation of regulatory bodies and their functions. Candidates did not get it correctly, and it was 100% failure. This showed that candidates did not prepare for this question.

### **Question 4**

This question was set to test the candidate's knowledge on "cause of stress within the workplace." Attempt was at 100% while pass and failure rates were at 68% and 32% respectively.

### **Question 5**

The question tested the candidates' knowledge on informal source of external information. 96% scored above average, while 4% scored below average. The performance showed that the candidates were fully prepared for this type of question.

### **Question 6**

This question was set to test the candidates' knowledge on the techniques used to identify risk. Majority of the candidates performed poorly. Pass rate was at 5%, while 95% failed. Candidate did not fully understand the question.

### **Question 7**

The question was set to test the knowledge of candidates on consequence of damaged. 43% of the candidates passed while 57% failed. This shows that the candidates were not fully prepared.

### **Question 8**

The question was set to test the knowledge of the candidates on the understanding of different responsibilities towards different stakeholders. 70% understood the question and performed well while 30% failed the question. This showed that majority of the candidates prepared for this type of question.

### **Question 9**

This is a compulsory question. Question (a) tested candidates' knowledge of the Insurance Institute practice. 60% did well while 40% performed below average. Question (b) tested candidates' knowledge on fire modelling. 20% got it right while 80% performed below average. This maybe that candidates were not fully prepared. Question (c), the question tested candidates' knowledge of Good Risk Mgt. 40% performed average while 60% performed below average. This may be due to lack of adequate preparation. Question (d) tended to test candidates'

knowledge on the possibility of fire extending beyond limit. 10% of the candidates performed averagely while 90% performed below average. This could be due to inadequate preparations.

#### **Question 10**

This set to test the knowledge of the candidates on the fault tree approach. 94% of the candidates that attempted the question passed while 6% did not get it right. This showed that majority of the candidates were fully prepared for this type of question.

#### **Question 11**

This question was set to test the candidates on “killer risk”. 53% of the candidates passed while 47% failed. This showed some level of preparedness for the examination by majority of the candidates.

#### **Question 12**

This question tested the knowledge of the candidates on different regulatory authorities and their functions. Most of the candidates did not attempt the question. Of those candidates that attempted the question, 50% passed and 50% failed.

#### **Question 13**

This question was based on technology. All the candidates that attempted it passed. It meant that candidates prepared well for this type of question.

#### **Question 14**

This question was averagely answered. It was set to test the candidates’ knowledge on the features of stakeholders and their interested in an organisation, of which 72% passed while 28% failed. This showed good preparation for the examination.

#### **Comments on Overall Performance**

The overall performance was good with a 57.50% pass rate. Candidates are enjoined to study well for improved performance in future examinations.

#### **Suggestions on Improvement (if any):**

Candidates should be encouraged to improve their knowledge by studying the course book thoroughly chapter by chapter, and other available but related books that could assist their performances.

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

1. The “fire and other perils” that are covered under a standard insurance contract are usually defined as meeting the exposure to. List any six (6) of these perils.

**Solution**

The perils that are covered under a standard insurance contract are:

- \* fire and lightening;                      \* malicious damage;                      \* explosion;
- \* riot and strike;                      \* bursting and overflowing of water pipes, tanks and apparatus
- \* storm, tempest and flood;                      \* impact;                      \* earthquake

**(1 mark for each correctly stated peril. Maximum of 6 to be graded. Sub-Total 6 marks)**

2. The consequences of individual damage and failures can be severe, as well as for other stakeholders, with varying levels of interest, which makes it pertinent that there are different ways in which an organisation can be damaged. This logically leads to consideration of the values and the responsibilities that needs to be kept safe from damage and loss. Briefly analyse three (3) of such values and responsibilities.

**Solution**

The values and the responsibilities that needs to be kept safe from damage and loss are:

- the safety of the people;
- the assets owned by the organisation and those assets belonging to others for which it carries responsibilities;
- confidence in the business and thus the value of the brand name;
- the avoidance of litigation costs;
- the operational ability to continue to manage the organization effectively and deliver on promises and contracts.

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

3. (a) Under the “Health and Safety Regulation”. What is the full meaning of RIDDOR?  
(2 marks)
- (b) Name two (2) of RIDDOR’s three requirements (4 marks).

**Solution**

(a) RIDDOR under “Health and Safety Regulation” means “Reporting of Injuries, Diseases and Dangerous Occurrences Regulations” (2 marks)

(b) RIDDOR requires employers to notify certain occupational (i) injuries, (ii) diseases and (iii) dangerous events.

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

**(Grand Total: 6 marks)**

4. As a risk manager, there was a survey that was carried out by your organisation which was based on “cause of stress within the work place.”. List any three (3) of these causes.

**Solution**

Some “cause of stress within the work place are:

- \* lack of consultation;                      \* being undervalued;                      \* volume of work;

\* moral and organisational climate; \* inadequate guidance.

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

5. Enumerate three (3) informal sources of external information that can be used by the risk manager.

**Solution**

Some informal sources of external information that can be used by the risk manager are:

\* newspapers; \* magazines; \* company's reports;  
\* associations; \* institutes; \* internet.

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

6. Analyse the three (3) techniques used by the risk manager to identify risk.

**Solution**

The three techniques used by the risk manager to identify risk are:

\* where do the risk lie? \* what are those risks?  
\* how can we clearly shape risk information for decision making?

(2 marks for each correct and completely stated technique. Total: 6 marks)

7. The issue of consequences is worthy of consideration, especially as damage can be seen in quite distinct and different ways. List any three (3) of these "consequences" that may be felt by an organisation.

**Solution**

Some "consequences" that may be felt by an organisation are:

\* injury; \* loss of life; \* monetary loss \* time; \* survival.

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

8. All organisations have different responsibilities required of them to different stakeholders. Enumerate three (3) groups of players that carry out these responsibilities to the stakeholders.

**Solution**

The groups of players that carry out these responsibilities to the stakeholders are:

\* the employer; \* the employers; \* the customers; \* the directors,  
\* to other people; \* to the wider environment within which the organisation operates.

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

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) (i) What is the full meaning of CIIN. (2 marks)  
(ii) Enumerate any four (4) central code of ethics of CIIN. (8 marks)

(b) Fire modelling can predict the development of a fire and the damaging side effects. It can thus lead to precise fire prevention, fire detection and containment investment. That expenditure can, and should, begin at the design stage of any new building. Some design safety features are the subject of legislation. Detection and alarm systems are also subject to a range of regulatory standards. This standard determines the fire resistance of elements. Enumerate seven (7) of these fire resistance elements. (21 marks)

(c) It is key to good risk management decision making to understand, not just whether an incident may occur and damage the organisation, but also the precise significance of such damage to the organisation's processes and to be responsibilities that the organisation is carrying. Analyse four (4) of these processes. **(10 marks)**

(d) When an organisation has a single factory and a fire occurs in that factory, the loss is likely to be made up of cost of replacing the building and contents, the increased cost of working elsewhere while the factory is rebuilt and the likely loss of revenue. However, it is not always like that. The damage may extend beyond the walls of the damaged unit. List three (3) ways that could make the damage to extend beyond the walls of the damaged unit. **(9 marks)**

### **Solution**

(a) (i) CIIN means Chartered Insurance Institute of Nigeria. **(2 marks)**

(ii) The central code of ethics of CIIN are:

- (i) to act responsibly and with integrity in their professional activities at all times to their clients and society as whole;
- (ii) compliance with the code of ethics, all relevant law and regulatory requirement and appropriate code of ethics and code of conduct;
- (iii) to uphold professional's standard in all dealing and relationship;
- (iv) to uphold and respect the confidentiality of information required in professional and business relationship;
- (v) to apply objectivity in making professional judgment and in giving opinions and statement.

**(2 marks for each correct and completely stated code. Maximum of 4 to be graded. Sub-Total: 8 marks)**  
**(Grand Total: 10 marks)**

(b) Fire modelling can predict the development of a fire and the damaging side effects. It can thus lead to precise fire prevention, fire detection and containment investment. That expenditure can, and should, begin at the design stage of any new building. Some design safety features are the subject of legislation. Detection and alarm systems are also subject to a range of regulatory standards. This standard determines the fire resistance of elements. Some fire resistance elements are:

- \* walls and partitions;
- \* columns and beams;
- \* floors;
- \* ventilation ducts;
- \* doors, door seals and shutter assemblies;
- \* suspended ceilings and ceilings membranes;
- \* glazed screens;
- \* structural steel protection.

**(Candidates are required to simply enumerate and not discuss.)**

**3 marks for each correctly enumerated element. Maximum of 7 to be graded. Sub-Total: 21 marks)**

(b) It is key to good risk management decision making to understand, not just whether an incident may occur and damage the organisation, but also the precise significance of such damage to the organisation's processes and to be responsibilities that the organisation is carrying. The processes here are:

- identify risk;
- analyse risk and impact;
- decide on what risk is and is not acceptable;

- control or transfer any unacceptable risk;
- review regularly.

**(Candidates are required to analyse each stated process. 1½ marks for each correctly stated process. 1 mark for each correct explanation/analysis cited. Sub-total per process: 2 ½ marks. Grand Sub-Total: 10 marks)**

(c) The ways that could make the damage to extend beyond the walls of the damaged unit when an organisation has a single factory and a fire occurs in that factory are:

- there is more than one production unit;
- essential ingredients are sourced elsewhere;
- there is a dependency between businesses;
- there is a dependency between units within businesses.

**(3 marks for each correct and completely stated way. Maximum of 3 to be graded. Sub-Total: 9 marks)  
(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. Discuss fully four (4) merits of the fault tree approach and also draw a fault tree.

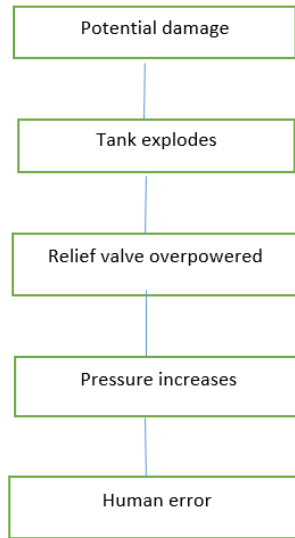
#### **Solution**

The merits of the fault tree are:

- The concept of a documented fault tree enables the risk manager to consider, from the particular angle of risk, the chain that makes up the process of delivery of goods or services, and then consider the risks to each link in that chain;
- The concept is valid for a simplistic presentation or the dependencies that lie within the whole chain of events that lead through to that delivery. It is valid, quite separately for a more focused look at one process alone or even one particular piece of machinery;
- The fault tree can, in one statement, bring together the whole host of quite different threats to delivery, some scientific, some human, some political, some geographic and many others;
- The fault tree can highlight individual exposures for further research and attention. It can enable the risk manager to prioritise attention to those risk incidents most likely to occur or those risk incidents that would have the most significant impact;
- Accordingly, the fault tree approach can be used quite differently, by mathematicians, engineers and scientists through to health and safety and continuity managers. Fault tree can be long or short, simplistic or highly technical and computerized, as is needed for a particular understanding.

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

The diagram of a fault tree (e.g, engineering) is:



**(The above is a sample. Candidates are free to draw on any are. Proportionate marks should be allotted once the diagram is correctly drawn.)**

**(Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**

11. Different organisations will have quite different killer risks but there can be some common denominators. Enumerate seven (7) of those risks that have the potential to be so damaging as to destroy an entire organisation.

**Solution**

Different organisations will have quite different killer risks but there can be some common denominators. Some of those risks that have the potential to be so damaging as to destroy an entire organisation are:

- The loss of the regulatory approval or licenses that the organisation must possess. An operational failure could mean that the organisation fails to continue to meet the specified demands of that ongoing approval;
- the credibility of the brand or name of the organization and its products;
- any total operational dependencies on facilities. For example, the production line or on computers including the information that they contain and the processing software;
- breakdown of the pool of human resources either in skill availability or shift in morale and culture;
- financial solvency;
- competitor strengthening;
- competitor behavior;
- loss of business or financial control over the organisation.

**(5 marks for the first six (6) correctly stated risks. 4 marks for the last correctly stated risks. Maximum of 7 to be graded. Grand Total: 34 marks)**

12. (a) In relations to Health and Safety legislature. Write short notes on the following:
- (i) Provisions and Use of Work Equipment Regulations (PUWER) 1992;
  - (ii) Noise at Work Regulations 1989;
  - (iii) Employers’ Liability (Compulsory Insurance) Act 1969;
  - (iv) Management of Health and Safety at Work Regulations 1992. **(16 marks)**

- (b) Decision making on risk can still be a very personal thing. Commercial factors within and around the organisation itself can also affect individual attitude to risk. Analyse six (6) additional factors that can bring this about. (18 marks)

### Solution

(a) (i) **Provision and Use of Work Equipment Regulations (PUWER) 1992:** it requires that equipments provided for use at work, including machinery is safe. (4 marks)

(ii) **Noise at Work Regulations 1989:** it requires employers to take action to protect employees from hearing damages. (4 marks)

(iii) **Employers Liability (Compulsory Insurance) Act 1969:** it requires, employers to take out insurance against accidents to and the sickness of their employees arising in the course of their employment (4 marks)

(iv) **Management of Health and Safety at Work Regulations 1992:** it requires employers to carry out risk assessments, make arrangements to implement necessary measure, appoint competent people and arrange for appropriate information and training. (4 marks)

(Sub-Total: 16 marks)

(b) Decision making on risk can still be a very personal thing. Commercial factors within and around the organisation itself can also affect individual attitude to risk. Some additional factors that can bring this about are:

- The financial strength and scale of the organisation which will determine the level of financial loss that can be absorbed without significant damage to any of the stakeholders;
- The culture of the organisation, its country of origin, its unique market place and of the board itself. Culture in the context is made up of those traditions, attitudes and business styles that make each organisation and its marketplace unique;
- The flexibility within an organisation that will enable it to meet urgent needs and the option to cope with a risk incident in different ways;
- The impact of each risk incident on the future trading activities of the organisation;
- Implement improvement plans, ensuring that everyone in the organisation is involved. Ensure that everyone has achievable targets that can be meet and recognised ;
- Involve staff, make sure they know what the policy sets out to achieve and why, seeking their contributions to planning improvements. If necessary consider any additional training they need;
- Report on progress and start a cycle of assessment, objectives setting and audit;
- Establish partnerships with suppliers and customers, where appropriate to extend and promote your objectives.

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

(Grand Total: 34 marks)

13. It was said that managers may need to be reminded that technology not only provides the customer facing process itself. It can also automatically fulfil some functions within an organisation. Enumerate six (6) functions technology can perform within an organisation.

### Solution



It was said that managers may need to be reminded that technology not only provides the customer facing process itself. It can also automatically fulfil some functions within an organisation. Some functions technology can perform within an organisation are:

- replaces a large number of trained and experienced staff who would be needed to fulfil the process manually with the manual skills possibly becoming extinct over a period of time;
- suppliers baseline product and information from its database retains an audit for the satisfaction of financial recording, internal and external controls and compliance;
- has sufficient credibility in the completeness of its output to satisfy counter parties and regulators;
- has necessary formulae and any corporate process stands and built into software
- allows access to an up to date common database to their interested departments and authorised third parties;
- secures sensitive information (variously, corporate, client, employee, counterparty and third party);

**(The list above is NOT exhaustive. 6 marks for the first five (5) correct and completely stated function. 4 marks for the last function correctly stated. Grand Total: 34 marks)**

14. Explain the features of the following stakeholders and their interests in an organisation:

- (a) employees; (b) suppliers;  
(c) customers and other recipients of service; (d) distributors.

#### **Solution**

(a) **Employers:**

- Moral and pride. This often reflects the degree of the employees' interest in the success of an organization and has a direct link into the quality of work performed;
- A need for a job to sustain personal and family life and also self esteem;
- A safe working environment.

(b) **Suppliers:**

- Suppliers to the organization will depend on its survival to be able to deliver and receive payment for the goods or services contributed;
- Sometimes the loss of one or more large customers can destroy a supplier can destroy customers who are further up the delivery chain.

(c) **Customers and other Recipients of Service:**

- Most business customers are free to move to other organisation. They will do so if they lose confidence in either delivery or quality;
- Other non-commercial service suppliers may find that their relationships with their existing recipients will become difficult and even fail should confidence be lost;
- Sales teams will find it increasingly difficult to find new customers;
- Failure to deliver the contracted services with sufficient quality can lead to huge losses from the damages well beyond the value of the item in dispute.

(d) **Distributors:**

- Distributors are in effect wholesale customers. All the comments about customers therefore apply;

- Some distributors depends on few or even one source of supply ( eg a distributor of new motor vehicles) failure of that distributor in many different ways. It can even cause it to fail if an adequate replacement supplier is not found soon enough.  
**(4½ for the first correct and completely stated explanation. 4 marks for the second. Maximum of 2 explanations to be graded under each term. Sub-Total per term: 8½ marks. Grand Total: 34 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2023 DIET EXAMINATION PAPER

SUBJECT A09

MARKETING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2023  
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 tested the candidates' knowledge of definition of marketing and how marketing has affected business practice. Good performance was above 68% pass rate.

### **Question 2**

This question was intended to distinguish between a functionally structures organisation and divisionally structured organisation. Good performance was above 60% pass rate.

### **Question 3**

Pass rate for this question was 69%. Candidates understood very well the components of marketing mix for service.

### **Question 4**

Candidates performed below average. Pass rate was 35%. Most of them enumerated more than the required points.

### **Question 5**

The question was well attempted and candidates' performance was below average. Pass rate was 47%.

### **Question 6**

A very direct question and all the methods were highlighted by the candidates. 56% pass rate was achieved.

### **Question 7**

More than 75% of the candidates attempted this question with success. Candidates should study more on marketing strategy and should be able to explain in details the phases. Pass rate was 41%.

### **Question 8**

(a) Almost all the candidates attempted this question but majority of them could not give simple definition but instead explaining the meaning. Average performance was recorded. Candidate should read more for improved performance.

(b) Performance was below average. Pass rate was 11%. Candidates were providing off points solution.

### **Question 9**

It was a compulsory question with about 55% pass-rate. The question on marketing strategy and research was well attempted. The part A side of the question on NAICOM was poorly attempted. No candidate scored up to 50% of the question.

### **Question 10**

Well attempted question with more than 77% pass rate. However, many candidates could not vividly explain what reverse engineering was all about. Candidates are advised to study the course book more.

**Question 11**

The question tested the knowledge of the candidates on the tasks performed by public relations department and the objectives behind the design of distribution channels. Pass rate was 90%.

**Question 12**

(a) The few candidates that attempted the question did not give extensive answers. They did not have good understanding of the question b & c, hence performance was above average.

(d) This was well attempted. Candidates were asked to list out stages of product life cycle. Pass rate was 76%.

**Question 13**

Performance on this question was below average. Pass rate was 28%. The candidates provided good responses on the marketing terms.

**Question 14**

Majority of the candidates attempted this question and performed well. On the average 85% of the candidates scored high, while 15% did not do well. Pass rate was 92%. Candidates should study more before sitting for the examination in future.

**Comments on Overall Performance**

It was an impressive overall performance as 71% pass rate was globally achieved.

**Suggestions on Improvement (if any):**

Candidates can do better by giving more attention to their studies. CIIN can assist them with tutorials.

**Part I**

**Answer ALL questions in Part I.**

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

- 1 (a) What is the definition of marketing?  
 (b) Enumerate any two (2) ways in which marketing has affected modern business practice.

**Solution**

(a) **Marketing** is a series of management processes based on a person's or organisation's interaction with understanding of existing and potential customers that enables it to provide them with what they need and want. (3 mark)

- (b) The ways in which marketing has affected business practice are:
- compressed channels of distribution;
  - more marketing channels;
  - emergency of more market -led organisations;
  - development of international marketing.

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

2. How does marketing function operate in a functionally structured organisation compared to divisionally structured organisation?

**Solution**

In a functionally structured organisation, the centralised marketing department is responsible for all marketing activities across the whole organisation and it provides marketing support for all departments (3 marks). However, in a divisional structure there will typically be a range of products and each product or service will have its own marketing manager or department however, some centralized marketing functions may be handled by head office) (3 marks).

(Grand Total: 6 marks)

3. (a) In marketing terms, what does positioning mean? (2 marks)  
 (b) Enumerate any four (4) components of the marketing mix for service. (4 marks)

**Solution**

(a) Positioning is the development and communication of a differential advantage that makes an organizations product or service superior to and distinctive from others, in the perception of target customers. (2 marks)

- (b) The components of a marketing mix for service are:  
 \* product; \* price; \* promotion; \* place; \* people; \* process.

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

(Grand total: 6 marks)

4. Personal selling is widely used in the insurance sector; it has some effective marketing characteristics. Enumerate any three (3) of these characteristics.

**Solution**

The characteristics of personal selling are:

- it provides two-way communication;
- the sales message can be tailored;
- the salesperson can use knowledge of the offering to overcome objections;
- a deal can be done on the spot.

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

5. What three (3) methods can an insurer use to maintain a high quality of customer and staff interaction?

**Solution**

Methods that insurer can use to maintain a high quantity of customers and staff interaction are:

- rigorous staff selection standards;
- regular staff training;
- involvement in decision making;
- regular staff coaching/mentoring;
- quality management system.

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

6. Enumerate any four (4) sales promotion method that insurance companies can use to market their products and/or services.

**Solution**

Six sales promotion methods that insurance companies can use to market their products and/or services are:

- \* price reduction;
- \* coupons;
- \* vouchers;
- \* competition;
- \* special function;
- \* free gifts.

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

7. List any four (4) phases of marketing strategy.

**Solution**

The different phases of marketing strategy are:

- establishing the corporate context;
- analysis of the internal environments;
- analysis of the external environments;
- formulation of a marketing strategy;
- implementation, control and evaluation.

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

8. (a) What is marketing audit?  
(b) List any three (3) four known main marketing objectives that is globally accepted.

**Solution**

(a) Marketing audit is a systemic, critical and unbiased review and appraisal of an organisation's marketing operations. **(3 marks)**

(b) The four main marketing objectives that is globally accepted are:

- to continue to sell existing offerings to existing market;



- to sell existing offerings into a new market;
- to develop new offering for existing market;
- to develop new services for new market.

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

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) NAICOM requires that every insurance institution must put in place some processes in relation to the claim process. Enumerate any five (5) of these processes. (10 marks)
- (b) State and concisely explain the four (4) steps of the components of a marketing strategy for service industry? (28 marks)
- (c) What are the six (6) steps involved in market research. (12 marks)

### Solution

(a) NAICOM requires that that every insurance institution must put in place some processes in relation to the claim process. These processes are:

- insurance companies must make sure claims settlement procedure are duly put in place and communicated to the insured;
- setting a timeline in the policy and procedure manual within which to settle all admitted claims;
- have a fair and transparent claim handling and claim dispute resolution procedure in place;
- provide claimant information about the status of their claim on a timely manner;
- ensuring that adjuster or assessors are given independence to operate;
- inform claimant about the procedure, formalities and common timeframe for claims settlement;
- maintain written documentation on all its claim handling process;
- communicate to the insured their duty to notify the claims promptly and disclose all material fact on the claim and advise on any new development;
- give prompt advise to the client on any requirement in respect of the claim;
- timely and accurate information shall be provided to the policy holder or claimant at all times.

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

(b) The components of a marketing strategy for service industry are:

#### Step 1: Establishing the Corporate Content

- Stating the corporate vision or mission statements;
- Identifying corporate objectives.

#### Step 2: Analysis of the Internal and External Environments

- Carrying out a marketing audit;
- Carrying out a SWOT analysis;

- Using research to make some key assumptions.

**Step3: Formulation of a Marketing Strategy**

- Establishing marketing objectives;
- Establishing marketing strategy;
- Predicting expecting results;
- Identifying contingent and alternatives strategies.

**Step 4: Implementing, Control and Evaluation**

- Resources allocation
- Budgeting
- Action plans
- Monitoring

(Stating the underling steps correctly and sequentially: 3 marks each.

2 marks for each step. Maximum of 2 points under each step. Sub-Total per step: 7 marks.

Grand Sub-total: 28 marks)

(c) The six steps involved in marketing research are:

- **Step 1:** identifying the missing information;
- **Step 2:** determine data need and sources;
- **Step 3:** research design;
- **Step 4:** design of sample size and characteristics;
- **Step 5:** data collection;
- **Step 6:** tabulation and analysis.

(2 marks for each correct and sequentially listed step. Sub-Total: 12 marks)

(Grand Total: 50 marks)

**Part III**

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) In the context of an application to an insurance product, what is “reverse engineering”? (4 marks)
- (b) Enumerate and explain six (6) most specific categories into which marketing messages can be put according to their objectives and styles. (30 marks)

**Solution**

(a) **Reverse engineering** is taking apart a competitor’s product by examining the insurance cover itself as evidenced by the policy wordings and a sample policy (2 marks); together with some attempt to estimate the loss record and the reinsurance arrangement that support the policy (2 marks). (Sub-Total: 4 marks)

(b) The most specific categories into which marketing messages can be put according to their objectives and styles are:

- **Connotative:** the message deals with feelings and relationships. It appeals to be receivers to make decisions based on their lifestyles and value
- **Denotative:** these are messages that a mere factual. Most descriptive advertising for product is denotative especially where those products can be differentiated from competitor’s products according to their physical attributes.

- **Rational:** message makes rational appeal here stating that the product will deliver the benefit wanted by the target audience. The messages demonstrate the reliability, quality and performance.
- **Emotional:** message in the emotional appeal can be effective. the life assurance AICO portray its customers as heroes responsible for the difficulty financial decisions needed to secure their family future.
- **Fear Based:** message generates a level of fear here, for example when insurance company makes their message to make a moderate fear based appeal to their audience. extreme fear-based appeal may generate too much anxiety and this can lead to avoidance of the message.
- **Moral:** messages can send moral appeal to audience on social issues such as anti-drug, anti-smoke, anti drink and drive campaigners.
- **Humor:** marketing message can be humorous and very effective for low involvement products like tea, detergent of soft drink.

**(3 marks for each correctly stated category. 2 marks for each correct and completely stated explanation. Maximum of 1 explanation to be graded under each term. Sub-Total per term: 5 marks. Maximum of 6 categories to be graded. Grand Sub-Total: 30 marks)**

**(Grand Total: 34 marks)**

11. (a) State and briefly explain the six (6) main tasks addressed by the public relations department? **(24 marks)**
- (b) Enumerate five (5) main objectives behind the design of distribution channels. **(10 marks)**

### **Solution**

(a) The six (6) main tasks addressed by the public relations department are:

- building or maintain a corporate image;
- supporting other communication activities;
- handling specific problems;
- reinforcing positioning;
- assisting in the launch of new products and services;
- influencing specific external groups.

**(Candidates are required to explain all stated tasks. 2 marks for each correctly stated major point. 2 marks for each correct and completely stated explanation. Sub-Total per task: 4 marks. Grand Sub-Total: 24 marks)**

(b) The five main objectives behind the design of distribution channels are:

- to make the product or service available to customers;
- to ensure that promotional effort is devoted to the product or service as close as possible to the customer;
- to provide the highest level of customer service;
- to gather feedback from customers and intermediaries about the product;
- to take advantages of economies of scale.

**(2 marks for each correct and completely stated objective. Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**

12. (a) Enumerate and explain the four (4) most appropriate time for an insurer to use direct distribution method? **(16 marks)**
- (b) What major assumption does a standardised international marketing strategy

- make about marketing skill? (4 marks)
- (c) On what premise is a localisation marketing strategy based. (4 marks)
- (d) What are the five (5) life cycles of product life cycle? (10 marks)

### Solution

- (a) The four most appropriate time for an insurer to use direct distribution method are:
- when the buyers are large and well defined;
  - when the insurance service is technically complex;
  - when the insurance has a high premium value;
  - when selling function requires technical expertise and extended negotiation.

(Candidates are required to explain all stated appropriate time. 2 marks for each correctly stated appropriate time. 2 marks for each correct and completely stated explanation. Sub-Total per appropriate time: 4 marks. Grand Sub-Total: 16 marks)

- (b) The major assumption that a standardised international marketing strategy make about marketing skill is that it assumes that marketing skill and know-how can be transferred across countries. (4 marks)

- (c) A localisation marketing strategy based is based on the premise that differences across countries requires a tailored marketing programme for each country. (4 marks)

- (d) The five (stages) of product life cycle are:
- \* **Stage 1:** Development;                      \* **Stage 2:** Introduction;                      \* **Stage 3:** Growth;
- \* **Stage 4:** Maturity;                              \* **Stage 5:** Decline.

(2 marks for each correct and sequentially arranged stage. Sub-Total: 10 marks)

13. Concisely explain the following terms:

- (a) foreign subsidiaries; (8 marks)                      (b) overseas intermediaries (8 marks);
- (c) market feedback; (9 marks)                      (d) consumer durables (9 marks).

### Solution

- (a) **Foreign Subsidiaries:** one of the ways to carry out distribution in foreign country is for the organization to set up its own subsidiary in each foreign market or to buy all or part of existing foreign company in order to take the advantage of its distribution facilities. Some countries have strict regulations about the foreign ownership of domestic business. Setting up a subsidiary within a neighbouring state is fairly straight forward. Organisations that sets up a subsidiary will enjoy free control over the activities of the subsidiary however taxation and other financial implication might make it not too attractive. Joint venture can be an option.

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

- (b) **Overseas Intermediaries:** in construct to dealing with domestic intermediaries, a domestic provider of goods and services may decide to deal directly with intermediary in a foreign country. This brings the domestic producer closer to the foreign market. It will enable the company to gather marketing information easily. The producer will no more face disadvantages arising from distance between her and the foreign market, one major challenge about using the foreign intermediaries is that they can be difficult to control.

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

- (c) **Market Feedback:** distributors and agents are often closer to the market than the producers. They can usually provide more accurate information about the state of the market. This

information may include trend, fashions and the activities of the competitors. Technological advances like scanners at supermarket and computerized inventory control system are also useful ways of recording market data which can be passed to the producers.

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

(d) **Consumer Durables:** these are consumer products that have a longer life than fast moving consumer goods. Examples are electrical domestic appliances (refrigerators, televisions, personal computers and cars). They are bought less frequently and require greater financial outlay. Consumers usually take more time and trouble in buying them because they gather information from friends, sales people and other sources before deciding. Goods of other sources before deciding. Goods of these types are also known as high involvement purchase.

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

14. (a) What is the aim of direct marketing and which four (4) media does it encompass? (10 marks)
- (b) What does the term free market economy mean? (5 marks)
- (c) What is the difference between “business to business” and “business to consumer” marketing? (8 marks)
- (d) The most important general function of marketing is that it provides an interactive link between the selling organisation and the world outside it. List seven (7) activities in this regard. (7 marks)
- (e) What is product life cycle? (4 marks)

### Solution

(a) Direct marketing is aimed at creating a two-way personal relationship between the organisation and its customers (2 marks). The four media that it encompasses are:

- \* direct mail;
- \* telemarketing/ tele sales;
- \* direct response advertising;
- \* internet marketing.

(2 marks for each correctly stated medium. Sub-Total: 8 marks)

(Grand Sub-Total: 10 marks)

(b) **Free Market Economy:** is an economic system in which most of the means of production-factories, machines and raw materials are privately owned and production itself is guided through the operation of the market. (5 marks)

(c) **Business to business marketing** is the marketing of products or services between commercial enterprises. It allows them to sell products to other companies that resell them, use them in their products or use them to support their work (4 marks). While, **business to customers marketing** involves marketing their product and services to general consumers (4 marks).

(Sub-Total: 8 marks)

(d) The most important general function of marketing is that it provides an interactive link between the selling organisation and the world outside it and the following are the activities in this regard:

- \* market research;
- \* development of strategic marketing plans;
- \* development of operational marketing plans;
- \* competitor research;
- \* product development;
- \* sales management;
- \* customer profiling;

- \* advertising;
- \* corporate affairs and sponsorships;
- \* branding and brand management;

- \* product pricing;
- \* media relations;
- \* customer service.

**(1 mark for each correctly stated activity. Maximum of 7 to be graded. Sub-Total: 7 marks)**

(e) Product life cycle is a business term in marketing that assumes that all products and services have limited lives (**2 marks**), from their first introduction to the market (**1½ marks**) to their ultimate withdrawal from the market (**1½ marks**).

**(Sub-Total: 5 marks)**

**(Grand Total: 34 marks)**