

# GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO.2	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)
Start each question on a fresh page	Write after invigilators have declared "time-up"
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts
Master the tricks of answering questions intelligently by following tips leamt before the exams and concentrating on questions that would fetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum	Avoid the Annual Students' Forum

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

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

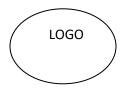
(ILAN); clinigeria.com (CIIN)

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

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

OF ANY SUCH INCIDENCE(S).

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



### CHARTERED INSURANCE INSTITUTE OF NIGERIA

#### ASSOCIATESHIP

#### OCTOBER 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

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

All the candidates attempted this question. The question intended to test the knowledge of the candidates on the mean of ungrouped data. Pass rate was 81%.

#### **Question 2**

This question tested the knowledge of the candidates on method of data collection. All the candidates performed excellently on this question. Pass rate was 94%.

#### **Question 3**

This question examined the knowledge of the candidates on the source of insurance information. All the candidates attempted this question with pass rate of 83%.

#### **Question 4**

Majority of the candidates attempted this question. Pass rate was 58%.

#### **Question 5**

This question tested the knowledge of the candidates on the option available on how risks retained by an organisation can be financed. Majority of the candidates attempted this question and the pass rate was 80%.

#### **Ouestion 6**

Majority of the candidates attempted this question and the pass rate was 83%.

#### **Ouestion 7**

The question tested the knowledge of candidates on the benefit of risk. Majority of the candidates attempted this question and the pass rate was 85%.

All the candidates that attempted this question performed above average.

#### **Question 8**

The question tested the knowledge of the candidates on the risk treatment and methods of risk treatment. 98% of the candidates attempted this question with Pass rate of 65%.

#### **Question 9**

This is a compulsory question, 97% of the candidates attempted the question with 58% Success rate. The candidates did not really understand the (a) part of the question, but they did well in the (b) part of the question.

#### **Question 10**

69% of the candidates attempted this question with success rate of 83%. The question tested the knowledge of the candidates on measures of central tendency with the grouped data.

#### **Question 11**

This question tested the knowledge of the candidates on reinsurance. 78% of the candidates attempted this question with an excellent pass rate of 85%.

#### **Ouestion 12**

The question examined the candidates on source of data base and feature of data base. 72% of the candidates attempted this question with pass rate of 90%.

#### **Question 13**

This question tested the knowledge of the candidates on the probability using binomial distribution. 11% of the candidates attempted this question and pass rate was of 31%. Candidates did not really understand the question.

#### **Question 14**

This question examined the candidates' knowledge on risk management and its processes. 80% of the candidates attempted this question and achieved 74% pass rate.

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

Overall performance was excellent at 80.3% pass rate.

#### **Suggestions on Improvements (if any)**

Candidates should not relent in their efforts, they should study and prepare well for better results.

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

1. Given the data below which related to the number of days ABC Insurance Company used to settle its notified claims in Year 2022:

Number of Days in Which Claims Are Settled	Number of Claims Notified
20	50
21	65
26	40
29	20
31	5
Total:	180

You are required to complete the frequency distribution table and find the mean for the data.

#### **Solution**

Number of Days in Which	Number of Claims Notified (f)	f(x)
Claims Are Settled (x)		
20	50	1,000
21	65	1,365
26	40	1,040
29	20	580
31	5	155
Total:	180	4,140

( $\frac{1}{2}$  mark for each correctly computed f(x). Sub-Total: 3 marks)

Mean =  $\sum f(x)/\sum f$  (1 mark) = 4,140/180 (1/2 mark) = 3 (1/2 mark) (Grand Total: 6 marks)

2. Enumerate any three (3) method of data collection which may be used to collect data from any chosen finite sample population.

#### **Solution**

The methods of data collection which may be used to collect data from any chosen sample population are:

\* direct observation; \* interviews; \* experiments; \* questionnaires. (2 marks for each correctly stated method. Maximum of 3 to be graded. Grand Total: 6 marks)

3. State any six (6) sources of insurance information in your country.

#### **Solution**

The sources of insurance information in any country are:

4.		nat are class limits?	(b)	What are stated limits?	
Soluti	` '				
		limits and the and naints of the	م ماممم ن	any aiven set of date	(2
(a)		limits are the end points of the			(2 marks)
(b)			•	esented to the data analyst in a	ny situation.
	They 1	nay or may not be the true lin	nits for t	he variables.	(2 marks)
(c)	True li	imits are the limits the data an	alyst ma	ay prefer to use, rather than the	e stated limits.
` /			J	<b>,</b>	(2 marks)
		(Gran	d Total:	6 marks)	,
		`		,	
5.	State a financ	• • • •	on how	risks retained by an organisat	ion can be
Soluti	on				
		voilable on hovy mistre metained	hv. on o	magnication can be financed on	o to ha handladı
-	-		-	organisation can be financed ar	
	an expe		loans;	(iii) as a contingency	fund
(iv) as		captive insurance company.			
	(2 mark	s for each correctly stated option	. Maximı	ım of 3 to be graded. Grand Total	: 6 marks)
6.	(a)	What does co-efficient of de	termina	tion measure?	
	(b)	What does co-efficient of co			
Soluti	` '	, had does to tillelent of to	110141101	i iiicusui c i	
		: . :			. () £ 41
(a)				extent to which the variation in	n y from the
	mean	of 'y' has been explained by the	he regre	ssion of 'y' upon 'x'.	
	Or Co	-efficient of determination me	asures t	he ratio of explained variation	to the total
	variati			•	
	, 012 10001	(3 marks)			
(b) Co	-efficie		strengtl	n of the relationship between the	he two
			sucingu	Tor the relationship between the	iic two
varrao	les give				
	(3 mar		J T-4-1.	( ol- o)	
		(Gran	a Totai:	6 marks)	
7.		sely enumerate the three (3) be	enefits o	of risk.	
Soluti		C'. C 1			
The th		efits of risks are:			
	(i) it c	reates the hope for profit;			(2 marks)
	(ii) ris	k is a bar to entry into the mar	ketplac	e for ventures which are unsou	nd, or likely to
		rt-lived;	1		(2 marks)
		sk encourages a safety culture			(2 marks)
				an an wominhlan aftir transf	
		sk enables us to improve our k			(2 marks)
	(v) ris	k creates endless opportunities			(2 marks)
		(Gran	d Total:	6 marks)	
8.	(a)	What is risk treatment?			(1½ marks)
	(b)	Outline any three (3) method	ls of rist	x treatment	(4½ marks)
Soluti	` '	common and another (5) method	01 1101	- 1 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1.	(-/2
Duiuli	UII				

- (a) Risk treatment may be defined as the process of selecting and implementing measures to modify the risk. (1½ marks)
- (b) The methods of risk treatment are:
  - (i) risk avoidance; (ii) risk control; (iii) risk transfer; (iv) risk financing. (1½ marks for each correctly stated method. Maximum of 3 to be graded. Sub-Total: 41½ marks) (Grand Total: 6 marks)

#### Part II Compulsory Question. This question carries 50 marks.

- 9. (a) What are the provisions of the Insurance Act of 2003 as it relates to contingency reserves. (10 marks)
  - (b) The table below gives the marks obtained by twelve students of the College of Insurance in Motor Insurance Course (MIC) as compared to Liability Insurance Course (LIC) in Year 2022:

Student	MIC	LIC	Student	MIC	LIC
1	53	41	7	47	45
2	74	65	8	72	59
3	<b>4</b> 48	44	9	48	20
4	71	38	10	65	57
5	66	41	11	80	64
6	60	62	12	40	27

- (i) Draw a scatter diagram of the data given in the table above.
- (ii) Find the regression line of y on x and draw it on the scatter diagram.
- (iii) Determine the estimate of the co-efficient of correlation between the two variables.

(40 marks)

#### **Solution**

- (a) The provisions of the Insurance Act of 2003 as it relates to contingency reserves are:
  - an insurer shall establish and maintain contingency reserves to cover fluctuations in securities and variations in statistical estimates; (5 marks)
  - the contingency reserves shall be credited with an amount not less than 3% of the total premium or 20% of the net profits (whichever is greater) the amount shall accumulate until it reaches the amount of the minimum paid-up capital or 50% of the net premium (whichever is greater)

    (5 marks)

(Grand Sub-Total: 10 marks)

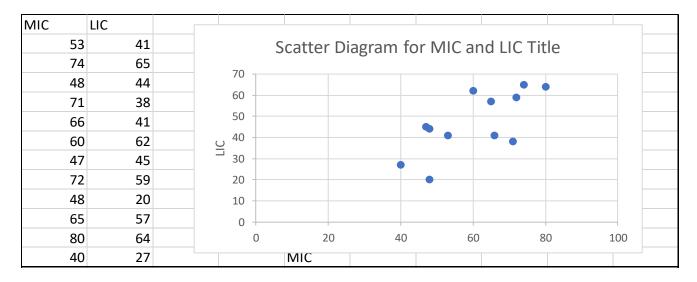
(b)

Student	MIC (x)	LIC (y)	Xy	$\mathbf{x}^2$	$y^2$
1	53	41	2173	2809	1681
2	74	65	4810	5476	4225
3	48	44	2112	2304	1936
4	71	38	2698	5041	1444
5	66	41	2706	4356	1681
6	60	62	3720	3600	3844
7	47	45	2115	2209	2025

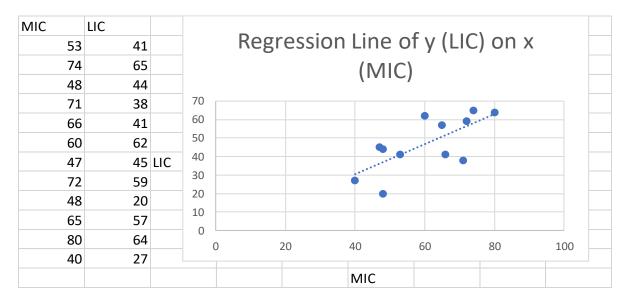
8	72	59	4248	5184	3481
9	48	20	960	2304	400
10	65	57	3705	4225	3249
11	80	64	5120	6400	4096
12	40	27	1080	1600	729
Total:	724	563	35508	45508	28791

(½ mark for each correctly completed information in coloured ink. Sub-Total: 20½ marks)

#### (i) Scatter diagram



(Grand Sub-Total: 5 marks)



(ii) Let the regression line be represented by: y = a + bx OR y = c + mx (1½ marks for any correctly stated formula)

where 
$$a = \sum y - b\sum x$$
  
 $n$   $n$   $(1 \text{ mark})$   
 $b = \frac{n\sum xy - \sum x\sum y}{n\sum x^2 - (\sum(x)^2)}$   $(1 \text{ mark})$   
Therefore,  

$$b = \frac{12(35.508) - (724)(563)}{12(45.508) - (724)^2} = \frac{(1 \text{ mark})}{21(920)} = \frac{426.096 - 407.612}{546.096 - 524.176} = \frac{18.484}{21.920} = 0.84332 \qquad (1 \text{ mark})$$
And,  $a = \frac{563}{546.096 - 524.176} = \frac{18.484}{21.920} = 0.84332 \qquad (1 \text{ mark})$ 

$$= 46.917 - 50.873 = -3.956 \qquad (1 \text{ mark})$$
Thus,  $y = -3.956 + 0.8432x \qquad (1 \text{ mark})$ 

$$(\text{Sub-Total: } 8\frac{1}{2} \text{ marks})$$
(c)  $r = \frac{n\sum xy - \sum x\sum y}{\sqrt{(n\sum x^2 - (\sum(x)^2)(n\sum y^2 - (\sum(y)^2))}} \qquad (1 \text{ mark})$ 

$$= \frac{((12)(35.508)) - ((724)(563))}{\sqrt{((12)(45.508) - (724)^2))}} \qquad ((12)(28,791) - (563)^2) \qquad (2 \text{ marks})$$

$$= \frac{18.484}{\sqrt{625.224,160}} \qquad (1 \text{ mark})$$

$$= \frac{18.484}{25.004.48} \qquad (1 \text{ mark})$$

$$r = 0.7392 \qquad (1 \text{ mark})$$

(Sub-Total: 6 marks) (Grand Sub-Total: 40 marks) (Grand Total: 50 marks)

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

10. The data below has been released by a membership institute in relation to annual subscriptions received by different categories of members of the Institute in Year 2022:

Membership Category	<b>Annual Subscription ('millions)</b>	Frequency
---------------------	--	-----------

Ordinary Members	0 – 49	8
Student Members	50 – 99	10
Senior Members	100 – 149	24
Associate Members	150 – 199	20
Fellow Members	200 – 249	22
Board Members	250 – 299	12
Ex-Officio Members	300 – 349	4
Total:		100

You are required to:

- Find the mean for Year 2022 annual subscriptions received. (a) (25 marks)
- Find the median for Year 2022 annual subscriptions received. (b) (5 marks)
- Find the mode for Year 2022 annual subscriptions received. (c) (4 marks)

#### **Solution**

Annual Subscription ('millions)	Frequency	Mid-Class (x)	Fx	Cumulative Frequency
0 - 49	8	24.5	196	8
50 – 99	10	74.5	745	18
100 – 149	24	124.5	2988	42
150 – 199	20	174.5	3490	62
200 - 249	22	224.5	4939	84
250 - 299	12	274.5	3294	96
300 – 349	4	324.5	1298	100
	100		16950	

(1 mark for each coloured item in the table above. Sub-Total: 22 marks)

(a) Mean = 
$$\sum f(x)/\sum f$$
 (2 marks)  
= 16,950/100 = 169.5 F (1 mark)

(b) 
$$\text{Median} = L_1 + (\underline{N/2 - \sum fi_{b4}) C}$$
 (2 marks)

 $L_1$  = the lower class boundary of the median class;

 $N/2 = \sum f$ ;

 $\sum$  fi<sub>b4</sub>= the cumulative frequency immediately before the median class;  $f_m$  = frequency of the median class;

C =the class size

$$= 149.5 + (50 - 42) 50$$
 (1 mark)

$$= 149.5 + \underbrace{(8)\ 50}_{20} \tag{1 mark}$$

$$= 149.5 + 20 = 169.5 \tag{1 mark}$$

(c) Mode = 
$$L_1 + \underline{(D_1)}$$
 C 
$$(\underline{D_1} + \underline{D_2})$$
 (2 marks)

 $L_1$  = the lower class boundary of the modal class;

$$D_1 = 24 - 10 = 14$$
$$D_2 = 24 - 20 = 4$$

= 
$$99.5 + 14 \times 50$$
  
 $(14 + 4)$  (1 mark)  
=  $99.5 + 700$   
 $18$   
=  $138.39$  approximately. (1 mark)  
(Grand Total: 34 marks)

- 11. (a) Define the term "reinsurance". Give an illustrative example of the term. (4 marks)
  - (b) Outline five (5) uses or functions of reinsurance to the direct offices. (10 marks)
  - (c) Differentiate between a treaty and facultative reinsurance. (8 marks)
  - (d) Outline any two (2) advantages and two (2) disadvantages for both treaty and facultative reinsurance. (12 marks)

#### **Solution**

- (a) Reinsurance may be defined in any of the following ways:
  - as a process of insuring all or part of what has already been insured by the direct office/insurance company;
  - as a further spread of insurable risks;
  - as the business of insurance across the boundaries of two or more countries. In this case, reinsurance business is regarded as an international business.

An illustrative example is when an insurance company accepts a risk that is beyond its retention and then gives out part of the risk to a licensed company, called a reinsurance company, that is able to also accept the risk and when the eventual risk insured against occur, the reinsurance company reimburses the insurance company, in line with the agreed terms and conditions of placing the risk with the reinsurer.

(2 marks for any correct and complete definition. 2 marks for correct and complete illustration. Sub-Total: 4 marks)

- (b) The uses or functions of reinsurance to the direct offices are:
  - further spread of risks for the insurance companies;
  - bigger capacity for the insurance companies;
  - catastrophe protection;
  - stabilisation of claims ratio;
  - profit sharing arrangement; 

    solvency margin protection.
  - $\hfill\Box$  it brings about confidence to the insurance companies;  $\hfill\Box$  product development.
  - underwriting and other financial advisory services;
  - □ training and development programmes.

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

(c) A treaty reinsurance is a prior arrangement/agreement between the insurance company and a reinsurance company to place and accept certain businesses that fall within the pre-agreed terms and conditions, , which is obligatory on both parties; while a facultative reinsurance is the placement and acceptance of business on an individual basis depending on the individual

business merit and/or demerit i.e. in a facultative reinsurance, there is no obligation on both parties to place or accept the risk being placed.

(4 marks for each correct and completely stated explanation of each term. Sub-Total: 8 marks)

(d)

Trea	aty	Facultative		
Advantages	Disadvantages	Advantages	Disadvantages	
Acceptance is automatic	It may be more	It is the last resort	It is very	
once the risk falls within	expensive for few risks	once the treaty	cumbersome in	
the treaty terms	classification.	capacity is fully	administration	
		exhausted.		
Ease of administration	Facultative method	It is specifically	Acceptance is not	
	may be sought once	designed for	automatic	
	the treaty capacity is	hazardous risks.		
	exhausted.			
There is no possibility of	It is not designed for	It is highly flexible	There is possibility	
leakages of vital	certain risks referred to	in the sense it could	of leakages in vital	
information to	as hazardous risk.	be put in place for	information to	
competitors		any risk.	competitors	
There is no loss of		There is no binding	There is possibility	
goodwill as there is no		obligation on both	of loss goodwill with	
delay in communicating		parties	the insured as there	
acceptance terms.			is delay in	
			communicating	
			acceptance terms	

( 1½ marks for each correct and completely stated advantage/disadvantage. Maximum of 2 under each advantage and disadvantage to be graded. Sub-Total per term: 6 marks. Grand Sub-Total: 12 marks) (Grand Total: 34 marks)

- 12. (a) Outline and explain the two (2) sources of database. (22 marks)
  - (b) Enumerate in concise but clear terms, any four (4) essential features of a good database. (12 marks)

#### Solution

- (a) The sources of database are (i) creation of a new database and (ii) making use of an existing database.
- (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).

Creation of a new data base is desirable in the following circumstances:

- where no database exists;
- where the database in existence was established for another purpose;
- where there are suspected inherited faults in the existing database.
- (ii) Making use of an existing data base: 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.

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

- the relative frequencies with which the data have occurred in the past is very important;
- no data in actual sense exists in a vacuum;

• it may equally be put to cost and time effectiveness advantages.

(5 marks for each correctly stated source. 3 marks for each correct and completely stated explanation.

Maximum of 2 explanations to be graded under each source. Sub-total per source: 11 marks. Grand SubTotal: 22 marks)

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

(3 marks for each correct and completely stated feature. Maximum of 4 to be graded. Sub-Total: 12 marks)
(Grand Total: 34 marks)

- 13. Messrs Cakes Delight Limited specialises in cakes production. If 10% of the cakes produced is defective and therefore unsaleable, find the probability that out of ten (10) cakes baked:
  - (a) exactly one cake is defective;

(12 marks)

(b) exactly three cakes are defective;

(8 marks)

(c) at most three cakes are defective.

(14 marks)

Solution -

(a) Exactly one cake is defective:

Let the probability that a Cake is defective be represented by q.

$$\begin{split} & \text{Thus, } q = 10/100 = 0.1 & \textbf{2 marks} \\ & \text{But, } p + q = 1 & \textbf{1 mark} \\ & \text{Therefore, } p = 1 - 0.1 = 0.9 & \textbf{1 mark} \\ & P(X) = nC_x \ q^x p^{n-x} & \textbf{1 mark} \\ & P(1) = 10C_1 q^1 p^9 & \textbf{2 marks} \\ & = \underline{10!} & X \ (0.1)^1 \ X \ (0.9)^9 & \textbf{2 marks} \\ & = \underline{10 \ X \ 9!} & X \ 0.1 \ X \ 0.38742 = 10 \ X \ 0.1 \ X \ 0.38742 = 0.38742 \ \textbf{3 marks} \\ & 9! & \end{split}$$

(Grand Sub-Total: 12 marks)

(b) Exactly three Cakes are defective:

$$\begin{split} P(X) &= n C_x \; q^x p^{n-x} & \text{1 marks} \\ P(3) &= 10 C_3 q^3 p^7 & \text{2 marks} \\ &= \underbrace{10!}{3! \; (10-3)!} \; X \; (0.1)^3 \; X \; (0.9)^7 \; \text{2 marks} \\ &= \underbrace{10 \; X \; 9 \; X \; 8 \; X \; 7!} \; X \; 0.001 \; X \; 0.4783 = 0.0574 \; (Approximately). \; \text{3 marks} \\ &= \underbrace{3! \; X \; 7!} \end{split}$$

(Grand Sub-Total: 8 marks)

(c) At most three Cakes are defective

The probability that at most three Cakes are defective = P(0 Cake is defective) + P(1 Cake is defective) + P(2 Cakes are defective) + P(3 Cakes are defective).

$$\begin{split} P(0) &= 10C_0 \ q^0 p^{10} & \textbf{1 mark} \\ &= \underbrace{ \ 10! \ }_{0! \ (10-0)!} & X \ (0.1)^0 \ X \ (0.9)^{10} \\ &= 1 \ X \ 1 \ X \ 0.38742 = 0.3487 \ (Approximately) \ \textbf{1 mark} \end{split}$$

$$\begin{split} P(1) &= 10C_1q^1p^9 \quad \text{1 mark} \\ &= \underbrace{10!}_{1! \ (10-1)!} X \ (0.1)^1 \ X \ (0.9)^9 \\ &= \underbrace{10 \ X \ 9!}_{0!} \ X \ 0.1 \ X \ 0.38742 = 10 \ X \ 0.1 \ X \ 0.38742 = 0.3874 \ (Approximately) \ \text{1 mark} \end{split}$$

$$\begin{split} P(2) &= 10C_2q^2p^8 \quad \text{1 mark} \\ &= \underbrace{\quad 10! \quad \quad }_{2! \; (10-2)!} \; X \; (0.1)^2 \; X \; (0.9)^8 \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad }_{2 \; X \; 1 \; X \; 8!} \; X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad }_{2 \; X \; 1 \; X \; 8!} \; X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad }_{2 \; X \; 1 \; X \; 8!} \; X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 8! \quad X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 9 \; X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 9 \; X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately) 1 mark} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 9 \; X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Approximately)} \\ &= \underbrace{\quad 10 \; X \; 9 \; X \; 0.01 \; X \; 0.43046 = 0.1937 \; \text{(Appr$$

$$\begin{split} P(3) &= 10 C_3 q^3 p^7 \quad \textbf{1 mark} \\ &= \underline{10!} \quad X \ (0.1)^3 \ X \ (0.9)^7 \\ &= \underline{10 \ X \ 9 \ X \ 8 \ X \ 7!} \quad X \ 0.001 \ X \ 0.4783 = 0.0574 \ (Approximately) \ \textbf{1 mark} \\ &= \underline{3! \ X \ 7!} \end{split}$$

Therefore, the probability of at most three Cakes are defective is:

P (0 Cake is defective) + P (1 Cake is defective) + P(2 Cakes are defective) + P(3 Cakes are defective)

$$= 0.3487 + 0.3874 + 0.1937 + 0.0574 = 0.9872$$
 2 marks (Grand Sub-Total: 14 marks) (Grand Total: 34 marks)

- 14. (a) State any standard definition of "risk management"? (6 marks)
  - (b) State and explain in detail the Risk Management Process. (28 marks)

#### **Solution**

- (a) Risk management may simply be defined as:
- (i) <u>a continuous process</u> (1 mark) <u>of identifying</u> (½ mark), <u>analyzing</u> (½ mark), <u>evaluating</u> (½ mark), <u>monitoring</u> (½ mark) and <u>taking best economic control of all those risks</u> (2 marks) <u>which</u> may threaten the assets of an organization (1 mark). **OR**
- (ii) <u>the process</u> (1 mark) whereby organisations (1 mark) <u>methodically address the risks</u> attaching to their activities (2 marks) <u>with the goal of achieving sustained benefit</u> (1 mark) <u>within</u> each activity and across the portfolio of all activities (1 mark).

(6 marks for each correct and completely stated definition)

(b) The risk management process is as explained below:

#### **Organization's Strategic Objectives** 1.

These are long term planned objectives which an organisation is set out to achieve Risk management generally enhances organization's strategic objectives through the following:

- by providing a framework in terms of activities in the most sequential and guided ways for the organisation;
- effective and efficient allocation and use of the organisation's capital as well as other resources;

<ul> <li>by protecting the organisation's assets from all those risks that may threaten them;</li> <li>by providing enabling environment for the people to work;</li> </ul>
<ul> <li>it also aids decision making process through coordinated planning and direction of business activities;</li> </ul>
• volatility is reduced, especially in the less important aspects of the business.
2. Risk Assessment, which is of two components:
(a) Risk analysis: which is:
<ul> <li>risk identification;</li> <li>risk description;</li> <li>risk estimation.</li> </ul>
<b>Risk Assessment:</b> the overall process of risk analysis and evaluation.
There are two components of risk assessment; risk analysis and risk evaluation.
Risk Analysis comprises of risk identification, description and estimation.
(i) risk identification: this is a systematic way of identifying all the activities that may expose
the organisation to various risks.
(ii) risk description: this is the explicit description of all the risks identified under the risk
identification stage in a way that would be readily understood by all the stakeholders
(iii) risk estimation: these are the estimates both in terms of quantitative & qualitative values
(i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation,
criteria such as $H - M - L$ may be employed in describing the estimate values or attributes.
$\Box$ H – stands for High; $\Box$ M – stands for Medium or Middle;
$\Box$ L – stands for Low.
(b) Risk Evaluation: this is the second and last component of risk assessment whereby opinion
(judgments) are formed about the importance (value) and acceptability (appetite) of risk. (2 marks).
<b>3. Risk Reporting</b> (in terms of threats & opportunities): this reporting both the downside and
upside aspects of the risks. In other words, we are reporting on what are the threats and
opportunities associated with the risks under consideration.
<b>4. Decision:</b> Take informed decisions regarding the importance and acceptability of the risks
having considered the threats & opportunities they present to the organisation.
5. Risk Treatment
The process of calcuting and implementing processing to modify the pick and this basically

The process	of selecting	and implementing	ng measures	to modify	the risk and	this basicall	y
include:							

<ul><li>risk avoidance;</li></ul>	<ul><li>risk control;</li></ul>	<ul><li>risk transfer;</li></ul>	<ul> <li>risk financing.</li> </ul>
Furthermore, please note t	hat the minimum stan	dard requirement for ris	sk treatment method
chosen is that it should be	cost effective, laws &	regulations compliant.	

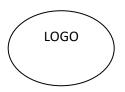
#### 6. Residual Risk Reporting

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

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

(2 marks for each correctly stated process. 2 marks for each correct and complete explanation of the correctly stated process. Sub-total per process: (4 marks. Grand Sub-Total: 28 marks)

**Grand Total: 34 marks** 



### CHARTERED INSURANCE INSTITUTE OF NIGERIA ASSOCIATESHIP

#### OCTOBER 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

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

This question was intended to test candidates' knowledge on reinsurance negotiation. A compulsory question with 50% pass rate, which shows lacks of candidates' knowledge on this question. Adequate preparation is recommended for improved performance.

#### **Ouestion**

This question intended to test candidates' knowledge on currency fluctuations in reinsurance in international market. Well attempted question with only 54% pass rate. It is important that candidates should be knowledgeable about international role of reinsurance.

#### **Question 3**

Tested candidates on reinsurance retention. Well attempted question and 76% pass rate was recorded. Candidates will do better if they can improve on their preparation for the examination

#### **Question 4**

This question is intended to test candidates' knowledge on reinsurance needs. Well attempted by all candidates with over 66% pass rate, which shows candidates understanding of the question.

#### **Question 5**

This is a text book question on reinsurance brokers. Well attempted by 95% of the candidates with 79% scored above average. In overall, the candidates showed good understanding of the requirement of this question.

#### **Question 6**

Intended to test candidates' knowledge on the price of reinsurance. Poorly attempted question, most candidates wrote off the points. Pass rate was 39%. The candidates are encouraged to be committed to their course book.

#### **Ouestion 7**

This question tested candidates on various reinsurance terms. Performance was good with 71% pass rate.

#### **Question 8**

Tested candidates' knowledge on designing reinsurance programme and claim settlement. Well attempted question with 75% pass rate, which indicated their better understanding of the question requirement.

#### **Question 9**

This is compulsory, which involved calculation on minimum and deposit premium, gross and net premium income. The performance was very poor as pass rate was only 6.2%. It is suggested that future examination should be divided into two parts - theory and calculation.

#### **Question 10**

This is an elective question designed to test candidates' knowledge on the requirement of handling reinsurance claims. 95% of the candidates attempted the question, with 80% scoring above average.

#### **Question 11**

The question was intended to test candidates' knowledge on proportional and non-proportional reinsurance. Attempted at 85% with 70% scoring above average.

#### **Ouestion 12**

Tested candidates' knowledge on factors that determine the price of non-proportional reinsurance. Attempted at 64.8% with pass rate of 36%, which indicates poor understanding by the candidates. Candidates need to read and understand their course books.

#### **Question 13**

Designed to test candidates' knowledge on treaty arrangement. Poor performance, attempted at 70% and pass rate of 46%, which indicates that the candidates did not understand the question.

#### **Question 14**

This elective question is designed to test candidates' knowledge of reinstatement on reinsurance. Poorly attempted at 20%, with only 2% pass rate.

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

Generally, the overall performance is poor with 31% pass rate, which is below average. There is need to re-structure the entire questions in future examination.

#### **Suggestions on Improvements (if any)**

I suggest that, the entire questions should be restructured in future examination. Besides, the candidates should be more committed to their study to enhance future performance.

#### Part I

#### Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Differentiate between conventional reinsurance negotiation and modern/alternative reinsurance negotiation.

#### **Solution**

Reinsurance negotiation is conventionally conducted directly by the ceding company or through brokers who negotiate with underwriters and carry out various ancillary tasks on behalf of their clients. This involves building up of a good working relationship and often face-to-face negotiation with the reinsurer. Negotiations can be conducted by means of correspondence, but often will involve visits by the broker or the reinsurer in a particular part of the world.

Reinsurance trading and placement in recent years has witnessed the arrival of various forms of electronic trading. Electronic trading is the conduct of reinsurance business by means of computer-based facilities, networks or the internet, as an alternative to conventional face-to-face discussions. Examples include (e-commerce, the internet) via systems such as Wise (Worldwide Insurance e-commerce) for the offer of business and the settlement of accounts and, CLASS (claims Loss Advice and Settlement System) for the notification, settlement and payment of claims.

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

2. Reinsurance been an international business is exposed to currency fluctuations, explain in any two (2) ways how this can be avoided on reinsurance transactions in currency other than the normal accounting currency of the reinsurance company.

#### **Solution**

An exact match of assets and liabilities can avoid this in the transaction currency. If a reinsurance company transacts business in many currencies, such a policy might be impractical. In order to reduce costs, ease administrative burdens and reduce currency exchange risk, reinsurers tend to hold relatively few but strong currencies and then link other weaker currencies and their appropriate assets and liabilities to one of those stronger currencies.

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

3. Usually, companies with similar portfolios set different retentions, justify with two (2) reasons why this difference occurs.

#### **Solution**

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

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

4. List six (6) types of information that the reinsured assemble in order to assess its reinsurance needs.

#### **Solution**

The types of information that the reinsured assemble in order to assess its reinsurance needs are:

- \* claim experience.

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

5. Enumerate any four (4) factors that underwriters usually consider when choosing a reinsurance broker.

#### **Solution**

The factors that underwriters usually consider when choosing a reinsurance broker are:

- what the insurer requires from the broker;
- expertise of the broker;
- financial stability and probity of the broker;
- reputation for service and being able to service their needs;
- ability of the broker to offer value-added security vetting of reinsurers.

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

6. How might changes in the price of reinsurance affect an insurer's retention decisions, stating the type of market that drive these changes.

#### **Solution**

If the cost of reinsurance is high i.e. in a hard market (1 mark), an insurer's retentions are, in general increased (2 marks). In a soft market (1 mark), when cost of reinsurance is lower, an insurer will usually retain less (2 marks).

(Grand Total: 6 marks)

- 7. Briefly explain what is meant by the following clauses:
  - (a) follow the fortune;

(b) claim control clause.

#### Solution

- (a) **Follow the Fortune:** this means that the claims follow the underlying settlement provided it was done in a proper and businesslike fashion and falls within the terms and conditions of the reinsurance contracts. (3 marks)
- (b) Claims Control Clause: this means that the reinsurer would assist the original insurer as to the next steps (for example, appoint a surveyor or any other experts that may be required. The reinsurer would, in effect step into the original underwriter's position and handle the case. Claims cooperation clause means that the original insurer agrees to involve the reinsurer in the handling of a claim but all decisions are ultimately made by the original insurer. (3 marks)

  (Grand Total: 6 marks)
- 8. (a) Enumerate any three (3) objectives in relation to the designing of a reinsurance programme.
  - (b) Enumerate any three (3) major pieces of information among others that reinsurers will require when called upon to settle a claim.

#### **Solution**

- (a) The objectives in relation to the designing of a reinsurance programme are to:
  - \* provide adequate protection;
- \* simple and easy to operate;
  - \* provide immediate financial relief in the area of large losses;
  - \* provide support services in the area of management development.

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

- (b) The major pieces of information among others that reinsurers will require when called upon to settle a claim are:

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

#### Part II

#### Compulsory Question.

This question carries 50 marks.

- 9. (a) State any four (4) requirements that must accompany all requests for Certificate for Offshore Reinsurance (COR) as specified in the NAICOM prudential guidelines. (10 marks)
  - (b)) An insurance Company purchased a risk excess of loss cover to protect its motor insurance portfolio for the period 01/01/2022 to 31/12/2022 as follows:
  - Deductible: \$20,000,000.00
  - 1st Layer Cover: №30,000,000.00 Xs №20,000,000.00
    2nd Layer: №50,000,000.00 Xs №50,000,000.00
  - Premium Rate: 1st Layer: 5% Minimum and 15% Maximum

2nd Layer: 2.5% flat

#### **Information:**

Estimated Gross Net Premium Income @ 1/1/2022 = ₩800,000,000.00
 Gross Premium Income as at 31/12/2022: ₩1,000,000,000.00
 Facultative outwards in 2022: ₩100,000,000.00
 Facultative Inward in 2022: ₩200,000,000.00

• Losses paid/recovered from January 2022 to 31st December 2022:

₩130,000,000 (1st layer ₩100,000,000.00 and 2nd layer ₩30,000,000.00

- Outstanding losses as at 31st December 2022 for 1st layer = \$450,000,000.00
- Outstanding losses on 2nd layer \frac{\text{\tin}\exiting{\text{\texi}\text{\text{\text{\text{\texi}\text{\text{\text{\text{\texi}\text{\text{\text{\text{\text{\text{\text{\texi}\text{\texi}\\ \titt{\text{\texi{\texi{\texi{\text{\text{\text{\text{\text{\ti

#### Required:

- (i) Calculate the Minimum & Deposit Premium payable by January 2022. (5 marks)
- (ii) Compute the Actual Gross Net Premium Income as at 31/12/2022. (10 marks)
- (iii) Using the burning cost method with a loading factor of 100/80, Prepare the premium adjustment statement and compute the actual rate, the actual premium due at the end of ' 31/12/2022. On both 1st and 2nd layer. (15 marks)
- (iv) Determine the additional premium payable (if any) on both first layer and second layer.

(5 marks)

(v) Comment on your observation(s).

(5 marks)

#### **Solution**

- (a) As specified in the NAICOM prudential guidelines, all requests for Certificate for Offshore Reinsurance must be accompanied by the following:
- (i) Final Policy or Endorsement Issued by the Local Insurer not excluding the Signed Schedule of Local Underwriters (Where not earlier provided at the Letter of Attestation stage);

- (ii) Schedule attaching to the Policy or Cover Note issued by the Reinsurers or the Foreign Brokers, which must amongst others state the Reinsurers' Order Hereon and each Reinsurers' signed proportion;
  (iii) Evidence of full Premium Collection;
  (iv) Evidence of Premium Remittance to Local Insurers;
  (v) Evidence of Premium Remittance to Foreign Reinsurers;
  (vi) Evidence of Payment of 1% ISS Levy;
  (2 marks for each correct and completely stated requirement. Maximum of 4 to be graded. Total: 10 marks)
- (b) (i) To calculate the M&DP payable in January on 1st Layer, we multiply the minimum rate by the estimated gross net premium income

(i.e  $\frac{1}{8}800,000,000.00 \times 5\%$ ) =  $\frac{1}{8}40,000,000.00$ . (1 mark)

The M&DP payable in January on 2nd layer

 $= \frac{1}{8}800,000,000.00 \times 2.5\% = \frac{1}{8}20,000,000.00. \tag{1 mark}$ 

Hence, total M&DP payable in January for 1st and 2nd layer

(Sub-Total: 5 marks)

(ii) Actual Gross Net Premium Income as at 31/12/2022 =
Gross written premium or Gross Premium Income + Facultative Inwards - Facultative outwards.

(6 marks - 2 marks each)

Therefore AGNPI =  $\frac{1}{1}$ ,000,000,000.00 +  $\frac{1}{2}$ 200,000,000.00 -  $\frac{1}{2}$ 100,000,000.00 (2 marks) AGNPI as at  $\frac{31}{12}$ 2022 =  $\frac{1}{2}$ 1,100,000,000.00. (2 marks)

(Sub-Total: 10 marks)

- (iii) To compute the premium adjustment for 1st layer using the burning cost method Actual Rate = Incurred Loss/Earned premium (i.e losses paid+ losses outstanding/AGNPI X100/8 0 X 100. = N100,000,000 + N50,000,000/N1,100,000,000 X 100/80 X 100 = 17.05% (5 marks)
  - Burning cost rate for 1st layer = 17.05%
  - However, maximum rate of 15% would apply. (1 mark)
  - Actual premium for the 1st layer: Actual Gross Net Premium income X 15% =  $\frac{1}{1}$ , 100,000,000 x 15% (2 marks)
  - • Actual Premium for 1st layer =  $\frac{1}{1}$ 165,000,000.00 (3 marks)
  - Actual Premium for 2nd layer = 2.5% (flat) x \$1,100,000,000 = \$27,500,000.00 (4 marks)

(Sub-Total: 15 marks)

(iv) To determine the additional premium due

= actual premium – provisional premium or M&DP (1 mark)

1st layer = \$165,000,000.00 - \$40,000,000.00 = \$125,000,000.00 (1 mark)

2nd Layer =  $\frac{1}{2}$ 27,500,000.00 -  $\frac{1}{2}$ 20,000,000.00 =  $\frac{1}{2}$ 7,500,000.00 (1 mark)

The total additional premium due (1st and 2nd layer) is =

 $\mathbb{N}125,000,000 + \mathbb{N}7,500,000 = \mathbb{N}132,500,000.00.$  (2 marks)

(Sub-Total: 5 marks)

(v) **Observation:** It is observed that the Estimated Gross Net premium income is understated. Again, the loss experience on the 1st layer was bad. A total of about ¥150m. The

loading factor of 100/80 which is about 125% increase in the burning cost equally added to the high adjustment rate and subsequently the high actual premium. The insurer is lucky to have negotiated a maximum rate 0f 15%. The Reinsurer would be looking at increasing the maximum rate beyond 15% at the next renewal.

(2½ marks for each correct and completely stated and justified explanation. Maximum of 2 to be graded.

Sub-Total: 5 marks)

(Grand Sub-Total: 40 marks)

(Grand Total: 50 marks)

#### Part III

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

- 10. (a) Explicitly enumerate any four (4) general requirements that should be considered by reinsurers in handling claims presented by underwriters. (14 marks)
  - (b) The ability of the reinsurer to pay promptly and in full when a valid claim is presented is considered as part of the reinsured's decision-making process when negotiating any reinsurance contract. Explicitly discuss five (5) reasons why an insurance practitioner should have a claims department. (20 marks)

#### **Solution**

- (a) The general requirements that should be considered by reinsurers in handling claims presented by underwriters are:
  - Examination of the question of coverage.
  - Has a policy been issued for the insured? If so, what were the conditions on the original policy and what was the sum insured?
  - Have there been any amendments? If so, when?
  - When does the original policy commence and when does it end?
  - Is this risk mentioned in the claim covered under the original policy? Is there any exclusion that might apply? If so, are they relevant to the whole claim or only for part of it?
  - Is the reinsurance cover to be refused as a result of the reinsured failing in any of its duties? Reasons could be non-payment of the premium or failure to observe the stipulations under the policy.
  - Does the claim fall within the period of reinsurance?

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

- (b) The reasons why an insurance practitioner should have a claims department are:
  - claims frequency is mounting all the time. For example, the rising number of accidents resulting from the continuing increase in the number of cars on the road;
  - technological developments have led to more complex and time consuming claims and hence, the level of expertise required has also increased;
  - claims processing is also made more complex by legal and legislative developments. Also of importance is the increasing amount of international trade and the considerations that they have to be given to the laws of individual countries from which the underlying contracts emanate;

- claims department assist in passing information both vertically and horizontally, to all parts of the company concerned. These information include:
  - o informing the underwriting department of adverse development in a risk, contract or type of business or geographical areas;
  - o informing the underwriting department of any key changes in the claim practices of any underlying reinsured;
  - o informing underwriting department and senior management of any legal developments that could impact on the reinsurance company as a whole;
  - keeping the company informed of any changes in the claims handling practice of competition;
  - o informing the accounts department to make provision for any large claims that may be required to be paid to the reinsured as cash call;
  - o the assessment and calculation of the reserves requirements of the company in respect to the claims potential arising from their books of business.

(4 marks for each correct and completely stated reason. Maximum of 5 to be graded. Sub-Total: 20 marks) (Grand Total: 34 marks)

- 11. When negotiating terms and conditions of existing treaties, the reinsured may wish to hold the existing structures or programme of treaties in place but to alter the terms and conditions. Enumerate:
- (a) four (4) possible changes which may be re-negotiated in respect of proportional treaties;

(16 marks)

(b) six (6) possible changes which may be re-negotiated in respect of non-proportional treaties. (18 marks)

#### **Solution**

The possible changes which may be re-negotiated in respect of:

- (a) Proportional Treaties (Surplus and Quota Share) are:
  - capacity;
  - scope of treaty in terms of location and type of risks to be covered;
  - the most negotiated item is the commission, which reflects the contribution the reinsurer is making to the reinsured's operating expenses. commission may be operated on a profit or loss sharing basis and governs the treaty results, which is the price. the existence of profit commission is also a factor;
  - the terms relating to premium and loss reserves, in terms of amount or basis on which
    they are calculated, the amount of interest payable on withheld amounts may be
    reviewed;
  - the amount payable as a cash loss;
  - frequency and settlement of accounts.

(4 marks for each correct and completely stated possible change. Maximum of 4 to be graded. Sub-Total: 16 marks)

- (b) Non-Proportional Treaties (Excess of Loss) are:
  - scope of the treaty in terms of location and type of risks to be covered;
  - basis on which the treaty is written; for example, losses occurring or claims made;
  - where the premium is calculated on a burning cost basis, the minimum and maximum rates and the loading factors involved;

- the number of reinstatements allowable.
- the basis of calculating the reinstatements premium i.e. as to time or amount and ratios used:
- the index to be used for the recalculation of deductibles and limits which are subject to inflation in long tail liability business;
- the definition of what constitutes a loss occurrence, an event and the amount of the vent limit:
- extent of the reinsured's co-reinsurance in event covers;
- amounts payable as minimum and deposit premium.

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

(Grand Total: 34 marks)

- 12. (a) The reinsurer will consider the price to be charged for the cover under a non-proportional reinsurance arrangement. In determining the price, the reinsurers consider some factors. List and explain any six (6) factors that the reinsurers would consider in such an instance. (18 marks)
  - (b) The annual reinsurance premium can be expressed in three ways under a non-proportional treaty arrangement. List and explain any two (2) of these three ways.

(16 marks)

#### **Solution**

- (a) The reinsurer will take the following factors into account:
  - exposures in the portfolio to be covered; for example, sums insured per risk and aggregate exposures to natural perils;
  - required limits of cover;
  - retention of the reinsured, in non-proportional reinsurance the retention can also be called the deductible or the priority;
  - past claims experience;
  - assumptions made regarding IBNER claims (incurred but not enough reported claims i.e under-reserved reported claims;
  - reinsurer's expenses, including any reinsurance brokerage payable and cost for their own retrocession protection;
  - inflation: and any clauses designed to mitigate its effect at the reinsurance level
  - required profit margin;
  - reinstatement provisions and hence maximum downside.

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

- (b) The annual reinsurance premium can be expressed in one of the following:
  - **Flat Premium:** this is a fixed amount of money that has been agreed by reinsurers as appropriate for the cover required. No percentage rate will be quoted for the cover and no premium adjustment will need to be made at the end of the reinsurance period. Such an arrangement is unusual, as it offers no protection for the reinsurer against an expansionist approach by the reinsured, which would seriously increase exposure.
  - **Fixed Rate Premium:** this is applied to the subject premium income that is the reinsured's annual premiums in respect of the portfolio covered by the treaty.

• Variable Rate of Premium: this is applied where the actual premium is related to the loss experience (burning cost) under the treaty.

(4 marks for each correctly stated way. 4 mark for each correct and completely stated explanation. Sub-Total per way: 8 marks. Grand Sub-Total: 16 marks)

(Grand Total: 34 marks)

13. The following is extracted from the Fire Treaty arrangement of Hedge Insurance

Company Plc for 2022 underwriting year.

Gross Retention: \$1,000,000.00

Surplus Treaty Cover: 15 Lines

Excess of Loss Cover:

1st Layer: N200,000.00 Xs N200,000.00
2nd Layer: N600,000.00 Xs N400,000.00

The insurance company underwrites a risk with sum insured of \$\frac{1}{2}20,000,000.00\$, retains \$\frac{1}{2}800,000.00\$. Facultative proportional reinsurance is used to manage the excess of its capacity.

#### Required:

(a) Allocate the risk based on the sum insured. (17 marks)

(b) If there was a loss of  $\LaTeX$ 12,000,000, how will this be apportioned? (6 marks)

(c) How would the gross retained loss be apportioned between the reinsured and the excess of loss reinsurers? (11 marks)

#### Solution

oluti	1011							
FROT INC.	DANCE COMPANY DIG. DEINGUDANGE	DD00D41414F						
DGE INSU	RANCE COMPANY PLC - REINSURANCE	PROGRAMINE						
	Surplus treaty reinsurance							
	Gross Retention:	1,000,000						(1 Mark)
								•
	15 Lines surplus treaty	15,000,000						(1 Mark)
	Excess of loss cover							
	Deductible	200.000						
	1st Layer	200,000 Xs 200,000						(1 Mark)
	2nd Layer	600,000 Xs 400,000						(1 Mark)
		,						(1 Mark)
	Risk underwritten	Sum insured	20,000,000.00					
	Risk apportionment							
	THE STATE OF THE S	RETENTION AMOUNT	RETAINED %	SURPLUS TREATY AMOUNT	SURPLUS TREATY	FACULTATIVE AMT	FACULTATIVE %	
								(2 marks each, 1
		800,000.00	4.00%	12,000,000	60.00%	7,200,000.00	36.00%	marks in all)
	Loss apportionment							
	loss amount	12,000,000						
	Retention @ 4% of N12,000,000	480,000.00						(2 Marks)
	Surplus treaty @ 60% of N12,000,000	7,200,000.00						(2 Marks)
	Facultative @ 36% of N12,000,000	4,320,000.00						(2 Marks)
	Gross retained loss apportionment							
	Excess of loss claim apportionment							
	Gross retained liability	480.000					1	(2 Marks)
	Deductible	200,000					İ .	(3 Marks)
	1st layer cover liability	200,000					ĺ	(3 Marks)
	2nd layer cover liability	80,000.00					İ .	(3 Marks)
		50,000.00					1	
							i e	

(Grand Total: 34 marks)

- 14. (a) What is "reinstatement" in reinsurance? (6 marks)
  - (b) Which excess of loss programme is not subject to reinstatement and why?

(4 marks)

(c) Explain the two (2) common methods of calculating reinstatement premium.

(4 marks)

(d) The following was extracted from the treaty programme of Concession Insurance Plc.

Excess of Loss Contract: \(\frac{\text{\tin}\text{\texi}\text{\text{\texi}\text{\text{\text{\text{\text{\texi}\text{\text{\text{\text{\text{\texi}\tinz{\text{\text{\text{\text{\text{\text{\text{\tet

Reinsurance Earned Premium: N7,500,000.00

Period of Reinsurance: 01/01/2022 -31/12/2022

Reinstatement Provision: One reinstatement at 100% additional premium

Loss from Ground Up: ₩35,000,000.00

**Required:** Calculate the reinstatement premium. (10 marks)

(e) Excess of Loss Contract:  $\frac{125,000,000.00}{125,000,000.00}$  XS of  $\frac{15,000,000.00}{125,000,000.00}$ 

Reinsurance Earned Premium: N7,500,000.00

Reinstatement Provision: One reinstatement and Pro-rata as to amount and time

Loss from Ground Up:  $\mbox{$\frac{1}{2}$}35,000,000.00$  Date of Loss:  $\mbox{$01/11/2022$}$ 

Period of Reinsurance: 01/01/2022 -31/12/2022

**Required:** Calculate the reinstatement premium. (10 marks)

#### **Solution**

- (a) "Reinstatement" in reinsurance can be defined to be .... (6 marks)
  - (a) Excess of loss contracts generally have a limit to the reinsurers' liability. Where the reinsured has a need to 'reinstate' the limits of liability (arising from the exhaustion of the original reinsurance limit through the settlement of prior claims), the reinsured is often charge a proportion of the original premium for this benefit. (3 marks)

    If claims are paid prior to adjustment of the premium, cover will be provisionally reinstated based on the deposit premium and later recalculated if the adjusted premium exceeds the deposit premium (subject to the minimum premium stipulation) (3 Marks)
  - (b) Aggregate and Stop loss protections are not subject to reinstatement, this is because they are constructed differently. (4 Marks)
- (c) There are two methods of calculating reinstatement premium, pro-rata to amount irrespective of time or Pro rata to time and amount. (4 marks)
- (d) Calculation of Reinstatement Premium

Loss to layer/Limit of layer x Layer Premium x Time Factor x 100/1

= Reinstatement Premium

(4 marks)

However, this one is not prorated as to time. It is as to amount only.

Therefore,

 $20,000,000/25,000,000 \times 7,500,000 \times 100\% = \frac{\text{N}}{6},000,000.00 = \text{Reinstatement Premium (6 marks)}.$  (Sub-Total: 10 marks)

(e) Calculation of Reinstatement Premium

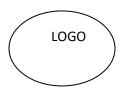
Loss to layer/ Limit of cover x Earned Premium x Number of days to expiry (including date of loss/Number of days in the year. (4 marks)

This is prorated as to amount and time.

- $= (20,000,000/25,000,000) \times 7,500,000 \times 61/365 = \text{$\mathbb{N}$} 1,002,739.73$
- Reinstatement Premium =  $\pm 1,002,739.73$

(6 marks)

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



### CHARTERED INSURANCE INSTITUTE OF NIGERIA ASSOCIATESHIP

#### OCTOBER 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:

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

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
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 Comment**

#### **Question 1**

The examiner tested the candidates' knowledge about common items on the balance sheet (Statements of Financial Position). The question was well attempted (96.6%). The pass rate was encouraging (88%). Candidates are advised to keep it up in future preparations.

#### **Question 2**

The question tested the knowledge of candidates about accounting concepts. The question was well attempted (100%), whilst the performance was encouraging (87.5%). Majority of the candidates displayed adequate knowledge of the concept as a result of their good preparation for the examination. Candidates are advised to keep it up as there is no other way to excel in this type of examination without proper preparation.

#### **Question 3**

The question tested candidates' knowledge about the calculation of the unearned premium provision, as well as the differences between profit centre and a cost centre. All candidates (100%) attempted the question, while the pass rate was 88%. This is quite encouraging and displayed that candidates' prepared very well for this aspect of the syllabus. Candidates are advised to keep it up and work harder, while preparing for future examinations.

#### **Question 4**

The question was meant to test candidates' knowledge on the aim of cashflow statement and why it is needed when viewed in line with IFRS accounting standards. The question was well attempted (95.5%), while the pass rate was 78.57%. Candidates are advised to study harder as there is still room for improvements in future examinations.

#### **Question 5**

The examiner tested candidates understanding of the concept of responsibility accounting as well as reasons for budget review. The question was well attempted (97.7%), while the pass rate was 95%. This is an encouraging performance as this indicates that candidates are taking this course more serious than before. Candidates are advised not relent on their good efforts in the future.

#### **Question 6**

This question tested candidates' knowledge of solvency margin and factors affecting it sizes. 100% of the candidates attempted the questions, while 73% of them obtained a pass mark. Majority of candidates displayed a good understanding of the concept tested. Candidates are advised to keep it up and ensure that they master essay aspect of the syllabus while preparing for the examination.

#### **Question 7**

The question intended to strike argument for and against insurance regulation. About 96% attempted the question, while the pass rate is 94%. This indicated that most candidates prepared very well for this question and covered the aspect of the syllabus very well. Candidates are advised

to keep it up by ensuring that they cover every aspect of the coursebook in their preparation for the examination in the future.

#### **Question 8**

The question was to test candidates' ability on how to enumerate classifications of insurance business for accounting purposes. The question was well attempted by virtually all the candidates (97%), while the pass rate is 81.8%. This is an encouraging performance. Candidates are advised to keep it up and work harder for the examination.

#### **Question 9**

The question tested the candidates' ability and knowledge of preparing a simple statement of financial position of a company. It is a compulsory question, carrying 50marks. All the candidates made an attempt at the question but only about 49% of them got pass marks. It was an average performance.

#### **Question 10**

The first part of the question tested candidates' knowledge of accounting terms such as premium, expenses, claims and unexpired risks, while the second part tested candidates' knowledge about internally generated good will and its treatments. About 82% of the candidates attempted the questions while about 39% obtained a pass mark. A lot still need to be done to improve the knowledge of candidates in this very important area of the course, while preparing for future examinations.

#### **Question 11**

The examiner tested candidates' knowledge about absorption costing, product costing and activity-based costing. Many candidates did not attempt this question being an optional question and may be because they did not prepare very well in that area of the syllabus. Only 14.20% attempted the question, while the pass rate was 64%. Candidates are advised to study harder in this area of the syllabus.

#### **Question 12**

The question tested the knowledge of candidates on solvency margin and factor affecting its size as well as knowledge of double taxation. The question was well attempted (96%), while the pass rate was 94%. The performance was encouraging. Candidates are advised to keep it up and ensure they prepare very well in future examinations.

#### **Question 13**

The question tested candidates' knowledge on standard costing and its classification with the aids of diagrams (where applicable). The question was well attempted 91% and the pass rate was 85%. The performance was very good. Candidates are advised to keep it up and study harder.

#### **Question 14**

This question tested candidates' knowledge of investment appraisal. Only 25 candidates (14%) attempted the question. This may be due to lack of understanding of the concepts tested. 52% of those attempted passed. Many candidates avoided the question, probably because of lack of adequate preparation. Candidates are therefore advised to study harder in their future preparations for the examination.

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

The overall performance was good at 68.2% pass rate. This is very high in the recent time. It is observed that candidates are taking interest in the course and this is reflecting in their performance.

#### **Suggestions on Improvements (if any)**

Candidates can perform better if they study harder and ensure that every aspect of the syllabus are well covered in their preparations.

# Part I

# Answer ALL questions in Part I.

Each question carries six (6) marks.

1. The profit and loss account is part of the double-entry system. What then is the balance sheet? List three (3) sections of a typical balance sheet (statement of financial position).

#### **Solution**

The balance sheet or Statement of Financial position is a listing of balances remaining on individual accounts at a given date- assets, liabilities and capital. It is not itself a ledger account. The three sections of a typical balance sheet (statement of financial position) are:

Assets: Liabilities: Capital.

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

2. Identify the four (4) basic accounting concepts.

# **Solution**

The four basic accounting concepts are:

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

- 3. (a) What is the basis of calculation of the unearned premium provision? (2 marks)
  - (b) What is the difference between a profit centre and a cost centre? (4 marks)

#### **Solution**

- (a) The basis of calculation of unearned premium provision is normally, a time basis (where this does not equate with incident risks another basis may be used). (2 marks)
- (b) A profit centre is a branch/unit/division of an organisation that directly adds or that normally add to the bottom-line or profits of the organisation as a whole (2 marks) while a cost centre is a branch/unit/ division of an organisation that does not directly add to the profit or bottom-line of the organisation but still costs the organisation money to operate.

(2 marks)

# (2 marks for the correctly stated difference. Sub-Total: 4 marks) (Grand Total: 6 marks)

4. What is the aim of cash flow statement and why is it needed when reviewed in line with IFRS accounting standards?

# **Solution**

The aim of the cash flow statement is to give a transparent account of the movement of cash into (2 marks) and out of (2 marks) a company. It is required by IFRS 1 (2 marks).

(Total: 6 marks)

- 5. (a) What is the basis of responsibility accounting? (2 marks)
  - (b) Enumerate any two (2) reasons why budget review is important. (4 marks)

#### **Solution**

- (a) The basis of responsibility accounting is that responsibility accounting allocates costs e.t.c. to the management with responsibility for them and deviations from budget can be attributed to the person in charge. (2 marks)
- (b) The reasons why budget review is important are:
  - budget review enable management to identify items not proceeding according to plan;
  - budget review enable management to take corrective action.
  - Budget review enables management to forecast for the future
  - Budget review enables management reward their employee or sanction them accordingly (2 marks for each correct and completely stated reason. Maximum of 2 to be graded. Sub-Total: 4 marks) (Total: 6 marks)
- 6. 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;
- \* type of business undertaken;
- \* efficiency of management;
- \* risks of outstanding claims exceeding provisions;
- \* possibility of a collapse in investment values at a time when cash is needed;
- \* danger of default by debtors, particularly reinsurers;
- \* effect of increase in inflation rate; \* degree of exposure to exchange rate risks;
- \* existence of equalisation or other reserves counted as liabilities;
- \* bases of valuing assets and liabilities.

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

7. Enumerate an (1) argument for and any two (2) arguments against insurance regulation.

# **Solution**

Argument for and against insurance supervision are as tabulated below:

S/No.	For	Against
1	Protection of policyholders	Contrary to supervision
2	Protection of general public	Inefficient
3		Expensive
4		Suppression of competition

(2 marks for each correct and completely stated argument. Maximum of 1 – for and 2 – against to be graded. 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;
- \* non-proportional treaty reinsurance;
- \* proportional treaty reinsurance.

\* pecuniary loss;

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

Page **38** of **125** 

# Part II Compulsory Question This question service 50

# This question carries 50 marks.

- 9. (a) Enumerate the four (4) examples of ethical practices required from a member of the Chartered Insurance Institute of Nigeria (CIIN). (10 marks)
  - (b) MOSAFOTE Plc has authorised share capital of №20,000,000.00 divided into 600,000 ordinary shares of №25.00 each. 50,000 8% preference shares of №100.00 each. After ascertaining the net profit for the year ended 31st December 20X2, the following balances remained in the ledger: **Dr Cr**

	<b>№</b> '000	<b>₩</b> ′000
50,000 8% Preference share of ¥100 each		5,000
600,000 Ordinary shares of N25 each		15,000
Retained Earnings		2,380
General Reserve		2,278
Trade Receivables	830	
Trade Payables		652
Inventory	1,200	
Freehold Property at Cost	11,890	
Plant and Machinery at Cost	14,000	
Provision for depreciation on plant and machinery		6,000
Furniture and Fittings at Cost	1,000	
Provision for Depreciation on Furniture and Fitting	S	400
Cash at Bank	2,790	

After extracting the above balances, it was decided to pay a full year's dividend on the preference shares and the directors decided to recommend a dividend of 7% on the ordinary shares and to transfer \(\frac{\text{\text{\text{W}}}}{800,000.00}\) to general reserve.

**Required:** Prepare the statement of financial position of MOSAFOTE Plc as at 31<sup>st</sup> December 20X2 in accordance with the requirements of International Financial Reporting Standards. (State any necessary IFRS required notes). (40 marks)

# **Solution**

- (a) The examples of ethical practices required from a member of the Chartered Insurance Institute of Nigeria (CIIN) are:
  - acting responsibly and with integrity in their professional activities at all times to their clients and the society as a whole;
  - compliance with the code of ethics, all relevant laws and other regulatory requirements and appropriate code of practice and codes of conduct;
  - demonstrating professional competence by meeting the technical and professional standards commensurate to their level of qualification and position of responsibility and completing their duties with due skill, care and diligence;
  - upholding professional standards in all dealings and relationships;
  - respecting the confidentiality of information acquired in professional and business relationships;

• applying objectivity in making professional judgments and giving opinion and statements.

(2½ marks for each correct and completely stated ethical practice. Maximum of 4 to be graded. Total: 10 marks)

# (b) Working Notes

Retained earnings (W5)

Trade Payable

**Current Liabilities (1/2 mark)** 

Property, Plant and Equipment (W1)

Property, Plant and Equipment	(W1)			
Cost	Accumulated	<b>Depreciation</b>	Net Book Value	
<del>N</del> '000	₩'000		<b>₩</b> ′000	
Freehold Property 11,890	-	(1/2 mk)	11,890 (1/2	mark)
Plant and machinery 14,000	6,000	(1/2 mk)	8,000 (1/2	mark)
Furniture and Fittings 1,000	400	(1/2 mk)	<u>600</u> (1/2	mark)
<u>26,890</u> (1	<b>mk</b> ) <u>6,400</u>	(1 mk)	20,490 (1 m	ark)
Dividend on preference shares	(W2) = 8%  of  \$5,000	$0,000.00 = \frac{N40}{1000}$	00,000.00 (1 ma	rk)
Dividend on ordinary shares = '	7% of <del>N</del> 25,000,000,	$00 = \mathbb{N}1$	,750,000.00 (1 ma	rk)
According to IFRS, dividends of	leclared but not paid	as at the end of	f the financial year sh	nould
only be reflected in notes to the	statements. As a res	ult, there can b	e no dividend payabl	e at the
year end.			(1 ma	rk)
Retained earnings (W4)			<b>№</b> '000	
Ledger balance			2,380 (1/2 n	nark)
Less transfer to General	Reserve		(800) (1/2 n	nark)
Ending balance			<u>1,580</u>	
General Reserve (W5)= \(\frac{\textbf{W}}{2},278\)	3.000.00 (1/2 mark) +	₩800,000.00 (	$1/2 \text{ mark}) = \frac{1}{2},078,0$	00.00
			(1 ma	rk)
	(Sub-Total: 15	marks)		
Anugwa Plc	·	ŕ		
Anugwa Plc Statement of Financial Positio	·	per, 20X2 (1 ma		
Statement of Financial Position	·	ŕ	ark) <del>N</del> '000	
Statement of Financial Position Assets:	on as at 31st Decemb	per, 20X2 (1 ma		
Statement of Financial Position Assets: Non-Current assets: (1/2 mark	on as at 31 <sup>st</sup> Decemb	per, 20X2 (1 ma	₩°000	
Statement of Financial Position Assets:	on as at 31 <sup>st</sup> Decemb	per, 20X2 (1 ma		rks)
Assets: Non-Current assets: (1/2 mark Property, Plants & Equipment (	on as at 31 <sup>st</sup> Decemb	per, 20X2 (1 ma	₩°000	rks)
Assets: Non-Current assets: (1/2 mark Property, Plants & Equipment ( Current Assets: (1/2 mark)	on as at 31 <sup>st</sup> December 100 (w1)	per, 20X2 (1 ma	<b>№'000</b> 20,490 (2 ma	ŕ
Assets: Non-Current assets: (1/2 mark Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory	on as at 31st December 1,2	oer, 20X2 (1 ma №°000	N'000 20,490 (2 ma	rks)
Assets: Non-Current assets: (1/2 mark) Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory Trade Receivables	on as at 31st December 1,28	oer, 20X2 (1 ma N'000	N'000 20,490 (2 ma (2 ma (2 ma	rks) rks)
Assets: Non-Current assets: (1/2 mark Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory	on as at 31st December 1,2	oer, 20X2 (1 ma N'000	N'000 20,490 (2 ma (2 ma (2 ma (2 ma	rks) rks) rks)
Assets: Non-Current assets: (1/2 mark) Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory Trade Receivables Cash at bank	on as at 31st December 1,28	oer, 20X2 (1 ma N'000	20,490 (2 ma (2 ma (2 ma (2 ma 4,820 (2 ma	rks) rks) rks) rks)
Assets: Non-Current assets: (1/2 mark) Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory Trade Receivables Cash at bank  Total Assets	on as at 31st December 1,28	oer, 20X2 (1 ma N'000	N'000 20,490 (2 ma (2 ma (2 ma (2 ma	rks) rks) rks) rks)
Assets: Non-Current assets: (1/2 mark Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory Trade Receivables Cash at bank  Total Assets Equity and Liabilities	on as at 31st December 1,28	oer, 20X2 (1 ma N'000	20,490 (2 ma (2 ma (2 ma (2 ma 4,820 (2 ma 25,310 (1 ma	rks) rks) rks) rks) rk)
Assets: Non-Current assets: (1/2 mark Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory Trade Receivables Cash at bank  Total Assets Equity and Liabilities Equity:	on as at 31 <sup>st</sup> December 1,2 (w1) 1,2 8 2,7	oer, 20X2 (1 ma N'000 00 30 90	20,490 (2 ma (2 ma (2 ma (2 ma 4,820 (2 ma 25,310 (1 ma	rks) rks) rks) rks) rks) rks)
Assets: Non-Current assets: (1/2 mark) Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory Trade Receivables Cash at bank  Total Assets Equity and Liabilities Equity: 600,000 ordinary shares at ¥25	on as at 31st December 1,2 8 2,7	oer, 20X2 (1 ma N'000 00 30 90	20,490 (2 ma (2 ma (2 ma (2 ma (2 ma 4,820 (2 ma 25,310 (1 ma (1/2 m (2 ma	rks) rks) rks) rks) rks) rk) nark)
Assets: Non-Current assets: (1/2 mark Property, Plants & Equipment ( Current Assets: (1/2 mark) Inventory Trade Receivables Cash at bank  Total Assets Equity and Liabilities Equity:	on as at 31st December 1,2 8 2,7	oer, 20X2 (1 ma N'000 00 30 90	20,490 (2 ma (2 ma (2 ma (2 ma 4,820 (2 ma 25,310 (1 ma	rks) rks) rks) rks) rk) rk) rk) rks)

24,658 (2 marks)

652 (2 marks)

(Sub-Total: 25 marks) (Grand Total: 50 marks)

#### Part III

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

- 10. (a) In accordance with insurance accounting, write short notes on the following terms:
  - (i) premium;
- (ii) expenses; (iii) claims;
- (iv) unexpired risks. (24 marks)
- (b) (i) Why is internally generated goodwill not shown in the balance sheet?
  - (3 marks)
- (ii) Which type of goodwill is shown in the balance sheet? (4 marks)
- (iii) State the reason why this (ii above) is so.
- (3 marks)

#### Solution

(a) (i) **Premiums**: the figures published should make allowances for pipeline premiums (i.e. those where business has been written but premiums not yet finalized) and lapses. Unearned premiums are to be calculated on a time apportionment basis unless due to the unevenness of the incidence of risk a more appropriate method can be used: the provision should not have any deduction made for deferred acquisition costs- (DAC's). Gross premium should be shown, with related reinsurance premiums as a deduction.

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

(ii) **Expenses** – capital and revenue expenses should be distinguished and accounted for on an incurred basis. Deferred acquisition costs should be calculated accurately. Any bad debt provision should be charged against expenses.

(3 marks for each correct and completely stated explanation. Maximum of 2 to be graded.

Sub-Total: 6 marks)

(iii) **Claims**: provisions for outstanding claims should include a figure for related claims handling expenses: like premiums, claims should be shown gross with a separate statement of reinsurance recoveries. Where fund accounting is practiced, cross-funding is unacceptable (that is, transfer between separate open funds).

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

(iv) **Unexpired risks**: these are to be calculated at enterprise level and in assessing the need for and amount of any provision investment income may be considered but no adjustment should be made in respect of deferred acquisition costs, which should be carried forward separately.

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

(Grand Sub-Total: 24 marks)

- (b) (i) Internally generated goodwill is not shown in the balance sheet because of valuation. (3 marks)
  - (ii) The type of goodwill that is shown in the balance sheet is purchased goodwill.

    (4 marks)

(iii) The reason the purchased goodwill is shown is because it is an increase in value over the company's assets where its liability (classified as an intangible asset and is considered to have an indefinite useful life)

(3 marks)

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

- 11. (a) State two (2) reasons why absorption costing inappropriate when considering whether or not to discontinue a line of business. (10 marks)
  - (b) Enumerate three (3) aims of product costing in accounting. (15 marks)
  - (c) How may the activities of a business be analysed under "activity-based costing". (9 marks)

#### **Solution**

(a) When a decision whether or not to discontinue a line of business is being undertaken the use of absorption costing would tend to hide the allocated costs being borne by that line and which would need to be charged to others if they were to be dis-continued. It could also be used when false conclusions might emerge.

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

(b) Product costing in accounting seeks to establish a procedure by which expenses can be allocated to the products or services for which they are being incurred. It also provides the final piece of information which the accounting recording system lacks in terms of establishing products profitability and the first stage is to distinguish between those costs which are directly incurred in this process and those which are indirect or overhead to it. It also makes accurate allocation quite impossible.

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

- (c) Under "activity-based costing", activities may be classified as
  - (i) core; (ii) support; and (iii) discretionary.

(3 marks for each correctly stated activity. Sub-Total: 9 marks)
(Grand Total: 34 marks)

- 12. (a) Define and briefly explain the term "solvency margin" and identify any five (5) main factors affecting its size. (24 marks)
  - (b) What is double taxation? State its relief. (10 marks)

# **Solution**

(a) Solvency margin can be explained as the excess of the value of (an insurer's) assets over the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulations. It is a sort of cushion and like a cushion its desirable size depends on the contours of the user (the profile of the insurer) and the circumstances of its use (the economic and financial environment).

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

The main factors that affect the size of the solvency margin are the:

- size of the insurer (net retentions);
- types of business undertaken (class and geography);
- efficiency of management (claims and expense control, underwriting ability);

- risk of outstanding claims exceeding provisions therefore;
- possibility of a collapse in investment values at a time when cash is needed;
- danger of default by debtors, particularly reinsurers;
- harmful effects of an increase in inflation rates, whether general or specific in relation to the business, such as motor repair costs or court awards;
- degree of exposure to exchange rate risk;
- existence of equalisation or other reserves counted as liabilities;
- bases of valuing assets and liabilities.

(4 marks for each correct and completely stated factor. Maximum of 5 to be graded. Sub-Total: 20 marks)
(Grand Sub-Total: 24 marks)

(b.) Double taxation relief is a reduction of tax payable by amounts of foreign tax payable on the same profits. (4 marks).

The relief of double taxation is explained as stated further. For example in the United Kingdom, where a UK company controls at least 10% of the voting share capital of an overseas company, the UK company will also be allowed credit for the underlying tax applicable to the dividend received from the overseas company. Also, relief of this kind can be obtained if, after 1 April 1982:

- such a voting power (which was 10% or more) has fallen below 10%; or
- such a voting power of less than 10% has been acquired in exchange for a shareholding which was entitled to relief.

Providing that the change could not have been prevented by the UK investing company and that no reasonable endeavours on their part could have restored or increase the voting power to 10%. Where a UK insurance company carries on general insurance business through an overseas branch or agency the company will also be allowed credit (subject to certain limitations) for underlying tax applicable to dividends which are received from overseas companies and which are directly relating to the branch business. The net dividends received are grossed up by the rate of withholding tax and the rate of underlying tax, the resultant figure being charged to corporation tax. The foreign taxes suffered may be off set against corporation tax other than ACT; where this is not payable withholding tax only may be treated as an expense.

(3 marks for each double taxation relief explained. Maximum of 2 to be graded. Sub-Total: 6 marks)
(Grand Sub-Total: 10 marks)
(Grand Total: 34 marks)

- 13. (a) Define the phrase "standard costing". List and explain its three (3) classifications. (9 marks)
  - (b) Write short notes on any five (5) of the following cost classifications, and explain also with the aid of a diagram (where applicable):
  - (i) variable cost;
- (ii) fixed cost;
- (iii) step costs;

- (iv) incremental/marginal cost;
- relevant cost;
- (vi) sunk cost;

(vii) opportunity cost.

(25 marks)

#### **Solution**

(a) Standard Costings are pre-determined costs/target costs that should be incurred under efficient operating conditions. Unlike budgets which relate to total activity, they provide a target level of the unit cost. (3 marks)

(v)

Its three classifications are:

**Basic Cost Standards**: are constant and left unchanged over long periods of time. They are seldom used as they do not reflect changes in methods of operation. It has the advantage of consistency of comparison over long periods.

**Idea Standards:** represent perfect performance and are the minimum costs which are possible under the most efficient operating conditions. They are rarely used unless they are perceived to have a motivational impact. They represent an unachievable target.

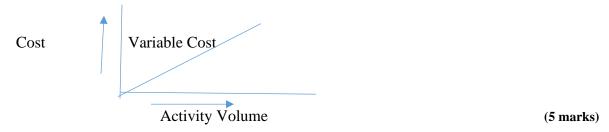
**Currently Attainable Standards:** represent those costs which should be incurred under efficient operating conditions. They are difficult but not impossible to achieve.

(1 mark for correctly stated classification and 1 mark for correct and completely stated explanation. Sub-Total per classification: 2 marks. Grand Sub-Total: 6 marks)

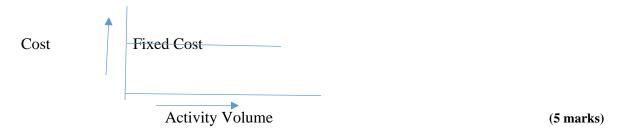
(Grand Sub-Total: 9 marks)

(b)

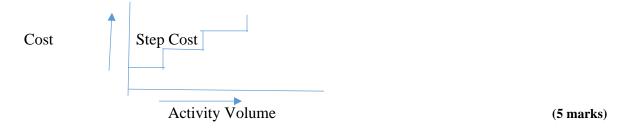
(i) **Variable Cost:** vary in direct and linear relationship to activity e.g. if the commission rate is 15% of premium, then every \$\frac{\textbf{N}}{2}\$1.00 premium hurdle will pay \$\frac{\textbf{N}}{2}\$15,000.00 to the intermediary.



(ii) **Fixed Cost:** remains constant for a specified period of time regardless of the level of activity. They are sometimes called period fixed costs because in the long-term, all costs vary.



- (iii) **Incremental/Marginal Cost:** basically, this establishes the additional costs or revenues resulting from a decision. (5 marks)
- (iv) **Step Costs:** are fixed for a given level of activity but eventually increase at some critical points e.g. when greater activity involves extra staff or machines or premises.



- (v) **Relevant Costs:** costs and revenues can be classified as to whether they are relevant to a particular decision e.g. if you are deciding whether to go by a car or a motorcycle, then the car insurance cost is irrelevant as it stays the same whether the car is used or not, the relevant cost is the petrol cost. (5 marks)
- (vi) **Sunk Costs:** are those already incurred and which will be totally unaffected by the proposed alternatives. They are irrelevant for decision making. (5 marks)
- (vii) **Opportunity Costs:** are those which measure the sacrifice of choosing one alternative course of action which requires another alternative to be discarded. (5 marks)

  (Maximum of 5 terms to eb graded. Grand Sub-Total: 25 marks)

  (Grand Total: 34 narks)
- 14. Suleiman Nigeria Limited is considering a capital investment proposal, where two alternatives involving differing degrees of mechanisation are being considered.

	Machine 1	Machine 2
	N	₩
Cost	2,180,000	8,050,000
Residual Value	280,000	1,500,000
Annual Cashflows	1,000,000	2,500,000

Both investments would have a five-year life span. Depreciation is provided on a straight-line basis. The cost of capital is 15%.

You are required to calculate for each alternative:

- (a) Net Present Value (16 marks); (b) Payback period (6 marks);
- (c) Accounting Rate of Return (6 marks);
- (d) Advise the company based on each of the investment appraisal techniques (6 marks).

#### **Solution**

(a) Calculation of Net Present Value

	Year	Items	Cash Flow ( <del>N</del> )	Discount Factor (15%)	Present Value ( <del>N</del> )
Machine 1	0	Cost	(2,780,000)	1	(2,780,000)
	1 - 5	Inflow	1,000,000	3.3522	3.352,200
	5	Residual Value	280,000	0.4972	139,216

711,416

	Year	Items	Cash Flow	Discount	Present Value
			( <del>N</del> )	Factor	( <del>N</del> )
				(15%)	
Machine 2	0	Cost	(8,050,000)	1	(8,050,000)
	1 – 5	Inflow	2,500,000	3.3522	8,380,500
	5	Residual	1,500,000	0.4972	745,800
		Value			

(1 mark for each correctly stated figure in coloured ink. Sub-Total: 20 marks)

(b) Calculation of Payback Period

=

Payback Period = <u>Initial Outlay</u>

Annual Cash Inflows

Machine 1 Machine 2 2,780,000 8,050,000

1,000,000 (2 marks) 2,500,000 (2 marks) 2 years 9 months (1 mark) 3 years 3 months (1 mark)

(Sub-Total: 6 marks)

(c) Calculation of Accounting Rate of Return

 $ARR = \underline{Average\ Annual\ Profit}\ x\ \underline{100}$ 

Average Investment 1 (1 mark)

Annual Profit = Profit - Depreciation

1,000,000 - 500,000 2,500,000 - 1,310,000=  $\frac{N}{5}00,000$  =  $\frac{N}{1},190,000$ 

Average Investment = Cost + Residual Value

=

2

<u>2,780,000 – 280,000</u> <u>8,050,000 – 1,500,000</u>

= +1,530,000 = +4,775,000

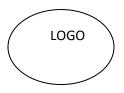
ARR =  $500,000 \times 100$   $1,190,000 \times 100$ 

1,530,000 1 (1½ marks) 4,775,000 1(1½ marks) 33% (1 mark) 25% (1 mark)

(Grand Total: 34 marks)

- (d) (i) **Based on Net Present Value Technique**: Suleiman Nigeria Limited should select machine 2 because it has a higher Net Present Value. (2 marks)
- (ii) **Based on Payback Period Technique:** Suleiman Nigeria Limited should select Machine 1 because it has a shorter payback period. (2 marks)
- (iii) Based on the Accounting Rate of Return (ARR) Investment Appraisal Technique: Suleiman Nigeria Limited should select machine 1 because it has a higher Accounting Rate of Return. (2 marks)

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



# CHARTERED INSURANCE INSTITUTE OF NIGERIA ASSOCIATESHIP

# OCTOBER 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 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:**

# **Ouestion 1**

The question tested candidates' knowledge on bonds in the insurance market. Over 95% of the total candidates attempted this question. Majority of the candidates showed good understanding of the question. Pass rate was 70%.

# **Question 2**

The question tested candidates' knowledge on the impact of fire-break door warranty on claims, and employers' liability on the acts of an independent contractor. 96% of the total candidates attempted this question. Candidates demonstrated fair understanding of the questions. Pass rate was 59%.

# **Question 3**

The question tested candidates' knowledge on the roles/tasks that a property underwriter should perform in the case of change of risk. This question was attempted by over 95% of the candidates which resulted in 65% pass rate. Candidates showed good understanding of the question.

# **Question 4**

The question tested candidates' knowledge on renewal of insurance policies. This question was attempted by over 99% of the total candidates with overall performance below average. Pass rate was 40%.

#### **Ouestion 5**

The question was attempted 98% of the total candidates. The question is popular, but performance is poor. Pass rate was 40%. Candidates have to improve their knowledge on the contents of insurance of building under construction.

#### **Ouestion 6**

The question tested candidates' knowledge on proximate cause. This question was very popular with 99% of the candidates attempting it. The question is basic and fundamental to fire insurance, Pass rate was 61%.

#### **Question 7**

Candidates did not understand the questions, and those that attempted it performed woefully. Pass rate was 0%.

#### **Ouestion 8**

Generally, candidates' performance on this question was abysmal. Pass rate was 11%.

# **Question 9**

The questions were straightforward and practical. Overall performance was good. Pass rate was 69%.

#### **Question 10**

This was an optional question that was attempted by only five candidates, Overall performance was woeful with 0% pass rate.

# **Question 11**

This question was avoided by majority of the candidates. Of the 33% that attempted it, performance was poor with 15% pass rate.

# **Question 12**

This question was popular with 77% of the candidates attempting it. Pass rate was 57%.

# **Question 13**

72% of the total candidates attempted this question but performance was poor. Pass rate was 18%.

# **Question 14**

This question was attempted by 87% of all the candidates. Overall performance at 9% pass rate showed poor understanding, of the question.

# **Comments on Overall Performance**

Majority of the candidates did not study the coursebook. There was inadequate preparation for the examination. Overall pass rate was 28%

# **Suggestions on Improvements (if any)**

This course/subject is very important for Nigeria insurance industry. Candidates must be supported and encouraged to study, understand and be able to present what they have studied clearly.

#### Part I

# Answer ALL questions in Part I.

Each question carries six (6) marks.

1. List any six (6) commonly sold bonds in any country's insurance market.

# **Solution**

The commonly sold bonds in any country's insurance market are:

- \* liquidation bond; \* local government bond; \* performance bond;
- \* bid or tender bond; \* custom bond; \* maintenance bond;
- \* retention bond; \* advance payment bond.

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

- 2. (a) How does the breach of a fire-break door warranty affect an impact claim on a fire and special perils policy? (2 marks)
  - (b) Enumerate any two (2) circumstances where an employer will be liable for the acts of an independent contractor under construction insurance. (4 marks)

# **Solution**

- (a) The breach of a fire-break door warranty **does not** affect an impact claim on a fire and special perils policy? (2 marks)
- (b) The circumstances where an employer will be liable for the acts of an independent contractor under construction insurance are where:
  - extra hazardous work is involved; \* the work is unlawful;
  - control is retained, by way of machinery or labour supplied;
  - there is a statutory duty to carry out the work in a particular manner;
  - Use of an incompetent contractor; \* liability arises from fire damage.

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

(Grand Total: 6 marks)

3. In a case of change of risk, give any six (6) roles/tasks that a property/pecuniary underwriter should perform.

# **Solution**

The roles/tasks that a property/pecuniary underwriter should perform are:

- \* identify the underwriting factors and estimated maximum loss;
- \* establish the type of risk and acceptance class;
- \* apply the acceptance limit for the class;
- \* determine rating factors;
- \* determine terms and conditions or warranties or endorsement;
- \* collect premium.

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

4. State any six (6) issues which both insurer and insured consider at renewal of the insurance policies.

#### **Solution**

The issues which both insurer and insured consider at renewal of the insurance policies are:

• is the business classification still being underwritten;

- cost of providing cover any increase in price;
- risk address or post code;
- if the business interruption insurance applies to several premises does rate require review;
- risk index up-date;
- change in sum insured/deductible;
- any increase in business growth or expansion;
- loss or claim experience over the year;
- review of EML and reinsurance or co-insurance needed in the coming year

Other but same factors & matters for insured self-consideration to continue with insurer are:-

- cost efficiency of the policy;
- adequacy of cover, policy protection and attention to risks details;
- value review in line with general price index or inflation;
- cash flow, business performance, appropriateness of indemnity period chosen;
- paying attentions to new development in the insurance market;
- has insurer request for risk improvement to be put in place such as sprinklers, fire appliances, intruder alarms, shutters, vehicle alarms, CCTV, security patrols, firebreak walls, floors and doors fire alarm.

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

5. Give three (3) wide range of risks that "developers" (into construction projects) who provide property service(s) are exposed to in this modern time.

#### **Solution**

The wide - range of risks that "developers" (into construction projects) who provide property service(s) are exposed to in this modern time are:

- \* risk of loss "potential development profit";
- \* risk of continuing interest charges on borrowings.

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

- 6. (a) Define "proximate cause". (3 marks)
  - (b) State a main insurable peril in each of the following risk categories:
    - (i) chemical; (ii) social; (iii) natural. (3 marks)

# **Solution**

- (a) Proximate cause is the active efficient cause (1 mark) which sets in motion a train of events that brings about a result (1 mark); without the intervention of any force starting and working actively from a new and independent source (1 mark). (3 marks)
- (b) The main insurable perils in each of the following risk categories are:
  - (i) **chemical:** explosion; spontaneous combustion; self-heating.
  - (ii) **social:** riot, civil commotion, strikers, locked-out workers; persons taking part in labour disturbances.
  - (iii) **natural:** storm, flood, earthquake, subterranean fire, subsidence, ground heave, landslip.

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

# (Grand Total: 6 marks)

7. Enumerate any four (4) circumstances whereby, "bugs" and "viruses" - under computer business interruption will not be covered.

# **Solution**

The circumstances whereby, "bugs" and "viruses" - under computer business interruption will not be covered are:

(1½ marks for each correctly stated non-coverage terms. Maximum of 4 to be graded) ( Grand Total: 6 marks)

8. Explain any two (2) reasons why marine clause exclusions will appear in any fire/special perils policy.

# **Solution**

The reasons why marine clause exclusions will appear in any fire/special perils policy are:

- because the property would have pay but for the existence of this policy be insured by any marine policy. it is possible marine cargo policy contains a similar clause worded the other way round;
- loss/damage occurred on way to warehouse will not be covered by fire policy but the marine policy provided can be extended to cover same (warehouse to warehouse);
- damage inside warehouse by fire will be addressed by fire plus special perils covers same goods inside warehouse and there is fire/peril loss the 2 policies will share cost in proportion to their sum insured on the item/property.

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

#### Part II

# Compulsory Question.

This question carries 50 marks.

- 9. (a) (i) Who regulates the insurance industry in the country that you are writing this examination? (2 marks)
  - (ii) State the trade association for insurers, brokers, loss adjusters and agents respectively in that country's insurance industry. (8 marks)
  - (b) (i) What does the phrase "leading office" imply? (2 marks)
    - (ii) State any four (4) roles of a leading office in an insurance placement. (8 marks)
  - (c) Fire and special perils policies was placed with your company that is leading with the following details:
    - \* Your company as A share is 50%;
- \* Company as B share is 30%;
- \* Company as C share is 15%;
- \* \* Company D share is 5%.
- \* Broker's Commission Rate: 20%.

Lead Office Overriding Expense Commission: 2.5%

The sum insured is  $\mbox{N}500$ , 000,000.00 and the premium paid on November 1, 2022 was  $\mbox{N}10$ , 000,000.00. On December 5, 2022, fire broke out, an adjuster was appointed and the adjuster submitted a recommended discharge for  $\mbox{N}80$ ,000,000.00 and an adjuster fee of  $\mbox{N}1$ ,500,000.00; which was approved for sign-off by the leading office.

- (i) calculate the sum insured each co-insurer in the group will bear. (4 marks)
- (ii) calculate the gross and net premiums that each co-insurer is entitled to as the broker paid total premium to your company; (14 marks)
- (iii) Do apportionment of the adjuster's fees and claims accordingly. (12 marks)

#### Solution

(a) (i) National Insurance Commission (NAICOM)

(2 marks)

(ii) Insurers: - Nigerian Insurers Association

Brokers: - Nigerian Council of Registered Insurance Brokers

Loss Adjusters: -Institute of Loss Adjusters of Nigeria

Agents: -Association of Registered Agents of Nigeria.

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

- (b) (i) Leading Office imply by custom of insurance business worldwide, the insurer with the highest percentage/proportion is regarded as the leading office while all others must follow. (2 marks)
- (ii) The roles of leading office are:
  - issue proposal form/obtain broking slips;
  - handle all correspondence on the policy issuance and endorsements;
  - handle surveys;
  - handle rating;
  - dispatch policy specification to co-insurers;
  - obtain returned signed slips/policy schedule from co-insurers.

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

(c) Co-insurance Sum Insured: \$\frac{\text{\tinc{\text{\tin}}\text{\tin}\text{\tetx}\text{\texi}\text{\text{\texi}\text{\text{\texi}\text{\text{\texic}\text{\texi}\text{\texi{\text{\texi}\text{\texi}\text{\texi{\texi{\texi{\texi{\texi{\tex{

# **Apportionment of Sum Insured**

Company A - 50%: N250, 000,000.00 (i) (1 mark) Company B - 30%: N150, 000,000.00 (1 mark) Company C - 15%: ₩ 75.000.000.00 (1 mark) Company D - 5%: N 25,000,000.00 (1 mark) Total - 100%: **№** 500,000,000.00

(ii) Apportionment of Gross Premium: N10,000,000.00

Total - 100%: \$10,000,000.00

```
Gross Co-Insurers Premium: №10,000,000.00
Less Broker's Commission: № 2,000,000.00
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Share of Net Premium:  $\frac{N}{2}$  8, 000,000.00 (2 marks)

Less Lead Office

Overriding Commission: N 200, 000.00 (retained by Company A) (2 marks)

Net Premium Shareable: № 7, 800,000.00 (2 marks)

Company A - 50%: № 3,900,000.00 (1 mark)

Company B - 30%: № 2,340,000.00 (1 mark)

Company C - 15%: № 1,170,000.00 (1 mark)

Company D - 5%: № 390,000.00 (1 mark)

Total - 100%: N 7,800,000.00

#### 

Total - 100%: №1,500,000.00

# Claims Apportionment

Total - 100%: N80,000,000.00

(Sub-Total: 30 marks) (Grand Total: 50 marks)

#### Part III

# Answer THREE of the following FIVE questions.

# Each question carries 34 marks.

10. A client who insured machines under engineering material damages recently made claim but it was discovered that some items were included which are not under cover in the policy. Your Head of Technical Operations has directed you to write to the client explaining the normal practice giving not less than six (6) examples of such cost/amount that will be excluded from the amount indemnifiable under the policy.

You are also to include in your letter appropriate references to four (4) principles which when applied which usually can limit amount of indemnity for the class of insurance.

# **Solution**

Candidates are required to respond in a letter form and include the following:

- replacement of worn but undamaged bearings will be excluded;
- replacement of refractory brickwork in a boiler during replacement of damaged boiler tubes;
- replacement of worn tyres on a forklifts truck;
- worn and burnt electrical contents;
- chemical de-scaling (of boilers storage vessel e.t.c.) following repairs;

- repainting of undamaged part of a machine e.g. the cab of a mobile crane where the job has been completed;
- complete overhaul of diesel engine during replacement of damaged cylinder linings

Any four (4) of the principles below limiting the amount of indemnity are required to be mentioned and correctly linked/explained in the response:

- sum insured;
- policy excess/deductible;
- application of average/under value (insurance);
- betterment/depreciation;
- contribution by another policy inadequately;
- breach of warranty(ies) or policy terms and condition through imposition of penalty(ies).

Candidates are required to respond in a letter format: (i) Putting in correct letter format - 4 marks (Adress & Addressee (I mark), Dear Sir (1 mark), Subject (1 mark), Date (1 mark) (ii) three (3) marks for each correct and completely stated normal practice with correct example. Maximum of 6 to be graded. (Sub-Total: 18 marks). (iii) three (3) marks for each correctly referenced principle and correctly explained as it relates to limiting indemnity discount. Maximum of 4 to be graded. (Sub-total: 12 marks)

(Grand Total: 34 marks)

- 11. Undergraduates in 300-level in a tertiary institution in your country paid a student courtesy visit to your office, and your Managing Director has directed you through your team lead to address the undergraduates on:
  - minimum of four (4) record to be set up per class of insurance business; (12 marks) (a)
  - minimum of six (6) record to set up to monitor performance of insurance (b) organisations; and (18 marks)
  - Enumerate the differences between collective policy and co-insurance. (4 marks) (c)

# **Solution**

- Record to be set up per class of insurance business are: (a)
  - \* premium received/receivable;
- \* claims paid and reserved;
- \* commissions paid to intermediaries;
- \* administration costs;
- \* profits or loss for the class of business.

(Candidates are required to explain 4 of the information. 2 marks for correctly stated information. 1 mark for correct and complete explanation under each information. Sub-Total per information: 3 marks. Grand **Sub-Total: 12 marks)** 

- (b) Record to set up to monitor performance of insurance organisations are:
  - \* accounting systems;
- \* statistical systems; \*loadings;
- \* discounts per class;
- \*rating levels per type of risks;
- \* ratio calculations analysis; \* premium income analysis/platform;
- \* value at risk platform;
- \* claims amounts; \* claims frequency.

(Candidates are required to explain 6 of the information. 2 marks for correctly stated information. 1 mark for correct and complete explanation under each information. Sub-Total per information: 3 marks. Grand Sub-Total: 18 marks)

(c) Collective policy is the policy document jointly signed after it has been prepared by one leading office, whereby all insurance companies that signed are bound by all the policy

terms, conditions and warranties/endorsements (2 marks). WHILE co-insurance refers to insurance companies coming together in agreement to grant cover on risk as per proportions known to the insured. (2 marks) (Sub-Total: 4 marks)

(Grand Total: 34 marks)

- 12. (a) The advent of computers and online transactions have changed things. Explain six (6) processes by which how underwriters use the computer to ease operations.

  (19 marks)
  - (b) (i) In fixing or forecasting precisely what the indemnity period on a business interruption policy should be, enumerate any three (3) factors which may prolong the time taken to replace raw materials and also prolong the time needed to regain market share after production has resumed. (9 marks)
  - (ii) Explicitly explain any two (2) factors from those enumerated in (i) above. (6 marks)

# **Solution**

- a. The processes by which how underwriters use the computer to ease operations are:
  - premium quotation;
  - issuing of certificate and policy document online;
  - inviting renewals;
  - conduct real time online pre-acceptance risk inspection but not total substitute for risk survey because moral hazard will not reflect online;
  - premium and sum insured analysis;
  - updating of risk index;
  - adjusting reinsurance need for medium and smaller risks;
  - recording premium debit/credit;
  - claims analysis;
  - clients charts/updates.

(Candidates are required to explain 6 of the processes. 2 marks for correctly stated process. 1 mark for correct and complete explanation under each process. Sub-Total per process: 3 marks. I mark for all candidates who explained and not simply stated/listed. Grand Sub-Total: 19 marks)

- (b) (i) In fixing or forecasting precisely what the indemnity period on a business interruption policy should be, the factors which may prolong the time taken to replace raw materials and also prolong the time needed to regain market share after production has resumed are:
  - if availability of raw materials is seasonal and the damage destroyed all of one year harvest;
  - if raw materials are in short supply generally or it has to be processed before insured can use it:
  - slack/slow market demand for insured's products, in this situation, competitors will work hard to fill the gap left by insured's absence from the market;
  - price change imposed on insured if the new works cost more to run then the old prices have to be increased.

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

(ii) Candidates are required to explain how any two of the factors correctly listed above affect the fixing/forecasting. 3 marks for any correct and completely stated explanation under each factor. Sub-Total: 6 marks.

# (Grand Total: 34 marks)

- 13. (a) Your friend that is new to fire insurance covers has requested for explanation from you why standard exclusions are used. Explicitly explain any four (4) standard exclusions to your friend. (24 marks)
  - (b) You should also explain, with five (5) distinct points, to your friend how the standard exclusions affect a claim. (10 marks)

#### **Solution**

- a) The standard exclusions are:
  - (i) War Risk
    - whether war be declared or not;
    - size of losses following war;
    - law will be suspended;
    - recovery will be difficult if not impossible;
    - because of experience of the world war, government took same up when insurer market made known their decision on this.
  - (ii) Riot
    - some trade such as newspaper offices are prone to riot;
    - loss can be very variable at different places and times;
    - recovery from the authority can be made; for example from the police.
  - (iii) Radioactive Contamination
  - (iv) Explosive Nuclear Assemblies

These are associated with toxic explosive and the potential losses beyond the capacity of individual insurers insurance pools.

(v) **Terrorism** 

Bomb incident in London 1992 devastating

- most composite insurers then were affected;
- reinsurers were not willing to provide the cover;
- insurers informed government and stop the cover (terrorism).
- (vi) Civil Commotion

Insurer took opportunity and exclude the cause of loss where

- government is expected to be responsible;
- the burden of proving that such damage is covered is upon the insured but it is excluded.
- (vii) **Pollution**-

The policy will respond to the fire damage but not to any other damage caused by the original pollution

(2 marks for each correctly stated exclusion. 2 marks for any correct and completely stated explanation. Sub-Total per exclusion: 4 marks. Maximum of 6 to be graded. Sub-Total: 24 marks)

- (b) The standard exclusions affect a claim in the following ways:
  - in the event of war damage the claim is made to the government;
  - in the event of riot damage, no cover unless bought as a special peril;
  - insured must make the claims within seven days in case of occurrence;

- insurer can pursue the insured's right of recourse to the police authority;
- for radioactive contamination or explosion of nuclear assembly here is no cover;
- cover can be arranged separately special cover will be required;
- for civil commotion or malicious damage, insurer will regard that as terrorist and will not pay;

(2 marks for each correct and complete explanation. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)

14. a) Fully describe a package policy.

(8 marks)

- (b) List five (5) nature of risks that can be incorporated into a package policy.(10 marks)
- (c) Enumerate four (4) actions that can be considered dishonest but seems accepted as the 'norm' common in public places/society when considering fidelity of a country's citizen. (16 marks)

# Solution

- (a) A package policy is one policy:
  - having predetermined combinations of sections;
  - with each set out description of what is insured against and what the insured event is;
  - flexibility in name, address, risk address, business of the insured;
  - amount to be insured in property, business interruption sections;
  - "unit" of benefit;

(2 marks for each correct description. Maximum of 4 to be graded. Sub-Total: 8 marks)

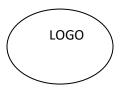
- (b). The risks that can be incorporated into a package policy are:

  - \* money; \* glass \* goods-in-transit;

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

- (c) The actions that can be considered dishonest but seems accepted as the "norm" common in public places/society when considering fidelity of a country's citizen are:
  - removing ashtrays from public houses;
  - removing tissue papers from public toilet;
  - removing hands rail on bridges and other public places for making spoon, electric lamp stands for sales back to the public;
  - inflating personal expenses claims;
  - using an office photocopier for personal use study books;
  - pilfering items from a place of employment, offices, stationary, provision and food items.

(4 marks for each correct and completely stated action. Maximum of 4 to be graded. Sub-Total: 16 marks) (Grand Total: 34 marks)



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

# **ASSOCIATESHIP**

# OCTOBER 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

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

# **Ouestion 1**

The question tested candidates' knowledge on the concept of automatic reinsurance of a block of life assurance business and cause of new business strain. Pass rate was 75%.

# **Question 2**

The question tested candidates' knowledge on mortality tables symbols. The pass rate was 65%. Those students that attempted it, interpreted the symbols convincingly.

# **Ouestion 3**

The question tested candidates' knowledge on temporary annuity and annuity certain. Both concepts were satisfactorily explained. Pass rate was 65%.

# **Question 4**

The question tested candidates' knowledge on clauses of Life Assurance Act 1774. Performance was average as many students were able to interpret the questions well. Pass rate was 53%.

# **Question 5**

The question tested candidates' knowledge on pure endowment contract and universal life policies. Not well attended to by candidates. They could not distinguish well between endowment types. Pass rate was 48%.

# Question 6.

The question tested candidates' knowledge on a minor and the issue of disclosure. Candidates scored very well because they were able to give the necessary information. Pass rate was 80%.

# **Questions 7**

The examiner tested candidates of life assurance policy administration, endowment and policy under trust. It was attempted by almost all the candidates, and pass rate was 83%. It showed candidates' understanding of documentation of life assurance.

#### **Ouestion 8**

The question tested candidates' knowledge on unethical practices that occur in insurance business. Candidates' responses were disappointing, pass rate was 35%

# **Question 9**

This is a compulsory question attempted by 98% of the candidates. Pass rate was 67.5% and this showed candidates had good knowledge of types of life insurance that suit the particular case study.

#### **Question 10**

The examiner tested candidates' knowledge of obtaining life assurance licence in different African countries as the various types of life policies. Candidates lacked knowledge of current capital requirements in those African countries. Overall pass rate was 25%.

# **Question 11**

The question tested candidates' knowledge of trust and how trustees are replaced. Most candidates performed well, pass rate was 60%.

# **Question 12**

The question tested candidates' knowledge on mortality table and its uses. Many candidates have a good overview of mortality table but did not mention the constituents. Pass rate was 27.78%.

# **Question 13**

The question tested candidates' knowledge on annuity case study. Well attempted by candidates and many were able to distinguish between the different types. It was well attempted and pass rate was 68%.

# **Question 14**

This is not a popular question; majority of the candidates did not attempt the question. Pass rate was 60%.

# **Comments on Overall Performance**

Overall pass rate was 52.50%. There was improvement from last diet as some candidates showed sign of sound understanding of the course.

# **Suggestions on Improvements (if any)**

Candidates are encouraged to study the course books and prepare well for the examination.

# Part I

# Answer ALL questions in Part I.

Each question carries six (6) marks.

- 1. (a) What is the name given to the automatic reassurance of a block of life assurance business?
  - (b) What can cause new business strain?

# **Solution**

- (a) The name given to the automatic reassurance of a block of life assurance business is **treaty reassurance.** (3 marks)
- (b) An unexpected number of large early claims before a new life fund has the chance to build up large reserves can cause new business strain. (3 marks)

(Total: 6 marks)

2. In the context of the mortality table, write out what each of the following symbols represent: (a)  $p_x$  (b)  $q_x$  (c)  $l_x$ 

# **Solution**

- (a)  $\mathbf{p_x}$  represents the probability that a person now aged X will survive to the next age (x + 1) according to a particular mortality table. (2 marks)
- (b)  $\mathbf{q}_x$  represents the probability that a person now aged X will not survive to the next age X + 1 according to a particular mortality table. (2 marks)

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

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

(Total: 6 marks)

- 3. (a) What is an annuity certain? When is it usually paid?
  - (b) What is a temporary annuity? When is it usually paid?

# Solution

- (a) Annuity certain is the type of annuity that is paid only for a fixed period of time and thereafter it ceases. (1 mark) Under the annuity certain, the annuity payment is paid to the annuitant/or his named beneficiary for a specified period of time (years), irrespective of the duration of life of the annuitant. (2 marks)
- (b) Temporary annuity is the type of annuity that ceases if the annuitant dies within this period. (1 mark) In a temporary annuity, the annuity payment is made to the annuitant for a fixed number of years, if the annuitant survives that period. (2 marks)

(Total: 6 marks)

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

# **Solution**

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

(i) no interest, no insurance;

(2 marks)

- (ii) the person interested (the proposer) must be named in the policy;
- (2 marks)
- (iii) no greater sum than the stated interest (i.e. sum assured) can be recovered. (2 marks)

(Total: 6 marks)

5.	, ,	Define a pure endowment contract. Enumerate four (4) out of the range of benefits which are usually a universal life policies.	(2 marks) vailable under (4 marks)
	A pure sured live is no life. The rare (i) deat (iii) and (iv) was (v) regulare (vi) ince (viii) he (x) opti	endowment contract is simply a contract which pays out the matural es to maturity date but pays out nothing if he or she dies before the erisk in it.  Inge of benefits which are usually available under universal life policy has benefit; (ii) guaranteed insurability options; mual indexation option to automatically adjust the death benefit; iver of premium/contribution benefit during disability; ular income option; (vi) facility to suspend premium payments; come protection benefits; (vii) sum assured payable on disability ospital income benefits; (ix) accidental death benefits; ion to add a further life assured, for example on marriage.  In the formula of the matural endowment of the pays out the pays out t	maturity date. (2 marks) cies are:
		(Grand Total: 6 marks)	
6.	(a)	Who is a "minor"?  Enumerate any four (4) facts which need not be disclosed by a life	(2 marks)
Solutio		Enumerate any four (4) facts which need not be disclosed by a life	proposer.
(a)		or is a person who is under 18 years of age.	(2 marks)
(b)	The factor (i) factor (iii) factor (iv) factor enquiry	cts which need not be disclosed by a life proposer are: s which the insurer already knows; (ii) facts which the insurer out ets about which the insurer waives information; ets possible of discovery, where enough information has been given by by the insurer; (v) facts which lessens the ris for each correctly stated set of facts. Maximum of 4 to be graded. Sub-Total (Grand Total: 6 marks)	ight to know; to provoke
7.	(a) (b) (c)	In the context of insurance policy administration, define an endors Enumerate any two (2) ways by which ownership can be changed twhich has been issued.  Outline any two (2) of the documents required for claims under true.	to a life policy
Solutio	. ,	Summe tary two (2) of the documents required for claims under tru	st policies.
(a)		context of insurance policy administration, an endorsement is an add	dition to a
standar	rd policy	y document.	(2 marks)
(b) through		ays by which ownership can be changed to a life policy which has b (i) absolute assignment; (ii) mortgage; (iii) tru	
	(1 ma	(iv) bankruptcy.  ark for each correctly stated way. Maximum of 2 to be graded. Sub-Total: 2 is	marke)
(c)	The do	cuments required for claims under trust policies are: policy document; (ii) any deeds of appointment of new e deed of appointment of trustees (unless the policy is under the MV	trustees;

- (iv) any deeds of retirement of trustees;
- (v) the death certificates of any trustees who have died.

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

8. List four (4) unethical practices that can occur in insurance business.

#### **Solution**

Some unethical practices that can occur in insurance business are:

- (i) selling in disguise;
- (ii) churning; (i
- (iii) failure to disclose status;

- (iv) switching;
- (v) over-optimistic projections;
- (vi) overcharging;

(vii) overselling.

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

#### Part II

Compulsory Question.

This question carries 50 marks.

- 9. (a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to industry practitioners on "fair trade practice and for treatment of customers". Outline two (2) of the minimum information that insurance institutions are required to update on their websites as stated in the circular. (10 marks)
  - (b) A proposer aged 42 years requested for an Endowment Assurance with profit for a sum assured of two million, five hundred thousand naira (N2,500,000.00). The underwriter has processed the duly completed proposal form and the relevant medical reports to reveal:
    - Average Blood Pressure of systolic 190MMH over diastolic 120MMH.
    - the class of extra mortality is 100% (Class 4)
    - the rate of extra mortality is 9.14% (per mille)

Calculate the monetary extra premium payable.

(7 marks)

- (c) Dr. (Mrs.) Abimbola is a Director in Fintech Company based in Nigeria and wants to take a loan from a commercial bank in Nigeria with a view of using the loan to finance the working capital of the company. She has approached you as the Head of Marketing at ABC Life Insurance Company Limited for a key person assurance in respect of the loan she wants to take from the commercial bank.
- (i) Do you agree with her that the life policy she actually needs is a key person assurance? Justify your response. (5 marks)
- (ii) Describe to her in detail, with four (4) minimum descriptions, what "key person assurance" is all about taking into consideration the scope of cover under key person assurance, risks which may be covered and type of life assurance policy usually recommended. (12 marks)
- (iii) Explain what a term assurance is and state any three (3) of its uses. (16 marks)

# **Solution**

(a) As part of NAICOM's role to establish standards for the conduct of insurance business on Nigeria, a circular was issued to Industry Practitioners on "fair trade practice and fair treatment

to customers. The stated minimum information that insurance institutions are required to update their websites as stated in the circular major focus in the circular are:

- The average timeline to settle claims (for various classes of insurance);
- Business location and contact telephone number of all its branches;
- The compliant procedure.

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

(b) Age of Assured: 42 years
Average Blood Pressure Reading: 190/120
Maturity Age: 60 years
Term of Years: 18 years

Sum Assured: \text{\ti}\text{\texi{\text{\ti}}\tint{\text{\text{\text{\text{\text{\text{\tin}\tint{\text{\ti}\til\tint{\text{\text{\text{\text{\text{\text{\text{\ti}}\tilit{\text{\text{\text{\text{\text{\texi}\tilie\text{\text{\text{\til\tiint{\text{\tii}}\tint{\tiint{\tii}}\tint{\text{\tii}}\tint{\

The Monetary Extra premium chargeable:

= <u>Sum Assured</u> x Rate of extra mortality (4 marks)

1000

 $= 2,500,000 \times 9.14$  (2 marks)

1000

Monetary Extra Premium Payable =  $\frac{1}{2}$ 22,850.00 (1 mark)

(Sub-Total: 7 marks)

(c) (i) No. I do not agree with her that the life policy she actually needs is a key person assurance. She does not need a key person assurance as a collateral security for a loan transaction (2 marks). This is because a key person assurance provides cover for organisation on the life of an employee or employees who is/are vital to the continued profitability of the business and not for loan. Rather, what the woman needs is a credit life policy. (3 marks)

(Sub-Total: 5 marks)

(ii) Key Person Assurance is the name given to the life assurance contract taken out by a company on an employee or employees who is/are vital to the continued profitability of the business. An example of a key person would be a marketing executive with valuable contacts and networking. A key person may equally be an inventor of ideas in an organization who devises new products or a person who has built up a company from scratch. The loss of such a key person could seriously affect the company's continued profitability and key person assurance has evolved to provide some sort of financial compensation for the company. The sum assured should be that required to compensate for the loss of profits on the death of the key person and, in particular, to cover the expenses of finding, securing and training a successor. Some estimate should be made of how much the pre-tax profits would fall on the death of the key person. In view of this, a key person policy could be seen as more akin to a loss of profits insurance than to ordinary life assurance. It is therefore common for companies to effect life assurance on the life of a key person. The company will be assured and will have to show that it has enough insurable interest in the life assured (i.e. key person) to warrant the level of cover requested. Please note that key person

assurance has nothing to do with a loan transaction. The ideal type of life policy for a key person assurance is a renewable term assurance and the basic risk to be covered is death risk, though permanent disability risk may be added to the basic risk of death.

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

(iii) Term assurance is the most basic form of life assurance. It will pay out only if the life assured dies during the term of the policy. If the life assured survives, no payment is made and the policy expires. Also, there is no investment element in a term assurance.

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

Some of the uses of term assurance are:

- (i) for life protection;
- (ii) for short business trip abroad;
- (iii) for tax relief purpose;
- (iv) as a collateral security for loan transactions;
- (v) It may also be effected by partners in a partnership firm to purchase a deceased partner's shares in the partnership firm.

(3 marks for each correctly stated use of a term assurance. Maximum of 4 to be graded. Sub-Total: 12 marks)
(Grand Sub-Total: 16 marks)
(Grand Total: 50 marks)

#### Part III

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

- 10. (a) What is the Capital Requirement for obtaining the license to transact life insurance business in your country? (4 marks)
  - (b) Describe each of the following life assurance products with at least two (2) attributes and outline two (2) uses of each:
    - (i) Term Assurance;
- (ii) Whole Life Assurance;
- (iii) Endowment Assurance.

(**30** marks)

# **Solution**

- (a) The Capital Requirement for obtaining the license to transact life insurance business in your country are in:
  - (i) Nigeria: Negeria: - (ii) The Gambia GMD 19 million. (4 marks)
- (iii) Liberia =\$750,000.00

(iv) Sierra Leone \$1.900.000.00

(v) Rwanda = 1 billion RWF

(4 marks for any correctly stated amount. The candidates need not state the country) (Grand Sub-Total: 16 marks)

- (b) (i) Term Assurance:
  - In a term assurance, the sum assured is only payable if the life assured dies within the policy duration.
  - Thus, no sum assured is payable, if the life assured survives the policy duration.
  - Term assurance is primarily designed for life protection and loan transactions.

- Thus, the policy duration may be short or long depending on the purpose in which the policy is effected.
- A term assurance has no element of investment and as such it is always effected without participation in the profit of the life office without profit.

# **Various Uses of Term Assurance:**

- As collateral security for loan transactions.
   \* For life protection purposes.
- For short business trips abroad. \* For tax relief.
- For investment purpose if effected as a convertible term assurance.

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

# (ii) Whole life Assurance:

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

# **Various Uses of Whole life Assurance:**

- For life protection purposes. \* As collateral security for soft loans.
- For tax relief purpose. \* For capital transfer tax.
- It may also be effected by members of a partnership to purchase a deceased's partner share in the firm.

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

#### (iii) **Endowment Assurance:**

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

#### **Various Uses of Endowment Assurance:**

• For investment purpose. \* For life protection purpose.

• As collateral security for soft loans. \* For tax relief.

• For pension's provision. \* To augment pension.

• For house purchase.

(2½ marks for each correct and completely stated attribute and use. Maximum of 2 each to be graded. Sub-Total: 10 marks)
(Grand Sub-Total: 30 marks)

(Grand Total: 34 marks)

- 11. (a) Define a "trust". (6 marks)
  - (b) State any five (5) circumstances which can lead to the replacement of a trustee.

    (10 marks)

Enumerate and explain the three (3) types of beneficial interest under trusts.

(18 marks)

# **Solution**

(c)

- (a) The legal definition of a trust is an equitable obligation binding the trustee to deal with property over which he has control (called the trust property) (2 marks) for the benefit of certain persons (called beneficiaries) of whom he may himself be one, (2 marks) and any one of whom may enforce the obligation (2 marks).

  (Sub Total: 6 marks)
- (b) The circumstances which may lead to the replacement of a trustee are:
  - where the existing trustee is dead;
  - where the existing trustee becomes bankrupt/goes into liquidation;
  - where the existing trustee becomes physically unfit;
  - where the existing trustee is a minor;
  - where the existing trustee resigns his appointment;
  - where the existing trustee leaves outside the country for more than 12 months calendar consecutively;
  - where the existing trustee commits an act of felony.

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

- (c) The three (3) types of beneficial interest under trusts are:
- (i) **Life Interest:** A life interest means that the beneficiary is entitled to the income from the trust property for life, but cannot touch the capital.
- (ii) **Reversionary Interest:** A reversionary interest is the right to the trust property after the termination of a life interest.
- (iii) **Contingent Interest:** A contingent interest is one that is subject to a contingency and thus may not come into possession.

(3 marks for each correctly stated type. 3 marks for correct and completely stated explanation. Sub-Total per type: 6 marks. Grand Sub-Total: 18 marks)

(Grand Total: 34 marks)

- 12. (a) Describe in detail a "mortality table", with four (4) distinct descriptions. (10 marks)
  - (b) Enumerate and explain any four (4) uses of the mortality table. (24 marks)

#### **Solution**

(a) A mortality table is the result of the study of the past deaths in a stated generation and which is used to give guidance as to the probable mortality of the future. It may also be described as an instrument by means of which an actuary calculates or measures the probabilities of survival and death. A mortality table has three important columns from which the rate of mortality for the life premium component could be computed. The first column gives the different ages at which the mortality has been studied; the second column indicates the number of persons living at each age; and the third column shows the number of persons dying at each age.

# (2½ marks for each correct and completely stated description. Maximum of 4 to be graded. Sub-total: 10 marks)

- (b) The various uses of mortality table are:
  - **In Population Work:** A mortality table is used to make estimates for future population by some governmental bodies. 4 marks
  - In Life Assurance Work: It is used to calculate premium, reserves and surrender values by life assurance companies. 4 marks
  - In Private Actuarial Work: It is also being used to calculate contributions to pension schemes and withdrawal benefits. 4 marks
  - **By Friendly Societies:** It is used for valuing life and other reversionary interests that may arise under wills and settlements. 4 marks
  - **Determination of Expectation of Life:** A mortality table can also be used to determine the expectation of life at any particular given age. 4 marks

(3 marks for each correctly stated use. 3 marks for correct and completely stated explanation. Sub-Total per use: 6 marks. Grand Sub-Total: 24 marks)

(Grand Total: 34 marks)

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- 13. You have been approached by Mr. Adeoyo Afonja who is about retire from active service regarding annuity product as a vehicular tool to making provision for his pension.
  - (a) Explain to him in detail what an annuity product is, with four (4) distinct explanations. (10 marks)
  - (b) Outline to him any two (2) uses of an Annuity Product. (4 marks)
  - (c) Describe the following annuity products:
    - (i) deferred annuity;

(ii) temporary annuity;

- (iii) annuity certain;
- (iv) increasing annuity.

(20 marks)

# **Solution**

(a) An annuity is a contract to pay a set amount every period (say yearly or half yearly or quarterly or monthly) while the annuitant is still alive. The annuitant is the person on whose life the annuity contract depends. Annuity can be payable in advance or arrears. For example, where an annuity is effected on January 1, 2023 and the first annuity payment is due on January 1, 2023 — this is payable in advance. But, where it is payable in say December 31, 2023 or January 1, 2024 — this is said to be payable in arrears. Where an annuity is payable in arrears, it can either be with proportion or without proportion. The amount of annuity a person can buy with a certain sum of money depends basically upon the person's gender and age at the time of buying the annuity. Most annuities are paid for by a single premium which is often called the consideration for the annuity. Annuities are commonly used by retired people to provide an income that is guaranteed to last for life. Annuities are also provided by pension arrangements and these are covered in separate course. I mark

 $(2\frac{1}{2}$  marks for each correct and completely stated description. Maximum of 4 to be graded. Sub-Total: 10 marks)

- (b) The uses of an annuity product are that it may be used:
  - \* for investment purposes;
- \* to make provision for pension;

- (c) (i) **Deferred Annuity:** a deferred annuity is a contract which provides for an annuity to be payable commencing at some future date. The period between the date of the contract and date the annuity is to commence is often called the vesting date or maturity date. If the annuitant dies during the deferred period, the office will usually return the premiums paid with or without interest. However, once the deferred period is reached, the annuity becomes payable and will continue for the rest of the annuitant's life. Often a cash option is available on the vesting date in lieu of the annuity.

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

(ii) **Temporary Annuity:** this is an annuity which is payable for a fixed period or for the annuitant's lifetime, whichever is the shorter. In other words, under the temporary annuity, the annuity payment is made to the annuitant for a fixed number of years, if the annuitant survives that period of time.

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

(iii) **Annuity Certain:** this is an annuity contract to pay an annuity for a specified period regardless of whether the annuitant survives. It does not depend on the age of the annuitant as payment is guaranteed for the specified period whatever happens. However, the annuity payment ceases at the end of the agreed period even where the annuitant is still living.

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

(iv) **Increasing Annuity:** this an annuity where the annuity instalments increase by a fixed percentage each year. This has basically been designed to counteract the effect of inflation, although the rate of inflation may well be higher than the fixed rate of increase.

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

(Grand Sub-Total: 20 marks)

(Grand total: 34 marks)

- 14. (a) Describe the procedure usually followed by the life office for the conduct of medical examination, with three (3) distinct descriptions. (12 marks)
  - (b) Concisely state any four (4) rights of the life proposed under the Access of Medical Reports Act 1988. (10 marks)
  - (c) State any three (3) factors usually considered by the underwriter in medical examination. (12 marks)

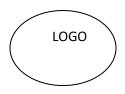
#### **Solution**

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

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

- (b) The rights of the life proposed under the Access of Medical Reports Act 1988 are:
- (i) the life office reserves the right to apply for the medical reports from the doctor who has attended to a proposer for life assurance;
- (ii) under the Access to Medical Reports Act 1988, life proposer has the right to refuse to allow a life office to obtain report of medical tests conducted on him;
- (iii) the demerit of this right if exercised is that the life office would be unable to process and accept the application;
- (iv) if the proposer consents to the life office's request and the medical report is to be obtained, he can also indicate whether or not he would wish to see the report;
- (v) if the proposer does not wish to see the report, the doctor can then return it to the life office;
- (vi) the Act allows the proposer to change his mind and request to see the report at any time within six (6) months and if the doctor has already forwarded the report to the life office, a copy of the report can be made available to the proposer within 21 days;
- (vii) if the proposer indicates at the onset that he wishes to see the medical report, this may delay processing the application since the doctor will need to give an appointment of 21days to arranged to see it;
- (viii) the doctor is allowed to charge the proposer a fee to cover the cost of supplying the report (2½ marks for each correct and completely stated description. Maximum of 4 to be graded. Sub-Total: 10 marks)
- (c) The factors that are usually considered by the underwriter in medical examination are the:
  - size of the sum assured;
  - larger the sum assured proposed, the higher the risk of loss;
  - age of the proposer at entry;
  - mortality tables are based on the fact that the risk of death increases with age. Hence the higher the age of the proposer, the higher the premium;
  - information on the completed proposal form: may set the underwriter on enquiry for further opinion.

(4 marks for each correct and completely stated description. Maximum of 3 to be graded. Sub-Total: 12 marks) (Grand Total: 34 marks)



# CHARTERED INSURANCE INSTITUTE OF NIGERIA ASSOCIATESHIP

# OCTOBER 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 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:**

#### **Ouestion 1**

This question tests candidates' knowledge of motor fleet rating. Although the question was well attempted but performance was very low and below average at about 40% pass rate.

#### **Ouestion 2**

This question centres on intermediaries in insurance. Performance was good as it was well attempted, pass rate was 60%.

# **Question 3**

This question centres on "starter discounts" in insurance operation. It was well attempted and performance was average, 50% pass rate.

#### **Ouestion 4**

This tested candidates' knowledge of insurable interest. Question well attempted and understanding well displayed. Pass rate was 65%.

# **Question 5**

The question centered on third party sharing agreement. Candidates displayed very poor understanding of the question. Consequently, performance was at 40% pass rate.

#### **Question 6**

This question tested candidates' knowledge of the operation in the claims department. Pass rate was 13%.

#### **Ouestion 7**

This question tested candidates' knowledge of a section of the motor policy and commercial vehicle rating. Performance happens to be below average contrary to expectations. Pass rate was 4.34%.

#### **Ouestion 8**

This centered on definition of agricultural vehicles and partly motor cycle policy. Performance was bad at 8.33% rate. It appeared that candidates did not prepare well for this examination.

#### **Question 9**

This centered on NAICOM operating requirements. Motor claims administrator and knock for knock agreement. Candidates displayed shallow knowledge of the question as performance is not encouraging and far below expectation. Pass rate was 30%.

#### **Question 10**

This tested candidates' knowledge of risk management. Performance was very fair and above average, pass rate was 60%.

#### **Question 11**

This was on no-claims-discount and facility underwriting practice. The question was well attempted but pass rate 27%.

# **Question 12**

This centered on motor claims the loss by deception. Question well attempted. Performance was average at pass rate of 55%. Candidates could do better.

# **Question 13**

This centres on changing of insurers and the question was well attempted. Pass rate was 40%.

# **Question 14**

This centres on Road Traffic Act. Pass rate was 51% Candidates can do better if they prepare well for the examination

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

Overall performance was poor, pass rate was 20.84%. The questions were not so harsh or difficult but it appears that candidates did not prepare well for the examination. This is the worst result in the last ten years or there about. Candidates need to be more serious with their studies. It is very unfortunate and disappointing.

# **Suggestions on Improvements (If any)**

Candidates need to be more studious. It is doubtful if they have motor insurance course books or perhaps, maybe they chose not to read/study the course book. The answers did not justify a good and serious preparation for the examination. Finally, it was a very bad result.

#### Part I

# Answer ALL questions in Part I.

Each question carries six (6) marks.

1. State the three (3) categories (sizes) of fleet rated risks and indicate the extent to which rating is geared in an insurer's "normal" rating level.

#### Solution

The three categories (sizes) of fleet rated risks and the extent to which rating is geared in an insurer's "normal" rating level are:

- (i) 10-30: Small, Geared to book rating (+/- loading/discount)
- (ii) 31 100: Medium, Linked to book, rating but stands more on its own merits.
- (iii)100 +: Large, Based primarily on its own historic experience.

(1 mark for each correctly stated size (category). 1 mark for correctly stated extent. Sub-Total per class: 2 marks. Grand Total: 6 marks)

2. Intermediaries are allowed in normal insurance operation, enumerate any two (2) major groups of these intermediaries as learnt in the course, with very short explanation.

#### Solution

Intermediaries can be split into three major groups, which are:

- (i) **The Brokers:** Brokers who are registered and regulated by the Insurance Brokers Association.
- (ii) **Independent Intermediaries:** often calling themselves Consultants or Advisers, who carry out a similar rate to that of Brokers in as much as they can place business anywhere in the market.
- (iii)Lastly, there are **Company Agents** employed by Insurers either as full time or paid staff or on sub-employed commission earning basis, who can place business with the one company.

(2 marks for correctly stated group. 1 mark for correct explanation. Sub-Total per group: 3 marks. Maximum of 2 to be graded. Grand Total: 6 marks)

3. What is the "modus operandi" for the granting of "initial" or "starter" discount? Discuss.

#### **Solution**

The "modus operandi" for the granting of "initial" or "starter" discount can be granted by considering the following:

- those that have no driving record at all and cannot therefore prove themselves;
- those that have a good record, but under someone else's policy.

Both categories can be catered for by the application of an 'initial' or 'starter' discount. The amount of such discount varies from insurer to insurer, as will the action taken after the first year of claim-free history. One example would be a 25% "starter discount" moving onto the first rung of the NCD scale at 30% after the first year if claim free. Some insurers will start on the first-year scale and move to a second-year discount after the first claim-free year. Some insurers will give a new car owner a discount equivalent to the number of years of proved claim-free and regular driving under someone else's policy. This is particularly true for company car drivers who revert to owning a car of their own.

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

4. Insurable interest is one of the principles of insurance and for any insured to make a successful claim, he must have an interest in the subject matter of insurance. Outline any three (3) categories of persons who may have insurable interest in an insured vehicle and the circumstances of such interest.

#### **Solution**

The categories of persons who may have insurable interest in an insured vehicle and the circumstances of such interest are:

- anyone who is driving or using a motor vehicle has an interest in any liabilities incurred due to their use of it:
- the owner of a motor vehicle has an interest in the vehicle itself. Insurers generally accept that members of the same family, particularly husband and wife have a joint interest in the vehicle:
- anyone who borrows vehicle may have an interest as Bailee. They may insure it under their existing policy or may specifically arrange on comprehensive basis;
- a person renting a vehicle may by the term of the Rental Agreement, be liable for loss or damage sustained. The liability may be no greater than any excess or collision damage waiver imposed by the rental company and that element of loss is quite often insured under a special policy arranged by the rental.

(1 mark for each correctly stated category. 1 mark for each correctly stated circumstance of such interest. Maximum of 3 to be graded. Total: 6 marks)

5. "Third Party Sharing Agreement" is to avoid liability argument between Insurers. Outline the three (3) conditions that should exist before the "agreement" could become operative.

#### **Solution**

The conditions that should exist before the "agreement" could become operative are:

- there must be a collision between two or more vehicles.
- the vehicles involved must be insured against liabilities to third parties;
- injury must be sustained by a third party or damage to their property; provided the third party is not one of the drivers involved in the accident.

(2 marks for each correct and completely stated condition. Total: 6 marks)

6. Concisely enumerate any three (3) roles of the claims department.

#### **Solution**

The roles of the claims department are to:

- provide a fast and efficient claims service;
- indemnify the policyholder in accordance with the cover purchased;
- ensure that only valid claims are paid;
- deal with third party claims whilst protecting the policyholder's interest; and
- protect the fund of premium against overpayment, fraud and expenses incurred due to inefficient claims-handling process.

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

- 7. (a) Outline any two (2) risks and/or persons that are specifically excluded under the "Third Party Section" of a Private Motor Policy. (4 marks)
  - (b) Enumerate one reason why drivers' details are rarely used for commercial policies rating. (2 marks)

#### Solution

- (a) The risks and/or persons that are specifically excluded under the "Third Party Section" of a Private Motor Policy are:
  - loss of or damage to the car you are driving (i.e insured car);
  - any one driving the insured car who never held a license to drive if or who is disqualified from holding or obtaining such a license;
  - anyone who fails to comply with any of the terms exceptions, conditions and endorsements of this policy which apply to him.

(2 marks for each correct and completely stated excluded person. Maximum of 2 to be graded. Total: 4 marks)

- (b) Drivers' details are rarely used for commercial policies rating because:
  - there are many changes to the list of drivers for large concerns;
  - details could be obtained if there are relatively few drivers (as for private motor;
  - insurers may impose a blanket limitation, say, to include drivers under 25 years.

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

- 8. (a) Give a brief description of "Agricultural Vehicles". (4 marks)
  - (b) State an additional benefit included in the more "Elite" Motorcycle Policies.
    (2 marks)

#### **Solution**

(a) "Any vehicle (including any trailer agricultural implement or machine attached to it for the purpose of being operated or drawn) mentioned by description in the policy schedule OR

#### **OR**

"Any motor vehicle which is insured under this Policy and is described in the current Certificate of Insurance".

(Sub-Total: 4 marks)

- (b) The additional benefits included in the more "Elite" Motorcycle Policies are:
  - transport of rider, passengers and possessions to their intended destination, following the accident:
  - transmission of messages on to family or friends to alleviate anxiety;
  - please note that these benefits are allowed by virtue of a specific motor recovery service;
  - there may be a new motorcycle replacement clause within the policy, but such a facility may be available if, for example, the motorcycle is stolen and not recovered.

(2 marks for any correct and completely stated benefit. Sub-Total: 2 marks) (Grand Total: 6 marks)

#### Part II

Compulsory Question.

This question carries 50 marks.

9. (a) According to the NAICOM operational requirement, what operational manuals are required to be submitted by insurance operators within ninety (90) of commencement of operations to the Commission. (10 marks)

(b) Dr. Ocholi insured his Toyota Sienna Space Car with M/S Accurate Insurance Company Limited. While driving along Lagos-Abeokuta Express Road, a third party drove his car (a Mercedes Benz brand) in a negligent manner, thus causing an accident. He (Dr. Ocholi) insured his vehicle on comprehensive basis on a sum insured of ¥2,000,000.00. Both the insured and the third party reported the accident to their respective insurers.

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Outline how these claims should be handled by both insurers taking into consideration the involvement of a professional Broker. (15 marks)

- (c) (i) Concisely explain any three (3) cause of damage to vehicle that the "Knock for Knock Agreement" will apply to when it was in operation.

  (9 marks)
  - (ii) Some factors led to the withdrawal of the "Knock for Knock Agreement". State any two (2) of those factors. (6 marks)
  - (iii) Enumerate four (4) advantages of taking up a comprehensive motor insurance policy. (10 marks)

#### **Solution**

- (a) The operational manuals required to be submitted by insurance operators within ninety (90) of commencement of operations to the Commission are:
  - Underwriting Policy and Procedural Manual;
  - New Product Development Manual
  - Claims Policy and Procedure Manual
  - Complaints Policy and Procedure Manual.

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

- (b) These claims should be handled by both insurers taking into consideration the involvement of a professional Broker as follows:
  - the Insured, having claimed from his Insurers does not have the legal right to claim again from the third-party insurer.
  - rather, his insurer M/S Accurate Insurance Company Limited should exercise its subrogation right by making a recovery from the third party's insurer;
  - once it is established that the insured was not at fault and was not also responsible for the accident:

Since the business was placed through a professional Broker, all correspondences on the claim MUST be routed through the Broker.

(5 marks for the bolded point. 5 point for any correct and completely stated point. Maximum of other 2 are to be graded. Sub-Total: 10 marks. Grand Sub-Total: 15 marks)

- (c) (i) The "Knock for Knock Agreement" applies to damage to vehicle resulting from the following:
  - collision or attempt to avoid collision;

- loading or unloading;
- anything falling from vehicles or anything thrown up by the wheels of a vehicle;
- relates to losses which are subject of indemnity and would not apply to any benefits such as Personal Accident benefits.

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

- (ii) The factors that led to the withdrawal of the "Knock for Knock Agreement" are:
  - disparity in the make-up of portfolios between comprehensive and non- comprehensive covers:
  - uninsured loss claims that were getting larger;
  - legal expenses cover availability;
  - avoiding out of claims experience not related to the effectiveness of underwriting)(3 marks)
     (3 marks for each correct and completely stated application. Maximum of 2 to be graded. Sub-Total: 6 marks)
- (d) The advantages of taking up a comprehensive cover are:
  - gives the widest cover including all the cover provided by "T.P.F.T.", "TPO" and "Act only";
  - amongst others cover loss of or damage to the insured's vehicle by fire, accidental collision or theft:
  - windscreen replacement without loss of no claim discount. this covers the replacement of the windscreen and windows and scratching of paintwork arising from the breakage of the glass;
  - emergency treatment;
  - personal accident benefits;
  - medical expenses;
  - rugs, clothing and personal effects.

(2½ marks for each correct and completely stated advantage. 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) (i) "Motor Insurance underwriters do not embrace Risk Management Techniques in their operations". Confirm the authenticity or otherwise of this statement. (10 marks)
  - (ii) What are the objectives and benefits of "risk management" to both insurers and policyholders? (10 marks)
  - (b) Write briefly but concisely on the practice of "out of court settlement" in motor insurance claims administration. (14 marks)

# Solution Solution

(i) This Statement is far from being correct or authentic as Motor Insurance underwriters employ Risk Management Techniques in their everyday operations. (5 marks) As a matter of fact,

Risk Management is increasingly becoming an important factor when assessing and rating commercial risks generally. Risk Management is often actively encouraged by Insurers, to the point where a number now produce booklets and information literature to explain how best commercial risk can improve their methods of working.

(5 marks for any correct and completely stated justification for the initial response, which is also 5 marks. Sub-Total: 10 marks)

(ii) The objectives and benefits of "risk management" to both insurers and policyholders are: **For an Insurer:** the principal objective is to reduce the overall claims cost by more than any risk management premium discounts (plus miscellaneous costs). The additional benefit is that Risk Management services can be used to attract new business and aid renewal attention.

**For a Policyholder:** there is likelihood of reduced premium plus their business information would be minimised (as vehicle would be off the road less) but Risk Management also protects the assets of the Policyholder (i.e. the employees); and also avoids adverse company publicity.

(5 marks for any correct and completely stated explanation. One per term. Sub-Total: 10 marks)

(b) In practice, many claims are settled without resorting to a court decision. An insurer will be keen to do this in order to avoid both legal costs and administration costs. On the other hand, these claims involving serious injuries must often be deferred until a reliable prognosis can be obtained. Summarily, this is a situation where claims are settled by way of discussion rather than litigation.

(Candidates should be graded on each and every correctly stated justification. 5 marks for each correct and completely stated justification. Maximum of 2 to be graded. Sub Total: 14 marks)

(Grand Total: 34 marks)

- 11. (a) "No Claim Discount Is Not No Blame Discount". Justify this Statement in relation to motor insurance underwriting practice, with four (4) justifications.
  - (b) What is the general opinion of underwriters on "Third Party Fire and Theft" cover, in terms of rating under the Private Motor Policy? (10 marks)
  - (c) What does the following terms signify: SRCC and TPPD. (4 marks)

#### Solution

(a) An Insured who uses his vehicle for a number of years (ranging from one (1) to five (5) years) without making any claim is supposed to be entitled to some form of discounts or rebate in premium. This ranges from 10% to 50% (depending on the insurance company involved, where a private car is insured). However, there are occasions that an Insured may be involved in an accident which is not due to his own fault. In which case, the accident might have resulted from a third party's negligence, culminating in his claiming from the Insurers. Once he makes a claim from the Insurers, his percentage of NCD would certainly be affected. Most times, Insured's do argue that since they are not to be blamed for the accident, their percentage of NCD should remain intact, but it does not work that way. The moment the insured claims from the insurers, his percentage of NCD will definitely be affected, hence, the notion "No Claim Discount Is Not No Blame Discount".

(Candidates should be graded on each and every correctly stated justification. 5 marks for each correct and completely stated justification. Maximum of 4 to be graded. Sub Total: 20 marks)

(b) The theft element of this cover is the most onerous and therefore contributes to the rate to a greatest extent. The Fire and Theft risk is now so great that in many instances, the rate is

sufficiently close to that charged for comprehensive as to render it an option that is not worthwhile.

(10 marks)

(c) SRCC: Strike, Riot and Civil Commotion (SRCC) Extension (2 marks)
TPPD: Third Party Property Damage (TPPD) (2 marks)

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

12. (a) Mallam Muktar insured his Lexus Jeep with M/S Accurate Insurance Company Limited on Comprehensive Basis and had renewed the vehicle for three (3) years. The Policy includes Loss by Deception Exception. Having acquired another car — a Mercedes Benz Brand, he decided to sell the Lexus Jeep. After many prospective buyers were turned back, a young corporate looking lady emerged with whom an amount was agreed. The lady requested to test-drive the car to confirm its mechanical standard, to which the insured agreed. Surprisingly, the lady drove away the vehicle and never returned. All efforts to trace or locate her failed. The matter was reported to the Police and announced over the radio. Thereafter, the insured filed a theft claim with the insurer which the Insurers repudiated.

Please advise Mallam Muktar on the Insurers' action of repudiating the claim. (19 marks)

(b) As the Underwriting Manager of Bell Insurance Company Limited, you have been appointed to cover these following risks: (i) bad driving habits; (ii) drunkenness and intoxication; and (iii) high rate of accident. What are the underwriting measures to take on each of the risks? (15 marks)

#### **Solution**

- (a) As a sound technical person, the advice to be given to Mallam Muktar are that:
  - theft by deception is an Exception in the private car motor policy;
  - this is as a result of the fact that insurers may not be prepared to pay for the policyholder's ineptitude in conducting the sale of their vehicle, even though Insurers are willing to pay for genuine thefts;
  - what is more is that such policies exclude loss by deception;

In this circumstances, theft of Mallam Maktar's Lexus Jeep is by deception and not genuine, therefore it is not covered by the Policy Document issued by Accurate Insurance Company Limited.

(9 marks)

(5 marks for each correct and completely stated general advice. Maximum of 2 to be graded. Then the specific advice on the Lexus Jeep, which is 9 marks. Sub-Total: 19 marks)

- (b) The underwriting measures to take on each of the risks are:
- i. **Bad Driving Habit:** a driver who is frequently involved in an accident because of his bad driving habit could have his premium loaded or have the policy excess increased.
- ii. **Drunkenness and Intoxication:** where it is discovered that an insured makes frequent claims as a result of accident emanating from drunkenness or intoxication, clauses to the effect that the policy would not pay as a result of accident on drunkenness/intoxication could be specifically stated in the policy.

iii. **High Rate of Accident:** where it is discovered that an insured makes frequent claims, there could be a reduction of cover to say, "Third Party Only", "Act Only" or total declinature of the risk.

# (5 marks for any correctly stated measure. Only one per term. Sub-Total: 15 marks) (Grand Total: 34 marks)

- 13. (a) Madam Adejoke insured her brand-new Opel Saloon Car with M/S Reliable Insurance Company Limited on comprehensive basis. However, within the last three (3) years, she has been moving from one insurer to another under the guise of seeking for the best cover. Right now, her vehicle is insured with M/S Competency Insurance Company Limited still on comprehensive basis. Her friend frown at this attitude of changing from one insurer to the others, but she maintained that her action was taken in order to get the best cover and she did not contrivance any law.
  - (i) Advise Madam Adejoke, what two (2) disadvantages are embedded in changing insurers; (5 marks)
  - (ii) What three (3) disadvantages of voluntary restriction in cover may be incorporated into motor insurance practice? (9 marks)
  - (b) Outline four (4) underwriting measures each to be considered in respect of "young" and "old" drivers. (20 marks)

#### Solution

- (a) (i) Some disadvantages embedded in changing insurers are:
  - for an insured who change because the present insurer's rate are high and not competitive. The new insurers could jack up its premium rate after one or two years much higher than previous insurer and then become uncompetitive;
  - loss of goodwill;
  - loss of loyalty built over the years;
  - losing the benefits derivable from a Group Scheme if the insured's vehicle had been hitherto to insured under a Group Scheme with the old Insurer.

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

- (ii) The disadvantages of voluntary restriction in cover incorporated into motor insurance practice are:
  - the insured has to meet from his own resources, the first specified part of any accidental damage repair cost;
  - a potential disadvantage in restricting the drivers covered by the policy is that no one other than the person(s) specified in the policy is permitted to drive, even in an emergency;
  - even where that other person has a 'Driver other car' Extension but that the policy provides only third party cover whilst he drives the insured's vehicle;
  - vehicle and there will be no cover in respect of fire, theft, material damage, personal accident, medical expenses or personal effects.

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

(b) The underwriting measures to be considered in respect of "young" and "old" drivers are: **Young Drivers** 

- the age of the main user of the vehicle will dictate the rate charged, although some Insurers rate on the age of the youngest driver;
- he/she will be presumed, as it is generally done, as inexperienced, impatient, unexposed, highly exuberant and thus prone to avoidable accident;
- premium loading will be considered;
- excess will be imposed;
- the risk will be monitored, with the hope/expectation that it would improve with time because a minor claim or incident usually give cause for concern when young drivers are involved.

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

#### Old Drivers

- since increase in age brings with it a slowing down of reflexes and a general deterioration of driving ability, Insurers usually have an upper age limit for acceptance of new business (often 65 or 70), though some Insurers resist proposals from a person aged over 65 years;
- underwriting loading or restriction will be imposed except if such driver has a full an unencumbered driving license that is free from physical impairment;
- some insurers will insist on doctor's certificate or even a full medical at inception and each renewal at the old driver's expense;
- at age 70 years, (and each successive year) therefore, an Insurer will ask for the completion of a medical certificate by the insured's own doctor in order to confirm the position;
- in extreme cases, an independent medical practitioner's view may be sought if there are any known problems.

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

(Grand Sub-Total: 20 marks) (Grand Total: 34 marks)

- 14. (a) (i) What were the three (3) main focus that the "First" "Road Traffic Act" 1930 made compulsory or introduced? (9 marks)
  - (ii) What are the two (2) positions of the Road Traffic Act (RTA) in respect of "physical fitness of drivers"? (10 marks)
  - (b) (i) Define a "motor car". (3 marks)
    - (ii) Distinguish between "medium-sized goods vehicles" and "large goods vehicles". (9 marks)
  - (c) When does the duty of disclosure exist under a motor policy? (3 marks)

# **Solution**

- (a) (i) The three main focus of the "First" Road Traffic Act" Road Traffic Act 1930 are:
  - introduced compulsory insurance or security for injuries to persons arising out of the use of a vehicle on a road;
  - certificate of insurance became compulsory; and
  - certain hospital charges were compulsorily insurable.

(3 marks for each correct and completely stated focus. Sub-Total: 9 marks)

(ii) The position of the Road Traffic Act (RTA) in respect of physical fitness of drivers is that:

- if the holder of a driving licence becomes aware of a relevant or prospective disability, they must inform the Secretary of State; (5 marks)
- similarly, an insurer who refuses to issue a policy of motor insurance on the grounds (or including the grounds) of the state of health of an individual must inform the Secretary of State, giving the name, address, sex and date of birth of the person concerned.

  (5 marks)

(Sub-Total: 10 marks)

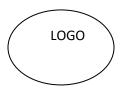
- (b) (i) A motor car is a mechanically propelled vehicle, not being a motorcycle or an invalid carriage, which is constructed itself to carry a load or passengers and the weight.

  (3 marks)
  - (ii) A medium-sized goods vehicle is, by definition in the Act, a motor vehicle which is constructed or adapted to carry or haul goods and not adapted to carry more than nine persons inclusive of the driver (3 marks). Its permissible weight exceeds 3.5 tonnes but not 7.5 tonnes. (2 marks); while a large goods vehicle is an articulated goods vehicle; a motor vehicle, not being an articulated goods vehicle, which is constructed or adapted to carry and to haul goods (2 marks) and the permissible maximum weight of which exceeds 7.5 tonnes (2 marks).

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

(c) The duty of disclosure exists at all stages leading up to the contract coming into existence, it is reviewed again at renewal. (3 marks)

(Grand Total: 34 marks)



# CHARTERED INSURANCE INSTITUTE OF NIGERIA ASSOCIATESHIP

# OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT A07
LIABILITY INSURANCES

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

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

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILLATTRACT STATED SANCTIONS AS STATED IN THEOCTOBER 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 Examiners' Comments:**

# **Question 1**

This is a compulsory question, all candidates attempted it and the pass rate was 60%. It was a question on jurisdiction clause, candidates should study more their coursebooks for improved performances.

#### **Ouestion 2**

This is a direct question on occupiers' liability. Candidates performed well, scoring over 90% on this question. Candidates displayed good understanding of this question.

#### **Question 3**

This question was intended to test candidates' knowledge on Professional Indemnity Insurance. The pass rate is 91.37%, which shows good understanding of candidates' knowledge on this question.

#### **Question 4**

The question was intended to text candidates' knowledge of occurrence and claims made basic. Performance was excellent 79%. The total number of 46 out of the 58 candidates that attempted this question passed.

#### **Question 5**

This question is intended to test candidates' knowledge in onus of proof and necessity. 90% of candidates attempted the question with 70% pass rate. This is an excellent performance.

#### **Ouestion 6**

A compulsory question on product liability insurance. The pass rate was 67%, many candidates were writing irrelevant points. The candidates need to read and study their coursebooks very well, for better performance.

#### **Ouestion 7**

This question tested the candidates' knowledge or wages declaration. It is a compulsory question and the pass rate is 60%, representing 35 candidates out of 58 candidates' that attempted the question. About 40% of the candidates lacks understanding of the subject. They need to be committed to their studies.

#### **Question 8**

Another compulsory question and intended to test candidates' knowledge on the component part of liability policy. Attempt was good at 90% and pass rate at 70%. Impressive performance.

#### **Ouestion 9**

This is part II question and it is compulsory with 50 marks. Attempt was good at 100% and the pass rate was above average (56%). Candidates' knowledge on NAICOM Prudential Guideline was poor. Candidates wasted time writing irrelevant points, indicating their lack of understanding of this question.

# **Question 10**

This is a selective question, intended to test candidates' knowledge on employer's liability, defamation and product liability. Attempted at 33% and pass rate at 31%. Many candidates were writing irrelevant points. Candidates need to read and understand their coursebooks.

#### **Ouestion 11**

This question is an elective question intended to test candidates on professional indemnity and importance of early notification of claims. Attempt rate at 58% and pass rate at 47%, which was less than average performance. Candidates should show more commitment to their studies.

# **Question 12**

Another elective question, intended to test candidates on liability risk of corporate organisation. Attempted rate at 60% and pass rate at 20%. Candidates' performance was poor, which showed lack of adequate preparation by the candidates.

#### **Ouestion 13**

This is another elective question on liability insurance concept. Attempted rate at 90% and the pass rate was 80%, which showed good understanding of the candidates on this question.

#### **Question 14**

This question was intended to test candidates' knowledge on various liability terms. 17% attempted the question, while the pass rate was poor 35%. Candidates need to study very well for better future performance.

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

This is an average performance as 50% of the candidates passed this examination. Average performance

#### **Suggestions on Improvements (if any)**

There will be improved performance, if candidates will be committed to study their tutorial materials and revise past examination questions and answers before the examination.

#### Part I

# Answer ALL questions in Part I.

Each question carries six (6) marks.

1. What is the importance of "jurisdiction clause" in most liability policies? Relate the explanation to any country of your choice.

#### Solution

Liability policies are issued subject to jurisdiction clause which provides that any legal matter arising should be decided within the jurisdiction (legal system) of the country where the policy was issued. The indemnity provided by all liability policies issued in Nigeria will operate within the Federal Republic of Nigeria. Therefore, a plaintiff must bring his/her action against the defendant in Nigeria where the matter will be decided within Nigeria legal system. Jurisdiction clause prevents a plaintiff to shop round territory or jurisdiction (forum shopping) which offers highest level of damages to sue the defendant became legal system varies from country to country.

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

- 2. Explain the following terms in relation to Occupier's Liability Act 1957:
  - (a) a visitor; (b) common duty of care to a visitor.

#### **Solution**

- (a) A visitor in relation to Occupiers' Liability Act 1957 is any person who is invited into the premises i.e. he/she has authority to be on the premises as a visitor. For example, a police officer with a warrant has authority to be on the premises, so also is a postman. (3 marks)
- (b) Section 2(2) of occupier liability act 1957 defines the common duty of care to a visitor as a duty to take such care as in all the circumstances to see that the visitor will be reasonably safe in using the premise for which he/she was invited or permitted by the occupier to be there. (3 marks)

  (Grand Total: 6 marks)
- 3. What does the phrase:
  - (a) "professional negligence" mean? (b) "disclaimer liability" mean?

#### **Solution**

- (a) **Professional Negligence** is the error, omission wrong advice, mistake etc. which is committed by people in professional practice in the conduct of their business. It could be termed to be the failure of people in professional practice to exercise high degree of scroll and care which result in professional negligence. (3 marks)
- (b) **Disclaimer Liability** refers to those terms and conditions of a contractor which attempts to limit in some ways either the performance of that contract may require the contractor to indemnify the principal for third party liability arising from that execution of the contract or when it is stated that 'vehicles are packed at owner's risk' (3 marks)

(Grand Total: 6 marks)

4. Liability claims is admissible either on "occurrence basis" or "claims made basis". Explain these two (2) terms as applicable in this course and provide their differences.

#### **Solution**

Liability policies are written either on claim made or occurrence basis. With occurrence wording, the accident or event causing injury or damage must occur during the period of insurance. (3 marks). With claim made wording, the claim must be made on the insured during the period of insurance, the date of the negligent act is irrelevant (3 marks).

(Grand Total: 6 marks)

- 5. Concisely explain the following terms as it relates to this course:
  - (a) onus of proof;
- (b) necessity.

#### **Solution**

(a) **Onus of Proof:** Onus of proof states that in an action for negligence the plaintiff must prove the facts upon which the claim is based. The main principle is that he who assert must prove.

(3 marks)

(b) **Necessity:** Necessity is one of the defense available under insurance of liability. Necessity will arise where the damage is done to prevent a greater evil, however, the necessity must not arise from the defendant's own negligence. (3 marks)

(Grand Total: 6 marks)

6. Concisely explain the reason(s) why damage to product itself is not covered in product liability insurance policy.

#### **Solution**

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

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

7. Explain why employers' liability insurance is subject to "wages declaration".

#### **Solution**

Employers' Liability Insurance is wholly issued and subject to wages declaration. The initial premium is called provisional premium because it was produce by applying a rate on total estimated annual earning of all the employees. In other words, the initial premium is based on an estimate and it is only at the end of the period of insurance that the actual earnings will be ascertained'. Therefore, it is mandatory for the insured (the employer) to make a declaration of actual earnings for the purpose of premium adjustment. This is what it is meant by 'wages declaration' as is related to employers' liability insurance.

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

8. List and explain under any four (4) components/section that are contained in a public or product liability insurance policy document.

# **Solution**

The components/section that are contained in a public or product liability insurance policy document are;

- (i) **Operative Clause:** this describe the cover being given;
- (ii) **Dispute Clause:** governs the handling if dispute between the insured and insurer;
- (iii) **Exclusions:** restrict the cover given by the operative clause;
- (iv) **Conditions:** tells the insured what they can do and should not do to keep the insurer in force:
- (v) **Extensions:** these are either extensions to the operative clause or amendments to the exclusions or conditions;
- (vi) **Special Consideration:** such as pollution; financial loss, e.t.c.

(1½ marks for each correctly stated section. Candidates are NOT required to explain. Maximum of 4 to be graded. Total: 6 marks)

#### Part II

# Compulsory Question.

This question carries 50 marks.

- 9. (a) According to the NAICOM operational requirement, what operational manuals are required to be submitted by insurance operators within ninety (90)of commencement of operations to the Commission. (10 marks)
  - (b) As a liability insurance underwriter, state the scope of cover (operative clause) of the following liability insurance policies:
    - (i) Public Liability Insurance Policy;
    - (ii) Product Liability Insurance Policy
    - (iii) Professional Indemnity Insurance Policy.

(15 marks)

- (c) List any four (4) defences that can be used in cases similar to the ruling of Ryland v. Fletcher 1868. (4 marks)
- (d) Concisely but briefly discuss the significance of the following "Acts" in relation to liability insurance.
  - (i) Congenital Disabilities (Civil Liability) Act 1976
  - (ii) Occupiers Liability Act 1957
  - (iii) Law Reform (Contributory Negligence) Act 1945. (21 marks)

#### **Solution**

- (a) The operational manuals required to be submitted by insurance operators within ninety days (90) of commencement of operations to the Commission are:
  - Underwriting Policy and Procedural Manual;
  - New Product Development Manual
  - Claims Policy and Procedure Manual
  - Complaints Policy and Procedure Manual.

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

- (b) The scope of cover on the liability policies are:
- (i) **Public Liability Insurance Policy:** the policy will indemnify the insured against all sums which the insured shall become liable to pay as compensation including claimants cost and expenses in respect of death or bodily injury or damage to property of third party in the course of the business occurring during the period of insurance within the territorial limits
- (ii) **Product Liability Insurance Policy:** the policy will indemnify the insured against all sums which the insured shall become legally liable to pay as compensation/damages including claimants cost and expenses in respect of death or bodily injury or illness to third party caused by:
  - (a) defects in the products/goods supplied manufactured or distributed;
  - (b) defective container of the product;
  - (c) wrong labelling of the product.

In the course of insured's business occurring during the period of insurance within the territorial limits.

(iii) **Professional Indemnity Insurance Policy:** the policy will indemnify the insured against all sums which the insured shall become legally liable to pay as compensation/damages including claimants cost and expenses to third party who have sustained financial loss arising from their professional negligence or that of their employees in the conduct of their behavior occurring during the period of insurance within the territorial limits.

(5 marks for each correct and completely stated scope. 1 to be graded per policy type. Sub-Total: 15 marks)

- (b) The defences that can be used in cases similar to the ruling of Ryland v. Fletcher 1868 are:

  - \* contributory negligence; \* act of stranger; \* act of God.

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

- (c) Congenital Disabilities (Civil Liability) Act 1976: this Act established that a child injured whilst still in the womb may still bring an action after birth if a duty of care would have been owed to the parent. Prior to the passing of the Act, the position was that a foetus was not legal person and no duty of care is owed.
- (ii) Occupiers Liability Act 1957: the primary liability for injury or damage to property of any party legally on premises fails on the occupier. The occupier normally has the more direct control of the premises and what goes on there. The Act covers liability to visitors i.e. all those lawfully on the premises. The occupier owes common duty of care to all the visitors to ensure that they are reasonably safe in using the premises for the purpose for which they (visitor) was invited or permitted by the occupier to be there.
- (iii) Law Reform (Contributory Negligence) Act 1945: Contributory negligence is one of the defenses to an action in negligence case. Before 1945, it was a full defense i.e. if could be shown that the plaintiff was partly to blame for the accident, they would recover nothing. This was amended by the Law reform (Contributory Negligence) Act 1945 which stipulates that damages will be reduced to such an extent as the court thinks equitable. In other words, where a person suffers injury or damage as a result partly of his own fault, his claim will not be defected but his damages will be reduced to such an extent as the court thinks equitable having regard to their share in the responsibility for the damage

(3½ marks for each correct and completely stated explanation. Maximum of 2 to be graded under each Act. Sub-Total per Act: 7 marks. Sub-Total: 21 marks)

(Grand Total: 34 marks)

#### Part III

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

- 10. (a) In employers' liability insurance, the insured trade or business can be extended. Enumerate any three (3) of the common extensions. (9 marks)
  - (b) It is generally believed that interference in nuisance must involve something continuous to be actionable. Explain the statement with reference to a decided case.

    (9 marks)
  - (c) The law of defamation is designed to protect a person's reputation. Discuss.

    (10 marks)
  - (d) Briefly and correctly explain the following phrases as it relates to the course.
    - (i) Narrow Rule; (ii) Ratio Decidendi. (6 marks)

**Solution** 

- (a) In employers' liability insurance, trade or business can be extended as follows:
  - the ownership, maintenance and repair of premises used in connection with that business;
  - the provisions and management of canteens, club, sports, athletic, social and welfare organisation for the benefit of the employees;
  - first aid, fire and ambulance service;
  - private work carried out by an employee of the insured for any director, partner of the insured.

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

- (b) It is generally believed that interference in nuisance must involve something continuous to be actionable. This implies that:
  - in nuisance, the act that contributes interference to the plaintiff must have existed continuously. In other words, there must be frequency in the act of the plaintiff to constitute a state of nuisance;
  - in Stone v. Bolton (1951), a ball was hit from a cricket ground struck the plaintiff who was walking along the nearby road;
  - evidence was adduced to show that six balls had left the cricket pitch and landed on the road over a period of 25 years. It was concluded that there is no continuous state in the nuisance from the cricket pitch hence the case failed.

(Candidates can use any decided case and solution is NOT restricted to this. The relevant decided case stated earns 4 marks. Explanations relating to the case earns 3 marks per explanation. Maximum of 2 to be graded. Sub-Total per explanation: 6 marks. Grand Sub-Total: 10 marks)

#### (c) **Defamation**

- defamation is a statement written or spoken against someone which subject the person to hatred and ridicule. The statement should be such that it defame or injure the reputation of the person to which the reputation the statement refers;
- the law of defamation protects a person's reputation, however a dead person cannot be defamed but the relatives may be distressed by the statement but they have no cause of action;
- a corporation is a legal entity can be defamed for statement made which impacts its corporation reputation.

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

- (d) (i) **Narrow Rule:** the narrow rule in Donoghue v. Stevenson is that the manufacturer of a product owes a duty of care to the product. The court therefore held that the defendant (the manufacturer) owes a duty of care to the plaintiff (the end user of the product). (3 marks)
- (ii) **Ratio Decidendi (reason for the decision):** ratio decidendi is the legal basis which create a precedent. The legal base are those elements of the law which are directly relevant and formed the basis of the decision which create a precedent. (3 marks)

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

- 11. (a) Explain the common causes of professional negligence claims against the following professionals:
  - (i) Insurance Brokers;

(ii) Nurse;

- (iii) Surveyors and Valuers;
- (iv) A Computer Consultant.

(24 marks)

(b) Discuss how liability may arise from the escape of fire with reference to a relevant decided case. (10 marks)

### **Solution**

- (a) (i) **Insurance Brokers:** insurance brokers owe a duty to their clients and also to insurers when arranging insurance. They carry out their client's instructions and give their client for any breach of their duty arising from their professional negligence. (6 marks)
- (ii) **A Nurse:** a nurse is personally liable for his/her negligence in carrying out his/her skilled professional duties. He may plead that he acted under a doctor's direction at the time. A hospital or nursing home may be vicariously liable for a nurse's negligence, but does not affect the personal liability of the nurse for his/her own negligence. (6 marks)
- (iii) **Surveyors and Valuers:** surveyors and valuers will be liable for their professional negligence arising from either error or omission from survey done on property; OR negligence advice given in connection with the sales and purchase of property OR failure to exercise reasonable care in making valuation. (6 marks)
- (iv) A Computer Consultant: a computer consultant could be liable for the failure of their software to perform their intended purpose of their customer's requirement. Also, they may be liable for unsatisfactory quality and fitness for the purpose of computer software. (6 marks)

  (Grand Sub-Total: 24 marks)
- (b) Liability from the escape of fire falls under the rule of Ryland v. Fletcher, water was brought i.e. accumulated in reservoir which was leaked (escaped and flooded the plaintiff mines) As regard liability form escape of fire, people do not often bring and store fire on their land and allow it to escape. What they do is that they bring flammable material unto their land which if badly stored can catch fire which can escape i.e. spread to other premises.

In Mason v. Levy Autoparts of England (1967), the defendants used their yard for the storage of combustible materials including petrol, grease and oil. A fire broke out in the defendant's yard and spread to neighbouring premises. The court held that:

- the defendant brought unto his land things likely to catch fire and kept them there in such a condition that if they ignite, the fire would be likely to spread to the plaintiff land;
- he did so in the course of non-natural use;
- the thing ignited and the fire spread.

Therefore, liability for escape of fire conform with the rule of Ryland v. Fletcher.

(Candidates can use any decided case and solution is NOT restricted to this. The relevant decided case stated earns 4 marks. Explanations relating to the case earns 3 marks per explanation. Maximum of 2 to be graded. Sub-Total per explanation: 6 marks. Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

- 12. (a) A corporate organisation as well as an individual are exposed to many liability risks and any one of such risk may result in legal liability to third party if they criticised (critalised). Identify and explain:
  - (i) any three (3) sources of liability risks of a corporate organisation. (15 marks)

- (ii) two (2) sources of liability risks of an individual. (10 marks)
- (b) The importance of early notification of claim cannot be over-emphasised. Briefly discuss, with three (3) explicitly stated importance. (9 marks)

#### **Solution**

- (a) (i) The sources of liability risks of a corporate organisation are:
  - risk of bodily injury, death, illness etc. to their employees in course of their employment. Employees of a company are exposed to various occupational risks(hazard) for which their employer are responsible;
  - a corporate organization is facing risk of bodily injury, death and property damage to third party in course of their operation caused by negligence of their employees;
  - a company involved in manufacturing of product, sales and distribution will have to contend
    with product liability risk to the ultimate consumers of their product arising from the defect
    in their product;
  - a corporate organisation that is involve with professional services and consultancy may face
    the risk of professional negligence (error, omission, mistake etc.) and may incur liability to
    their client;
  - a corporate organisation through the use of their motor vehicles face the risk of third party liability for bodily injury, death and property damage.

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

- (ii) The sources of liability risks of an individual are:
  - an individual with ownership of a motor vehicle face the risk of third-party bodily injury, death and property damage arising from the use of the motor vehicle;
  - in an individual private capacity, the risk of personal liability is always present. An individual (adult) and members of his/her family permanently residing with them may incur legal liability for bodily injury, death and property damage to third party through their private activities arising from their negligence;
  - employment of domestic servant by an individual may be a source legal liability, if the servant is injured in a domestic accident due to the negligence of servant employer.

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

- (b) The importance of early notification of liability claims are:
  - to comply with the notification condition of the policy. All liability policies contain a condition to notify the insurer within a stipulated time;
  - it assists the insurer to conduct investigation when the matter is fresh and when eye witness account will be readily available;
  - it helps the insurer to adequately reserve for the claim;
  - it helps the insurer to notify their reinsurers or co-insurers accordingly;
  - it enable quick processing and settlement of the claim.

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

- 13. (a) Briefly explain the following liability terms:
  - (i) Dat(e) of Knowledge in Personal Injury; (b) Fair Comment;
  - (iii) Product Recall Insurance; (d) Frequency and Severity of Risk. (20 marks)

- (b) Enumerate two (2) liability policies that are subject to "premium adjustment". (4 marks)
- (c) Explain why premium charged on the policies in (b) above are subject to adjustment. (10 marks)

#### **Solution**

- (a) **Dat(e) of Knowledge in Personal Injury:** Section two of Limitation Act 1980 provides that the limitation period for actions which includes damage for personal injury is three years from the date at which the cause action accrued on and the date of knowledge. The concept of date of knowledge was introduce to deal with cases of latent injury or disease where the plaintiff has no knowledge of his/her injury until sometime after the incident occurred. Section 14 of the Act defines date of knowledge as the date on which he/she first had knowledge of the injury and the identity of the defendant.
- (ii) **Fair Comment:** This is one of the defenses to an action in defamation. This defense is very popular with newspapers which consists of the argument that the defamatory statement was fair comment, honestly made without malice, based on true facts and that it was a matter of public interest.
- (iii) **Product Recall Insurance:** Product liability policy may be extended to cover recalling of produce already put on the market. After the product has been put on the market, it may be discovered that it has a dangerous fault and it may be necessary to withdraw the product from the market completely and replace it or to recall it to have the fault or defect corrected. Insurance of product recall covers the expenses incurred by a superior in recalling the product or arranging its destruction.
- (iv) **Frequency and Severity of Risk:** Frequency means the number of time (how often) a given event (risk) will occur. Organization are faced with many loss exposures, while some of the lost exposure occurs very often, some occurs occasionally. Severity is the impact which the occurrence or happening of an event will have on the company. In their words severity (quantum) is the financial impact of an occurrence on the company. Experience has shown that where the frequency is low the severity is high and where the frequency is high, the severity is low.

(5 marks for each correct and completely stated explanation. Maximum of 1 to be graded per term. Sub-Total per term: 5 marks. Grand Sub-Total: 20 marks)

- (b) The following liability policies are subject to premium adjustment:
  - \* Employers' Liability Insurance; \* Public Liability Insurance
  - \* Product Liability Insurance: \* Professional Indemnity Insurance.

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

(c) The premium charged on Employers' Liability and Public Liability may be based on estimated annual wages/salaries of the insured employees. On product liability, estimated annual turnover of the insured may be the basis upon which the premium is charged. On profession indemnity insurance, the premium charged may be based on estimated annual fee of the insured. When the premium charged is based on estimate. The premium charged is regarded as "deposit" or "provisional premium". The policies contain "declaration conditions" which requires the insured to declare the actual wages/salaries paid at the end of the period of insurance. The actual wages/salaries/turnover/fee will enable insurer to charge an equitable premium for the risk.

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

(Grand Total: 34 marks)

- 14. (a) Explain the following liability terms:
  - (i) Negligent Act of Predecessor In Business;
- (ii) Novus Actus Interveniens

(iii) Prohibited Conditions;

(iv) Work Away Risk (28 marks)

(b) Correctly explain, with three complete statements, the term "limit of indemnity" that is generally stated on the schedule of liability policy. (6 marks)

# **Solution**

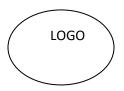
- (a) (i) **Negligent Act of Predecessor in Business:** a predecessor in business is a former partner in a firm. Professionals such as engineer, architect, accountant, e.t.c. usually operates as partnership and the professional negligence of each partner is binding on the firm. A partner who has left the company, notwithstanding, the firm is still liable for his/her negligent act of error, omission, mistake, e.t.c. committed during his/her active days in the firm. This is relevant in professional indemnity insurance.
- (ii) **Novus Actus Interveniens:** in order to succeed in an action in tort, the plaintiff must show that their damage was proximately caused by the activities of the defendant, in other words, there must be direct link between the act of the defendant and the result i.e. a chain of causation exists from the event to the result. This means there is no intervening cause (novus actus Interveniens) between the occurrence of the event and the result. When there is an intervening cause, it is possible for the defendant to escape liability.
- (iii) **Noise Induced Injury:** an employer may be liable to their employee for noise induced injury if any of the employer activities involve exposure to noise levels exceeding 90 decibels although lower levels may also be harmful. The fact that an employee alleges deafness as result of excessive noise in their employment does not give them automatic right to compensation. It depends on when the reasonably careful employer ought to have become aware that if their employees were exposed to high level of noise, they may be at risk and there might be steps which would be taken to reduce or eliminate the hazard. For example, provision of protective devices such as ear muffs or plugs.
- (iv) **Prohibited Conditions:** the Employers' Liability (Compulsory Insurance) Act 1969 introduced compulsory insurance and require all employers of labour to insure their legal liability for bodily injury, death or disease to their employees with a minimum of two million pounds as limit of indemnity. The purpose of the Act is to provide security for employees if they meet with accident or incur an illness in the course if their employment and their employer is responsible. In view of the compulsory nature of the Act, Regulation 2 prohibits any policy terms and conditions that may exclude or limit insurers' liability in the following areas:
  - breach of claim notification condition;
  - lack of reasonable care or precaution;
  - failure of the insured to keep adequate record;
  - imposition of excess or deductible in respect of a claim.
- (v) Work Away Risk: most liability insurance policies cover work away risk in addition to the premises risk. Work away risk involves the business activities of the insured away from the main premises. The issue with work away from the main premises is the lack of control over the insured's employees. In addition, the employees are working in an environment over which the insured has no knowledge or control.

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

(b) Most liability insurance policies have limit of indemnity for anyone occurrence or event which represents the insurer maximum amount payable to the insured. The limit of indemnity is like the sum insured in property insurance. The limit of indemnity is usually fixed by the insured which represents his potential legal liability to third party for bodily injury, death and damage to property.

(6 marks)

(Grand Total: 34 marks)



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

#### **ASSOCIATESHIP**

#### OCTOBER 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:

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

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

#### CHARTERED INSURANCE INSTITUTE OF NIGERIA

#### A08 - RISK MANAGEMENT

#### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

#### **Chief Examiner's Comments:**

# **Question1**

The question tested candidates' knowledge on "modelling the consequence of fire". The overall performance was good at 90% pass rate.

# **Question 2**

The question was basically on hazard catalogue. Pass rate was 75%.

#### **Question 3**

The question was in two parts (a) and (b). (A) tested candidates' knowledge on important assets to the organisation while (b) tested on physical inspection-for (a). 95% passed while 5% failed. (b) 90% passed while 10% failed. Pass rate was 92%.

# **Question 4**

The personnel who are useful as a source of information to the organisation. Majority of the candidates attempted it and achieved 95% passed rate.

#### **Question 5**

The question was based on existing document that form source of Internal Information. Majority attempted it. 90% pass rate was achieved.

# Question 6

The question tested the candidates' knowledge on killer risk. Majority of the candidates attempted the question and 72% pass rate was achieved.

#### **Question 7**

The question tested candidates' knowledge on likelihood and severity. Majority of the candidates attempted the question and 85% pass rate was achieved.

#### **Ouestion 8**

The question tested candidates' knowledge on permanent members of the group risk committee. Majority attempted the question, pass rate was 90%.

# **Question 9**

This was a compulsory question. It tested candidates' knowledge of NAICOM Act, what Could cause supply to fail and impact of computer on the organisation. Performance on NAICOM Act was at 95%; but it was a poor performance for impact of computer (40%) and cause of supply failure (50%). Overall pass rate was 61%.

#### **Ouestion 10**

The question was based on threat organisations are exposed to. Performance was excellent, pass rate was 95%.

#### **Question 11**

The question was based on alternative to risk management and insurance. Only 20% got the question right. There was a general lack of knowledge of the alternatives. Pass rate was 19.1%.

# **Question 12**

The question tested candidates' knowledge of e-commerce on trading. Majority of the candidates attempted the question, pass rate was 23%.

# **Question 13**

The question tested candidates' knowledge of supplies of products to foreign country asking the risk exposure on this. Majority attempted the question and did very well. Pass rate was 82%.

# **Question 14**

The question tested candidates' knowledge on risk analysis and contingency plans. Majority of the candidates attempted the question but pass rate was 30%.

# **Comments on Overall Performance**

The general overall performance was excellent and it was a great success. Overall pass rate was 86.7%.

# **Suggestions on Improvements (if any)**

Candidates are encouraged to work on the areas where there was no good performance, study the course materials and prepare better for the examination.

# Part I

# Answer ALL questions in Part I.

Each question carries six (6) marks.

1. As a risk manager and with the support of engineers, enumerate any six (6) actions or items to be considered when setting out to model the consequence of a fire.

#### **Solution**

The actions or items to be considered when setting out to model the consequence of a fire are:

- \* the way humans behave and how they will exit the premises;
- \* the behaviour of those materials and structures in a fire.

(1 mark for each correctly stated action/item. Maximum of 6 to be graded. Sub-Total: 6 marks)

2. The hazard catalogue format could be used by risk managers for two purposes. What are these two (2) purposes?

#### **Solution**

The two purposes for the use of hazard catalogue format by risk managers are to use the catalogue format by risk managers who wish to identify:

- where the losses may occur; and
- from where threats may come.

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

- 3. (a) It is important to remember that assets may not be just be physical ones. Employees and other people may be valuable, even crucial to organisation to be able to achieve its objectives. Enumerate any two (2) assets that are important to an organisation. (4 marks)
  - (b) State an advantage of physical inspection of proposed risks. (2 marks)

#### **Solution**

- (a) Two assets that are important to an organisation are:

  - \* intellectual assets.

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

- (b) The advantages of physical inspection of proposed risks are:
  - there is, of course, a clear advantage when the risk environment and its people are visited often by someone who has the specialised knowledge to take a professional view of what is seen;
  - the survey report will almost certainly conclude with recommendations to improve the risk or reduce the impact. The survey therefore, fulfil the dual role of identifying the risks and also begins the job of managing them.

(2 marks for any correct and completely stated advantage. Only 1 to be graded. Sub-Total: 2 marks) (Grand Total: 6 marks)

4. It is said that there are groups of personnel in an organisation who are useful sources of information to the organisation and who are no less important if they only consider one or two aspects of risk as part of their roles. List six (6) of these groups of personnel.

#### **Solution**

The groups of personnel in an organisation who are useful sources of information to the organisation and who are no less important if they only consider one or two aspects of risk as part of their roles are the:

- \* facilities manager; \* legal officer; \* product development manager;
- \* company secretary.

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

5. Enumerate any two (2) existing documents that form sources of internal information that can be used by the risk manager.

#### **Solution**

The existing documents that form sources of internal information that can be used by the risk manager are: \* proposal papers; \* auditor's reports; and \* insurance documents.

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

6. (a) What are "killer risks"?

(2 marks)

(b) Organisations may add their own killer risks to the list, and of course, it would never be acceptable to take unreasonable risk with the safety of human beings. These risks bring their own challenges to the risk manager. They are most likely to have their own demands. Enumerate any two (2) of these special demands.

(4 marks)

#### **Solution**

- (a) Killer risks are those risks that have the potential to be so damaging as to destroy the entire organization if such should occur. (2 marks)
- (b) The following are some of the special demands from such organisations:
  - clarity and currency of management information;
  - risk avoidance wherever practical;
  - contingency planning to ensure that the "killer" needs at least are maintained.

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

- 7. It has already been established that an organisation considering risk needs to consider both likelihood and severity of the impact.
  - (a) Explain the terms (i) likelihood; (ii) severity. (4 marks)
  - (b) Give an example of each term in (a) above.

(2 marks)

#### Solution

(a) (i) **Likelihood:** is the chance of an event occurring or a risk crystalising with or without the control in place.

(2 marks)

- (ii) Severity: is how bad the outcome of the occurrence of an event or a risk is or will be when it occurs.
- (b) An example of each term in (a) above are:
  - (i) likelihood:

- (1) the probability of a motor insurance loss occurring in a school on a given Monday;
- (2) the probability of a fire incidence occurring in an airport in any given country;
- (1 mark for each correctly and completed stated example, which is not exhaustively stated above as any correctly stated example suffice for the 1 mark)
- (ii) severity:
- (1) multiple accident occurring on a motor way;
- (2) fire outbreak affecting a whole set of shops in a shopping plaza in one single infeno. probability of a motor insurance loss occurring in a school on a given Monday;
- (2) the probability of a fire incidence occurring in an airport in any given country;
- (1 mark for each correctly and completed stated example, which is not exhaustively stated above as any correctly stated example suffice for the 1 mark)

(Total: 6 marks)

legal director;

8. Identify any four (4) permanent members of the group risk committee that has the responsibilities of recommending risk decision of an organisation to the Board.

#### **Solution**

The permanent members of the group risk committee that has the responsibilities of recommending risk decision of an organisation to the Board are:

- risk director;
   compliance director;
- group internal auditor;
- finance director;
   public affair director.

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

#### Part II

# Compulsory Question.

This question carries 50 marks.

- 9. (a) List any five (5) classes of general insurance business as classified in the Insurance Act 2003. (10 marks)
  - (b) When examining what could cause the supply to fail, the risk manager would, in such a critical area, look not only at quality and resilience of the supplier's factory, but also the supplier's own policy in sourcing materials, any critical labour dependencies, shipping practices, contingency planning and even the supplier's financial stability. Enumerate any five (5) other critical questions that the risk manager will consider. (20 marks)
  - (c) As the risk manager of your organisation, you have been asked to deliver a lecture to the entire members of staff of your organisation on the impact of the use of computer in the work place. Explicitly enumerate any four (4) impacts of the use of computer on your organisation's operations. (20 marks)

#### **Solution**

- (a) The classes of General Insurance business as classified in the Insurance Act 2003:

  - \* bonds, credit guarantee and surety.

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

(b) Some other critical questions that the risk manager will consider are:

- Does the supplier have one factory or more?
- Is there a dependency on overseas shipping?
- Is there a political risk in the country where the raw materials come from?
- What are the alternatives if a supply fails?
- Are those alternatives if a supply fails?
- Are those alternatives of adequate quality and can they arrive in time to meet critical business pressure?
- Is contingency planning in place and exercised? (4 marks for each correctly stated question. Maximum of 5 to be graded. Sub-Total: 20 marks)
- (c) The impacts of the use of computer on your organisation's operations are:
  - replacement of large numbers of staff, with the possible loss of previously held skills;
  - availability of instantaneous information;
  - increased involvement in the processing of transactions;
  - the ability to impose and maintain strict control over large numbers of detailed movements thus enabling precise production and delivery needs to be matched;
  - improved communication and interaction between different areas within an organisation as well as those outside.

(5 marks for each correct and completely stated use. Maximum of 4 to be graded. Sub-Total: 20 marks) (Grand Total: 50 marks)

#### Part III

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

- 10. (a) What does the term "threat" mean to an organisation as studied in this course?
  - (b) There are threats to the success of an organisation that may arise from within the personnel of an organisation itself. As a risk manager, discuss any three (3) areas where these threats can occur and suggest measure to mitigate such threats.

(30 marks)

- (a) "Threat" to an organisation means any circumstance or event (1 mark) with the potential to adversely impact (2 marks) organization and operations negatively (1 mark). (4 marks)
- (b) The areas where these threats can occur and suggested measure to mitigate such threats are:
  - a fundamental measure is in the establishment of control to avoid taking on the type of individual who will place the organization and its other personnel under threat. An individual may simply wish to use information for personal gain or may have been planted by a competitor or terrorist organization in order to obtain useable information. The security procedures is needed during recruitment, during the ongoing monitoring of individual and in the process of the individuals departure;
  - a security policy will require recruiters to undertake independent checks of the background of and statements by candidates. The security vetting starts by ensuring that they are who they say they are by obtaining independent references and following up any gaps in the history of the applicant if the work is in a sensitive arena an organization may

- have a recruitment policy that does not accept written references but demands recruiters speak to previous employers and to references;
- during the course of employment, the organisastion needs to ensure that any change in circumstance that raises the risk is not missed and is at least discussed with the individual. A procedure control will ensure that managers recover documents, key, pass cards and other company property from departing employees and close immediately any access to the computer system.

(Candidates are permitted to provide any correct and completely stated scenario example that are areas where threats can occur in an establishment and state measure to mitigate such threats.

5 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each area. Sub-total per area: 10 marks. Grand Sub-total: 30 marks)

• (Grand Total: 34 marks)

- 11. (a) If an organisation decides that it can absorb a level of loss without risk management or insurance.
  - (i) What term(s) can be used to explain this action? (4 marks)
  - (ii) Explicitly enumerate any four (4) what savings could be made by this action. (20 marks)
  - (b) As a risk manager, analyse any two (2) threats to the risk management practice adopted in (a) (i) above. (10 marks)

#### Solution

- (a) (i) The term to explain the action is "alternative risk transfer". (4 marks)
  - (ii) The savings that can be made by "alternative risk transfer" are:
  - risk management expenditure that may not be economic;
  - the profit and administration costs retained by the insurer;
  - the administrative and control costs of continually recycling the same monies to and from insurers;
  - cash is retained and used to produce value within the organization
  - Showing clearly the ownership of risk and its consequences often encourages greater care with an organization is labilities or assets

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

- (b) The threats to the risk management practice adopted in (a) (i) above are:
  - payment is not necessary linked to indemnity. The amount received therefore, may be short, or in excess, of the loss amount;
  - the lack of familiarity, between organisations and capital markets and between capital markets and the operational needs of organizations, can breed new risks within the new dependencies that have been created.
  - capital markets do not always bring the claims skills and resources that come with insurances. These may need to be sourced internally or subcontracted, both at a cost.
  - these instruments may not be treated sympathetically by regulators, taxation regimes or by accounting standards.

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

12. Organisations that have a strong brand name already and transpose all or part of their trading onto the internet are most exposed to damaging failures that diminish the value of a brand that has taken decades or longer to develop. This involves some new risks which

have great impact on the operations of and adoption of e-commerce usage. List and explicitly explain five (5) of these risks.

#### **Solution**

Some new risks which have great impact on the operations of and adoption of e-commerce usage are:

- Security;
   Global;
   Hacking and viruses;
- Legality; Speed of evolution; Miscellaneous.

(1 mark for each correctly listed risk. Maximum of 5 to be graded. Candidates were directed to list and explain. So, 4 marks for listing the risks. Sub-Total: 9 marks)

- 1. **Security:** Customers need to be confident that credit card details and personal information is secured and not accessible to others. There have been many examples where information including personal bank statements have been found to be insecure
- 2. **Global:** The internet crosses boundaries on an unprecedented scale. This is not a new risk, but is much less controllable when trading electronically. The organization may unwillingly find itself contravening regulatory, tax, license and other laws of the country of the customer.
- 3. **Hacking and Viruses:** Open networks lend themselves to viruses and to hacking an organisations operations and credibility
- 4. **Legality:** There are some aspect of internet trading that have not been fully texted. Concerns remain about the legality of electronic signatures. In the USA the electronic signatures in global commerce act 2000 gives e-signatures the same legal standing as hand written ones. This is not yet the law in other countries.
- 5. **Speed of Evolution:** The race to be front in an e-commerce market is very critical indeed. The advantage of being the first mover is enormous and there are disproportionate rewards for the winners of such races. Organizations may find this urgency overtakes both their directors ability to fully grasp new environments quickly enough and the ability of routine risk and other controls to keeps abreast
- 6. **Miscellaneous:** There is a range of other new risks (e.g domain name registration). Risks have different profiles for the e-commerce organization organisation (e.g. ownership of intellectual property).

(5 marks for each correct and completely stated explanation. 1 explanation per listed area. Maximum of 5 to be graded. Sub-Total: 25 marks)

(Grand Total: 34 marks)

- 13. (a) An organisation wishes to expand its service delivery (it could equally be the source of its supplies) within a new country. That country may be known to possess some risks that are different from the organisation's home country. As a risk manager, analyse four (4) different risks exposure that the organisation may experience. (16 marks)
  - (b) In relation to contingency planning for an organisation, write short notes on the following:
    - (i) crisis management; (ii) offsite store; (iii) contingency facilities
    - (iv) prompts; (v) schedules;
    - (vi) customers and other stakeholders. (18 marks)

- (a) Some of the different risks exposure that the organisation may experience are:
  - currency that is less than stable;
  - an insecure government;

- a less developed or just different legal system;
- a hurricane or earthquake zone;
- a culture of corruption among citizens and concerned officials;
- an otherwise poor infrastructure; and
- high and violent crime experience;

(Candidates are required to analyse the stated exposure. 2 marks for each correctly stated exposure. Maximum of 4 to be graded. Sub-Total per exposure: 4 marks. Grand Sub-Total: 16 marks)

- (b) (i) **Crisis Management:** This section of the plan will empower the crisis managers and establish a chain of responsibility. Code names may be used to establish levels of authority and responsibility.
- (ii) **Offsite Store:** Such a store can be used to keep away from the targeted buildings anything that may immediately be useful. Contents may include hard hats and other safety equipment. Information, urgent stationery and other tools that may be useful.
- (iii) **Contingency Facilities:** IT and communications structures are likely to be the subject of separate plans that detail the facilities that have been prepared and the technical rebuild and configuration stepping stones. Business managers will need at least a summary showing the speed of recovery and the service levels they can expect. They will also need the names of those persons who have the responsibility to re-create these environments.
- (iv) **Prompts:** Usefully, plans will have a list of prompts and reminders, priorities, workaround options, e.t.c.
  - (v) **Schedules:** Schedules can embrace any kind of information that may be needed.
- (vi) **Customers and Other Stakeholders:** Arrangements may be needed to ensure that key stakeholders are kept informed. This must be a proactive task and means getting facts to them before they feel concerned enough to ask.

(Candidates are required to provide the solution in relation to contingency planning and not any other thing. 3 marks for any correct and completely stated explanation. Only 1 to be graded per term. Sub-total per term: 3 marks. Grand Sub-Total: 18 marks)

(Grand Total: 34 marks)

- 14. (a) The underlying objectives of risk analysis are, simply stated, to identify and quantify the threats that may bring damage or loss to an organisation, its responsibilities and its objectives. Enumerate any four (4) actions to do in order to continually keep these broad objectives in mind. (20 marks)
  - (b) Contingency plans do not only deal with physical crises such as fire or bomb damage. They can also be designed to cover all types of incidents that the organisation itself decides would be disastrous and in need of a structured and coordinated response. Identify any four (4) of what those other types of incidents could be.

    (14 marks)

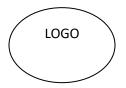
- (a) The actions to do in order to continually keep the stated broad objectives in mind are:
  - identify risk;
  - measure risks carried against the risk levels that are acceptable to the organisation;
  - assist in presenting risk concepts clearly and in consistent style;
  - support decision taking about spend and other actions that may be needed to reduce the risk to the acceptable level;

- assess both the operational, and the cost effectiveness of any existing risk management measures that are in place;
- encourage good decisions about any contingency planning that may be needed;
- raise management awareness and the depth of understanding of the exposures that are being carried. This is both to assist managers in routine good management of the organization and also to enable managers to illustrate to stakeholders that they are in control.

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

- (b) Those other types of incidents that contingency plans deal with are:
  - recall possibly unsafe products urgently from shops and distributors;
  - to respond to actual or threats of kidnap;
  - to respond to actual or threat of request for ransom;
  - to respond to actual or threat of industrial disputes, e.t.c.
  - respond to an attack from the media;
  - deal with pollution damage.

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



# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## **ASSOCIATESHIP**

#### OCTOBER 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
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:**

## **Ouestion 1**

The question tested the knowledge of candidates on the conditions to be met before a marketing exchange transaction can occur. The pass rate for the question was very impressive (86%).

# **Question 2**

This question intended to show actions required in order to bring about an exchange of goods and services. 74% pass rate was recorded.

#### **Ouestion 3**

About 54% of the candidates stated the different method of pricing Insurance as requested by the question.

# **Question 4**

Majority of the candidates attempted the question and the pass rate was 45%. Some of the candidates missed the democratic features of a market segment.

#### **Ouestion 5**

Almost all the candidates attempted this question. The pass rate was 51%. Candidates should study the textbooks for improved knowledge and performance.

#### **Ouestion 6**

Candidates could not directly answer this question or itemised the processes for designing new insurance products. 41% pass mark was achieved. Candidates should study more of the Marketing coursebooks.

## **Question 7**

Most of the candidates did not attempt this question because they did not know how to classify good and state the categories for external and internal marketing audit. 45% pass rate was recorded.

#### **Question 8**

The question was poorly attempted. 2% pass rate was achieved. Candidates did not know types of contingency planning of an insurance product.

#### **Ouestion 9**

About 50% pass rate was achieved. Many candidates found it difficult to state important information required by NAICOM that an insurance policy document should contain. Many candidates did not know ways in which organisations can make use of market research.

#### **Question 10**

The question was well attempted with 76% pass rate. This showed that the question was straight forward and well understood.

#### **Question 11**

The question was for candidates to explain according to coursebook, the reason for indirect distribution systems results in the delay of cash payment to the principal organisation. Pass rate was 82%.

# **Question 12**

Many candidates did not attempt the question because it was an optional question. 64% pass rate was achieved from the list of the candidates that attempted the question.

#### **Ouestion 13**

Majority of the candidates did not attempt the question, most especially the (A) part where the question requested the candidates to enumerate the four key assumptions for insurance organisation's marketing plan. 50% pass rate was recorded.

#### **Question 14**

52%% pass rate was achieved. Many candidates did not know the four actions/inactions that can make marketing strategies to fail. Some candidates could not enumerate three main international distribution channels that were available to a domestic producer of goods or services.

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

62% pass rate achieved.

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

Candidates should give more attention to their studies.

#### Part I

# Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Enumerate any four (4) conditions that must be met before a marketing exchange transaction can occur.

#### **Solution**

The conditions that must be met before a marketing exchange transaction can occur are:

- \* there must be at least two parties;
- \* both parties must offer something of value;
- \* both parties must be aware of each other's existence;
- \* both parties must be capable of communication and delivery;
- \* both parties must be free to accept the other's offer;
- \* both parties must be willing and able to negotiate terms of exchange that they find acceptable.

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

2. To bring about an exchange of goods and services, there must be five sequential actions. Enumerate correctly these five (5) sequential actions.

#### **Solution**

The following actions are required in order to bring about an exchange of goods and services:

- \* 1<sup>st</sup> Action: Identify potential buyers;
- \* 2<sup>nd</sup> Action: Develop appropriate solutions/ offerings;
- \* 3<sup>rd</sup> Action: Communicate information to those buyers about those offerings;
- \* 4<sup>th</sup> Action: Make the exchange;
- \* 5<sup>th</sup> action: Deliver the offering

(1 mark for each correct and completely stated action. Sub-Total: 5 marks. 1 mark for correct sequential ordering. Grand Total: 6 marks)

3. State and briefly explain any three (3) of the four (4) different methods of pricing insurance.

#### **Solution**

The four different methods of pricing insurance are:

- \* **Survival:** when insurer reduces price because of competition;
- \* **Profit Maximisation**: when price is set to produce biggest possible profit;
- \* Sales Maximisation: when price is set to increase volume of sales;
- \* Prestige Pricing: when high price is charged for elitist image.

(1 mark for each correctly stated method. 1 mark for each correct and completely stated explanation. Sub-Total per term: 2 marks. Maximum of 3 to be graded. Total: 6 marks)

- 4. (a) What is a vision statement for any company? (2 marks)
  - (b) Enumerate any four (4) democratic features of a market segment. (4 marks)

### **Solution**

(a) A vision statement is a description of where the company wants to be at a stated time in future. It is private and usually restricted and may deal with issues such as future markets where the organisation wishes to operate, its future ownership, its broad financial performance goals and the public's perception of it. (2 marks)

(b) The democratic features of a market segment are: \* age; \* gender; \* education; \* occupation; \* income: \* social/ economic status. (1 mark for each correctly stated feature. Maximum of 4 to be graded. Sub-Total: 4 marks) 5. Into which four (4) groups did "Miles and Snow" classify businesses according to their competitive strategies? Solution The four (4) groups that "Miles and Snow" classify businesses according to their competitive strategies are: \* analysers; \* prospectors; \* defenders: \* reactors. (1½ marks for each correctly stated group. Total: 6 marks) 6. List the six (6) processes for designing new insurance products. **Solution** The six processes for designing new insurance products are: Generate an initial rough idea for the new insurance products; (1) Identify the key benefits to the customers; (2) Identify the key product features; (3) Position the product within the existing market; (4) Evaluate the products potential; (5) Redesign the rough idea to incorporate the above development work. (6) (1 mark for each correct and completely stated process. Total: 6 marks) 7. Enumerate any two (2) most common classification of goods; (a) categories of an external marketing audit; (b) categories of an internal marketing audit. (c) **Solution** The most common classifications of goods are: (a) \* consumer durables; \* fast moving consumer goods; \* industrial goods. (1 mark for each correctly stated classification. Maximum of 2 to be graded. Sub-Total: 2 marks) The categories of an external marketing audit are the: (b) \* market; \* competition; and \* business environment. (1 mark for each correctly stated classification. Maximum of 2 to be graded. Sub-Total: 2 marks) The categories of an internal marketing audit are the: (c) \* organisation; and \* organisation's offering. (1 mark for each correctly stated classification. Sub-Total: 2 marks) (Grand Total: 6 marks) 8. Explicitly explain the two (2) types of contingency planning in the marketing of an insurance product. **Solution** 

The two types of contingency planning in the marketing of an insurance product are:

- attempting to minimise the technical probability of loss due to the unforeseen risk and identifying alternative courses of action in the event of certain potential outcomes;
- planning a strategic response to major unpredictable events.
   (3 marks for each correct and completely stated type. Total: 6 marks)

#### Part II

# Compulsory Question.

This question carries 50 marks.

- 9. (a) National Insurance Commission [NAICOM] under the market conduct and business practice guidelines for insurance institutions requires that an insurance policy document shall contain among others some information which shall form the basis of the insurance contract. List ten (10) of the information. (10 marks)
  - (b) (i) Define the term "service(s)" in marketing. Give an example.

(3 marks)

(ii) Define the term "goods" in marketing. Give two (2) examples.

(4 marks)

- (iii) Enumerate five (5) characteristics and attributes that distinguish services from goods? (15 marks)
- (c) What are the six (6) ways in which organisations can make use of market research? (12 marks)
- (d) Which three (3) types of corporate advertising do organisations mainly use? (6 marks)

#### **Solution**

- (a) NAICOM require that an insurance policy document shall contain among others some information which shall form the basis of the insurance contract. Some of these information are:
  - details of the company (name of the company, principal place of business, relevant contact details, e.t.c.;
  - characteristics of the product and or scope of cover;
  - premium;
  - commencement and duration of the policy;
  - benefit (main and supplementary);
  - excess and/or deductibles:
  - terms, conditions, exclusions and/or limitations;
  - differed payment period;
  - waiting period;
  - claims procedures;
  - cancellation;
  - complaint procedure.

(1 mark for each correctly stated information. Maximum of 10 to be graded. Total: 10 marks)

- (b) (i) The term "service(s)" in marketing is defined as any activity or benefit that one party offers to another that is intangible. example insurance, cleaning etc. Examples are insurance services, customer service, tele-marketing service, e.t.c
  - (2 marks for correct and complete definition. 1 mark for any correctly stated example. Sub-Total: 3 marks)
- (ii) The term "goods" in marketing is defined as products that are tangible and have a physical dimension. Examples are houses, vessels, helicopters etc

  (2 marks for correct and complete definition. 1 mark for each correctly stated example. Maximum of two examples to be graded. Sub-Total: 4 marks)
- (iii) The characteristics and attributes that distinguish services from goods are that:

- services are intangible;
- services are almost temporary or have a lifetime mutually agreed;
- some services, like hairdressing do not necessarily conform to a specification, others like preparation of accounts do;
- some services, such as state education are subject to official government regulation, others like window cleaning, are not';
- to be bought and sold, services are the most often reliant on personal interaction between the receiver and the provider;
- to be attractive to buyers, services rely less on their inherent qualities and more on the quality of the people that supply them;
- services require no physical distribution channel to allow them pass from seller to buyer;
- the value of a service is most commonly assessed on its completion and there must be a higher degree of trust between seller and buyer.

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

- (c) The six ways in which organisations can make use of market research are:
  - \* to identify and define target market;
  - \* to identify and define market opportunities;
  - \* to identify and define market problems;
  - \* to develop well founded marketing objectives;
  - \* to assist in the formation of marketing strategies;
  - \* to measure and evaluate the success of marketing strategies.

(2 marks for each correct and completely stated way. Sub-Total: 12 marks)

- (d) The types of corporate advertising that organisations mainly use are:
  - \* investors relations advertising;

\* issue advertising;

(10 marks)

\* corporate image advertising.

(2 marks for each correctly stated type. Sub-Total: 6 marks) (Grand Total: 50 marks)

#### Part III

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

- 10. (a) What three (3) distinct distribution features does the internet present? (15 marks)
  - (b) Enumerate any four (4) essential components of every effective communication.
  - (c) What do the terms "features" and "benefits" mean with reference to insurance products? (9 marks)

- (a) The distinct distribution features that the internet present are:
  - a direct link between customers and businesses to complete transactions or swap information more easily;
  - technology that lets companies by-pass traditional distributors;

- a way for organisations to develop and deliver new products and services for new customers;
- a way for organisations to use the internet to become the dominant players in the electronic channel of a specific industry or segments, controlling access to customers and setting new business rules.

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

(b) The essential components of every effective communication are:

\* a source;

\* a message;

\* a medium;

\* a receiver;

\* a response.

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

- (c) The terms "features" and "benefits" meaning with reference to insurance products are:
  - features are both the tangible and intangible elements (2¼ marks) of what the insurance organisation is suffering (2¼ marks); and
  - benefits are the internalised reasons (2¼ marks) why the customers want to buy or experience those features (2¼ marks).

(Sub-Total: 9 marks) (Grand Total: 34 marks)

- 11. (a) What two (2) major explanations are espoused in the coursebook as the reasons why indirect distribution systems sometimes result in the delay of cash payment to the principal organisation? (10 marks)
  - (b) (i) What is a call centre?

(4 marks)

(ii) What is meant by the term "customer service"?

(4 marks)

(c) From distribution perspective, explicitly enumerate any four (4) different ways through which insurers may transact businesses with their customers. (16 marks)

#### **Solution**

- (a) The two major explanations espoused in the coursebook as the reasons why indirect distribution systems sometimes result in the delay of cash payment to the principal organisation are:
  - (i) it happens when the party in the distribution chain take commission or marginbased payments from the amount the consumer pays for the product or service;
  - (ii) there may also be an extended period of credit between the principal and the intermediaries (e.g. Brokers of Nigerian market can bind cover for thirty days during which the broker is expected to remit the premium to underwriter) which will result in less immediate payment for the principal than they would have received if dealing directly with the ultimate customer.

(5 marks for each correct and completely stated explanation. Sub-Total: 10 marks)

(b) (i) A call centre is a group of telephone agents (1 mark) who are also computer operators linked sometimes electronically (1 mark) as well as vocally by telephone lines and who can service existing customers (1 mark) and sell to potential customers (1 mark).

(Sub-Total: 4 marks)

(ii) Customer service means all activities required to accept, process, deliver and fulfill customer order (2 mark) and to follow up any activity (1 mark) that has gone wrong (1 mark). (Sub-Total: 4 marks)

- (c) From distribution perspective, the different ways through which insurers may transact businesses with their customers are:
  - the customer comes directly to the insurance office;
  - insurance organisations go directly to the customer's place;
  - insurance organisations and the customers transact a business through the intermediary;
  - the insurance organisations and the customer transact business at arm's length e.g telephone or through internet;
  - the insurance organisation transact business indirectly with customer through Autoreg or licensing office.

(4 marks for each correct and completely stated explanation. Maximum of 4 to be graded. Sub-Total: 16 marks)

#### (Grand Total: 34 marks)

- 12. (a) Enumerate any three (3) marketing activities that an organisation must carry out if it seeks to ensure the importance of needs and wants in order to provide satisfaction. (15 marks)
  - (b) What is the difference between "primary demand advertising" and "brand advertising"? (11 mark
  - (c) In marketing of a product and/or service, state any four (4) places where tangible clues are normally found. (8 marks)

#### **Solution**

- (a) The five marketing activities that an organisation must carry out if it seeks to measure the importance of needs and wants in order to provide satisfactions are:
  - identify and target those markets most compatible with its resources;
  - develop products that meet the needs of the target market better than competitive products;
  - make products readily available;
  - develops customers awareness of the problem-solving capabilities of the company's line of products;
  - obtain feedback from the market about the success of the company's products and programmes.

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

- (b) The difference between "primary demand advertising" and "brand advertising" are:
  - primary demand advertising is advertising that accompanies the launch of new products and services (3 marks) in order to stimulate demand for them (3 marks); while
  - brand advertising is advertising that is used to get consumers to switch from competing brands to the advertised brand (3 marks) once that product or service established in the market (2 marks).

## (Sub-Total: 11 marks)

- (c) In marketing of a product and/or service, state the places where tangible clues are normally found are:
  - \* premises; \* brochures; \* catalogues and annual reports;

  - \* promotional items e.g. mugs, sweatshirts, diaries, e.t.c. \* furnishings (2 marks for each correctly stated clue. Maximum of 4 to be graded. Sub-Total: 8 marks)

# (Grand Total: 34 marks)

- 13. (a) Explicitly enumerate the four (4) key assumptions for an insurance organisation's marketing plan. (8 marks)
  - (b) (i) What is the full meaning of the acronym STEP in this course? (4 marks)
    - (ii) What does a step analysis involve examining? (4 marks)
    - (iii) State the four (4) factor components of a step analysis and give an example of each. (12 marks)
  - (c) What are the three (3) stages in selecting the right medium for communication? (6 marks)

#### **Solution**

- (a) The four key assumptions for an insurance organisation's marketing plan are:
  - (i) continued collaboration with partnership organisations;
  - (ii) consistent foreign exchange rate level;
  - (iii)consistent price levels of reinsurance;
  - (iv)continued occupation of an existing office or premise.

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

(b) (i) STEP means

S= Social; T= Technological; E= Economical; and P= Political and Legal

(1 mark for each correctly stated meaning. Sub-Total: 4 marks)

- (ii) A step analysis involves examining four important features of the external business environment (2 marks) with a view of interpreting their effect on marketing the organisations offering (2 marks). (Sub-Total: 4 marks)
- (iii) The four factor components of a step analysis and examples are:

Social Factors(demography; lifestyle)Technological Factors(computers; communication)Economic Factors(relative wealth; economy)Political and Legal Factors(public policy; regulation)

(1 mark for correctly stated factor. 2 marks for any correctly stated example. Sub-total per factor: 3 marks. Grand Sub-Total: 12 marks)

- (c) The three stages in selecting the right medium of communication are:
  - 1. deciding which communication channels to use;
  - 2. deciding which specific elements of each channel are appropriate;
  - 3. deciding on the specific aspect of each element.

(2 marks for correct and completely stated stage. Sub-Total: 6 marks)
(Grand Total: 34 marks)

- 14. (a) What are the four (4) actions and/or inactions that can make marketing strategies to fail? (20 marks)
  - (b) List five (5) most valuable information in an audit of major competitors. (5 marks)
  - (c) Enumerate any three (3) main international distribution channels that are available to a domestic producer of goods or services. (9 marks)

- (a) The actions and/or inactions that can make marketing strategies to fail are when/where:
  - i. overall corporate objectives are not communicated accurately to those who are supporting the achievement of those objectives at an operational level;
  - ii. there are insufficient resources to carry out the overall strategy at an operational level;
- iii. those who are carrying out strategy at an operational level choose not to follow the guidelines for the overall strategy; and
- iv. changes in the business environment mean that the marketing strategy is no longer relevant.

(5 marks for each correct and completely stated action/inaction. Sub-Total: 20 marks)

- (b) The most valuable information in an audit of major competitors are the major competitor's:

(1 mark for each correctly stated information. Maximum of 5 to be graded. Sub-Total: 5 marks)

- (c) The main international distribution channels that are available to a domestic producer of goods or services are:
  - a wholly or partially owned joint venture;
  - a wholly or partially owned local subsidiary;
  - domestic-based intermediaries with specialisation in the organisation's foreign market;
  - overseas based intermediaries working in the organisation's foreign markets
     (3 marks for each correct and completely stated channel. Maximum of 3 to be graded. Sub-Total: 9 marks)

(Grand Total: 34 marks)