



*Chartered Insurance  
Institute of Nigeria*

*Chief Examiners' Report*

*October 2023*

*Intermediate in Insurance*

*(101-109)*

# GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

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

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023DIET EXAMINATION PAPER

SUBJECT I01  
INSURANCE LAW

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I01 - INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

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

### **Question 1**

Tested candidates' knowledge relating to provision of the Insurance Act on classification of insurance business in Nigeria. Over 90% attempted. Performance was above 85%. Candidates for future examination to keep abreast of developments in the industry and familiarised themselves with the Insurance Act.

### **Question 2**

Tested candidates on the common law as a source of Insurance law. The candidates all attempted. Performance was over 90%. Candidates are admonished to get familiar with the course book as their performance showed they read the book for this examination.

### **Question 3**

Tested candidates on the concept of privity of contract and the exceptions to it. About 70% attempted the question; performance was above 60%. It is clear that the candidates had a good grasp of the topic and the question which was straight forward.

### **Question 4**

Tested candidates' knowledge of factors that could destroy an otherwise valid contract. A straight forward textbook question. Candidates attempt was high, majority got average mark; while 35% got maximum points.

### **Question 5**

Tested candidates understanding of the terms 'damage' and 'damages' and categories of damages that are in Law. Candidates attempted the question and performed very well. Performance was over 50%. Over 30% got the maximum point. It is obvious they really read and prepared well for the examination.

### **Question 6**

Tested candidates on the concept of "acceptance" in contract – how it can be made in order to make for a valid contract. Candidates' understanding of the question was low and performance was therefore below average. Only 12% got the maximum point. Obviously, candidates did not read this aspect of the course book. Candidates in future examination are advised to read the course book holistically and not be selective.

### **Question 7**

Tested candidates on the concept of frustration and its effects on contractual relationship. Attempt was high. Over 65% of the candidates had a good understanding of the question and did well.

### **Question 8**

Tested candidates on "agency" relationship, duty of an agent to his principal and the exception to the general rule. Attempt was good as the question was popular with them. Performance was over 75%.

**Question 9**

Tested candidates on the remedies available to a principal wronged by his agent. Attempt was very high and performance was over 90%. The candidates had a good grasp and understanding of both the topic and the question.

**Question 10**

Tested candidates on the relationship between an undisclosed principal and his agent. It also tested the candidates' knowledge of the concept of undisclosed principal. Attempt was high performance was above average. Attempt was 100%, performance was 60%.

**Question 11**

Tested candidates' understanding of the bedrock of insurance contract – premium and cover. As between the insurer and the 'insured' who gives what and for what? Attempt was high, 90% out performance was below average. Candidates could treat the factors that would bring about return of the premium paid by the insured to hide by the insurer. The answer is in the course book.

**Question 12**

Tested candidates' knowledge of the concept of 'ultravires' in company law. Especially its reforms as they affect company law. Performance was poor – 20% candidates did read that aspect of the course book. Going forward it is advised that candidates should read and understand every aspect of the course book.

**Question 13**

Tested candidates on law of employment or employment contract. Attempt was good and performance was very good in relation to the part 'A,' but candidates did not fully understand the 'B' part. Overall performance was slightly above average. Candidates should learn to apply theory to practice which was what part 'B' of the question was about.

**Question 14**

Tested candidates on the concept of contribution in insurance. Attempt was good, somehow, performance was just barely 60%. Adequate preparation is recommended for future examinations.

**Question 15**

Tested candidates on the concept of 'offer' in contract generally and how it operates in insurance contract. Attempt was about 50% while 80% of these passed the question excellently. Evidently, candidates prepared well for the examination.

**Question 16**

Tested candidates' understanding of the concept of "disclosure of material facts"; attempt was over 70%. Over 70% scored above the pass mark. Both the attempt and performance could be better, candidates are advised to prepare better for future examinations.

**Question 17**

Tested candidates on the concept of indemnity in insurance and its practice in reality. Over 8% of the candidates attempted the question. Performance was also good, over 75% pass rate.

**Question 18**

Tested candidates on misrepresentation, its operation and effects on a typical contract. Over 70% of the candidates attempted it. Performance was good with over 75% pass rate.

**Comments on Overall Performance**

There is a remarkable improvement this diet. It is evident that the candidates prepared well for the examination.

**Suggestions on Improvements (if any)**

Relentless efforts should be made to harp on the need to prepare well for the examination.

**Part I****Answer ALL questions in Part I.****Each question carries 10 marks.**

1. List any five (5) classes of general insurance business as classified in the Insurance Act 2003.

**Solution**

The classes of General Insurance business as classified in the Insurance Act 2003:

- \* fire insurance;
- \* general accident;
- \* motor insurance;
- \* marine insurance;
- \* oil and gas;
- \* engineering;
- \* bonds, credit guarantee and surety.

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

2. Enumerate any two (2) defects inherent in the common law at the early stage of its evolution and how were these dealt with?

**Solution**

The Common law is a system of rules which applied throughout the United Kingdom and most of the countries they colonised, including Nigeria. It was fraught with some defects in its early development. These are

- the only remedy available at Common law was only the award of damages i.e. financial compensation. There were no reliefs like injunctions;
- elaborate rules governed the procedure which had to be followed in bringing a case and a breach of these might leave the claimant without redress;
- corruption to the effect that rich men escaped justice by bribing the juries and witness and the sheriffs were biased in their favour.

The defects were addressed by the King when the citizens began to petition the King being the law giver. The King in turn set up a department in his court called the Chancery headed by his Chief Minister and Head of Secretarial Establishment. The early Chancellors were clergymen who saw things from moral and religious points of view and fashioned out the body of rules that became known as equity, which are administered by the Court of Chancery as opposed to the King's Council and the Common Law Courts.

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

**2 marks for each correct and completely stated point on how the defects were treated. Maximum of 3 to be graded. Sub-Total: 6 marks)**

**(Grand Total: 10 marks)**

3. (a) What is “privity of contract”? **(4 marks)**  
 (b) Enumerate any three (3) statutory exceptions to the concept of “privity of contract”. **(6 marks)**

**Solution**

(a) **Privity of contract** means that only a party to a contract can derive benefits and suffer detriments under the contract. In effect, the doctrine confines duties and rights to only the parties to the contract. Applying this doctrine to Insurance would pose some difficulty. The term insured in insurance may cover different people some of whom did not make original contract with the insurer. Insurance cover may be designed to enable not named in it to enforce it or at least benefit



from it. As a result of this, some well-established both common law and statutory exceptions have been worked out against the full operation of the doctrine in insurance.

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

(b) The statutory exceptions to the concept of “privity of contract” are:

- The Third Parties (Rights Against Insurers) Act (2010)
- Section 11 of the Married Women’s Property Act (1882)
- The Road Traffic Act (1988)
- The Law of Property Act (1925)
- The Fire Prevention (Metropolis) Act (1774).

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

**(Grand Total: 10 marks)**

4. Enumerate any four (4) factors that can destroy the validity of an otherwise valid contract?

**Solution**

The following are the factors that can destroy the validity of an otherwise valid contract:

- \* illegality;    \* improper pressure;                                      \* mistake;
- \* misrepresentation;                                      \* non-disclosure.

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

5. (a) Distinguish these two terms: “damage” and “damages”. **(4 marks)**

(b) Enumerate any three (3) categories that damages may be granted under when awarded by the courts. **(6 marks)**

**Solution**

(a) Damage is the injury, bodily or otherwise, loss, financial or otherwise, suffered by someone for which damages may be awarded by the court. Damages therefore is to compensate the claimant for the loss which the defendant has caused by his wrongful act.

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

(b) The categories that damages may be granted under when awarded by the courts are:

- \* special or general damages;                                      \* aggravated damages;
- \* exemplary damages;                                      \* nominal damages;                                      \* contemptuous damages.

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

**(Grand Total: 10 marks)**

6. With respect to the concept of “acceptance” in the formation of a valid contract, explain:

(a) the “*De minimis non curat lex*” principle **(4 marks)**

(b) The Posting Rule. **(6 marks)**

**Solution**

(a) “*De minimis non curat lex*” principle explains that there cannot be a valid contract when an offer is not accepted. There must be an unequivocal/ unqualified acceptance as well. Any variation to the terms of an offer would qualify as a counter –offer which destroys the original offer. However, minor variations to an offer cannot be regarded as a counter offer because the law does not concern itself with mere trifles. This is the “de minimis non curat lex” rule.

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

(b) **The Posting Rule:** acceptance of an offer must be communicated to the offeror for there to be a valid contract. However, there are exceptions to this general rule. One of the exceptions is the posting rule. It is stated that a letter of acceptance is effective once it is posted and not when it is received by the offeror. For the posting rule to be apply:

- letter must be properly addressed, stamped and posted;
- it must be reasonable to use the post;
- offeror must not have made it clear that an instant or urgent response was required;
- offeror must not have stated that acceptance must actually be communicated to him or requested other means other than the post.

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

(Grand Total: 10 marks)

7. What does “frustration” connote in the law of contract? What three (3) identifiable forms can “frustration” take to end a contract?

### **Solution**

Frustration in the law of contract is a situation which makes a contract become impossible to perform or illegal or futile because of some unexpected turn of events after the contract was made(2 marks). It has nothing to do to the fault of any of the parties(2 marks).

Frustration may take the following forms:

- change in law or operation of law;
- destruction of a thing necessary for performance of the contract;
- non-occurrence of an event on which the contract depends;
- commercial purpose of the contract frustrated;
- death or personal incapacity in contracts require personal service.

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

(Grand Total: 10 marks)

8. (a) Who is an agent? What is the task of an agent? (4 marks)

(b) An agent owes his principal the duty to personally perform his principal’s task. What three (3) exceptions are there to this general rule? (6 marks)

### **Solution**

(a) An agent is a person who has the authority or power to act on behalf of another person known as the principal. (2 marks) The task of the agent is to bring about a contract between the agent’s principal and and a third person – i.e. the third party(2 marks).

(4 marks)

(b). The exceptions to the general rule of an agent owing his principal the duty to personally perform his principal’s task are:

- where the principal expressly authorises the agent to delegate all or some of his duties;
- where the authority can be implied from the circumstances such as the delegation of routine clerical and administrative tasks to employees;
- where the delegation is in accordance with trade custom; and
- in cases of necessity.

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

Grand Total: 10 marks)

9. Enumerate four (4) remedies that may be available to the principal if the agent fails in his duties to the principal.

**Solution**

The remedies that may be available to the principal if the agent fails in his duties to the principal are:

- to sue the agent for damages for breach of contract;
- to sue agent in tort e.g. in tort of detinue where the agent refuses to return principal's property;
- to dismiss the agent without notice where agent is guilty of serious breach like bribe taking;
- to sue for an account if agent fails to disclose full financial details of his agent dealings;
- to sue the agent or the donor to recover a bribe paid to the agent;
- in case of fraudulent breach, to rescind any contract made through the agent and decline payment of commission.

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

10. (a) Who is an “undisclosed principal” in an agency relationship? **(2 marks)**  
(b) Can the undisclosed principal enforce the contract made for him by his agent? Briefly explain. **(8 marks)**

**Solution**

(a) An undisclosed principal in an agency relationship is a principal whose existence is undisclosed to the third party who is unaware that he is dealing with an agent instead of the principal. **(2 marks)**

(b) The general rule is that the undisclosed principal can enforce the contract against the third party who is not aware of his existence. **(2 marks)**. However, the third party is protected against such principal as some limitations are placed upon the undisclosed principals viz:

The undisclosed principal cannot sue if he did not exist or lacked capacity when the contract was made.

- cannot ratify the contract;
- cannot sue if the contract expressly provides that the person making it is the sole principal;
- cannot sue if the third party can prove that he had some good reasons for dealing with the agent personally for e.g. because of their reputation or special skill.

**(2 marks for each correct and completely stated explanation. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)**

11. (a) With respect to insurance contracts, what constitutes consideration to be furnished by the insured and the insurer, who are the first and second parties to the contract? **(4 marks)**  
(b) Enumerate any three (3) instances when premium will be deemed to be returnable under an insurance contract? **(6 marks)**

**Solution**

(a) In insurance contracts, the following constitutes consideration:

- the premium paid by the insured to the insurer – this is the insured's consideration; **(2 marks)**
- The cover or the promise of payment of claim provided that the risk /loss insured against happens – this is the insurer's consideration **(2 marks)**.

**(Sub-Total: 4 marks)**

(b) Premium paid by the insured is not returnable once the risk has started to run. However, if the insurer has never been on risk, the insured is entitled to recover premium. In this case, there would be total failure of consideration i.e. the insured has not got anything of value for his own consideration.

Other instances where there will be total failure of consideration are where:

- the proposal is withdrawn after the premium has been paid.
- policy may be void for mistake or if consensus ad idem is not achieved by parties.
- policy may be void for lack of insurable interest.
- policy may be void ab initio

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

**(Grand Total: 10 marks)**

12. (a) What do you understand by the “ultra vires” rule in the law of business association/company law? Briefly explain the term correctly. **(4 Marks)**

(b) Enumerate any two (2) changes that have been made to the rule with respect to corporations? **(6 Marks)**

### **Solution**

(a) The “ultra vires” rule in the law of business association /company law means “beyond the powers of”. **(2 marks)** This relates to the companies generally whether statutory corporation or companies registered under the companies’ law. This rule simply means that a company cannot go beyond what it is formed for or make contract outside of its power stated in the Act that created or in its “memorandum and articles of association”.

(b) It used to be the law that such actions or contract might be invalid, however, Parliament and the courts have effected some changes to the ultra vires rule in order to protect investors who deal with companies in good faith. These changes are:

- any acts performed by companies cannot be called into question by reason of anything in the company’s memorandum and articles of association (MEMART);
- Contracts made by companies will be valid even if they are outside the powers expressed in the MEMART.
- In addition, a member of a company can bring an action to restrain the proposed activities which are outside a company’s powers and the directors may be in breach of his duty to the company if he engages in such activities.

8Marks.

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

**(Grand Total: 10 marks)**

13. (a) What is a contract in “restraint of trade”? **(2 marks)**

(b) Give one (1) main form that restraint of trade can take. **(2 marks)**

(c) Mr. Lateef is a trained tailor and draper at Idumota area of Lagos State employed by Mr. Cutfit under a contract stipulating that Mr. Lateef could not, on leaving his employment with the outfit, carry on his trade as a tailor within ten miles of Idumota. Advise Mr. Lateef who is desirous of leaving and setting up his own shop around Idumota. **(6 marks)**

### **Solution**

(a) A contract in restraint of trade is one which tends to restrain or hinder trade. It is regarded as contrary to public policy. **(2 marks)**

(b) The restraint can take so many forms but the two main ones are:  
\* restraints on contracts of employment; and \* restraints on the seller of a business.  
**(2 marks for any correctly stated restraint. 2 marks for any correctly stated one)**

(c) A contract that restrain performance of a trade vocation is frowned at by the law. The terms of the contract between Mr. Cutoff and Mr. Lateef by which the latter cannot carry out his trade within 10miles of Idumota is one in restraint of trade as it was made to prevent the defendant from using his skill in competition with Mr. Cutoff thereby.

In *Attwood v. Lamont*, the Claimant sought to restrain the Defendant in similar circumstance, the court ruled that the contract was void. From the foregoing, Mr. Lateef could go ahead and establish his own outfit without any legal repercussion.

**(3 marks for each correct and completely stated point. Maximum of 2 to be graded. Sub-Total: 6 marks)  
(Grand Total: 10 marks)**

14. (a) Distinguish “contribution” as an insurance concept and the “contribution condition”. **(4 marks)**

(b) Give any three (3) examples of contribution conditions in insurance. **(6 marks)**

### Solution

(a) Contribution as an insurance concept is the right of an insurer to call upon other similarly, but not necessarily equally liable to the same insured to share the cost of an indemnity payment, while contribution condition is a clause that sets out how law claims or losses are to be met if the insured has another policy which covers the insured risk(s).

**(2 marks for each correct and completely stated distinguishing statement. Sub-Total: 4 marks)**

b). Some examples of contribution conditions in insurance are:

- \* escape clause;
- \* non-contribution clause;
- \* more specific insurance clause;
- \* rateable proportion clause.

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

### Part II

**Answer TWO (2) out of the following FOUR (4) questions.**

**Each question carries 30 marks.**

15. (a) What is a “true offer” in a typical contract? **(2 marks)**

(b) In the law of contract, who is an: (i) offerer; and (ii) offeree. **(4marks)**

(c) List and briefly explain any two (2) ways that an offer can be made. **(6marks)**

(d) Distinguish “true offer” from “invitation to treat”. Support your answer with an example of an “invitation to treat”. **(5marks)**

(e) Can an offer remain open indefinitely? List any four (4) ways in which an offer can end. **(10marks)**

(f) What is the effect of an offer that is accepted but not communicated to the offeror? State any circumstance that does not follow this norm. **(3marks)**

## Solution

(a) A true offer is one by which the offeror intends to be immediately bound if it is accepted. It is not an invitation to treat which is an invitation to make an offer. **(2 marks)**

(b) In the law of contract, an offeror is the who makes an offer to the offeree **(2 Marks)**. An offeree is the party who receives an offer from the offeror and who must accept the offer in its entirety **(2 marks)**

**(Sub-Total:4marks)**

(c) An offer can be made in the following ways:

\* in writing;                      \* orally;                      \* by conduct;                      \*

**(Candidates are required to explain these ways. 1 mark for each correctly stated way. 2 marks for each correct and completely stated explanation. Sub-Total per way: 3 marks. Maximum of 2 to be graded. Sub-Total: 6 marks)**

(d) A true offer is one by which an offeror shows the intention to be bound immediately if the offer is accepted **(2 marks)**; while an invitation to treat is an invitation to make an offer which does not give rise to a contract unlike a true offer **(2 marks)**. Example of an invitation to treat will be circulars, advertisement and the flyers, display of price marked goods in a shop **(1mark for any correctly stated example)**.

**(Sub-Total: 5marks)**

(e) No, an offer cannot remain open indefinitely **(2 marks)**. Once it comes to an end, it can no longer be accepted. An offer can end in the following ways:

\* a time limit or a reasonable time;                      \* death of either the offeror or the offeree;

\* acceptance;                      \* relocation;                      \* rejection or counter offer.

**(2<sup>1/2</sup> marks for each correct and completely stated way. Maximum of 4 to be graded. Sub-total: 10 marks)**

(f). The effect of an offer that is accepted but not communicated to the offerer is that the offer becomes ineffective because there cannot be an acceptance without doing anything, it must be communicated to the offeror. The only excepting circumstances are:

\*if the offeror dispenses with acceptance;                      \* where the “posting rules” apply.

**(2 marks for correctly stated negative response. 1 mark for any correctly stated way. Sub-Total: 3 marks)**

**(Grand Total: 30 marks)**

16. (a) Define “material fact” in relation to the doctrine of disclosure in insurance. **(2 marks)**

(b) Regarding facts that require disclosure in relation to insurance contract, describe a “physical hazard”. **(2marks)**

(c) Give two (2) example of facts in each of the following classes of insurance that would require disclosure:

(i) Fire;                      (ii) Theft;                      (iii) Motor;                      (iv) Marine Cargo **(8marks)**

(d) In similar vein as in (b) above, describe a “moral hazard” and itemise any four (4) examples or characteristics of moral hazard. **(10marks)**

(e) Enumerate any four (4) groups of facts that need not to be disclosed even if they are material. **(8marks)**

## **Solution**

(a) “Material fact in relation to the doctrine of disclosure in insurance can be defined as every circumstance that would influence the judgment of a prudent insurer in determining whether to take the risk and if so, on what terms. **(2 marks)**

(b) A “Physical hazard” in relation to insurance contract can be described as details of unusual features of the subject matter of insurance which make the risk worse than a normal risk of its class.

(i) Fire: Examples in the following classes of insurance that would require disclosure are:

- Construction of the building
- The nature of its use
- Fire detection and firefighting equipment **(2 marks)**

(ii) Theft:

- The nature of stock
- Its value and
- Nature of security precautions. **(2 marks)**

(iii) Motor:

- type of car, whether it has been specially adapted,
- details of regular drivers **(2 marks)**

(iv) Marine Cargo

- type of cargo
- term of sale
- how the cargo is carried, its destination, whether contaminated. **(2 marks)**

(c) A “Moral hazard” – the aspect of risk that depends of the character and behaviour of the insured him (her) self. **(2 marks)**

The following are example of or characteristics of moral hazards:

- age
- disability
- gender Reassignment
- marriage and Civil Partnership
- pregnancy and Maternity
- race
- religion or belief
- sex and sexual Orientation **(8 marks)**

(d) The following are groups of fact that had not be disclosure even if they are material:

- matters of race

- factors which lessen the risk
- facts known by the insurer
- facts which the insured ought to know
- information that's weaved by the insurer
- facts that are outside the scope of specific questions
- facts which an inspection of the risk should have revealed
- facts which the proposer does not know
- spent conviction

**(2 marks for each correct and completely stated points. Maximum of 4 to be graded. Sub-total: 8 marks) (Grand Total: 30 marks)**

17. (a) What are indemnity types of insurances? Give any two (2) example. **(6 marks)**  
 (b) Explain the effects of the following terms/phrases on the principle of indemnity:  
 (i) sum insured or limit of liability; (ii) under-insurance and average clauses;  
 (iii) excess (or deductible) clause; (iv) franchise;  
 (v) "new for old cover" (vi) agreed value cover. **(24 marks)**

### **Solution**

(a) Indemnity types of insurances are those insurance covers where the insurers agree to pay only when the Insured suffers a loss of a particular type, and only for the amount of the loss, with the aim of putting the insured back to the position (s) he was in just before the loss. **(2 marks)**

Examples are: mostly general (non-life) insurances i.e. all types of property, pecuniary, motor, marine, aviation, burglary, and liability insurances.

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

(b) The effects of the following terms/phrases on the principle of indemnity are as explained below:

(i) **Sum insured or limit of liability:** where this is applicable, the insured cannot get or recover more than the amount so stated or limited in the policy even where the loss is a higher figure. The only exception is in liability insurance where costs and expenses incurred in connection with the liability claim may be payable over far and above the limit of liability. Again, statute may prevent the insurers from imposing a limit e.g. The Road Traffic act of 1998 which requires Motor Insurers to grant unlimited cover in respect of death or bodily injury arising from use of vehicles on the road.

Also, Motor insurers themselves often choose not to stipulate any fixed sum for loss. They simply would put the clause that "market value would be paid in the event of a total loss" or similar clause to that effect.

(ii) **Underinsurance and average clauses:** this also have the effect of making the insured to get less than an indemnity. Under-insurance or average depicts that the sum insured or the limit of indemnity is not large enough to meet the loss. Where there is under-insurance, the insured would get what is proportionate to his contribution to the common pool of insurance money irrespective of the size of his loss. In this instance, the insured is considered to be his/her own insurer for the uninsured part of the risk.

(iii) **Excess (deductible) clause:** an excess clause or deductible clause is a clause which provides that the insured must bear the first amount of any loss, expressed either as a sum of money or percentage of loss. The effect of an excess or a deductible is to relieve the insurers from having



to deal with small losses and to reduce the size of every claim payment which is made. In this way, the overall cost of insurance is reduced and this is beneficial to both the insured and the insurer. Excess or deductible may either be compulsory or requested by the insured in order to gain a reduction in premium.

(iv) **Franchise:** this similar to excess. Here, there is no liability for loss below the franchise figure as agreed and contained in the policy, however, once the franchise value is exceeded, the loss is payable in full. Franchise is rarely used because of the temptation of introducing the element of moral hazard. For example, where the insured suffers a loss below the franchise figure he might be tempted to want to increase the value of the loss beyond the franchise figure in order to get something from the insurer.

(v) **“New for old cover”:** this cover relates more to insurances of household goods and personal possessions, household content and personal “all-risks’ policies. By this cover, the insurer agrees to pay the full replacement cost “as new” of any insured item which is lost or destroyed with no deduction for wear, tear or depreciation. This may not apply to items with limited life and may apply to items of less than three years at the time of loss. This cover would give the insured more than indemnity and it reflects a non- consumer (business) necessity.

(vi) **Agreed value cover:** the principle of indemnity operates in a much-modified form under this cover. Here, the parties agree that in the event of a loss, a particular sum, pre-agreed from the onset, shall be paid regardless of the actual value of the property at the time of the loss. The insurer must pay even if they can prove that the value of the property involved has declined since insurance was opened. The claim under this cover is a liquidated amount. The aim of agreed value cover is to avoid disputes as to the value of the property at time of loss. It is often employed where the property is unique and of a type for which there is a limited market. The operation of this type of cover may make the insured get more than an indemnity although he could also get less depending on the circumstances.

**(2 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each term. Sub-total per term: 4 marks. Sub-Total: 24 marks)**  
**(Grand Total: 30 marks)**

18. Misrepresentation is a false statement of facts that induces the other party to enter into a contract.
- (a) Enumerate any four (4) other facts that need to be present to make a false statement affect the validity of the contract? **(8 marks)**
- (b) Briefly explain the following types of misrepresentation:  
(i) fraudulent; (ii) innocent; (iii) negligent. **(6 marks)**
- (c) What is the effect of misrepresentation in non-consumer (business) and consumer insurances? What legislation can be used to support your response. **(6 marks)**
- (d) List five (5) examples of misrepresentation in insurance. **(10 marks)**

### **Solution**

- (a) Misrepresentation is a false statement of facts that induces the other party to enter into a contract. The other facts that need to be present to make a false statement affect the validity of the contract are that the misrepresentation must be:
- one of fact and not of law since everyone is deemed to know the law;
  - made by a party to the contract;
  - material (the false statement relates to facts which would influence a reasonable person in deciding whether to enter into the contract);

- induce the contract- something the other party relied upon in deciding to enter into the contract;
- cause some loss or disadvantage to the person who relied upon it.

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

(b) (i) **Fraudulent Misrepresentation** is a deliberate false statement deliberately made with intention of misleading another and putting him at a disadvantage. (2 marks)

(ii) **Innocent Misrepresentation** will be made where, though the statement is false, there is no deliberate intention to mislead the other party. (2 marks)

(iii) **Negligent Misrepresentation:** is if the misrepresentation is because the person making it did not take sufficient care to check if it was correct. (2 marks)

(Sub-Total: 6 marks)

(c) In a non-consumer (business) insurance, the insurer may seek remedy on the grounds of misrepresentation regardless of whether it is fraudulent, innocent or negligent(2 marks) but in consumer insurance, the insurer may only seek remedy for a misrepresentation which is negligent or fraudulent. (2 marks). This is because the Insurance Act 2003 (Nigeria) and Insurance Act 2015 (UK), imposes duty to take reasonable care not to misrepresent material facts(2 marks).

(Sub-Total: 6 marks)

(d) Some examples of misrepresentation in insurance are:

- when a proposer for theft insurance says that the premises he presents for insurance are protected by alarm when they are not;
- when a proposer for motor insurance declares that his car has not been modified in any way when the car had been modified;
- when a proposer for life assurance give his age as 25 years when in fact is 35 years old;
- when a proposer for property insurance states that the property sought to be insured is in a good state of repair when it is in a poor condition (e.g. if it has leaking roof or broken windows);
- when a proposer for property insurance implies, in respect of a previous fire at his home, that the fire had occurred at other premises and had been the fault of the contractors; when actually the fire had been at his house and the contractors were the insured's alter ego.

10Marks.

(The list is not exhaustive. 2 marks for each correct and completely stated example. Maximum of 4 to be graded. Sub-Total: 10 marks)

(Grand Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT I02  
COMMERCIAL PROPERTY AND  
BUSINESS INTERRUPTION INSURANCES

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I02 - COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION  
INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

**Chief Examiner's Comments:**

**Question 1**

A compulsory question, well attempted and the pass rate was about 61%. Others need to be adequately prepared.

**Question 2**

A text book question to test candidates' knowledge of causes of fire. 94% candidates did not attempt the question, and the pass rate on those who attempted was 50%.

**Question 3**

This question is to test candidates' knowledge of the main heading of property insurance. The pass rate was about 50%.

**Question 4**

This is a question of first loss. The pass rate was 67%.

**Question 5**

The question is to test candidates' knowledge of the covers available in fidelity guarantee. The pass rate was about 70%.

**Question 6**

The question is to test the candidate's knowledge and understanding of the covers available on a Business Interruption claim. Performance was very low with a pass rate of 26%.

**Question 7**

A text book question to test candidates' knowledge of risk acceptance criteria on Business Interruption policy. The pass rate was 46%, which is below average.

**Question 8**

The question was to test candidates' knowledge of spread of risk; the performance of candidates was very impressive.

**Question 9**

The question was to test candidates' knowledge on the circumstances that usually warrant reinstatement. The performance of candidates was very low. Only 2% passed the question.

**Question 10**

Text book question to test candidates' knowledge of contribution at common law. Pass rate was about 65%.

**Question 11**

The question was to test candidates' knowledge of methods/types of reinsurance. The question was well attempted, and the pass rate was about 67%.

**Question 12**

The question was to test candidates' knowledge of information on a pre-loss survey. The pass rate was 48%.

**Question 13**

This is a test book question on fire tetrahedron. It was well attempted, and the pass rate was 75%.

**Question 14**

The question was to test candidates some terms such as excess/aggregate deductible. The performance was abysmal with a 10% pass rate.

**Question 15**

The question is to test candidates on how to handle claims in business interruption. 44% candidates attempted the question. Only 7% those who attempted the question passed. It is advisable that candidates should attend practical tutorial serious.

**Question 16**

This is a text book question to test candidates' knowledge and understanding of the several types of fire extinguishers. About 47% of the candidates attempted the question, while only 37% passed. The pass rate was below average.

**Question 17**

This question is based on ICT coverage. Most candidates that attempted the question scored about 60%. Those who attempted it passed well.

**Question 18**

The question is to test candidates' knowledge and objectives of risk survey of fire/ business interruption coverage. 78% attempted the question, and about 50% passed.

**Comments on Overall Performance:**

The overall performance was below average with 27.97% pass rate.

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

It is observed that candidates did not prepare adequately for the examination. It is advisable that candidates should endeavor to attend tutorial classes in future seatings for the examination.

**Part I****Answer ALL questions in Part I.****Each question carries 10 marks.**

1. 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.

**Solution**

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

2. Enumerate any four (4) causes of an accidental/fortuitous fire.

**Solution**

The causes of an accidental/fortuitous fire are:

- \* people;                      \* process;                      \* heating system;                      \* waste;
- \* lighting and power systems;                      \* materials.

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

3. When insuring a property, the insurance is usually placed under three (3) main headings. List and briefly explain any two (2) of these three headings.

**Solution**

The main headings when insuring a property are the:

- \* building;                      \* machinery;                      and                      \* stock.

**(Candidates are required to explain the stated heading. 2 marks for each correctly stated heading. 1½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each heading. Sub-total per heading: 5 marks. Grand Total: 10 marks)**

4. Enumerate any five (5) contingencies normally suitable for a 'first loss' policy.

**Solution**

The contingencies normally suitable for a 'first loss' policy are:

- \* storm;                      \* flood;                      \* escape of water;
- \* sprinkler leakage;                      \* theft;                      \* impact.

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

5. Fidelity guaranty insurance has different types. List and concisely explain any two (2) of the types.

**Solution**

The different types of fidelity guarantee insurance are:

- \* individual;                      \* collective;                      \* blanket; and                      \* position.

**(Candidates are required to concisely explain the stated type. 2 marks for each correctly stated type. 1½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each type. Sub-total per type: 5 marks. Grand Total: 10 marks)**

6. What are the measures of compensation which can be claimed under a business interruption (B1) insurance cover?

**Solution**

The measures of compensation which can be claimed under a business interruption (B1) Insurance cover are:

- (i) the loss of gross profit (or other insured income) resulting from a reduction in turnover in consequence of that inability (or reduced ability to operate) (5 marks); and
- (ii) (ii) the additional costs incurred to reproduce those lost activities in some ways and to avoid or diminish the reduction in turnover (5 marks).

**(Total: 10 marks)**

7. As a property/business interruption underwriter, concisely state five (5) criteria that will inform your acceptance of a risk without pre-loss survey.

**Solution**

As a Property/business interruption underwriter, the criteria that will inform my acceptance of a risk without pre-loss survey are:

- \* location of risk;      \* claims experience;      \* trade;      \* overall size of the risk;
- \* the amount of information provided by the proposer/intermediary;
- \* underwriter's own experience of that class of risk;
- \* size of premium which the case is likely to generate.

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

8. When an insurance risk is too large for one insurer to outrightly accept, what are the four (4) ways the underwriter can spread such a risk?

**Solution**

When an insurance risk is too large for one insurer to outrightly accept, the ways by which the underwriter can spread such a risk are through:

- \* co-insurance;      \* reinsurance;      \* splitting the cover;      \* pool.

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

9. In what four (4) circumstances may reinstatement take place in a property insurance policy?

**Solution**

Reinstatement may take place in a property insurance policy in the following ways:

- By the insurers under the terms of the policy;
- by the insurers under statute;
- by the insured under the terms of any statute;
- by the insured under the terms of any contract.

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

10. For contribution to arise at common law, some conditions have to be fully met. Concisely state the five (5) **conditions** that must be present for contribution to arise at common law.

**Solution**



The five (5) conditions that must be present for contribution to arise at common law are:

- the policies must cover the same property, that is the property destroyed or damaged must be common to all policies;
- the same insured interest in the loss must be common to all policies;
- the policies must be in force at the time of loss;
- the policies must be contract of indemnity;
- the perils insured against which caused the loss must be common to all.

(2 marks for each correctly stated condition. Total: 10 marks)

11. For property and business interruption insurances, enumerate the:

- two (2) main methods of reinsurance and
- two (2) types of reinsurance.

**Solution**

- The two (2) main methods of reinsurance are the treaty and facultative reinsurance.
- The two (2) types of reinsurance are the proportional and non-proportional reinsurances.

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

12. As a prudent underwriter, list out any ten (10) items that should be found in a pre-loss survey report on a business interruption insurance policy.

**Solution**

The following are some of the items that should be found in a pre-loss survey report on a business interruption insurance policy:

- \* insured; \* address; \* occupation; \* housekeeping; \* operation;
- \* previous losses; \* tenure; \* premises; \* usage and suitability;
- \* fire extinguisher; \* heating; \* lighting & power; \* location.

(1 mark for each correctly stated item. Maximum of 10 to be graded. Total: 10 marks)

13. What are the four (4) essential elements of “fire tetrahedron”? Briefly explain the relationship as it relates to fire insurance.

**Solution**

The essential elements of “Fire Tetrahedron” are:

- \* fuel; \* heat; \* oxygen; \* chemical reaction.

(Candidates are required to explain the listed elements above.

1½ marks for each correctly listed element. 1 mark for correct and complete explanation. Sub-total per term: 2½ marks. Grand Sub-Total: 10 marks)

14. Explain the term:

- excess (4 marks);
- aggregate deductible (6 marks).

**Solution**

a. **Excess:** Excess reliefs the insurer from liability to pay the specified (first) amount otherwise payable under the policy (2 marks), even though the particular event gives rise to a claim admissible in the terms of the policy (2 marks). (Sub-Total: 4 marks)

b. **Aggregate Deductible:** an insured with a substantial deductible included within their policy may suffer several losses (2 marks). They usually look to protect their balance sheet and choose an aggregate deductible above which their trading position would be seriously affected (2 marks). This aggregate deductible imposes an upper limit on the amount they will pay in any period of insurance (2 marks). (Sub-Total: 6 marks)

(Grand Total: 10 marks)

## Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15.

S/No	Item Description	Sum Insured (₦)	Basis of Cover
1	Building	22,500,000.00	Reinstatement day one 15%
2	Machinery, plants, fitting and fixtures	11,250,000 declared value	Reinstatement day one 15%
3	Stocks & materials in trade	9,000,000.00	Indemnity

The above table shows the sum insured stated in the schedule and ₦10,000.00 excess applies. The insurer admits liability under the terms of the policy. However, it is found that some of the items in the policy schedule are under-insured.

The under insured items are:

Machinery, plants, fitting and fixtures: ₦12,000,000.00

Stocks and Materials in Trade: ₦13,500,000.00

The insured submitted a claim for the following values:

Building Repair: ₦5,250,000.00

Machinery, plants, fitting and fixtures: ₦750,000.00

Stocks and Materials in Trade: ₦3,600,000.00.

Outline what the adjusted loss settlement to be under the policy, with stated justification(s).

### Solution

The adjusted loss settlement under the policy should be:

(i) The **Building** is not under insured (2 marks). Since cover is on reinstatement basis (2 marks), provided there is no betterment, the repair cost of ₦5,250,000.00 should be paid in full (2 marks).

(Sub-Total: 6 marks)

(ii) **Machinery, plants, fitting and fixtures**: There is under insurance (2 marks) so pro-rata condition of average applies (2 marks)

$\frac{\text{Declared Value} \times \text{Claim}}{\text{Sum Insured}}$  (2 marks)

$$= \frac{11,250,000}{12,000,000} \times 750,000 = \text{₦}703,125.00 \quad (2 \text{ marks})$$

(Sub-Total: 8 marks)

(iii) **Stocks and Materials in Trade**: there is under insurance (2 marks) so pro-rata condition of average applies (2 marks)

$\frac{\text{Sum Insured} \times \text{Claim}}{\text{Value}}$  (2 marks)

$$\frac{9,000,000}{13,500,000} \times 3,600,000 = \text{₦}2,400,000.00 \quad (2 \text{ marks})$$

(Sub-Total: 8 marks)

(iv) Total Loss Payable		
Building:	₦ 5,250,000.00	(1 mark)
Machinery, plants, fitting and fixtures:	₦ 703,125.00	(1 mark)
Stocks and Materials in trade:	₦ 2,400,000.00	(1 mark)
Sub-Total:	₦ 8,353,000.00	(1 mark)
Less Policy Excess:	₦ 10,000.00	(2 marks)
Total Liability Amount Payable:	₦ 8,343,125.00	(2 marks)

(Sub-Total: 8 marks)

(Grand Total: 30 marks)

16. (a) When fighting a fire outbreak, there are several types of extinguishers that can be used. Each type is good for certain types of fire. In a tabular form, state four (4) of the most common type of extinguishers and explain on the next column what type of fire it can be used on. (18 marks)
- (b) Fire alarm can be split into three categories. Enumerate and explain these three (3) categories. (12 marks)

### Solution

- (a) The most common type of extinguishers and the type of fire it can be used on are as tabulated below:

Extinguisher Type	What is Can be Used on
Water	For use on solids of an organic nature such as wood, paper and fabrics.
Foam	For use on burning liquid fires as well as solids especially those that turn to liquid when they burn.
Carbon Dioxide (CO <sub>2</sub> )	For electrical fires and fires involving burning liquids in their early stages.
Dry Powder	For burning liquid and electrical fires; may also be used on solids to subdue for a short period.
Wet Chemical	For use on fires involving extremely high temperatures such as fires in deep fat fryers; may also be used on combustible materials such as wood paper and fabrics.

(Candidates are required to put the above in a table. 2 marks for putting in a table. 2 marks for each correctly stated extinguisher type; 2 marks for each/any correctly stated use. Sub-total per extinguisher type: 4 marks. Grand Sub-Total per extinguisher type: 4 marks. Maximum of 4 to be graded. Grand Sub-Total: 18 marks)

- (b) The categories that fire alarm can be split into are as enumerated and explained below:
- (i) **Manual Alarms:** these may include a bell or siren and require a person to activate and maintain their signaling. Problems with these include limited audible range, possible difficulty in accessing the alarm if the fire is in the proximity and danger to the person activating the alarm. These are very rarely seen these days.
- (ii) **Manual/Electric Alarms:** these also require someone to activate the alarm, but the advantage over the manual alarm is that once they have been activated, the alarm will continue to sound over the whole premises. Activation is by 'break glass' call points situated at strategic points throughout the building. The alarm is electrically powered. Any form of manually-operated alarm is provided for evacuation purposes, but such alarms can be linked to provide a signal to the fire brigade via the central station. The need and location for fire alarms should be addressed in the

fire risk assessment. The disadvantage with such an alarm is that they offer no protection when the premises are unoccupied as they rely upon human activation.

**(iii) Automatic Fire Alarms:** these are designed to indicate the presence of fire in buildings the moment an outbreak occurs. Unlike a sprinkler installation, automatic fire alarms perform no function in extinguishing a fire. Therefore, their success is entirely dependent on the speed of the response and the efficiency of the firefighting. For this reason, variations of the discounts allowed by insurers in respect of automatic fire alarms are related primarily to the probable time of the first attendance by the public fire brigade.

**(2 marks for each correctly stated type. 2 marks for any correct and completely stated explanation. Sub-total per type: 4 marks. Grand Sub-Total: 12 marks)**  
**(Grand Total: 30 marks)**

17. (a) Cyber insurance has been available in the market for years, though cover has evolved considerably over that time. Most composite insurers now offer a specific cyber cover solution and there are also a number of specialist providers in the market. Enumerate any five (5) typical cover under cyber insurance and stated the type of risk being covered under each. **(20 marks)**

(b) Concisely list four (4) underwriting considerations that are reviewed by specialist underwriters when assessing cyber risks. **(10 marks)**

**Solution**

(a)

S/No	Typical Cover	Risk(s) Covered
1	Data breach liability	for personal and corporate data
2	Data breach costs	including notification costs and IT forensic costs
3	Network security liability	for hacked or compromised systems including denial of service attacks
4	Media liability	for digital publications
5	Business interruption	caused by a cyber incident
6	Restoration costs for data and programmes	resulting from a cyber business interruption event
7	Crisis communication	to mitigate reputational damage
8	Hacker theft cover	based upon theft of funds
9	E-payment liability	including some fines and penalties

**(2 marks for each correctly stated typical cover. 2 marks for any correctly stated risk covered. Sub-Total per cover: 4 marks. Maximum of 5 to be graded. Grand Sub-Total: 20 marks)**

(b) The underwriting considerations that are reviewed by specialist underwriters when assessing cyber risks are:

- security of the internet connection;
- security of devices and software;
- controls over access to data and services;
- protections in place against viruses and other malware;
- procedures to ensure devices and software are kept up to date; and
- business continuity planning, including backup and disaster recovery procedures.

(2½ marks for each correctly stated consideration. Maximum of 4 to be graded. Grand Sub-Total: 10 marks)  
(Grand Total: 30 marks)

18. (a) Explain three (3) objectives of a risk survey. (9 marks)  
(b) Each survey report has some contents/headings. State and comment on any seven (7) contents/headings of a business interruption survey report. (21 marks)

### Solution

- (a) The objectives of a risk survey are to:
- provide an assessment of the risk;
  - offer benefits to the parties concerned;
  - suggest improvement to the commercial features of the risk;
  - develop risk management programme;
- (Candidates are required to explain any of the three above. 2 marks for correctly stated objective. 1 mark for any correct and completely stated explanation. 3 marks pper objective. Sub-Total: 9 marks)
- (b) The contents/headings of a business interruption survey report are as tabulated below:

Headings	Comments
Business Overview	Business description. What other trading locations are there and what is their dependency upon them? Number of employees and where located, use of subcontractors? Is the business seasonal? Future plans – expansion, diversifying into other markets, selling off parts of the business?
Buildings	Time required to rebuild? Will the local authority permit the rebuilding on the same site for the same purposes? If not, what is the effect of the alternatives on rebuild time? Any special need to provide extra time for planning, design, tenders and availability of materials and skills required to rebuild? Any problems likely if a listed building?
Machinery	Time to order, have made, delivered, installed and commissioned? Any problems regarding obsolescence/complexity/foreign origin? Space required for current mode of production machines if bigger than those currently used by insured? Any market in second-hand machines of type used by insured?
Stock	Are raw materials and any bought-in components used by the insured readily available or seasonal? How long to order and restock? Are ‘buffer’ stocks held?
Workforce	Likely to stay? Will re-recruitment be a problem if they leave? What about retraining (if machinery is different from current machines after replacement, for instance)?
Position in Market	Type of market they trade in? Any discernible ‘brand loyalty’ to insured? Any particular reliance on one or a small number of customers who may go elsewhere? Will they have to fight to recover their market share after an interruption?
Outwork	Is any work currently put out to other firms? Could this be done to keep up production if the insured’s premises were put out of action?
Overtime/Night	If part of the insured’s plant survives, could it be used to maintain production by shift work employees working overtime or doing night shifts? Will employees work overtime or on nights? Any seasonal variations? Is the business in any way seasonal, causing a disproportionately high level of turnover being earned in one part of the year? For example, a hotel situated in a coastal resort or a firm manufacturing and supplying Christmas stock. Clearly a loss occurring prior to a busy period could produce a disproportionately large claim.
Other premises	What are the prospects of setting up temporary premises to maintain production?

Buying in	(For example, if the insured produces a standard non-brand named product.) Could the insured buy in completed goods made by others in the same trade to sell as if they had produced them? Examples: nuts, screws, washers, nails, paperclips, household linen, crockery and cutlery. The supplier may be able to brand the goods as the insured would have done if the specifications and quality are approved by each firm.
Sum insured and maximum indemnity period	Is the cover type appropriate? For example, a manufacturer would need a gross profit insurance; an office risk would be better served by a gross fees/revenue insurance; and a property owner would need gross rentals insurance. Is the maximum indemnity period adequate (bearing in mind the information obtained earlier in the report about recovery/rebuilding times)?
IT reliance	How reliant is the business on IT? Is computer data backed up? If so, what method is used – tape, disc, remote server, cloud-based system? Frequency of backups, number of copies if in physical form. How easily can data be replicated if required?
Other comments	For example, if the business can produce goods, but at much greater cost than normal production costs, would it be advisable to add an extra sum insured on additional increased costs of working (in excess of those payable under the gross profit etc. item)? Does the business have a documented business continuity plan? If so, comment should be made on its quality and its review period. If no plan exists, the surveyor may consider this a requirement or a recommendation.

**(Candidates are NOT required to provide answers in a table. 2 marks for each correctly stated heading. 1 mark for each correct comments/explanation. Sub-Total: 21 marks)**  
**(Grand Total: 30 marks)**

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CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT I03  
INSURANCE BUSINESS AND FINANCE

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

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

I03 – INSURANCE BUSINESS AND FINANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

### **Question 1**

The question tested candidates' knowledge on ethics. Candidates were not familiar with the ethics of the profession. Most candidates wrote and discussed extensively the core values of the Institute. Majority of the candidates also wrote on unethical practices in the Nigerian Insurance Industry – Rate cutting etc. Some went ahead to educate the staff of CIIN to be upright. Pass rate was 42%.

### **Question 2**

The question tested candidates' knowledge on insurance practice at Lloyd's. Part (a), Majority of the candidates got what Lloyd's insurance practice is, and scored good mark. Part B, the concept was fairly explained but the extrapolation of claim reported in previous year was not handled too well, hence the loss of mark. Pass rate was 14%.

### **Question 3**

The responses from the candidates were not too encouraging because they were unable to give concise explanation of the discounted claims. Benefits of efficient internal communication was fairly answered. Pass rate was 33%.

### **Question 4**

The performances by the candidates were comparatively impressive. The four perspectives of the balanced score card was listed. Candidates were able to list the four perspectives. The pass rate was 82%.

### **Question 5**

The question tested candidates' understanding of reserves and also the concept of bench marking. They exhibited the knowledge of reserves as book accumulated profit plough back into business and as technical provisioning in claims. Knowledge in benchmarking was understood on the surface. The pass rate was 50%.

### **Question 6**

Candidates were asked to enumerate examples of long term business. Some candidates showed good knowledge and stated some examples of them but majority could not deliver concise answers. Pass rate was 40%.

### **Question 7**

The first part of the question tested the candidates' elementary knowledge of cash and outflow, which was well attempted. The second part was on advantages of budget and was also well attended. However, performance was poor. Pass rate was 30%.

### **Question 8**

The question sought to know the crucial responsibilities of the chief actuary and life assurance company. Well attempted with good performance. The pass rate was 75%.

**Question 9**

This question on SMART and aims of a budget committee was popular with the candidates as over 98% attempted it. However, the main purpose of the budget committee was not rendered rather candidates concentrated on writing about budget and deficit budget and variances. Pass rate was 37%.

**Question 10**

The question tested candidates' knowledge of technique used in progress of a business plan. 79% of candidates attempted this question. Overall performance was below average at 48% pass rate,

**Question 11**

The question tested candidates' knowledge on listing rules, and GDPR. Pass rate was 10%. This is ridiculously low. Lack of proper understanding of the question could be a factor for loss of marks, hence, poor results.

**Question 12**

The question tested candidates' knowledge on main steps in decision making. It appears that the process of decision making was not known to the candidates. They did not know the step to be taken in decision making. Candidates were writing on types of decision. Pass rate was 41%.

**Question 13**

The question tested candidates' knowledge of corporate governance. The question was attempted by all the candidates but performance was poor. It recorded 10% pass rate. Candidates were writing on responsibilities of Chairman and Chief Executive Officer instead of principles of corporate governance.

**Question 14**

The question tested candidates' knowledge on the difference between share capital and reserves. Candidates' performance on this question was commendable. Pass rate was 60%.

**Question 15**

The question tested candidates' knowledge of IFRS. The performance was not impressive. Most of the candidates were unable to give detailed answers. Pass rate was 24%.

**Question 16**

This is an optional question in part two (2). A good number of candidates that attempted it passed. Overall pass rate is 60.13%

**Question 17**

The question tested candidates' knowledge on the core and non-core activities. It was a general question attempted by more than 60% of the candidates, resulting in 51% pass rate.

**Question 18**

Part 1A; candidates wrote and gave items in the balance sheet. Fix asset, variable cost etc., instead of information contained in a quoted company annual accounts. Candidates did not understand the question. B part was excellently handled. Almost all candidates scored the maximum 12 marks

available, overall pass rate is 27%. The low pass rate can be attributed to failure of candidates that cannot understand why insurance companies prefer to a financial strength rating. Rather most candidates wrote on SWOT of insurance companies.

**Comments on Overall Performance:**

Overall pass rate was 53%. It was an average performance.

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

Candidates are encouraged to study their course materials ahead of time and prepare adequately for the examination.

**Part I**

**Answer ALL questions in Part I.**

**Each question carries 10 marks.**

1. Enumerate the four (4) examples of ethical practices required from a member of the Chartered Insurance Institute of Nigeria (CIIN).

**Solution**

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)**

2. (a) What/Who is Lloyds in insurance global practice? **(3 marks)**  
 (b) Concisely explain the basis for IBNR calculation. **(7 marks)**

**Solution**

- (a) Lloyds is a market **(1 mark)** where buyers and sellers of insurance meet **(2 marks)**.

**(Sub-Total: 3 marks)**

- (b) The basis of IBNR calculation is on an extrapolation of the pattern of claims reported in prior years and up to the balance sheet date **(2 marks)**. The prior year patterns are used to estimate the number of claims expected to be reported after the balance sheet date with incident dates prior to the balance sheet date **(2 marks)**. The total value of IBNR is calculated from multiplying the number of such claims by the average cost of claims **(3 marks)**.

**(Sub-Total: 7 marks)**

**(Grand Total: 10 marks)**

- 3 (a) Concisely explain the term “discounted claims”. **(4 marks)**  
 (b) Enumerate any three (3) benefits of efficient internal communication. **(6 marks)**

**Solution**

- (a) Discounted claims are claims where the amount set aside **(2 marks)** is reduced by the investment income expected to be earned in the future on the investments supporting the claims **(2 marks)**.

**(Sub-Total: 4 marks)**

- b) The benefits of efficient internal communication are:
- brings about change in the culture and structure of the business more quickly;
  - achieves a low turnover of the employees, improved motivation and mutual trust;
  - facilitates decision making, as employee participation in the decision-making process not only increases the quality of the decision but ensures better implementation;
  - encourages staff to be cooperative and innovative;
  - ensure that all relevant members of staff are helping to meet corporate objectives.
- (2 marks for each correctly stated benefit. Maximum of 3 to be graded. Sub-Total: 6 marks)**  
**(Grand Total: 10 marks)**

4. (a) Concisely explain the term “unearned premium”. **(2 marks)**  
 (b) The balanced scorecard is an approach that measures an organisation’s performance by looking at its activities from four perspectives. List these four (4) perspectives. **(8 marks)**

**Solution**

(a) Unearned Premium Reserves (UPR) is the reserve specifically made from the proportion of premium **(1 mark)** that relates to the unused period of cover **(1 mark)**. **(Sub-Total: 2 marks)**

- (b) The four perspectives of the balanced scorecard are:
- \* internal perspective;
  - \* learning and growth perspective;
  - \* customer perspective;
  - \* financial perspective.
- (2 marks for each correctly stated perspective. Sub-Total: 8 marks)**  
**(Grand Total: 10 marks)**

5. (a) Explain the term “reserves”. **(3 marks)**  
 (b) What is benchmarking and how can an organisation’s growth be measured with focus on the term “benchmarking”? **(7 marks)**

**Solution**

(a) Reserves are the accumulated profits of business **(2 marks)** that have been reinvested into the business **(1 mark)**. **(Sub-Total: 3 marks)**

- (b) Benchmarking is a process that allows a company to compare its own progress with that of a comprehensive standard. **(3 marks)**  
 A company’s growth can be measured against the growth of the nation’s economy as a whole **(2 marks)** or against another organisation operating in the same industry **(2 marks)**.  
**(Sub-Total: 7 marks)**  
**(Grand Total: 10 marks)**

6. Enumerate any five (5) examples of long-term businesses.

**Solution**

The examples of long-term business are:

- \* life assurance;
- \* critical illness;
- \* unit-linked investments;
- \* annuity businesses;
- \* pension fund management;
- \* endowment savings and assurance contracts.
- \* permanent health;

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

7. (a) Mosun Industry Limited had the following in its Cash Flow Statement for the Year ended 31/12/2022
- |  |               |
|--|---------------|
| Net Increase in Cash and Cash Equivalents              | ₦1,000, 00000 |
| Cash and Cash Equivalents at the beginning of the Year | ₦x            |
| Cash and Cash Equivalents at the End of the Year       | ₦1,500,000.00 |
- What was the value for Cash and Cash Equivalents at the beginning of the Year? (show your calculations). (4 marks)
- (b) Enumerate any three (3) advantages of budgeting. (6 marks)

**Solution**

Cash and Cash Equivalents at the beginning of the Year =  
 Cash and Cash Equivalent at the End of the Year – Net Increase in Cash and Cash Equivalent (2 marks)

= ₦1,500,000.00 - ₦1,000,000.00 (2 marks)

= ₦500,000.00 (1 mark)

**(Sub-Total: 4 marks)**

- (b) The advantages of budgeting are:
- unification effort
  - planning
  - financial awareness
  - basis of comparison
- (2 marks for each correct and completely stated advantage. Maximum of 3 to be graded. Sub-Total: 6 marks)**  
**(Grand Total: 10 marks)**

8. The Chief Actuary may be appointed in a life insurance company. Enumerate any four (4) crucial responsibilities of the Chief Actuary.

**Solution**

The crucial responsibilities of the Chief Actuary in a life insurance company are:

- technical pricing of new products;
  - technical pricing of existing products;
  - calculation of claims reserves;
  - calculation of risk-based capital requirement;
  - calculation of investment risks for funds supporting technical reserves;
  - calculation of technical reserves.
- (2½ marks for each correct and completely stated responsibility. Maximum of 4 to be graded. Total: 10 marks)**

- 9) (a) What is the meaning of SMART? (2½ marks)
- (b) Enumerate any three (3) main aims of a budget committee. (7½ marks)

**Solution**

- (a) SMART means **S**pecific; **M**easurable; **A**chievable; **R**elevant and **T**ime-Bound/Defined (½ mark for each correctly stated meaning. Sub-Total: 2½ marks)
- (b) The aims of a budget committee are to ensure that budgets:
- conform to the policies of the master budget;
  - show how departmental objectives are going to be achieved;
  - recognise any constraints under which the department is working;
  - are realistic;
  - reflect the financial responsibilities of the department concerned.

**(2½ marks for each correct and completely stated aim. Maximum of 3 to be graded. Sub-total: 7½ marks)**  
**(Grand Total: 10 marks)**

10. (a) List and briefly explain any five (5) techniques that can be used to monitor progress against a business plan.

**Solution**

The techniques that can be used to monitor progress against a business plan are:

- \* management accounting;                      \* budgeting;                      \* critical success factors;
- \* key performance indicators;                \* key risk indicators;           \* balanced scorecards;
- \* benchmarking;                                \* management by objectives

**(Candidates are required to briefly explain any listed technique. 1 mark for each correctly listed technique. 1 mark for correct and complete explanation. Maximum of 1 explanation to be graded under each listed technique. Sub-Total per technique: 2 marks. Maximum of 5 techniques to be graded. Total: 10 marks)**

11. (a) What do the “listing rules” dictate? **(6 marks)**  
(b) Under the GDPR, what are the obligations on an organisation upon receipt of a data subject access request? **(4 marks)**

**Solution**

(a) The Listing Rules dictate such matters as the contents of the prospectus for a company seeking a listing for the first time, and on-going obligations such as the disclosure of price sensitive information, and communications on new share offer, rights issues, and potential or actual takeover bids for the company.

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

(b) When an organisation receives a data subject access request, the organisation is required to respond without delay: **(2 marks)**, within one month **(1 mark)** and cannot charge an administration fee **(1 mark)**.

**(Sub-Total: 4 marks)**

**(Grand Total: 10 marks)**

12. What are the four (4) main steps in decision-making?

**Solution**

The four main steps in decision-making are:

- (i) understanding why a decision must be taken;
- (ii) prior consideration and discussion of the options available;
- (iii) taking the most appropriate decision;
- (iv) review.

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

13. Enumerate any four (4) commonly adopted principles for Corporate Governance.

**Solution**

The commonly adopted principles for corporate governance are:

- company should respect shareholder rights and help shareholders to exercise them;
- companies should recognize they may have obligations to other shareholders;
- the board needs the skill and understanding to review and challenge management performance;
- company should develop a code of conduct for their directors and managers;

- companies should make public their roles and responsibilities of the Board and management to provide shareholders with a level of accountability;
  - companies should have procedures to independently verify their financial reporting.
- (2½ marks for each correct and completely stated principle. Maximum of 4 to be graded. Total: 10 marks)

14. Differentiate between “share capital” and “reserves”.

**Solution**

In share capital limited liability businesses can sell shares in order to raise long-term finance. The amount raised is always owed to the business’s shareholders. (5 marks). In reserves, businesses often raise the necessary finance required to expand their operations by using the profits they have created from previous trading period. Reserves are the accumulated profits of the business. (5 marks) (Grand Total: 10 marks)

**Part II**

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) (i) What is IFRS? (2 marks)
- (ii) Enumerate any three (3) types of risks that an insurance firm has zero tolerance for losses occurring on such risks. (6 marks)
- (b) Enumerate the area of insurance business management where IFRS is relevant? (2 marks)
- (c) Outline briefly the underlying assumptions used in IFRS when preparing any financial accounts. (20 marks)

**Solution**

- (a) (i) International Financial Reporting Standard (2 marks)
- (ii) The types of risks that an insurance firm has zero tolerance for losses occurring on such risks are:  
 \* insurance risks; \* investment risks; \* credit risks; \* operational risks.  
 (2 marks for each correctly stated risk. Maximum of 3 to be graded. Sub-Total: 6 marks)

(b) IFRS is relevant in the area of finance/accounting (2 marks) in insurance business management. (2 marks)

- (c) The underlying assumptions used in IFRS are:
- **Accrual Basis:** the effect of transactions and other events are recognized when they occur, not as cash is received or paid.
  - **Going Concern:** the financial statements are prepared on the basis that an entity will continue in operation for the foreseeable future. if management has significant concerns about the entity’s ability to continue as a going concern, the uncertainties must be disclosed. If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going-concern basis, in which case International Accounting Standard 1 requires a series of disclosures.  
 (5 marks for each correctly stated assumption. 5 marks for each correct and completely stated explanation under each assumption. Maximum of 1 explanation per assumption to be graded.  
 Total per assumption: 10 marks. Grand Sub-Total: 20 marks)  
 (Grand Total: 30 marks)



16. (a) Outline the distinctions between financial and management accounting in the areas of structure and sources. **(10 marks)**
- (b) Enumerate any ten (10) responsibilities of the Financial Director of a finance organisation. **(20 marks)**

### **Solution**

Financial accounting involves the day-to-day recording of the company's transactions and presenting this information in financial statements for external consumption for those outsiders who have an interest in the company. It is highly structured around the accounting equation and has to comply with legal and regulatory requirements. The information has to be prepared using a framework which enables stakeholders to compare the company's performance from one year to the next and also against other companies in the sector.

Management accounting can be formulated in different ways to suit many purposes. As well as using the source day-to-day transactional data captured for financial accounting information, management accounting will also incorporate a variety of other different information sources to enable managers to fulfil their responsibilities.

**(2½ marks for each correct and completely stated distinction. Maximum of 2 per term. Total per term: 5 marks. Sub-Total: 10 marks)**

- (b) The responsibilities of the Financial Director of a finance organisation are:
- the economic capital model to assist in the determination of the appropriate level of capital for the organisation to hold;
  - stress and scenarios testing to assist in the determination of the amount of extreme risk the organisation may be subject to;
  - proposals to the board on the form of capital to hold in addition to equity capital, such as subordinated debt;
  - preparation of papers for the board to assist in the determination of the appropriate level of dividend to pay to shareholders;
  - making recommendations to the board on the appropriate level of claims provisions to hold;
  - preparation of the statutory accounts of the company for the approval by the board and shareholders;
  - making presentations to, and managing the relationships with, the investment analysts who prepare reports on the organisation's performance and holders of the organisation's debt;
  - preparation of the financial information required by the regulator and be one of the main contracts the regulator has with the organisation;
  - preparation of the management information, such as leading indicators of financial performance, for the executive team and the Board;
  - management of debt, cash flow, liquidity and treasury matters;
  - management of the investment portfolio;
  - management of the financial aspects of the planning process, the budgetary process and the forecast process;
  - preparation for the reviews by rating agencies;
  - preparation and planning for the statutory external audit conducted by the independent auditors;
  - management of the reinsurance accounting process.

**(2 marks for each correct and completely stated responsibility. Maximum of 10 to be graded. Sub-total: 20 marks)**  
**(Grand Total: 30 marks)**

17. (a) Enumerate any
- (i) five (5) core activities of an insurer. **(5 marks)**
  - (ii) ten (10) non-core activities of an insurer. **(10 marks)**
- (b) Explain any three (3) each of both a (i) and a (ii). **(15 marks)**

**Solution**

- (a) (i) The core activities of an insurer are:
- (i) underwriting; (ii) enterprise risk management; (iii) claims management;
  - (iv) investment and related functions; (v) compliance management;
  - (vi) compliance with AML/CFT requirements.
- (1 mark for each correctly stated activity. Maximum of 5 to be graded. Sub-Total: 5 marks)**

- (ii) The non-core activities of an insurer are:
- (i) sales of insurance policies and ancillary services relating to those sales;
  - (ii) reinsurance cession;
  - (iii) independent advisory and consultancy services;
  - (iv) loss adjusting services; (v) independent audit review;
  - (vi) medical examination by assigned medical and health clinics and centres;
  - (vii) market information services; (viii) purchase of goods and commodities;
  - (ix) repair and maintenance of fixed assets;
  - (x) maintenance and support of licensed software;
  - (xi) specialised recruitment and procurement of specialised training;
  - (xii) employment of contract or temporary personnel;
  - (xiii) common network infrastructure; (xiv) banking services;
  - (xv) printing services; (xvi) transportation services;
  - (xvii) mail and courier services; (xviii) cleaning services;
  - (xix) utilities and telephones.
  - (xx) any other services as the Commission may from time to time prescribe.
- (1 mark for each correctly stated activity. Maximum of 10 to be graded. Sub-Total: 10 marks)**

**(Sub-Total – 30 mark)**

- (b) **Candidates are required to explain any three of the activities from both a (i) and (ii) above. 2½ marks for each correct and complete explanation of the activity. Sub-Total: 15 marks)**  
**(Grand Total: 30 marks)**

18. (a) Concisely enumerate any three (3) information included in the accounts of quoted companies. **(6 marks)**
- (b) List six (6) stakeholders interested in financial information in a quoted company. **(12 marks)**
- (c) (i) What are rating agencies? **(3 marks)**
- (ii) Enumerate any three (3) main reasons why insurance organisations choose to have a financial strength rating conducted on them. **(9 marks)**

**Solution**

- (a) The information included in the accounts of quoted companies are:
- narrative reports from the chairman and chief executive, giving an overview of the governance, activities and performance of the company in the previous period;

- a strategic report setting out the strategy, business model, a fair review of the business, e.t.c.;
- the financial accounts for the period including the balance sheet, income statement and cash flow position;
- other legal requirements such as details of directors' remunerations.  
(2 marks for each correct and completely stated information. Maximum of 3 to be graded. Sub-Total: 6 marks)

- (b) The stakeholders interested in financial information in a quoted company are:
- \* owners; \* directors and managers; \* employees; \* regulators;
  - \* tax authority; \* creditors/lenders; \* competitors; \* financial analysts;
  - \* brokers; \* general public; \* customers.
- (2 marks for each correctly stated stakeholder. Maximum of 6 to be graded. Sub-Total: 12 marks)

- (c) (i) Rating agencies are organisations that are paid by large insurance companies (1 mark) to provide an opinion of the insurance company's financial strength (1 mark), which is a measure of the insurance company's ability to pay claims under the insurance contract or policies they offer (1 mark).  
(Sub-Total: 3 marks)

- (ii) The main reasons why insurance companies prefer to have a financial strength rating are:
- it demonstrates to policyholders that a third party has measured is the likelihood of them meeting their financial commitments;
  - it allows for financial strength comparisons between different insurers;
  - it should allow an extremely strong insurers to charge higher premium or be offered a wider range of businesses;
  - brokers and customers can decide on their risk appetite by choosing the financial strength rating that they prefer for their insurance carriers.

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

(Grand Total: 30 marks)

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SUBJECT I04  
BUSINESS AND ECONOMICS

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## I04 – BUSINESS AND ECONOMICS

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

### **Question 1**

The question tested candidates' knowledge of the regulatory environment of insurance industry. Almost all the candidates attempted the question. The pass rate was 98% and is quite encouraging.

### **Question 2**

The question tested the candidates' knowledge of the economics concept of merits goods and public goods. It's a course book question but achieved a pass rate of 50%. This further attested to candidates' weak preparation.

### **Question 3**

The question tested the candidates' knowledge of protection policy in international trade. This is a course book question. The pass rate was 60%. While this is encouraging, the candidates need to be closer to their course books and prepare better.

### **Question 4**

This question tested the candidates' knowledge of the influence or effect of petroleum on the economy of Nigeria. As expected, the pass rate was 90% indicating the candidates good understanding of their economic environment.

### **Question 5**

The question was to test the knowledge of candidates on source of revenue for the government. Pass rate was 66%. This is a good performance but it can be improved upon.

### **Question 6**

This question recorded 69% pass rate. This is an indication that most of the candidates understood the question asked on inflation and economics.

### **Question 7**

The question is about knowledge of money and the motives for holding money. 61% of the candidates failed this question. This shows that most of them do not understand the question, 39% pass rate is not good enough, and more effort should be put into enlightening the candidates.

### **Question 8**

This question tests the knowledge of candidates on definition of different tax systems. Pass rate was 48% passed. More work needs to be done to improve performances.

### **Question 9**

This question tested the candidate's knowledge of the working of the monetary policy function of the CBN. It was attempted by almost all the candidates but recorded 48% pass rate.

### **Question 10**

The question tested the candidates' knowledge of the theory of firm and production management. The pass rate was 50%. This is a coursebook question that attested to candidates' poor or inadequate preparation.

**Question 11**

Just as question (10) above, this question also tested the candidates' knowledge of the theory of markets and competition. The pass rate was 55%. The coursebook question was not adequately mastered by the candidates.

**Question 12**

The Examiner tested candidates on the concept of national income and the method for its estimation. The attempt was good (about 90%), but pass rate was 53%. Most of the candidates were able to define the term "national income" but could not enumerate how it can be estimated. Reason for low performance could be attributable to lack of adequate preparation. Answers supplied by many candidates are not related to the expected answer. Adequate preparation is recommended for improved performance.

**Question 13**

The question was intended to test candidate knowledge about currency devaluation, and ways through which currency devaluation favors the economy of a producing county. Attempt was good (about 85%), but pass rate was 60%. Most of the candidates used residual and general knowledge. Their approach to the question indicated that many candidates did not study their coursebooks. Candidates are advised to prepare more adequately and ensure that they cover every aspect of the syllabus.

**Question 14**

The question tested candidates' knowledge about VAT, WHT, NAFTA, SAFTA and SWOL. This is a straight forward textbook question, and it was expected that candidates will find it much easier. Attempt was about 90% but achieved 58% pass rate. Many candidates could not state the full meaning of NAFTA and SAFTA. Also, it was highly disappointing that many candidates were just guessing the meaning of VAT & WHT. They are advised to study more adequately future examinations.

**Question 15**

The question was generally testing the candidates' knowledge of some basic risk management and funding terms. This was poorly attempted by the candidates. While over 90% of the candidates attempted the question (which is optional) only about 40% of them passed.

**Question 16**

Question 16 was avoided by the majority of the candidates. Performance was poor and pass rate was 14.28% It is a clear indication that the candidates did not understand the question, hence more still need to be done on this particular topic area.

**Question 17**

The question which is optional, tries to test the candidates' knowledge of the effect of the Macro Economic concepts on the insurance industry. The question is well attempted by over 75% of the candidates with a pass rate of 90%. This is quite encouraging.

**Question 18**

The question tested candidates' knowledge of monetary policy and how it come into cooperation, the basic techniques of monetary policy as well as advantages and disadvantage of a floating exchange rate. The question was optional. The attempt was about 55%, but the performance was good with 65% pass rate. Most of the answers provided were not correlated to the question. Candidates were just literally explaining the terms. Candidates should note that the only way to perform excellently on this type of examination is to prepare adequately.

**Comments on Overall Performance**

Overall performance was 68% pass rate. This is a good performance. Majority of the candidates demonstrated a good understanding of the course contents.

**Suggestions on Improvements (if any)**

It is very important for the candidates to be closer to the coursebook, since over 80% of the course content is covered by the coursebook.



**Part I****Answer ALL questions in Part I.****Each question carries 10 marks.**

1. (a) Who regulates the insurance industry in the country that you are writing this examination? **(2 marks)**
- (b) State the trade association for insurers, brokers, loss adjusters and agents respectively in the country's insurance industry. **(8 marks)**

**Solution**

- (a) National Insurance Commission (NAICOM) **(2 marks)**
- (b) 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 Total: 10 marks)**

2. Explain the terms "public goods" and "merit goods" Give two (2) examples of each.

**Solution**

**Public Goods** are types of goods and services that might be inadequately provided by the private sector but whose benefits are for the good of the general society. They cannot be attributed directly to individuals, since they benefit the whole population. This means that individual 'users' cannot easily be charged for them through the pricing system. Thus, the State normally intervenes to provide these types of goods and funds them from tax revenues. **Examples are** defense, the police forces, prison services, Fire services, public schools, public roads, hospitals.

**Merit Goods** are goods and services provided by private individuals and organisations and can be directly charged to them. Examples of Private goods are private schools, private health services, transport services, gas services, water services.

**(2 marks for two correct and complete explanation of each term. 1½ marks for each correctly stated example.****Maximum of 2 examples to be graded. Total for each term: 5 marks. Grand Total: 10 marks)**

3. Enumerate any four (4) reasons for protection policies in international trade.

**Solution**

The reasons for protection policies in international trade are to:

- \* protect domestic producers;                      \* prevent dumping;                      \* protect infant industries;
- \* protect strategic industries                      \* reduce imports
- \* improve balance of payments position.

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

4. List five (5) positive and five (5) negative contributions of petroleum to an oil producing economy like Nigeria.

**Solution**

S/No	Positive Contributions	Negative Contributions
1	Source of government revenue	Environmental pollution
2	Generation of employment	Increased social vices like corruption and quest for quick money in the society
3	Infrastructural development	Destruction of other sectors of the economy such as agriculture
4	Source of foreign exchange	Rural-urban migration
5	Establishment of oil related industry	High inflation rate
6	Major source of energy use in the country.	Political instability
7		Economic instability.

(1 mark for each correctly stated contribution. Maximum of 5 under each heading to be graded. Total: 10 marks)

5. List any five (5) main sources of revenue to any Government.

**Solution**

The main sources of revenue to any Government are:

- \* taxes;
  - \* loans;
  - \* grants and aids;
  - \* license;
  - \* savings;
  - \* rents and rates;
  - \* fees, fines and royalties;
  - \* earnings from government investments
- main sources of revenue to any Government.

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

6. Briefly differentiate between:

- (a) cost-push inflation and demand-pull inflation;
- (b) microeconomics and macroeconomics.

**Solution**

(a) Cost-push inflation is the general rise in prices caused by a general increase in the cost of production or the cost of the factors of production (2½ marks); while demand-pull inflation is the general rise in price levels due to an increase in levels of demand for goods and services (2½ marks).

(b) Microeconomics is the study of the small units or parts of the economy it focuses on individuals, families, single firms or business units (2½ marks); while macroeconomics is the study of the national economy or the economy of the State or the country as a whole (2½ marks). It is the aggregation of the various microeconomics of the country

(Grand Total: 10 marks)

- 7. (a) Define money. (1 mark)
- (b) List and briefly explain the three (3) motives for holding money. (9 marks)

**Solution**

(a) Money is a medium of exchange in form of notes and coins, bank and building society accounts (from which payments may be made by using cheques or debit cards), and bank and building society savings accounts (which represent a store of wealth that can be easily accessed and converted into 'spendable' form without risking a capital loss). (1 mark)

(b) The motives behind holding money are:

- \* transactionary;
- \* speculative; and
- \* precautionary.

**Transactionary Motive** refers to the holding or demand for money for the purpose of buying goods and services.

**Speculative Motive** refers to the holding of money to take advantage of uncertainties in the market.

**Precautionary Motive** refers to holding money for the purpose of unforeseen circumstances (for caution).

(2 marks for each correctly stated motive. 1 mark for each correct explanation. Sub-Total per motive = 3 marks. Grand Sub-Total 9 marks)

(Grand Total: 10 marks)

8. Briefly explain the following terms:

- |                       |                      |
|-----------------------|----------------------|
| (a) flat rate tax;    | (b) progressive tax; |
| (c) proportional tax; | (d) regressive tax.  |

**Solution**

(a) **Flat Rate Tax:** exists where every taxable citizen pays equal amounts of tax.

(b) **Progressive Tax:** exists where higher income earners pay higher rates than low-income earners.

(c) **Proportional Tax:** exists where all the taxable persons pay the same percent of their income as tax e.g. 10% flat.

(d) **Regressive Tax:** exists where low-income earners pay higher percentage of their income as tax than high income earners.

(2½ marks for each correct and complete explanation. Grand Total: 10 marks)

9. Enumerate any four (4) effects of the monetary policy of the Federal Government on the insurance industry.

**Solution**

The effects of the monetary policy of the Federal Government on the insurance industry are:

- the amount of investment income that an insurance company can earn from premiums;
- consumers' spending habits and their demand for insurance;
- commercial customers' spending habits and demand for insurance;
- levels of competition — the higher the interest rates, the more eager insurance companies are to write premium income and gain market share;
- the cost of reinsurance — the higher the interest rates, the higher the investment income earned on the cedant's premium before the claims are paid. In turn, this translates into lower reinsurance costs for the cedant.

(2½ marks for each correct and complete explanation. Maximum of 4 to be graded. Grand Total: 10 marks)

10. Explain the meaning of “average revenue” and “marginal revenue” in words and with symbols.

**Solution**

**Average Revenue (AR)** is the revenue of a unit of output and so can be found simply by dividing a firm's total revenue (TR) by the level of output (Q). (2 marks)

**Marginal Revenue (MR)** is the change in total cost (TR) caused by a one-unit change in the level of output. (2 marks)

**Using symbols**, we can define average revenue and marginal revenue as follows:

$$AR = TR/Q \quad (2 \text{ marks}) \qquad MR = \Delta TR / \Delta Q \quad (2 \text{ marks})$$

where  $\Delta Q$  represents a (unit) change in output. (2 marks)

**(Grand Total: 10 marks)**

11. (a) The perfect competition model is based on four (4) certain assumptions. State any three (3) of these four (4) assumptions. (6 marks)
- (b) Monopoly sometimes do have advantage over the perfect competition. State and explain any two (2) of such advantages. (4 marks)

**Solution**

(a) The assumptions of the model of perfect competition are that:

- (i) there are many small buyers and sellers such that no individual buyer or seller can influence the market price;
- (ii) there is complete freedom of entry into and exit from the industry — in particular, there are no barriers to entry;
- (iii) there is perfect knowledge among buyers and sellers, so that all market participants know the prices and quality of the goods being produced;
- (iv) the good being produced by all the firms in the industry is homogeneous - i.e., there are no brand loyalties and no way of distinguishing between the product of one firm and that of any other firms.

**(2 marks for each correct and completely stated assumptions. Maximum of 3 to be graded. Sub-Total: 10 marks)**

(b) The advantages that monopoly has over perfect competition are:

- (i) monopolies are likely to be large firms that can benefit from economies of scale. Cost savings gained might be passed on to the consumer in lower prices;
- (ii) the relatively large profits made by monopolies, which can persist into the long run because of barriers to entry, may allow them to invest heavily in research and development which could lead to innovation;
- (iii) competition might lead to firms aiming at the lowest common denominator. For example, some people believe that a wider choice of television channels operated by an increasing range of television companies is not improving choice or quality.

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

**(Total: 10 marks)**

12. (a) What is national income? (4 marks)
- (b) Enumerate the three (3) techniques/methods for national income estimation. (6 marks)

**Solution**

(a) National income is the aggregates of all incomes over nationals (home and abroad) (2 marks) of a country for particular period of time usually a year (2 marks). (Sub-Total: 4 marks)

- (b) The three (3) techniques/methods for national income estimation are:  
 (i) income method; (ii) output method; (iii) expenditure method.  
**(2 marks for each correct technique/method. Sub-Total: 6 marks)**  
**(Total: 10 marks)**

13. (a) Explain the meaning of currency devaluation, with an explicit example. **(4 marks)**  
 (b) Explain any two (2) ways through which currency devaluation favours the economy of a “producing country”? **(6 marks)**

**Solution**

(a) Currency devaluation the term used to describe the act when a government decide to reduce the value of the country’s currency in terms of other currencies by an act of policy e.g., when the Nigerian Naira is devalued against other currencies by it exchanging at a lower rate than what it was before.

**(3 marks for correct explanation. 1 mark for correctly stated example. Sub-Total: 4 marks)**

(b) Currency devaluation favour the economy of a “producing country” as follows:

- it can increase the exports when it becomes cheaper;
- it can encourage higher production when exports are increased;
- it improves employment when production increases.

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

**(Grand Total: 10 marks)**

14. (a) Differentiate between value-added tax (VAT) and withholding tax (WHT). **(6 marks)**  
 (b) State the full meaning of the following international organisations:  
 (i) NAFTA; (ii) SAFTA. **(2 marks)**  
 (c) In business strategic analysis, give the full meaning of SWOT. **(2 marks)**

**Solution**

(a) Withholding tax (WHT) is an advance payment of income tax. It is meant to bring the prospective taxpayer to ‘Tax Net’. It helps to widen to tax base; while value-added tax (VAT) is a consumption tax payable on goods and services that are ‘VATable’ or to which VAT is applicable

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

- (b) (i) NAFTA: North American Free Trade Agreement **(1 mark)**  
 (ii) SAFTA - South Asian Free Trade Area **(1 mark)**

- (c) (i) **S – Strength; W – Weakness O - Opportunity T - Threats**  
**(2 marks)**

**(Grand Total: 10 marks)**

## Part II

Answer TWO (2) out of the following FOUR (4) questions.  
Each question carries 30 marks.

15. Comprehensively write on the following:

- |                                    |                                      |
|------------------------------------|--------------------------------------|
| (i) Risk Officer (CRO); (10 marks) | (ii) Corporate Governance; (8 marks) |
| (iii) Crowd Funding; (6 marks)     | (iv) Mortgage; (4 marks)             |
| (v) Syndicated Loans. (2 marks)    |                                      |

### Solution

(i) **Chief Risk Officer (CRO):** Who, along with the CEO, shares the responsibility of risk management? The common practice is to have a risk leadership team which usually forms members of a Risk Committee comprising the head of each major function. The head of such a committee might be a non-Executive Director or in some cases a Chief Risk Officer (CRO). Typically, a CRO or equivalent will need to show:

- responsibility for developing ERM with adequate policies and processes for managing risks at all levels of the firm;
- an adequate knowledge on the quantitative side of risk management; and
- an understanding of the behavioural aspects of risk.

Challenges that the CRO will have to overcome include:

- promoting a risk awareness and ownership culture throughout the firm; and
- reporting to the board of directors (most of whose members often do not have a technical knowledge of the risks) through the Financial Director or equivalent or the Chief Executive depending on the specific structure of the firm. The Board of Directors is, by regulation, responsible for all risks of the firm.

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

(ii) **Corporate Governance:** Corporate governance relates to the selection and conduct of senior officers of a company and their relationship with stakeholders including investors and employees. It is the way organisations govern themselves. Associated with it is the legal regulation of business which is a complex and extensive matter. The relationship between directors and stakeholders is increasingly difficult to manage and there have been many examples of corporate scandals in recent times. The three theories of the behaviour of a firm are agency, stewardship and resource dependency. Quite different conclusions as to the role of directors arise from these theories and therefore appropriate corporate governance.

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

(iii) **Crowd Funding:** Crowd funding involves raising money by asking for contributions from a large number of people, usually via the web. Online platforms have been established that enable businesses to seek funding from individuals and professional investors. Cost and risk reduction are critical factors that influence businesses to select the appropriate source of finance.

Risk is reduced by selecting finance to match the duration and currency of the asset it is financing.

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

**(iv) Mortgage:** a mortgage is a source of long-term finance to purchase both residential and commercial property. There are different types of mortgage available (e.g. fixed rate, discounted, tracker etc.) and the fluctuation of interest rates may have significant implications for the payment schedule.

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

**(v) Syndicated Loans:** In order to support large and risky businesses several banks arrange and administer structured loans through syndicates, often known as syndicated loans.

**(2 marks on each correct and completely stated explanation. Maximum of 1 to be graded. Sub-Total: 2 marks)**

**(Grand Total: 30 marks)**

16. (a) Explain Retail Price Index (RPI) and Consumer Price Index (CPI) in relation to measurement of inflation. **(10 marks)**  
(b) State the formula for estimation of CPI. **(4 marks)**  
(c) Outline the steps to be followed in calculating the CPI. **(16 marks)**

### **Solution**

(a) The Retail Price Index (RPI) was the index usually used to measure inflation in most countries. In its stead, the Consumer Price Index (CPI) is now the main price index. The CPI differs from the RPI both in its choice of goods and services to be included in the 'basket' and in its method of calculation. More precisely, the CPI excludes housing market costs (which are included in the RPI) and uses a weighted geometric mean to average out some of the prices, while the RPI uses a weighted arithmetic mean.

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

(b) Basically, the CPI can be calculated from the following formula:  
$$\frac{\text{Cost of the basket of consumer goods in the current year}}{\text{Cost of the basket of consumer goods in the base year}} \times 100$$
**(Sub-Total: 4 marks)**

- (c) To calculate the CPI, the following steps have to be followed:
- A base year has to be chosen at which the index is set equal to 100. The current base year for the CPI is determined by each country as most applicable to their circumstance.
  - The consumer goods and services to be included in the basket and the weights attached to each item have to be determined. This is accomplished from the results of the annual Living Costs and Food Survey in which a sample of about 5,000 households is used to gather details of household spending behaviour.

- iii. Once the composition of the basket is determined, monthly price quotations are collected from retail outlets all around the country and a weighted average of these prices is calculated, the weights reflecting the relative importance of each item in the average household's spending.
- iv. The overall average price of the basket is then expressed as an index number, which indicates the average percentage change in prices from the selected base year.

(4 marks for each correct and completely stated step. The stated steps must be sequential.

**Sub-Total: 16 marks)**

**(Grand Total: 30 marks)**

- 17) (a) Discuss nine (9) probable effects of an increase in unemployment on a country's insurance industry. **(18 marks)**
- (b) Discuss four (4) probable effects of an increase in inflation on a country's insurance industry. **(12 marks)**

### **Solution**

(a) The probable effects of an increase in unemployment on a country's insurance industry are:

- potential for increases in social disruption leading to increased claims;
- possible increased government intervention in the economy including regulation to combat unemployment;
- potential for protectionist measures in a country which then results in corresponding measures in overseas countries, resulting in damage to the insurance industry;
- disproportionate effects of unemployment on industry sectors and individuals leading to imbalance in insurers portfolio of risks;
- claims incidence rates in general will increase as people will ensure they take the benefit of their insurance cover, with some making claims that are valid but may not have been paid in more positive economic circumstances;
- claims on payments protection policies, i.e., unemployment cover, will increase significantly;
- theft and crime rates are likely to increase as some individuals judge that they lack an income to purchase the goods and services they require;
- the incidence of fraudulent claims and claims with exaggerated financial values is likely to increase as businesses and individuals attempt to make up for declining profits/incomes;
- the demand for certain types of insurance will change as people seek basic protection of income, mortgage/credit repayments or health. Public provision of certain services will decline at the same time. Non-essential insurances will be less attractive as will the very goods and services they are protecting, e.g. travel;
- premium income will be reduced as wage-rolls and turnover fall. Policy adjustments will result in return premiums. This reduces investment income and ultimately profits;
- there might be a knock-on effect in the insurance industry, forcing redundancies;



- there may be skills shortages in the insurance industry despite unemployment. The right mix of skills will include policy wording technicians, loss adjusters and claims managers: and
- if the country is in recession, spending on risk management is likely to reduce leading to insurance claims due to lack of maintenance and reduced health and safety standards. Risk managers of commercial companies could be made redundant in a cost-cutting exercise.

**(2 marks for each correct and completely stated effect. Maximum of 9 to be graded. Sub-Total: 18 marks)**

- (b) The probable effects of an increase in the rate of inflation on the insurance industry are:
- Inflation creates uncertainty. This uncertainty obviously creates problems for the insurance industry and increases replacement costs. Therefore, the cost of paying insurance claims is affected by the future rate of inflation. Predicting the future rate of inflation accurately is vital to insurance companies, especially if premiums are set on a cost-plus basis. Insurers have to do this in a specific way, e.g. service cost inflation and medical cost inflation may be far higher than CPI/RPI.
  - Holders of fixed term life insurance policies and defined benefit pensions and annuities will find that the real value received may not be as much as expected when the policy was taken out, and of course house and contents cover may become under-valued unless regularly adjusted upwards in line with the expected rate of inflation. With a high expected inflation rate, more current household income will have to be used to cover future risks. This means that businesses and individuals may find it difficult to determine the exact level of monetary cover they require. The value of an insurance policy is then questioned and potentially confusion can arise as there is simply an illusion of proper protection. Insurers have to devise or attempt to devise complicated arrangements.
  - Wage increases tend to be high during inflationary periods. As the insurance industry is predominantly labour intensive, the cost and cash-flow implications of wage increases made necessary by inflation may be severe.
  - Inflation reduces the purchasing power of money. Insurance companies who have to hold substantial cash balances to meet claims made by policyholders are penalised.
  - Some businesses and individuals may move out of cash holdings and into holding riskier assets. Although this can mean extra demand for insurance of such assets, the moral hazard may increase, plus poor risk management measures are taken to protect such assets.

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

**Grand Total: 30 marks)**

18. (a) (i) What does the phrase “monetary policy” imply? **(3 marks)**  
 (ii) How does it come into operation? **(4 marks)**  
 (b) Enumerate and explain three (3) basic techniques of monetary policy in the economy. **(15 marks)**  
 (c) State two (2) advantages and two (2) disadvantages of a floating exchange rate. **(8 marks)**

## Solution

(a) (i) Monetary policy is the term used to describe the act of attempting to control the money supply (1 mark) and altering the country's level of interest rates (1 mark) in order to achieve macroeconomic policy goals (1 mark). (3 marks)

(ii) In most countries, Nigeria inclusive, the country's central bank carries out monetary policy. Its main tasks are to achieve the inflation targets set by the Government and to maintain sustainable growth and employment. It currently uses the manipulation of interest rates as its main weapon or 'instrument'. In Nigeria, this is done through the Banking Committee which has the power to set interest rates through the Monetary Policy Committee.

(2 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 4 marks)  
(Grand Sub-Total: 7 marks)

(b) Some basic techniques of monetary policy in the economy are:

(i) **Changing the minimum reserve ratio:** in Nigeria and some other countries, banks are required to maintain a minimum reserve ratio of liquid assets to total assets. If this minimum reserve ratio were increased, banks would have to reduce their lending and the money supply would fall. If the ratio were reduced, banks could increase their lending and the money supply would rise. However, some economists believe that this kind of banking regulation would have a disruptive effect on the banking industry by interfering with banks' freedom to determine their own reserve limits. However, given that it is accepted that a number of banks reserves of liquid assets were clearly insufficient to meet the recent financial difficulties additional liquidity is going to be required.

(ii) **Funding:** funding is a form of open-market operation in which the central bank attempts to change the balance of short-term and long-term government securities held by banks. So, for example, if the central bank sold more long-dated government stock, this would reduce banks' liquidity and lead to a fall in the money supply.

(iii) **Ceilings on lending:** a central bank could impose quantitative limits on bank lending to prevent them from lending too much. The ceiling could then be raised or lowered depending on whether an increase or decrease in the money supply was desired.

(iv) **Special deposits:** banks could be required to hold extra deposits (known as 'special deposits') with the central bank. The central bank could then increase the amount required if it wished to restrict banks' lending, and reduce the amount required if it wished to expand banks' lending.

(v) **Requests:** the central bank could simply ask banks to increase or decrease their lending, or to direct their lending into certain areas. For example, banks may be requested to direct their lending to firms for investment purposes in order to boost economic growth. Of course, in a free market, banks will not necessarily change their lending policies simply in response to a request from the central bank.

(3 marks for each correctly stated technique. 2 marks for a correct and complete explanation under each technique. Maximum of 1 explanation to be graded. Maximum of 3 techniques to be graded. Sub-Total per technique: 5 marks. Grand Sub-Total: 15 marks)

(c) **Advantages of a floating exchange rate are:**

(i) **Automatic Adjustment:** It is claimed that a floating exchange rate will automatically adjust when the balance of payments is in disequilibrium. For example, an overall deficit on the balance of payments means that there will be an excess supply of naira in the foreign exchange market. This will cause naira to depreciate, leading to an increase in the demand for Nigeria exports (which will become cheaper to foreign buyers) and a decrease in the demand for imports (which will become more expensive to Nigeria buyers). In this way, the depreciation of naira should help to correct the deficit. Similarly, an overall surplus on the balance of payments means an excess demand for naira, which will cause an appreciation of naira and this should help to correct the surplus. If automatic exchange rate adjustments can be relied upon to correct external imbalances, then it may be possible to use macroeconomic policies more successfully to achieve the internal objectives of stable prices and low unemployment. Governments know they are able to pursue these objectives without concern over other consequences that would arise from a fixed rate policy.

(ii) **No Need for Large Foreign Exchange Reserves:** With a floating exchange rate, central banks do not need to intervene in the foreign exchange market to maintain the exchange rate at a fixed rate. Therefore, central banks do not need to hold large stocks of foreign exchange reserves. Also, since changes in the Nigeria money supply are not offset by Central Bank of Nigeria actions to defend the exchange rate, Nigeria is able to operate a more independent monetary policy than would otherwise be the case.

(iii) **Insulation from Price Shocks:** Flexible rates help to insulate the domestic economy from foreign price 'shocks' and other economic changes in the rest of the world. For example, Nigeria may be able to sustain an inflation rate lower than the inflation rates in the rest of the world by allowing the naira exchange rate to appreciate. There is also insulation from dramatic currency movements in terms of devaluation or revaluation.

(1 mark for correctly stated advantage. 1 mark for correct and complete explanation. Sub-Total per advantage: 4 marks. Maximum of 2 advantages to be graded. Sub-Total: 4 marks)

#### **Disadvantages of a floating exchange rate are:**

(i) **Uncertainty:** Since a floating exchange rate is allowed to float freely in response to market forces, it could become unstable. This would create uncertainty for traders and investors and may discourage trade and investment. There is also normal day-to-day uncertainty in terms of pricing and other considerations. Whilst it is true that international transactors can hedge against foreign exchange risk, hedging is costly, complicated and is a bet in itself which may not succeed.

(ii) **Inflation:** Floating rates may be inflationary for a country with a tendency towards a balance of payments deficit, which may be the case for many developing countries. A tendency towards a deficit will cause the domestic currency to depreciate, which will raise the domestic prices of all imported goods. These price rises will raise the domestic inflation rate. This also exactly describes the risk for Nigeria where we have a balance of payments deficit and the need to import almost every item.

(iii) **Speculation May Be Destabilising:** If speculators sell a currency when they see its price falling and buy when they see its price rising, their activities may have the effect of increasing the size of the fluctuations in the exchange rate, thereby making it unstable. A counter-argument is that professional currency traders normally make profits from speculative currency

transactions. Since they make profits, they must in general buy when the rate is lower than its long-run value (thereby causing it to rise) and sell when the rate is higher than its long-run value (causing it to fall back). This kind of speculative behaviour would clearly tend to stabilise, rather than destabilise, the currency markets.

**(1 mark for correctly stated advantage. 1 mark for correct and complete explanation. Sub-Total per advantage: 4 marks. Maximum of 2 advantages to be graded. Sub-Total: 4 marks)**  
**(Grand Total: 30 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT I05  
BUSINESS STATISTICS AND OPERATIONS RESEARCH

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I05 - BUSINESS STATISTICS AND OPERATIONS RESEARCH

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

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

### **Question 1**

The question was designed to test the candidates' knowledge on the provisions of the Insurance Act 2003. Majority of the candidates attempted this question but pass rate was 8%.

### **Question 2**

The question was designed to test the knowledge of the candidates on the rules of probability. Majority of the candidates attempted this question and achieved 20% pass rate.

### **Question 3**

The question tested the knowledge of the candidates on definition of operations research and when a passive manager use operation research. Majority of the candidates attempted this question but pass rate was 42%.

### **Question 4**

The question tested the knowledge on the characteristics of a linear programming problem. Majority of the candidates attempted this question with 56% pass rate achieved.

### **Question 5**

The question tested the knowledge of the candidates on algorithm of solving linear programming problem. All the candidates attempted this question with 0% pass rate It seemed the candidates did not really understand the question.

### **Question 6**

The question tested the knowledge on the formation of a linear programming problem on transportation. 90% of the candidates attempted this question but pass rate was 2%.

### **Question 7**

The question tested the knowledge of the candidates on the rules for constructing diagram in operations research. 80% of the candidates attempted this question and achieved 3% pass rate.

### **Question 8**

The question tests the knowledge of the candidates on the limitation of statistics. All the candidates that attempted this question performed excellently. Pass rate was 80%.

### **Question 9**

Majority of the candidates attempted this question, achieving 78% pass rate.

### **Question 10**

The question tested the knowledge of the candidates on sampling. The performance of the candidates in this question was below average. Pass rate was 48%.

### **Question 11**

The question tested the knowledge of the candidates on the primary method of data collection. Majority of the candidates attempted this question with 95% pass rate achievement. The candidates really understood the question.

**Question 12**

Majority of the candidates attempted this question and achieved 98% pass rate. The performance was excellent.

**Question 13**

Majority of the candidates attempted this question and achieved 75% pass rate.

**Question 14**

The question tested the knowledge of the candidates on the reasons for constructing frequency distribution and importance of diagrams and graph. Majority of the candidates attempted this question and achieved 77% pass rate.

**Question 15**

The question tested the knowledge of the candidates on time series. Only 23% of the candidates attempted the question with 30% pass rate achieved.

**Question 16**

44% of the candidates attempted this question and recorded 76% pass rate. All the candidates that attempted this question performed very well.

**Question 17**

92% of the candidates attempted this question and recorded 100% pass rate. The candidates really understood this question. All the candidates that attempted this question performed excellently.

**Question 18**

The question tested the knowledge of the candidates on queue theory. 38% of the candidates attended this question and recorded 40% pass rate.

**Comments on Overall Performance:**

Overall pass rate was 61.5%

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

Candidates should not relent in their determination to perform very well, in order to achieve their goals.



**Part I****Answer ALL questions in Part I.****Each question carries 10 marks.**

1. What are the provisions of the Insurance Act of 2003 as it relates to contingency Reserves?

**Solution**

The provisions of the Insurance Act of 2003 as it relates to contingency reserves are:

- (i) an insurer shall establish and maintain contingency reserves to cover fluctuations in securities and variations in statistical estimates; **(5 marks)**
- (ii) 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 Total: 10 marks)**

2. (a) For an event A in a sample space S, what are the four (4) basic rules of probability?

**(6 marks)**

- (b) In a certain company, two training workshops are available in a month. An employee has 0.75 probability of being selected to attend the first; and 0.35 probability of attending the two workshops. What is the probability that an employee selected, at random, will attend the second workshop?

**(4 marks)****Solution**

- (a) Let event A be in sample space S, then

$$(i) \quad P(A) \geq 0; \quad (ii) \quad P(S) = \sum P(A_i) = 1$$

Then for every event A

$$(iii) \quad 0 \leq P(A) \leq 1; \quad P(A^c) = 1 - P(A) \text{ where } A^c \text{ means "not in A"}$$

**(1½ marks for each correctly stated rule. Sub-Total: 6 marks)**

- (b) Let  $M_1$  be the event he attends the first workshop;

Let  $M_2$  be the event he attends the second workshop;

$$P(M_1) = 0.75; \quad P(M_1 \cap M_2)$$

$$P(M_2/M_1) = \frac{P(M_1 \cap M_2)}{P(M_1)} \quad \text{(2marks)}$$

$$= \frac{0.35}{0.75} \quad \text{(1 mark)} \quad = 0.467 \quad \text{(1 mark)}$$

$$0.75$$

**(Sub-Total: 4 marks) (Grand Total: 10 marks)**

3. (a) What is operations research? **(2 marks)**

- (b) State any four (4) conditions which make successful managers to use operations research specialists. **(8marks)**

### Solution

(a) Operations research is the scientific method, involving the use of carefully constructed models based on some measurable variables which has to do with recognition of risk and uncertainty; **OR** A quantitative approach to problem solving for executive management.

(2 marks)

(b) Successful managers use Operations Research Specialists when:

- the problems are complex;
- the problems involve many variables;
- there are 'data' which describes the decision environment;
- the goals of the decision maker can be described in quantitative terms;
- workable models are available for the problem at hand.

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

(Grand Total: 10 marks)

4. Enumerate any five (5) characteristics of a "linear programming problem" (LPP).

### Solution

The characteristics of Linear Programming Problem are:

- \* well defined objective functions;
- \* alternative course of action;
- \* additive of resources and activities;
- \* non-negative of decision variables;
- \* linearity of the objective function and constraints;
- \* single valued expectations
- \* divisibility of activity and resources;
- \* finiteness of the activities and resources

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

5. Outline algorithms to solve a linear programming problem.

### Solution

The algorithms to a solve linear programming problem are as stated below:

- Step I: If the problem is of minimisation, convert it to a maximisation problem by multiplying the objective function  $Z$  by  $-1$ ;
- Step II: See that all  $b_i$ 's are positive, if a constraint has negative  $b_i$  multiply it by  $1$  to make  $b_i$  positive. Convert all the inequalities to equations by addition of slack variables, artificial variables or by subtraction of surplus variable as the case may be;
- Step III: Find the starting Basic Feasible Solution;
- Step IV: Construct the starting simplex table as follows;
- Step V: Testing for the optimality of BFS by computing  $j = z_j - C_j$ . If  $z_j - c_j \geq 0$ , the solution is optimal, otherwise we proceed to the next step;
- Step VI: To improve on the BFS, we find the *incoming vector*, entering the basic matrix. The variable that corresponds to the most negative  $Z_j - C_j$  is the incoming vector. while the variable that corresponds to the minimum ratio  $b_i/a_{ij}$  for a particular  $i$  and  $a_{ij} > 0$ ,  $i = 1, 2, \dots, m$  is the *outgoing vector*.
- Step VII: The *key element* the pivot element is determined by considering the intersection between the arrows that correspond to both incoming and outgoing vectors. The key element is used to generate the next table.
- Step VIII: Test this new BFS for optimality as in step VI. If it is not optimal repeat the process until the optimal solution is obtained

(1 mark each correct and completely stated step. 2 marks for sequential arrangement. Total: 10 marks)

6. Given the cost matrix, together with its supply and demand in the table below formulate as a linear programming problem:

	M <sub>1</sub>	M <sub>2</sub>	M <sub>3</sub>	Supply
W <sub>1</sub>	4	6	8	50
W <sub>2</sub>	5	1	9	100
W <sub>3</sub>	7	6	6	350
Requirement	50	100	350	500

**Solution**

Min  $Z = 4X_{11} + 2X_{12} + 8X_{13} + 5X_{21} + X_{22} + 9X_{23} + 7X_{31} + 6X_{32} + 3X_{33}$  (2 marks)

s.t

$X_{11} + X_{12} + X_{13} = 50$  (1 mark)

$X_{21} + X_{22} + X_{23} = 150$  (1 mark)

$X_{31} + X_{32} + X_{33} = 300$  (1 mark)

$X_{11} + X_{21} + X_{31} = 50$  (1 mark)

$X_{12} + X_{22} + X_{32} = 100$  (1 mark)

$X_{13} + X_{23} + X_{33} = 350$  (1 mark)

$X_{ij} \geq 0$  for all pairs of (i,j) (1 mark).

(Total: 10 marks)

7. Outline five (5) general rules for constructing diagrams in operations research.

**Solution**

The general rules for constructing diagrams in operations research are:

- (i) a diagram should be neatly drawn and attractive;
- (ii) the measurements of geometrical figures used in diagram should be accurate and proportional;
- (iii) the size of the diagrams should match the size of the paper;
- (iv) every diagram must have a suitable but short heading;
- (v) the scale should be mentioned in the diagram;
- (vi) diagrams should be neatly as well as accurately drawn with the help of drawing instruments;
- (vii) index must be given for identification so that the reader can easily make out the meaning of the diagram;
- (viii) footnote must be given at the bottom of the diagram;
- (ix) economy in cost and energy should be exercised in drawing diagram.

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

8. (a) State any three (3) limitations of statistics. (6 marks)  
 (b) Differentiate between descriptive and inferential statistics. (4 marks)

### Solution

(a) The limitations of statistics are:

- (i) statistics is not suitable to the study of qualitative phenomenon;
- (ii) statistics does not study individuals;
- (iii) statistical laws are not exact;
- (iv) statistics table may be misused; and
- (v) statistics is only, one of the methods of studying a problem.

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

(b) The term **descriptive statistics** deals with collecting, summarizing, and simplifying data, which are otherwise quite unwieldy and voluminous. It seeks to achieve this in a manner that meaningful conclusions can be readily drawn from the data **(2 marks)**; while **inferential statistics** consists of methods that are used for drawing inferences, or making broad generalizations, about a totality of observations on the basis of knowledge about a part of that totality. **(2 marks)**

**(Sub-Total: 4 marks)**

**(Grand Total: 10 marks)**

9. Explain any four (4) reasons a sample is used in a research work as against the whole population.

### Solution

The reasons a sample is preferred to the whole population in a research work are:

- complete enumerations are practically impossible when the population is infinite;
- when the results are required in a short time (sample saves time);
- when the area of survey is wide (large scope);
- when resources for survey are limited particularly in respect of money and trained persons (saves cost);
- when the item or unit is destroyed under investigation (destructive nature of items under study).

**(2 marks for each correct and completely stated reason. Maximum of 4 to be graded. Total: 10 marks)**

10. (a) List any three (3) principles of sampling. **(6 marks)**  
(b) State two (2) limitations to sampling. **(2 marks)**  
(c) List two (2) types of sampling. **(2 marks)**

### Solution

(a) The principles of sampling are:

- (i) principle of statistical regularity;                      (ii) principle of inertia of large numbers;
- (iii) principle of validity;                      and                      (iv) principle of optimization.

**(2 marks for each correctly listed principle. Maximum of 3 to be graded. Sub-Total: 6 marks)**

(b) The limitations to sampling are:

- (i) sampling is to be done by qualified and experienced persons. Otherwise, the information will be unreliable;
- (ii) sample method may give the extreme values sometimes instead of the mixed values;

(iii) there is the possibility of sampling errors which census survey is usually free from.  
**(1 mark for each correct and completely stated limitation. Maximum of 2 to be graded. Sub-Total: 2 marks)**

(c) The different types of sampling are:

(i) probability sampling; (ii) non-probability sampling; and (iii) mixed sampling.

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

**(Grand Total: 10 marks)**

11. Direct personal interviews when collecting primary data has some advantages. Explicitly enumerate four (4) of these advantages.

### **Solution**

The advantages of direct personal interviews when collecting primary data are:

(i) People willingly supply information because they are approached personally. Hence, more response noticed in this method than in any other method;

(ii) The collected information are likely to be uniform and accurate. The investigator is there to clear the doubts of the informants (respondents);

(iii) Supplementary information on informant's (respondent's) personal aspects can be noted. Information on character and environment may help later to interpret some of the results;

(iv) Answers for questions about which the informant (respondent) is likely to be sensitive can be gathered by this method;

(v) The wordings in one or more questions can be altered to suit any informant (respondent). Explanations may be given in other languages also. Inconvenience and misinterpretations are thereby avoided.

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

12. (a) List the four (4) classes of data classification. **(4 marks)**

(b) Outline three (3) objectives of classifying data. **(6 marks)**

### **Solution**

(a) The four classes of data classification are:

(i) chronological classification; (ii) geographical classification;

(iii) qualitative classification; (iv) quantitative classification.

**(1 mark for each correctly stated class. Sub-Total: 4 marks)**

(b) The objectives of classifying data are:

(i) it condenses the mass of data in an easily assailable form;

(ii) it eliminates unnecessary details;

(iii) it facilitates comparison and highlights the significant aspect of data;

(iv) it enables one to get a mental picture of the information and helps in drawing inferences;

(v) it helps in the statistical treatment of the information collected.

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

**(Grand Total: 10 marks)**

13. (a) State the two (2) main reasons of constructing frequency distribution. **(2 marks)**

(b) Outline any four (4) significance/usefulness of diagrams and graphs. **(8 marks)**

**Solution**

- (a) The main reasons of constructing frequency distribution are:
- (i) to facilitate the analysis of data;
  - (ii) to estimate frequencies of the unknown population distribution from the distribution of sample data; and
  - (iii) to facilitate the computation of various statistical measures.
- (1 mark for each correct and completely stated reason. Maximum of 2 to be graded. Sub-Total: 2 marks)**

- (b) The significance/importance of diagrams and graphs are:
- \* they are attractive and impressive;
  - \* they make comparison possible;
  - \* they have universal utility;
  - \* they have a great memorising effect.
  - \* they make data simple and intelligible;
  - \* they save time and labour;
  - \* they give more information;
- (2 marks for each correct and completely stated significance/importance. Maximum of 4 to be graded. Sub-Total: 8 marks) (Grand Total: 10 marks)**

14. Compute median for the following data.

<b>Class</b>	0-10	10-20	20-30	30-40	40-50	50-60	60-70	70-80	Total
<b>Frequency</b>	10	15	15	20	8	8	6	8	90

**Solution**

Here values in multiples of 10, so width of the class interval is 10.

<b>Class</b>	<b>Frequency</b>	<b>Cummulative Frequency</b>	<b>Mid-Value (x)</b>
0-10	10	10 (¼ mark)	5 (¼ mark)
10-20	15	25 (¼ mark)	15 (¼ mark)
20-30	15	40 (¼ mark)	25 (¼ mark)
30-40	20	60 (¼ mark)	35 (¼ mark)
40-50	8	68 (¼ mark)	45 (¼ mark)
50-60	8	76 (¼ mark)	55 (¼ mark)
60-70	6	82 (¼ mark)	65 (¼ mark)
70-80	8	90 (¼ mark)	75 (¼ mark)
	90		

$$\frac{N}{2} = \frac{90}{2} = 45, \text{ class is } 30 - 40 \quad (1 \text{ mark})$$

Here L= 30, N = 90, f<sub>m</sub> = 20, c = 10, cf = 40 (1 mark)

$$\text{Median} = L + \left( \frac{\frac{N}{2} - cf}{f_m} \right) \times c \quad (2 \text{ marks})$$

$$\begin{aligned}
 &= \text{Median} = 30 + \left(\frac{45 - 40}{20}\right) \times 10 \text{ (1 mark)} \\
 &= 30 + 2.5 \\
 &= 32.5 \text{ (1 mark)}
 \end{aligned}$$

(Grand Total: 10 marks)

## Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) (i) What is a “time series”? (2 marks)  
 (ii) State and explain the time series model. (6 marks)  
 (b) The table below shows the annual sales of a certain supermarket for the years 1972 to 1982:

Years	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Sale	25	18	23	16	18	14	19	20	22	17	20

- (i) Obtain the time plot for the data and use the method of least squares to fit a line to the data. (16 marks)  
 (iii) Find the trend values. (6 marks)

### Solution

- (a) (i) A “time series” is a set of qualitative reading of some variable or composite of variable arranged in chronological order of their occurrence. (2 marks)  
 (ii) The time series model is explained as follows:  
 Additive model  $\rightarrow Y = T + S + C + I$  (1 mark)  
 Multiplicative model  $\rightarrow Y = T \times S \times C \times I$  (1 mark)

Y = Original value  
 T = Trend value  
 S = Seasonal component  
 C = Cyclical component  
 I = Irregular component

### Explanation

**Trend:** refers to the general direction in which the graph of time series appears to be going over a long interval of time. (1 mark)

**Seasonal Variation:** refers to identical or almost identical patterns which a time series appears to follow during corresponding months of successive year. (1 mark)

**Cyclical Variation:** refers to the long-term swings about a trend line or curve. (1 mark)

**Irregular Variation:** refers to the sporadic motion of the time series due to change events e.g. flood, election, strikes, e.t.c. (1 mark)

(Sub-Total: 6 marks)

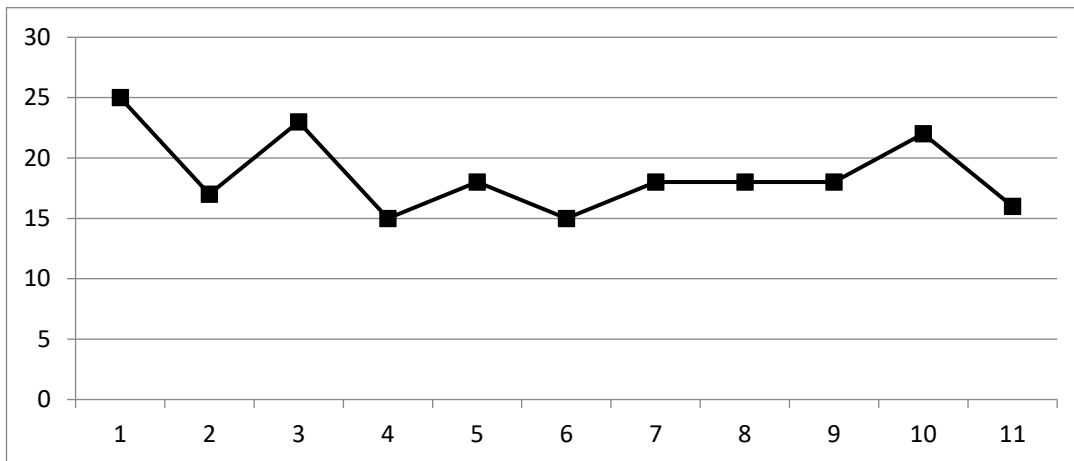
(b) (i)

Year	X	Y	X <sup>2</sup>	XY	a+bx $\hat{y} = 20.32 - 0.21X$
1992	0	25	0	0	20.32
1993	1	18	1	18	20.11
1994	2	23	4	46	19.9
1995	3	16	9	48	19.69
1996	4	18	16	72	19.48
1997	5	14	25	70	19.27
1998	6	19	36	114	19.06
1999	7	20	49	140	18.85
2000	8	22	64	176	18.64
2001	9	17	81	153	18.43
2002	10	20	100	200	18.22

(4 marks)  
1/2 for each  
and -1/2 for  
each

(4 marks)  
1/2 for each  
and -1/2 for  
each

(5 marks) 1/2 for  
each and -1/2 for  
each error



(3 marks)

(Grand Sub-Total: 16 marks)

Called Schedule

(iii)  $n = 11$        $\bar{n} = 5$        $\bar{y} = 19.27$

$Y = a + bx$  (1 mark)

$$b = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2} \text{ (1 mark)} = \frac{11(1037) - (55)(212)}{11(385) - (55)^2} \text{ (1 mark)} = -0.21$$

$$a = \bar{y} - b\bar{x} \text{ (1 mark)} = 19.27 - (-0.21)(5) = 20.32 \text{ (1 mark)}$$

$$\therefore Y = 20.32 - 0.21(x) \text{ (1 mark)}$$

(Grand Sub-Total: 6 marks)

(Grand Total: 30 marks)



16. The data below shows the age and premium of some clients in an insurance company in a given day in thousand naira:

<b>Client</b>	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Age</b>	14	3	5	6	14	9	18	5	16	10	17	11	25
<b>Premium</b>	22	12	15	17	15	19	24	13	27	20	28	18	32

- (a) Fit a least squares regression line that determine the relationship between the age premium, showing the relationship by means of a formula. (24 marks)
- (b) Determine the expected premium if the age of the client is forty. (2 marks)
- (c) Determine the degree of relationship between the premium and the age. (4 marks)

**Solution**

X	14	3	5	6	14	9	18	5	16	10	17	11	25	153
y	22	12	15	17	15	18	24	13	27	20	28	18	32	262
xy	<b>308</b>	<b>36</b>	<b>75</b>	<b>102</b>	<b>210</b>	<b>162</b>	<b>432</b>	<b>65</b>	<b>432</b>	<b>200</b>	<b>476</b>	<b>198</b>	<b>800</b>	<b>3505</b>
x <sup>2</sup>	<b>196</b>	<b>9</b>	<b>25</b>	<b>36</b>	<b>196</b>	<b>81</b>	<b>324</b>	<b>25</b>	<b>256</b>	<b>100</b>	<b>289</b>	<b>121</b>	<b>625</b>	<b>2283</b>
y <sup>2</sup>	<b>484</b>	<b>144</b>	<b>225</b>	<b>289</b>	<b>225</b>	<b>324</b>	<b>576</b>	<b>169</b>	<b>729</b>	<b>400</b>	<b>784</b>	<b>324</b>	<b>1024</b>	<b>5734</b>

(¼ mark for each correctly stated bolded number. Sub-Total: 10½ marks)

(a)  $Y = a + bx$  (2 marks)

$$b = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2} \text{ (2 marks)} = \frac{13(3505) - (153)(262)}{13(2283) - (153)^2} \text{ (1½ mark)}$$

$$= 0.8738 \text{ (1 mark)}$$

$$a = \bar{y} - b\bar{x} \text{ (2 marks)} = 20.1538 - (0.8738) 11.769 \text{ [(2 marks) = 9.8694 (1 mark)}$$

$$\therefore Y = 9.8694 + 0.8738(x) \text{ (1 mark)}$$

$$\text{Premium} = 9.8694 + 0.8738(\text{Age}) \text{ (1 mark)}$$

(Grand Sub-Total: 25 marks)

(b). Age of 40 → Premium = 9.8694 + 0.8738 (40) (1 mark) = 44.82 = 45 (1 mark)

(Grand Sub-Total: 2 marks)

c.

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}} \text{ (2 marks)}$$

$$= \frac{13(3505) - (153)(262)}{\sqrt{[13(2283) - (153)^2][13(5734) - (262)^2]}} \text{ (1 mark)}$$

$$= 0.90098 \text{ (1 mark)}$$

(Grand Sub-Total: 4 marks)

(Grand Total: 30 marks)

17. (a) (i) Briefly explain the term “statistics”? (3 marks)
- (ii) Explain the terms “primary data” and “secondary data”. (4 marks)
- (b) Explain the following methods of data collection with their merits and demerits:
- (i) interview method (8 marks); (ii) mailing questionnaire method (9 marks);
- (iii) registration method (6 marks).

## Solution

(a) (i). Statistics is a body of theories and methods which have been developed for handling the collection and description of sample data for the purpose of drawing useful conclusion. (3 marks)

(ii) **Primary Data** is data collected at first hand for specific raw purpose e.g. social, industrial survey. (2 marks) **Secondary Data** is already existing information collected for use; or data obtain from someone's else record. (2 marks)

(b) (i) **Interview Method:** the interviewers visit the informant at home, shop, office, market place or on the street to ask questions and enter replies in a specific place. (2 marks)

### Merits

- people usually respond when confronted in person;
- interviewer note specific reaction and eliminate misunderstanding about the question;
- interviewer is able to give his personal assessment of the responded.

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

### Demerits

- expensive – time consuming;
- bias of interviewer if not well trained;
- decline response in face-to-face interview.

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

(Grand Sub-Total: 8 marks)

(ii) **Mailing Questionnaire Method:** in this case, a set of question called questionnaire is mailed to the informant who answers and returns completed form to the office of origin. (3 marks)

### Merits

- \* it is cheap and quick;
- \* confidential questions are answered;
- \* more reliable information could be obtained;
- \* no interviewer bias.

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

### Demerits

- \* problem of non-response;
- \* no interviewer present to explain ambiguous questions
- \* wrong person may complete the form;

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

(Grans Sub-Total: 9 marks)

(iii) **Registration Method:** by registration method, data are collected by keeping records of events immediately they occur or as soon after their occurrences; birth, death, divorces, e.t.c. (3 marks)

### Merits Advantages

- \* more efficient;
- \* reliable information collected;

(1½ marks for each correct and completely stated merit. Maximum of 1 to be graded. Sub-Total: 1½ marks)

### Disadvantages

- \* very costly;
- \* burden of reporting on informant.

(1½ marks for each correct and completely stated merit. Maximum of 1 to be graded. Sub-Total: 1½ marks)

(Grand Sub-Total: 6 marks)

(Grand Total: 30 marks)

18. (a) Explain any five (5) main characteristics of all queuing systems which impact on customers satisfaction especially customers who require just one service point. (15 marks)
- (b) The mean arrival rate  $\lambda$  is one customer every 4 hours in AIK Insurance Company and the mean service,  $1/\mu$  is  $2\frac{1}{2}$  hours. Calculate the:
- (i) utilisation factor; (3 marks)
  - (ii) the expected number of customers in the system; (3 marks)
  - (iii) expected queue length; (3 marks)
  - (iv) the expected time a customer spends in the system (3 marks)
  - (v) the expected time a customer spends on the queue. (3 marks)

### Solution

- (a) The main characteristics of all queuing systems which impact on customers satisfaction especially customers who require just one service point are:
- \* maximum number of customers allowed (calling population);
  - \* an arrival pattern; \* a service pattern; \* service channels;
  - \* a queuing discipline; \* a steady state or a transient state; \* a traffic intensity;
- (i) **Calling Population:** this refers to the number of potential customers. This number may be considered finite or infinite. Most works in queuing theory are based on the assumptions that the maximum number of customers allowed in the system is infinite; because this provides convenient simplification of the analysis. The assumption of an infinite calling population is reasonably accurate, provided that the rate of arrival of future customers already in the queue.
- (ii) **An arrival Pattern:** this refers to the way in which customers arrive in a queue. Customers to a queuing system can arrive in a variety of patterns. Some useful factors for specifying and arrival pattern are:
- a. Type of arrivals i.e. Customers may arrive in singly or in-group.
  - b. Inter-arrival time i.e. the time interval between two successive arrivals, the arrival may be at regular interval or at irregular intervals at random. An arrival commonly found in practice is for customers to arrive at queues individually and in random. When this occurs the number of arrivals per unit time generally follows a poisson probability distribution.
- (iii) **A Service Pattern:** is the length of time taken to serve an individual customers or group of customers. The service pattern may also vary with customers served in 'bulk' on one a time. However, when customers arrive individually and at random, it is usually for the service pattern also to be random.
- (iv) **Service Channels:** refer to the number of service points or queues. If there is one queue, several service counters, the customers at the head of the queue will move to the first free counter when it becomes available. (This system is practiced in some commercial banks) e.g. First bank Kwara State, Ilorin branch. Where this system operates, there is a basic multiple channel or multi-channel system. There can also be several service counters with its own queue (e.g.) in post office, supermarket and some commercial bank).
- (v) **Queue Discipline:** refers to the way in which customers behave in a queue and to the order in which they are served for example: - a customer may arrive at a queue, decide that is too long, and go away, or the queue may be at a maximum length so that a new customer arriving cannot join it, and a customers may kept waiting for so long in the queue that he/she waits for a bit and then decide to leave it.
- (vi) **Steady State or Transient State: Steady State:** a queuing system is said to be in a steady state when the behavior of the system is independent of time. Steady state systems are the ones commonly considered in queuing theory. **Transient State:** a queuing system is said to

be in a transient state when the behavior of the system depends on time. A system may be in transient state for a short time (e.g. when a customer) but then it may settle down in to a steady (until it close for the day).

(vii) **Traffic Intensity:** this is the ratio of the average arrival rate to the average services rate. This is described more fully later. It should be apparent, however, that unless the average service rate is faster than the average rate of new customers arriving in the queue, the queue will get longer indefinitely. An important assumption in queuing theory is that the traffic intensity must be less than one. Traffic intensity (system utilization) is represented by  $\rho$ .

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

**(Grand Total: 30 marks)**

(b) Arrival rate  $\lambda = \frac{1}{4} = 0.25$  customer/ hour (1 mark)  
 Service rate  $= \frac{1}{2.5} = 0.4$  service /min (1 mark)

(i) Utilization factor  $\rho = \frac{\lambda}{\mu} = \frac{0.25}{0.4} = 0.625$  (1 mark)  
**(Sub-Total: 3 marks)**

(ii) Expected number customers in the system  $E(n) = \frac{\lambda}{\mu - \lambda}$  (1 mark)

$E(n) = \frac{0.25}{0.4 - 0.25}$  (1 mark) = 1.66 customers (1 mark)

**(Sub-Total: 3 marks)**

(iii) Expected queue length  $E(q) = \frac{\lambda^2}{\mu(\mu - \lambda)}$  (1 mark)

$E(q) = \frac{(0.25)^2}{0.4(0.4 - 0.25)}$  (1 mark) = 1.04 customers = 2 customers (1 mark)

**(Sub-Total: 3 marks)**

(iv) Expected time a customer spends in the system

$E(t_s) = E(n) = \frac{1}{\lambda} \frac{1}{\mu - \lambda} = \frac{1}{0.4 - 0.25}$  (1 mark)

$E(t_s) = 6.66$  mins. (1 mark)

**(Sub-Total: 3 marks)**

(v) The expected time a customer spends on the queue

$E(tq) = \frac{E(q)}{\lambda} = \frac{1.04}{0.4}$  (1 mark)

$E(tq) = \frac{0.25}{0.4(0.4 - 0.25)}$  (1 mark)

= 4.16 mins (1 mark)

**(Sub-Total: 3 marks)**

**(Grand Sub-Total: 15 marks)**

**(Grand Total: 30 marks)**

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT I06  
OPERATIONAL MANAGEMENT

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I06 - OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

### **Question 1**

95% pass rate. Candidates are familiar with the question, which requires what policy document contains.

### **Question 2**

58% pass rate. Technical but friendly. Questions on definitions are either passed or failed. Ideas do not count. Candidates need to work harder.

### **Question 3**

100% pass rate. A reality question on reasons for the rapid growth of doing business on telephone, is very friendly.

### **Question 4**

23% pass rate. Question on call centre should be friendly enough. The performance is poor because candidates did not adequately prepare.

### **Question 5**

53% pass rate. Fair performance. Better preparation could improve performance.

### **Question 6**

16% pass rate. Candidates could not differentiate in meaning 'skills and attributes' as the question required.

### **Question 7**

74% pass rate. The question requires the difference between competencies and job description. Fairly attempted.

### **Question 8**

38% pass rate. Technical but friendly. Better preparation could have improved the pass rate.

### **Question 9**

30% pass rate. Question on how training should be seen as investment and not cost, should be interesting. Candidates need to work harder.

### **Question 10**

75% pass rate. Good performance. Question requests for, the major differences between counselling and coaching. Technical but friendly.

### **Question 11**

81% pass rate. Question requests for the major differences between "a leader" and "leadership". Good attempt.

### **Question 12**

93% pass rate. Question on leadership, is very familiar to candidates. Good performance.

**Question 13**

65% pass rate. Question is on leadership behavioural styles, but friendly to candidates.

**Question 14**

39% pass rate. Candidates need to understand the meaning of intrapreneur as different from entrepreneur. With this, performance could have improved.

**Question 15**

68% attempt rate. 40% pass rate. Candidates largely misunderstood general barriers to communication with organisational barriers. Fair performance.

**Question 16**

Attempt rate is 42%. Pass rate is 72%. A better study would have improved performance and attempt rate. Question on delegation is friendly.

**Question 17**

40% attempt rate. Pass rate is 86%. Question on CRM, is familiar and performance is good enough.

**Question 18**

50% attempt rate. 95% pass rate. Well passed, but not popularly attempted.

**Comments on Overall Performance:**

Overall pass rate is 71%. This is an improvement from the previous performances.

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

Candidates should just study more in order to improve their performances.



**Part I****Answer ALL questions in Part I.****Each question carries 10 marks.**

1. 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.

**Solution**

NAICOM require that an insurance policy document shall contain among others some information which shall form the basis of the insurance contract. Some of this 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)**

2. Separate “Actual Cost” and “Committed Cost” in meaning.

**Solution**

“Actual costs” are those costs that have passed through the organisation’s books (5 marks), whereas “committed costs” are those costs that the organisation has ordered which have not yet been invoiced (5 marks). **(Grand Total: 10 marks)**

3. There are a number of reasons for the rapid growth of doing business on telephone. Enumerate any four (4) reasons for this.

**Solution**

The reasons for the rapid growth of doing business on telephone

- \* people now have less time;
- \* consumers have found it easier;
- \* consumers have found it preferable to buy and obtain products/service over the telephone;
- \* consumers have found it quicker;
- \* consumer expectations have grown; they now want quick service and are no longer tolerant of poor or slow service;
- \* companies have found it a cost-effective way of doing business.

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

4. Call centre management is about two key aspects: Explain these two (2) key aspects.

**Solution**

The two key aspects on call centre management are:

- \* managing the call traffic/workflow; and
- \* managing the people.

**(Candidates are required to explain these two aspects. 3 marks for each correctly stated aspect. 2 marks for correct and complete explanation. Sub-Total per aspect: 5 marks. Grand Total: 10 marks)**

5. For quality phone calls to organisations, there are some acts that customers do not want to experience. Enumerate any five (5) of such acts.

**Solution**

The following are some acts that customers do not want to experience on quality phone calls to organisations:

- \* receive “busy” signals;
- \* be transferred around;
- \* be placed ‘on hold’ for too long;
- \* be rushed;
- \* deal with poorly trained employees;
- \* deal with ill-informed employees;
- \* feel it is necessary to have to ring back to check up, repeat or verify.

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

6. Identifying the SKILLS needed for a job is different from the ATTRIBUTES of the successful candidate. List two (2) examples of skills and three (3) examples of attributes required in a successful candidate.

**Solution**

The skills required in a successful candidate are:

- \* ability to manage a team;
- \* good communication skills;
- \* knowledge of information and computers;
- \* resilience;
- \* team working skills;
- \* ability to work under pressure; \* decision-making capability.

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

The attributes required in a successful candidate are:

- \* positive attitude; \* confidence; \* “can do” attitude; \* responsible;
- \* tactful; \* polite; \* helpful; \* friendly; \* patience; \* assertiveness.

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

**(Grand Total: 10 marks)**

7. (a) State the main difference between “competencies” and “job description.” **(6 marks)**

(b) Team bonuses relate to the achievement of group targets or objectives; this usually have one major potential challenge of internal teams’ tensions caused by a non-performing member.

How is this challenge usually resolved? **(4 marks)**

**Solution**

(a) The main difference between competencies and job descriptions is that a job description describes what activities a job holder gets involved in; (3 marks), while competencies describe how individuals should behave in order that the job is done correctly (3 marks).

(Sub-Total: 6 marks)

(b) The major potential challenge of internal teams' tensions caused by a non-performing member is usually resolved in practice through the discovery of/practice whereby other team members exert pressure to perform on such colleagues (4 marks).

(Grand Total: 10 marks).

8. Performance-related rewards can improve attitudes and commitment but it has its disadvantages. Concisely enumerate any four (4) of the disadvantages.

### **Solution**

The disadvantages of performance-related rewards are:

- \* rewards bring short-term compliance;
  - \* incentives are blunt instruments for motivating employees;
  - \* high boardroom performance-related rewards do not necessarily improve company results;
  - \* performance-related reward schemes, particularly financial ones, can be divisive, destroying co-operation between employees in the scramble to compete for business;
  - \* at executive level, the schemes tend to focus on short-term objectives rather than long-term ones;
  - \* staff may not look for innovation or take risks, for fear of losing their rewards.
- (2½ marks for each correct and completely stated disadvantage. Maximum of 4 to be graded. Total:10 marks)

9. To ensure that training is an investment and not a cost, you are advised to hold a brief with your colleagues before the training. Explain any four (4) areas that your brief should address.

### **Solution**

The areas that the brief should address are:

- (i) how the training and development is aimed to improve their performance in their current or future role;
- (ii) what is expected of them;
- (iii) how they will be supported once they have completed their training;
- (iv) how expected improvements will be measured;
- (v) what feedback they will get in the workplace.

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

10. What are the two (2) major differences between counselling and coaching.

### **Solution**

The key differences between counselling and coaching is that:

- (i) counselling focuses on solving problems i.e. it is problem focused (2½ marks), whereas coaching goes beyond problem solving to establish opportunities for development, i.e. it is opportunity focused (2½ marks).
- (ii) counselling looks at the past (2½ marks), coaching looks to the future (2½ marks).

(Grand Total: 10 marks)

11. Separate in meaning, the terms “leader” and “leadership”.

**Solution**

A leader is a PERSON who is able to influence others to pursue goals (5 marks), whereas leadership can be a group of leaders in an organisation **OR** the art, capacity of getting people to do what you want them to do, in the way that you want it done, because they want to do it (5 marks).  
(Grand Total: 10 marks)

12. Individuals who become prominent leaders possess a set of special traits. List any five (5) of such the personality traits of a prominent leader.

**Solution**

The personality traits of a prominent leader are:

- \* dominance;
- \* aggression;
- \* self-confidence;
- \* creativity;
- \* stress tolerance;
- \* self-control;
- \* doggedness;
- \* smartness.

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

13. The behavioural leadership style school of thought emphasises two basic forms of leader behaviour, known as “consideration” and “initiating structure” Briefly explain these two (2) terms.

**Solution**

“Consideration” means all of the elements of the leader’s behaviour that sustain the morale and cohesion of the work group (5 marks); while “initiating structure” means those elements of the leader’s behaviour that concentrate on the clarification of tasks and the achievement of goals (5 marks).  
(Grand Total: 10 marks)

14. In stimulating “intrapreneurial culture” in an organisation, two key new staff roles usually arise. Enumerate and briefly explain these two (2) key staff roles.

**Solution**

The two key staff roles are: (i) **idea champion**: this is an employee who generates an idea and takes responsibility for developing that idea within the organisation; and (ii) **sponsor**: this is a person within the same organisation who is charged with nurturing the new concept and is given organisational resources to develop the new concept.

**Part II**

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) Identify and briefly explain five (5) barriers to effective communication. (20 marks)  
(b) Enumerate four (4) disadvantages of “face-to-face communication”. (10 marks)

**Solution**

The barriers to effective communication are:

- (i) **The Problem of Size:** where there are three or more levels in an organisation a deliberately designed communication system becomes vital *as the casual approach can only work in very small units.*
- (ii) **Natural Reserve/Fear/Lack of Confidence:** many of us tend to feel that “if in doubt, keep your mouth shut”. Many managers experience the fear which, often through inadequate briefing, results in the feeling “it is better to say too little than too much”.
- (ii) **Knowledge is Power:** for many people, the possession of confidential information confers a sense of power. Withholding information may be viewed as a means of preserving status or of having an extra ace or two up one’s sleeve in case of the need for resistance to management proposals.
- (iii) **The Language Problem:** it is well known that many people interpret words in different ways, and therefore this barrier must be carefully removed by explanation, especially where jargon is used.
- (iv) **The Problem of Time:** we are always immensely busy with something else. Management team are busier still at times of upset or change, just when the exchange of understanding is more important than ever.
- (v) **Training:** many managers are inadequately equipped with, and unaccustomed to using, organised methods of information flow. Moreover, many do not even know that it is an essential part of their duties to be skilled, however simply, in the exchange of understanding, including feedback.
- (vii) **The Grapevine:** one of the subtlest methods of passing information is through the grapevine, whose characteristic is generally to impute uncharitable motives to the often-accurate information which it conveys.
- (viii) **Failure to Recognise the Need to Tell:** A very common cause of breakdown in communications is “I didn’t think to tell him”, or “I didn’t realise she needed to know”, are the kind of expressions which so often demonstrate this failure.
- (ix) **Inability to Listen:** Often managers incorrectly deduce that to communicate means giving or sharing information. It is worth emphasising that to be effective, communication needs to be a two-way process.
- (2 marks for correctly stated barrier. 2 marks for correct explanation. Sub-Total per barrier: 4 marks. Maximum of 5 to be graded. Grand Sub-total: 20 marks)**

- (b) The disadvantages of “face-to-face communication” are:
- \* it is less permanent;
  - \* it is more time consuming;
  - \* it needs to be planned/organised;
  - \* it requires more effort,
  - \* more personal skills are required;
  - \* it can be denied if not recorded.
- (2½ marks for each correctly stated disadvantage. Maximum of 4 to be graded. Sub-Total: 10 marks)**  
**(Grand Total: 30 marks)**

16. There are many advantages to effective delegation and there are also obstacles too.
- (a) Explicitly state three (3) advantages and three (3) obstacles to effective delegation. **(18 marks)**
- (b) Enumerate and briefly explain four (4) self-generated time stealers. in time management **(12 marks)**

### Solution

- (a) The advantages of effective delegation are:

- managers gain more time to concentrate on high-level activities such as strategic planning;
- subordinates are able to take on greater responsibility;
- subordinates are able to learn new skills in self-contained and more manageable tranches;
- delegation encourages team spirit by allowing staff to participate more in the organisation's tasks and decisions.

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

The obstacles to effective delegation are:

- managers may be afraid to delegate because they cannot trust the delegatee to carry out the tasks properly – or at least as well as the manager can do them;
- managers may be reluctant to pass across tasks which they enjoy doing, even when such tasks are not making the best use of their time and skills;
- some managers fear the skills and abilities of their subordinates and will not therefore make a conscious effort to develop them by allowing them to take on more responsibility;
- delegation can be a time-consuming process, and some managers cannot spare the time to explain tasks and coach their subordinates.

(3 marks for each correct and completely stated obstacle. Maximum of 3 to be graded. Sub-Total: 9 marks)  
(Grand Sub-Total: 18 marks)

(b) The time management self-generated time stealers are:

- **disorganization:** i.e. messy desk, cannot find things quickly when needed;
- **procrastination:** putting things off;
- **inability to say “no”:** letting people interrupt you, pass things back to you or ask questions they already know the answer to;
- **poor delegation:** not passing work and responsibility on, doing jobs just because you like doing them;
- **failure to prioritise:** spending time on unnecessary or unimportant tasks.
- **perfectionism:** working for the perfect result when it is not absolutely necessary.

(3 marks for each correct and completely time stealer. Maximum of 4 to be graded. Sub-Total: 12 marks)  
(Grand Total: 30 marks)

17. (a) What is customer relationship management (CRM) largely about and what does it try to achieve? (5 marks)
- (b) Enumerate and briefly explain five (5) areas that call/contact centres can help improve customer service. (15 marks)
- (c) Automatic Call Distributor (ACD) provides some benefits to customers in providing good customer service. Enumerate four (4) of such benefits. (10 marks)

### Solution

(a) Customer Relationship Management (CRM) is largely about getting closer to the customer and moving into a proactive culture (3 marks). It is about trying to build relationships with customers by understanding their needs and offering products and services that meet those needs (2 marks).

(b) The areas that call/contact centres can help improve customer service are:

- **Increased Availability:** call/contact centres can provide service with wider opening hours, in some cases 24 hours a day, seven days a week, 365 days a year;
- **Speed of Answer:** calls can be answered quickly with prompt handling of customer requests;
- **Skilled Staff:** calls can be routed to appropriately skilled staff who have been trained to handle particular types of inquiry;
- **Multi Contact Channels:** many call/contact centres can handle a wide variety of customer contacts such as telephone, post, internet and web chat. This enables the customer to use their preferred type of channel when contacting a company;
- **Use of Technology:** automated services can be offered to customers on a 24-hour basis. This enables the customer to contact the company at any time that suits them;
- **Internet:** support telephone services can be offered to customers should they have an enquiry when considering making a purchase through the internet. Examples of how call/contact centres can help reduce costs;
- **Economies of Scale:** building and staff cost economies can be achieved by concentrating the handling of high-volume tasks in one location;
- **Use of Technology and the internet:** to reduce staff costs and increase efficiency. The use of telesales, telemarketing, obtaining sales leads, up and cross selling are further examples of how increased revenue can be achieved.

**(2 marks for correctly stated area. 1 mark for correct and complete explanation. Sub-Total per area: 3 marks. Maximum of 5 areas to be graded. Grand Sub-Total: 15 marks)**

(c) Automatic Call Distributor (ACD) provides some benefits to customers in providing good customer service. Some of such benefits are:

- it automatically routes calls to the person best placed to handle them;
- service to customers is quicker (no switchboard);
- customers get a more professional service;
- customers are more likely to get calls answered (through queuing);
- it helps companies to meet consumer needs;
- it can be linked to computers and automated services (seven days a week, 24 hours).

**(2½ marks for each correct and completely stated benefit. Maximum of 4 to be graded. Sub-Total: 10 marks)**  
**(Grand Total: 30 marks)**

18. (a) Enumerate four (4) reasons why internal promotion should be embraced in an organisation. **(12 marks)**

(b) John Adair developed the “Action Centred Leadership” which identified three (3) key areas of effectiveness. Enumerate and explain these three (3) keys areas. **(9 marks)**

(c) Are “leaders” different from “managers”? Explain your response by way of definition of the two (2) terms. **(9 marks)**

### **Solution**

(a) Internal promotion should be embraced in an organisation for the following reasons:

- there is less need for orientation when an existing staff member is appointed;
- there is less need for training when an existing staff member is appointed;
- there is a pre-existing familiarity between the promoted staff member and their colleagues;
- there is an internally verifiable track record of achievements;

- the high costs of external recruitment agencies are avoided.

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

(b) Three key areas of effectiveness as identified by John Adair's "Action Centred Leadership" are

- the task:** the primary need to get the job done;
- the team:** the need to build a cohesive unified team, a bunch of star players does not always equate to a team;
- the individual:** we all have a variety of needs which motivate us into action to satisfy them; to be wanted, to be useful, to have our way. If these needs are not met, we become frustrated, and this affects our performance.

**(2 marks for each correctly stated area. 1 mark for correct explanation. Sub-Total per area: 3 marks. Grand Sub-Total: 9 marks)**

(c) Yes, "leaders" different from "managers". **(3 marks)**. A leader is a person who is able to influence others to pursue goals. As a result, leadership does not require the trappings of officialdom. **(3 marks)**. while, a manager is a person who performs the specific functions of management and who holds an official title or plays an official part within the organisation **(3 marks)**.

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

**(Grand Total: 30 marks)**



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CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT I07  
MARINE AND AVIATION INSURANCE

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DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I07 - MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

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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**

Attempt: 80%; Success: 5% Question is a market question intended to test understanding of NAICOM requirement for obtaining certificate of offshore re-insurance. Candidates should endeavor to acquaint themselves with NAICOM directives and guidelines, as well as other industry's general requirements.

### **Question 2**

Attempt: 90%; Success: 80%. To test the knowledge of physical geography that affect sea and air travels. Performance was impressive and candidates should master the geographical aspect more and more.

### **Question 3**

Attempt: 91%; Success 62%. Intended to test the knowledge of vessel types. A good performance. A number of candidates scored full marks.

### **Question 4**

Attempt: 91%, Success: 50%. To test the knowledge of factors determining the location of seaports. Only about 3 candidates stated, depth of water and tidal range. Some went to mention factors, like government enabling statute, when physical factors are the consideration. Candidates should study better and effectively.

### **Question 5**

82% Attempted; Success 21%. Intended to test understanding of export trade and the documentation. Only few candidates mentioned the commercial invoice, which is the primary document issued by the exporter. Candidates should study with understanding and not just read their course books like novels.

### **Question 6**

Attempt: 75%; Success 65%. Good performance. Intended to test the knowledge of ICAO, the United Nations agency that regulates civil aviation worldwide. Students should also know other agencies and market organizations, relevant in Marine and Aviation Insurance practice.

### **Question 7**

Attempt: 96%; Success: 27%. Poor performance. To test the knowledge of the process of issuing bills of lading and the important information thereon. Bill of lading is a very important document in marine transportation and insurance. Candidates should know it thoroughly especially for claim purposes.

### **Question 8**

Attempt: 78%; Success: 22%. To test the knowledge of the exemption from liability available to a rail carrier. This knowledge is to benefit to both forwarders and insurers for optimal export trading. Candidates should pay more attention to this and other exemptions available to other carriers.

**Question 9**

Attempt: 83%; Success 42%. To test knowledge of factors considered by underwriters in rating cargo. A good knowledge of this is required in Marine Insurance practice both by brokers and underwriters.

**Question 10**

Attempt: 87%; Success 45%. A fair performance. To test knowledge of re-insurance. Knowledge of re-insurance is necessary in marine Insurance because of colossal values at risk, both cargo and hull. Candidates should pay attention to reinsurance.

**Question 11**

Attempt: 78%; Success 33%. Poor performance. To test knowledge of exclusions in Institute Time Clauses (Hull). Candidates are to be technically minded to be able to practice Marine and Aviation Insurance effectively. A thorough knowledge of clauses and their exclusions are necessary.

**Question 12**

Attempt: 83%; Success 21%. To test the knowledge of paramount Exclusions in ITC Hulls 1/11/95. Only one candidate defined paramount exclusion correctly. Other candidates merely stated one or two of the paramount exclusions.

**Question 13**

Attempt: 65%; Success 13%. Performance was poorest. It is surprising that candidates had difficulties in defining 'representation' let alone the categories. Candidates should endeavor to study well, their course books.

**Question 14**

Attempt 100%; Success 78%. To test the knowledge of the various uses of Aircraft. A lot of general and valid uses were presented by the candidates which earn them good marks but use for military purposes was not accepted.

**Question 15**

Attempt: 39%; Success 33%. To test the knowledge of terms to be specified by a documentary credit. Some candidates confused it for the procedure of preparing a documentary credit, which was not the intention of the question.

**Question 16**

Attempt 39%; Success 33%. To test the knowledge of CMR Conditions of Carriage of Goods by Road Act. Candidates did not know the international nature of the carriage, that it is intended to be between two different countries or states, one of which should be a signatory to the convention.

**Question 17**

Attempt: 34%; Success 50%. To test knowledge of the procedure of giving notice of Abandonment in constructive total loss situation and its effects. It is important both in Marine Hull and Cargo Claims.

**Question 18**

Attempt 70%; Success 63%. To test candidates understanding of some popular aviation terms relating to aircraft operations candidates performed very well.

**Comments on Overall Performance:**

Overall performance is 30.44%. Marine and Aviation courses are often not available in study centres and candidates have to work extra hard to achieve success in the very technical course of study. Candidates should seek assistance from these practitioners in Marine Insurance Companies as well as Broking firm. It is a very challenging course of study, but the end will justify the means.

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

Candidates should not relent in their determination to succeed. With increased hard work, success will be achieved. Candidates should create time for serious studies. Best wishes for success and an enviable career in Martine and Aviation.

**Part I****Answer ALL questions in Part I.****Each question carries 10 marks.**

1. State any four (4) requirements that must accompany all requests for Certificate for Offshore Reinsurance (COR) as specified in the NAICOM prudential guidelines.

**Solution**

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)**

2. What are the geographical names of the following:

- (a) Latitude 0(zero) degree;
- (b) Latitude 23.5 degree North;
- (c) Latitude 66.5 degree North;
- (d) Longitude 0(zero) degree;
- (e) Longitude 180 degrees.

**Solution**

- (a) The Equator;
- (b) The Tropic of Cancer;
- (c) The Arctic Circle;
- (d) The Greenwich Meridian;
- (e) The International Date Line (IDL).

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

3. (a) What are the two (2) subdivisions of dry cargo vessels (general cargo)? **(4 marks)**  
 (b) What two (2) main cargoes do ROROS carry? **(4 marks)**  
 (c) What type of trade are the Reefer vessels principally designed for? **(2 marks)**

**Solution**

- (a) The two subdivisions of dry cargo vessels (general cargo) are:  
 \* liners; and \*tramps

**(2 marks for each correctly stated sub-division. Sub-Total: 4 marks)**

- (b) The two main cargoes ROROS carry are:  
 \* new private cars, and \* goods vehicles.

**(2 marks for each correctly stated cargo. Sub-Total: 4 marks)**

- (c) The type of trade that the Reefers are principally designed for is refrigerated cargoes.  
**(2 marks) (Grand Total: 10 marks)**

4. What five (5) important factors determine the actual location of a seaport?

**Solution**

The five (5) important factors that determine the actual location of a seaport are:

- the depth of water available and tidal range;
- protection from weather and other hazards;
- a good inland distribution network of road, rail, e.t.c.
- availability of space for docks, storage e.t.c.; and
- availability of a good work force.

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

5. Enumerate any four (4) documents commonly stipulated to be presented by the exporter in a documentary credit transaction.

### **Solution**

The documents commonly stipulated to be presented by the exporter in a documentary credit include the following:

- \* commercial invoice(giving details of goods and payment);
- \* bill of lading;
- \* certificate of origin;
- \* bill of exchange;
- \* air waybill (where air transport is used);
- \* forwarding agent’s certificate of receipt;
- \* combined transport document (where goods are carried by more than one method of transport).

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

6. (a) What is the full form of ICAO?  
(b) What year was ICAO created?  
(c) How many nations signed the convention that created ICAO?  
(d) How does ICAO define “standards”?  
(e) How does ICAO define “recommended practice”?

### **Solution**

- (a) The full form of ICAO is International Civil Aviation Organisation.  
(b) ICAO was created in 1944.  
(c) 52 (fifty-two) nations signed the convention that created ICAO.  
(d) ICAO defines ‘standard’ as specification whose uniform application is recognised as necessary for the safety or regularity of international air navigation.  
(e) ICAO defines “recommended practice” as one agreed to be desirable but not essential.

**(2 marks for each correctly stated answer as captured above. Total: 10 marks)**

7. (a) Under the carriage of goods by Sea Act 1971, what type of bill of lading must the shipowner issue to the shipper when goods are delivered to him for carriage, and what two (2) important information must be stated on the bill?  
(b) What two (2) information must be noted by the ship owner on the bill of lading he issues to the shipper when goods were delivered to him, to make the bill become a shipped bill of lading when he has actually loaded the goods on board the vessel?

### **Solution**

- (a) Under the Carriage of goods by Sea Act 1971, the type of bill of lading the ship owner must issue to the shipper when goods have been delivered to him for carriage is received for shipment bill of lading. **(2 marks)**

The two important information to be stated on the bill are:

- (i) the particulars of the goods; **(2 marks)** and

- (ii) the apparent order or condition of the goods(2 marks).  
(Sub-Total: 6 marks)

(b) The two (2) information that must be noted by the ship owner on the bill of lading issued to the shipper when goods were delivered to him, to make the bill become a shipped bill of lading when he has actually loaded the goods on board the vessel are:

- (i) the name of the vessel upon which the goods have been loaded(2 marks), and  
(ii) the date of the shipment (2 marks).

(Grand Total: 10 marks)

8. Enumerate five (5) causes of loss, mis-delivery, damage or delay which exempt a Rail Carrier from liability.

### Solution

The following causes of loss, mis-delivery, damage or delay exempt a rail carrier from liability:

- \* an act of God;
- \* seizure under legal process;
- \* inadequate packing;
- \* as a result of war or civil unrest;
- \* act or omission of a trader;
- \* Inadequate labelling or addressing.

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

9. In cargo insurance rating, enumerate any two (2) considerations given by underwriters to “packing” and what three (3) considerations are given to “vessel” to be used?

### Solution

In cargo insurance rating, the considerations the underwriters give to “packing” are as follows:

- \* whether conventional or containerised;
- \* whether carried in bulk;
- \* whether professionally packed;
- \* whether to be carried on deck or under deck.

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

The considerations given to “Vessel” to be used are as follows:

- \* age, tonnage, quality of equipment, classification;
- \* type and suitability to carry the cargo;
- \* whether it complies with the minimum standard set out by the institute classification clause.
- \* tramp or liner;

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

(Grand Total: 10 marks)

10. (a) What are the two main types of proportional reinsurance treaties? (4 marks)
- (b) What type of Reinsurance protects marine underwriters against catastrophic losses? (2 marks)
- (c) What type of Reinsurance protects the premium income of the underwriter against undue fluctuations? (2 marks)
- (d) What is the name given to the reinsurance written in Lloyds and companies to protect other syndicates and companies in UK? (2 marks)

### Solution

(a) The two main types of proportional reinsurance treaties are:

- \* quota share;
- and
- \* surplus.

(2 marks for each correctly stated type. Sub-Total: 4 marks)

(b) The type of reinsurance that protects marine underwriters against catastrophic losses is catastrophic excess of loss reinsurance. (2 marks)



(c) The type of reinsurance that protects the premium of the underwriter from undue fluctuation is excess of loss ratio or stop loss reinsurance treaty. (2 marks)

(d) The name given to the reinsurance written in Lloyds and Companies to protect other syndicates and companies in UK is called 'inwards reinsurance' or 'assumed' reinsurance". (2 marks for any of the two if correctly stated. Sub-Total: 4 marks)

(Grand Total: 10 marks)

11. Enumerate any five (5) of the perils excluded by the "Strikes Exclusion Clause" of the Institute Time Clauses (Hulls) 1/11/95.

**Solution**

The Perils excluded by the Strikes Exclusion Clause of the Institute Time Clauses (Hulls) 1/11/95 are:

- \* strikers;
- \* locked out workmen;
- \* civil commotions;
- \* persons taking part in labour disturbances;
- \* riots;
- \* any person acting from a political motive;
- \* any terrorist.

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

12. (a) Explain in one statement what is meant by paramount exclusions as contained in the 'Institute Time Clauses (Hulls) 1/11/95. (4 marks)

(b) Enumerate any three (3) paramount exclusions. (6 marks)

**Solution**

(a) Paramount Exclusions as contained in the 'Institute Time Clauses (Hulls) 1/11/95 are statements which override anything contained in the insurance which may be inconsistent with them. (4 marks)

(b) Paramount exclusions include:

- \* war exclusion;
- \* strike exclusion;
- \* malicious acts exclusion;
- \* radioactive contamination exclusion.

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

(Grand Total: 10 marks)

13. (a) Define the term "representation" in two (2) sentences in relation to Sec 20: "Representation Pending the Negotiation of Contracts" of the Marine Insurance Act of 1906. (4 marks)

(b) Enumerate the three (3) "categories of representation". (6 marks)

**Solution**

(a) Sec 20: 'Representation Pending the Negotiation of Contracts', of the Marine Insurance Act of 1906 define representations as:

- as verbal or written statements to the underwriters by the assured or by the broker;
- which may influence a prudent insurer to accept the risk or the rate of premium to be charged if accepted.

(2 marks for each definition above. Sub-Total: 4 marks)

(b) The three (3) categories of representation are:

- \* material fact;
- \* fact;
- \* expectation or belief.

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

(Grand Total: 10 marks)

14. Enumerate five (5) uses of aircraft in civil aviation.

### **Solution**

The following are the uses of aircraft in civil aviation:

- \* carriage of international passengers;
  - \* carriage of domestic passengers;
  - \* carriage of international cargo;
  - \* carriage of domestic cargo;
  - \* carriage of mail;
  - \* carriage of tourists;
  - \* private flying.
- (2 marks for each correctly stated use. Maximum of 5 to be graded. Total: 10 marks)

### **Part II**

**Answer TWO (2) out of the following FOUR (4) questions.**

**Each question carries 30 marks.**

15. Enumerate 10 (ten) terms of credit, that a documentary credit should specify, to make it easy to understand and thereby avoid confusion.

### **Solution**

The terms of credit that a documentary credit should specify, to make it easy to understand and thereby avoid confusion are:

- the type of credit: revocable or irrevocable;
- the names and addresses of the importer and the exporter;
- the total amount of credit and the currency it is expressed in;
- the full details of shipment, including times and places;
- a brief description of the goods;
- the documents to be presented by the exporter to the paying bank, to enable them to receive payment at the due time;
- terms of shipment (FOB, CIF, e.t.c.);
- terms of settlement;
- whether part shipments are allowed;
- whether transshipment is allowed;
- who pays the charges;
- an expiry date;
- whether the credit is subject to uniform customs and practice for documentary credits.

(3 marks for each correct and completely stated term. Maximum of 10 to be graded. Total: 30 marks)

16. Explain in five (5) sentences each, to a new entrant into shipping business, the following CMR conditions of the Carriage of Goods by Road Act 1965;

- (a) Carriage must be effected by road; and
- (b) Contract must have international status.

### **Solution**

- (a) Carriage must be effected by road.
- the very aim of the convention is the carriage of goods by road;
  - this condition is of primary importance for liability with regard to combined transport for consignment dispatched from and to UK;
  - the convention continues to apply provided that the goods are not unloaded from the vehicle when it continues its journey by sea or some other means of transport;
  - any loss arising during the secondary means of transport, not caused by the negligence of the road carrier, its liability shall be determined by the legislation affecting the secondary means of transport;
  - goods dispatched from UK will have to remain on the vehicle, that is, roll on/roll off, for CMR to continue to apply to the whole of the transit period;

- a container unloaded from the lorry and then hoisted on board a vessel is no longer covered by CMR, except in an unforeseen accident situation.

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

(b) Contract must have international status.

- the CMR will only apply when the place of taking over the goods and the place of delivery, as specified in the contract are situated in two different countries;
- Only one of the countries need to be a contracting country;
- CMR will apply, for example, to a contract of carriage where a lorry loaded in UK for the consignment to be delivered in France but the goods are destroyed before leaving UK;
- Absence of unloading and reloading is necessary for CMR to apply where a succession of carriers are involved;
- There is provision for a single contract to be performed by successive road carriers, provided the goods remain on the vehicle throughout the entire transit period covered by the contract.

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

**(Grand Total: 30 marks)**

17. Enumerate 10 (ten) provisions of Section 62 of the Marine Insurance Act 1906; ‘Notice of Abandonment’ as it relates to the assured and the insurer.

### **Solution**

The provisions of Section 62 of the Marine Insurance Act 1906, ‘Notice of Abandonment’, as between the assured and the insurer are as follows:

- where the assured elects to abandon the subject-matter insured to the insurer, he must give notice of abandonment;
- if he fails to do so, the loss can only be treated as a partial loss;
- notice of abandonment may be given in writing or by word of mouth, or partly in writing and partly by word of mouth or in terms which indicate the insured’s intention to abandon the subject matter unconditionally to the insurer;
- notice of abandonment must be given with reasonable diligence after the receipt of reliable information of the loss;
- where the information is doubtful, the assured is entitled to a reasonable time to make enquiry;
- where notice of abandonment is properly given, the rights of the assured are not prejudiced by the fact that the insurer refuses to accept the abandonment;
- the acceptance of an abandonment may be either express or implied from the conduct of the insurer;
- the mere silence of the insurer after notice is not an acceptance;
- where notice of abandonment is accepted, the abandonment is irrevocable;
- the acceptance of the notice conclusively admits liability for the loss and the sufficiency of the notice;
- notice of abandonment is unnecessary where, at the time when the assured receives information of the loss, there would be no possibility of benefit to the insurer if notice were given to him;

- where an insurer has reinsured his risk, no notice of abandonment need be given to him;
- notice of abandonment may be waived by the insurer.

(3 marks for each correct and completely stated provision. Maximum of 10 to be graded. Total:30 marks)

18. Give a brief definition of each of the following Aviation Policy Terms:

- |                       |               |                          |
|-----------------------|---------------|--------------------------|
| (a) accident;         | (b) unit;     | (c) overhaul cost;       |
| (d) private pleasure; | (e) business; | (f) commercial;          |
| (g) rental;           | (h) flight;   | (i) taxiing; (j) ground. |

**Solution**

- (a) **Accident:** means any one accident or series of accidents arising out of one event.
- (b) **Unit:** means a part or an assembly of parts (including any sub-assemblies) of the aircraft which has been assigned an overhaul life as a part of an assembly. An engine complete with all parts, normally attached when removed for the purpose of overhaul or replacement, shall together constitute a single unit.
- (c) **Overhaul cost:** means the cost of labour and materials which are or would be incurred in overhaul or replacement (whichever is necessary) at the end of the overhaul life of the damaged or a similar unit.
- (d) **Private Pleasure:** means use for private and pleasure purposes but NOT use for any business or profession nor for hire or reward.
- (e) **Business:** means the uses stated in Private Pleasure and use for business or professional purposes but NOT use for hire or reward.
- (f) **Commercial:** means the uses stated in Private Pleasure and Business and use for the carriage by the insured of passengers and cargo for hire or reward.
- (g) **Rental:** means rental, lease, charter or hire by the insured to any person, company or organisation for private pleasure and business uses only, where the operation of the aircraft is not under the control of the insured.
- (h) **Flight:** means from the time the aircraft moves forward in taking off, whilst in the air and until the aircraft completes its landing run. A rotary aircraft shall be deemed to be in flight when the rotors are in motion as a result of engine power, the momentum generated there from, or autorotation.
- (i) **Taxiing:** means movement of the aircraft under its own power other than in flight as defined under flight. Taxiing shall not be deemed to cease merely by reason of a temporary halting of the aircraft.
- (j) **Ground:** means whilst the aircraft is not in flight or taxiing or moored.

(3 marks for each correct and completely stated definition. Total: 30 marks)

LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT I08  
AVIATION AND SPACE INSURANCE

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I08 – AVIATION AND SPACE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

**Chief Examiner's Comments:**

**Question 1**

66% attempted the question, however, 34% passed, the performance was average. This showed that candidates are not familiar with the NAICOM Prudential Guidelines. Candidates need to read NAICOM Prudential Guideline more.

**Question 2**

Attempt was 66%, but performance was poor (33%). Candidates do not understand the question and need to study wide and attend lectures/tutorials.

**Question 3**

Question was intended to test candidates' knowledge on loss of license insurance and benefits. Attempt was (100%) good, however, 67% got above average. This shows fair understanding of the question.

**Question 4**

The question was intended to test candidates' knowledge on what underwriter considers if insured ask for increase or decrease in agreed values. Attempt was 100% (excellent), but they all scored below Average (very poor). The candidates need to attend lectures and tutorials.

**Question 5**

Attempt was excellent (100%), The performance was also excellent (100 %). This showed that candidates understood the question on EGPWS.

**Question 6**

Attempt was 100% (excellent) and performance was also excellent (100%), this showed that candidates understood the question very well.

**Question 7**

Attempt was 100% (excellent) but performance was well below average. Only 34% scored above average. This showed that candidates need to attend lectures and study their course books very well, for proper understanding.

**Question 8**

Attempt was excellent (100%), the performance was excellent (100%) as well. This showed that candidates read and understood the question.

**Question 9**

Attempt was excellent (100%), the performance was also very good. 80% scored well above average. This showed that candidates had better knowledge/understanding of the question.

**Question 10**

Attempt was excellent (100%) and the performance was also excellent over 90% above average. This showed that candidates understood the question.

**Question 11**

100% candidates attempted this question, which was excellent, however, the performance was 66% above average. This shows that candidates need deep understanding of the question, they should attend lecture and tutorial, above all read their course books thoroughly.

**Question 12**

100% candidates attempted this question, this was excellent. However, only 34% scored above average, which shows that performance was bad. This showed lack of knowledge of the question.

**Question 13**

Attempt was 100%, which was excellent. And the performance is over 90%. This shows that candidates demonstrated good understanding of the question.

**Question 14**

100% candidates attempted the question, which was excellent. However, the performance was just 100%, and candidates scored above average. This shows that candidates had fair knowledge of the question.

**Question 15**

The question was intended to test candidates' knowledge of reinsurance in aviation business. 67% attempted it and performance was good, however the performance was below average. Candidates need to read and understand their course books well and attend tutorials.

**Question 16**

No candidates attempted this question.

**Question 17**

Only 33% candidates attempted this question and they scored below average, the performance was poor. This showed they lacked understanding of the question [17(a)], but fair attempt on 17b that tested their knowledge on underwriting/surveyor consideration of aircraft repairs.

**Question 18**

100% of the candidates attempted this question which was excellent. However, the performance was above average with 34% Scoring excellent, while 64% were just below average. This shows cumulative of just above average performance.

**Comments on Overall performance:**

67% of the candidates passed, which is good. The remaining 37% are advised to attend lectures/tutorials and study the course books very well.

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

Candidates should attend lectures and tutorials, and above all prepare well for the examination.



**Part I****Answer ALL questions in Part I.****Each question carries 10 marks.**

1. State any four (4) requirements that must accompany all requests for Certificate for Offshore Reinsurance (COR) as specified in the NAICOM prudential guidelines.

**Solution**

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)**

2. Explain five (5) of the main changes that the Montreal Convention 1999 made to the existing Warsaw Convention 1929 Liability Regime.

**Solution**

The main changes that the Montreal Convention 1999 made to the existing Warsaw Convention 1929 Liability Regime are:

- Under the Montreal Convention 1999, the carrier is strictly liable up to 113,100 special drawing right (SDRs) for the death nor bodily injury of a passengers caused by an accident.
- For damages above 113,100 SDRs the carrier bears unlimited liability however, it is not liable if it can prove that the bodily injury or death of the passenger was not due to the carrier's or its agent's negligence or other wrongful act or omission or was safely due to the negligence
- The baggage liability limit has changed to 1,131 SDRs per person for loss, damage or delay
- A limit of 4,694 SDRs was introduced for delay of passengers.
- There is an unbreakable limit of 19 SDRs per kilo in respect of loss, damage or delay to Cargo.
- In respect of documentation requirements, any means which preserves the information prescribed for tickets and airway bill is acceptable: the carrier shall offer to deliver written confirmation of this information and must give written notice of limits of liability.
- In death and bodily injury cases only a "Fifth jurisdiction has been added which in many against the carrier in their home country (2 marks each Max 10 marks in all) (Ref 80 – 83)

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

3. Explain briefly:
  - (a) why a pilot would buy loss of license insurance?
  - (b) the types of benefits or compensations that are payable in the event of a valid claim.

### **Solution**

- (a) In the event that the license is withdrawn by the authorities, the pilot will be unable to work, so the loss of license insurance will provide a cash benefit to assist, it is a form of permanent health insurance. **(5 marks)**
- (b) Insurers will pay a fixed amount (lump – sum) in the event that the insured person’s license is permanently withdrawn and unable to return to a flying job. This may be a fixed sum or a multiple of salary. **(5 marks)**

**(Grand Total: 10 marks)**

4. Explain what an underwriter should consider if an insured asks to increase or decrease the agreed value of their aircraft at renewal of the insurance on the aircraft.

### **Solution**

Generally, the values of aircraft as with most manufactured goods will depreciate overtime. It should therefore be a matter of concern to insurers if they received a request to increase a value. The normal response is to ask for justification for the aircraft value. The primary concern for an insurer is of moral hazard. Why does the insured want to increase the value? Does the insured have a reputation, has this insured had a poor claims history or are there financial problems? Reduction in agreed value may be of equal concern, especially if they lead to under insurance. This will be of special concern in the event of a partial loss as under such circumstances, the claim may be settled as a total loss with no deductible applicable in the case of reductions is agreed value the main reason is generally to save premium underwriter will need to satisfy themselves that the revised value is in line with fair market values.

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

5. Describe any four (4) capabilities of the Enhance Ground Proximity Warning System (EGPWS).

### **Solution**

The capabilities of the Enhance Ground Proximity Warning System (EGPWS) are that:

- (i) it can look ahead and provide a terrain display;
- (ii) it contains an airport and terrain database which is used in conjunction with input about the aircraft’s position, barometric attitude and flight path;
- (iii) it provides warning of barometric attitude error in any areas around airports;
- (iv) its terrain display is designed to increase flight crew awareness of the surrounding terrain;
- (v) its terrain display is displayed automatically if a look-head caution or warning alert activates.
- (vi) on aircraft without a map display, a dedicated weather radar display may be used. The display depicts the terrain as red, amber, or green depending on the height of the terrain reflective to the aircraft’s attitude.

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

6. (a) (i) What are the three (3) branches of the Nigerian Federal Government? **(3 marks)**  
(ii) What is the purpose of the three branches of the Nigerian Federal Government? **(3 marks)**
- (b) What is the difference between the roles of the legislative and the Judicial branches of the Nigerian Federal Government? **(4 marks)**

### **Solution**

- (a) (i) The three branches of the Nigeria Federal Government are the legislative, the executive and the judicial branches. (3 marks)
- (ii) The purpose of the three branches of the Nigeria Federal Government is to provide “check and balances” to each other’s sphere of influence (3 marks)
- (b) The Legislative branch enacts “statutes” that command or prohibit certain forms of conduct applicable to society at large (2 marks), whereas the judicial branch exercises discretion and judgment in applying the law (2 marks).  
(Grand Total: 10 marks)

7. List at least five (5) headings of an aviation policy schedule.

### **Solution**

The headings of an aviation policy schedule are:

- \* policy number; \* insured’s name and address; \* policy period;
  - \* details of the aircraft insured; \* uses covered; \* geographical limit;
  - \* pilots’ proficiency requirement (total flying time) TFT; \* policy limits.
- (2 marks for each correctly stated heading. Maximum of 5 to be graded. Total: 10 marks)

8. (a) State the four (4) types of pilots referred to in Annex 1 to the Chicago Convention 1944. (8 marks)
- (b) Outline the medical requirements for pilots. (2 marks)

### **Solution**

- (a) The four types of pilots identified by Annex 1 of the Chicago Convention 1944 are:  
\* Student Pilot; \* Private Pilot; \* Commercial Pilot; \* Air Transport Pilot.  
(2 marks each correctly stated type. Sub-Total: 8 marks)
- (b) The medical requirements for pilots are: 12 monthly medical assessment required for air transport/commercial pilots (1 mark) but 6 monthly if over age 40 (1 mark).  
(Sub-Total: 2 marks)  
(Grand Total: 10 marks)

9. Explain briefly the differences between “insured value” and “agreed value basis”.

### **Solution**

If an aircraft is covered on an agreed value basis insurers agree to waive their option to replace the aircraft and will pay the agreed value of the aircraft, rather than the market value in the event of a total loss, constructive total loss or arranged total loss. An aircraft on insured value basis is the amount that the insured will receive in the event of a total loss will be the market value at the time of loss. Insurers have the right to replace with one in a similar condition to the aircraft prior to the loss.

(2½ marks for each correct and completely stated explanation. Maximum of 4 to be graded. 2 under each term. Sub-total per term: 5 marks. Grand Total: 10 marks)

10. (a) What are the three (3) key elements that influence an aircraft’s ability to fly. (6 marks)
- (b) What are the two (2) manuals an organisation must have to maintain an AOC?

(4 marks)

### Solution

- (a) The three key elements that influence an aircraft's ability to fly are  
\* lift; \* drag; and \* thrust.  
(2 marks for each correctly stated element. Sub-Total: 6 marks)
- b. The two manuals an organisation must have to maintain an AOC are:  
\* operations manual; and \* maintenance exposition manual.  
(2 marks for each correctly stated manual. Sub-Total: 4 marks)  
(Grand Total: 10 marks)
11. (a) List any six (6) of the contents of the standard slip in aviation and/or space insurance. (6 marks)
- (b) List any four (4) main applications of satellites. (4 marks)

### Solution

- (a) The contents of the standard slip in aviation and/or space insurance are:  
\* name of insured; \* period of insurance; \* interest;  
\* sum insured; \* conditions; \* deductibles;  
\* uses/pilots; \* premium/brokerage; \* territorial limits;  
\* other information (*which can be "not warranted"*).  
(1 mark for each correctly stated content. Maximum of 6 to be graded. Sub-Total: 6 marks)
- (b) The main applications of satellites are:  
\* communication services; \* meteorology; \* earth observation;  
\* navigation systems; and \* science.  
(1 mark for each correctly stated application. Maximum of 4 to be graded. Sub-Total: 4 marks)  
(Grand Total: 10 marks)

12. State five (5) items of key underwriting information an insurer would require when rating a commercial airfield for airport liability insurance.

### Solution

The following are the items of key underwriting information an insurer would require when rating a commercial airfield for airport liability insurance:

- \* the insured; \* the name of the airport; \* the location;
- \* how many aircraft movements are there per annum?
- \* is the insured responsible for ground handling of aircraft?
- \* does the insured handle aircraft maintenance?
- \* is the airport responsible for air traffic control?
- \* is the airport responsible fueling?
- \* does the insured provide ancillary service such as car parking and restaurants, e.t.c. or are they contracted out to concessionaries?
- \* is the insured responsible for passengers' assistance?
- \* the claims record.

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

13. Describe briefly:
- (a) the importance of "crew resources management";

- (b) the use of “simulators” in crew training.

**Solution**

- (a) Crew Resource Management (CRM) is now a mandatory part of crew training in most countries. It helps to recognise that human error is unavoidable and that crews must train to overcome this, the main focus of such training is that crews must work as a team and communicate amongst themselves but must recognize the respective divisions of responsibility. CRM applies to the whole crew and can include the ground or engineering staff.

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

- (b) Simulators form part of the training of crew, both ab initio and continuation training. They enable crew to learn about all scenarios, however unlikely in safe environment simulators also enable pilots and engineers to carry out more training than they would otherwise get without tying up valuable resources, which also means that it is cheaper and more cost effective to use simulators.

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

(Grand Total: 10 marks)

14. Explicitly outline any two (2) main areas of responsibility of the Nigerian Civil Aviation Authority (NCAA) according to the Civil Aviation Act 1982.

**Solution**

The Main areas of responsibility of the Nigerian Civil Aviation Authority (NCAA) according to the Civil Aviation Act 1982 are:

- to ensure that the aviation industry meets the highest safety standards;
- to ensure that consumers have choice, value for another, are protected and treated fairly when they fly;
- to ensure that the environment impact of aviation on Local communities is effectively managed and Co2 emissions are reduced; and
- to ensure that the Aviation industry manage security risks effectively and advising Nigeria Government on aviation matter.

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

**Part II**

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) Describe the role of the reinsurance market in insurance transactions. (3 marks)
- (b) Explain the roles of three (3) out of the various types of reinsurance available with respect to aviation insurance. (27 marks)

**Solution**

- (a) The role of the reinsurance market in insurance is a crucial row that is achieved by supporting the direct underwrites in promoting additional capacity. Another critical aspect is the need to spread the risk of loss. (3 marks)

- (b) Reinsurance, with respect to aviation insurance, can be undertaken in a number of ways:

- \* facultative;
- \* excess of loss;
- \* quota share treaty (surplus lines);
- \* stop loss.

- **Facultative Reinsurance:** this is “one-off” specific insurance on a given risk or part of it. it is coverage purchased by a primary insurer to cover a single risk – or a block of risks held in the primary insurer’s book of business. (8marks)
- **Excess of Loss:** this type of contract protects a direct insurer for losses above an agreed retention for all amounts they are liable for arising out of one occurrence up to another specified amount. This type of protection can be taken out to cover a particular underwrites entire portfolio in a given class. This type of contract is usually purchased in layers (eg 25,000 excess 50,000/50,000 excess 75,000 and so on premium would either be expressed as a fixed amount or generally as amount adjustable at a percentage of the direct insurers overall net premium income for that class of business (8marks)
- **Quota Share:** the direct insurer will reinsure an agreed proportion of all risks in a defined class of business. This can be arranged on the basic of a fixed or variable percentage of the direct insurer’s signed line on a fixed or variable monetary amount. The cessions to treaty would be proportional to the direct insurers own writings and the reinsurance premiums paid would be the same percentage of the net premium that equates to the (reinsurance) cession. This type of treaty is advantageous to a direct insurer as it allows them to write bigger lines on the original business (and this makes them more attractive to brokers) (8marks)
- **Stop Loss:** this protects a direct insurer from losses in excess of their net premium income. Stop loss insurance protects against the aggregation of losses in any given class the direct insurer will decide their retention for the period insured. The stop loss reinsurances will protect the direct insurer for amount above the retention up to – another set percentage of the net premium income cover can be arranged in layers. The premium will normally be a percentage of applicable net premium income (8marks)

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

Maximum of 2 explanations to be graded under each type. Sub-Total per term: 9 marks. Grand Sub-Total: 27 marks) (Grand Total: 30 marks)

16. (a) Explain three (3) key factors affecting the setting of a premium rate for hull insurance; stating the key objective for these considerations. (18 marks)
- (b) Enumerate four (4) factors each that are considered when rating large operators and a flying club. (12 marks)

**Solution**

- (a) Insurer will consider several factors when setting a premium rate for hull insurance. Their key objective is to set a rate commensurate with the risk (and including an element of profit). They will also be aware of competition and capacity available which have driven rate to uneconomical level in recent year. The level of deductible will also have a bearing age, care must be taken that a suitable premium is charged. Sometimes a 70/30 formula is used, the idea being to load premium to reflect the increased chance of a total loss for all types of operators, the insurer would wish to take note of statistics, whether their own or industry wide.

(6 marks for each correct and completely stated factor with key objective correctly stated.

Maximum of 3 to be graded. Sub-total: 18 marks )

- (b) When setting a rate, an insurer should consider the following factors:

**Large Operators' factors are**

- \* type of aircraft;
- \* value of aircraft;
- \* training infrastructure;
- \* loss record;
- \* particular hazards; and
- \* ease of retrieval of aircraft to suitable repair site.

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

**Factors to consider for flying club are:**

- \* type of aircraft;
- \* value of aircraft;
- \* pilot experience;
- \* number of members;
- \* claims record of club;
- \* location (geographical) facilities.

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

**(Grand Sub-Total: 12 marks)**

**(Grand Total: 30 marks)**

17. An aircraft belonging to Oloja Airlines, a Nigeria Company Operating a direct flight from Lagos to Accra has a landing accident in Ghana involving fatalities.

- (a) Explain the compensation that will be payable in the event of passenger's death or injury;
- (b) Discuss the considerations that a surveyor or insurer might consider when selecting an organisation to repair this aircraft which had suffered substantial damage in the accident.

### **Solution**

(a) The primary piece of legislator affecting passenger liability in the Montreal Convention 1999 enacted under EU regulation 2027/97 which Nigeria follows. The regulations state that the carrier is obliged to make an advance payment of at least 16,000 special drawing rights (SDRs) in the event of death to meet immediate economic needs on a basis that is proportional to the hardship suffered. This payment must be made not later than fifteen (15) days from the date of identification of the natural person entitled to the compensation. After the hardship payment to the beneficiary(ies), the payment of the main liability is governed by the Montreal Convention 1999 that the carrier is strictly liable in the event of death of passenger and/or bodily injury for damages up to 113,100 SDRs.

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

(b) The main considerations that a surveyor or insurer might consider when selecting an organisation to repair this aircraft which had suffered substantial damage in the accident are:

- cost and capability considerations by both the insured and surveyor;
- repairs to an aircraft will involve major engineering work and testing which limit the available options as only certain organisations that will have the capability to perform the work on following significant factors;
- location of repair site;
- third party provider capabilities;
- availability of parts;
- \* repair capabilities;
- \* manufacturer repair capabilities;
- \* cost.

It is not necessary the case that only the manufacturer has the capability to do the work; other local companies may have the capability too. Though it is true that manufacturer is the most expensive option.

A further consideration in deciding who will repair the aircraft is that upon eventual sale of the aircraft a buyer may well look more favourable on a manufacturer's repair rather than one done by an independent organization with consequent difference in resale value. The surveyor will, therefore, have to weigh up all the available options against the cost and recommend the course of action that should be taken.

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

**(Grand Total: 30 marks)**

18. (a) What is loss of use cover in aviation insurance? **(4 marks)**  
(b) Enumerate any seven (7) types of contracts that an airline may get involved with. **(14 marks)**  
(c) Briefly explain the two (2) types of discounts that may be given after expiry of an aircraft policy. **(12 marks)**

**Solution**

- (a) Loss of use cover in aviation insurance is payments to the insured after a total loss (to help with the extra expenses after such a loss). **(4 marks)**

- (b) The types of contracts that an airline may get involved with are:  
\* aircraft purchase;                      \* aircraft charter;                      \* aircraft lease;  
\* spare parts or engine purchase or lease;                      \* aircraft maintenance;  
\* fuel supply;                      \* catering;                      \* indemnity;  
\* ground handling;                      \* use of airport; and                      \* SITA agreement.  
**(1 mark for each correctly stated contract type. Maximum of 7 to be graded. Sub-Total: 14 marks)**

- (c) The two types of discounts that may be given after expiry of an aircraft policy are:  
\* no-claim bonus;      and      \* profit commission  
**(Candidates are required to briefly explain these two discounts. 3 marks for correctly stated discount. 3 marks for correct and complete explanation. Sub-Total per discount: 6 marks. Grand Sub-Total: 12 marks)**  
**(Grand Total: 30 marks)**



LOGO

CHARTERED INSURANCE INSTITUTE OF NIGERIA  
INTERMEDIATE

OCTOBER 2023 DIET EXAMINATION PAPER

SUBJECT I09  
INSURANCE PRACTICE AND REGULATION

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I09 - INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I and two (2) out of the four (4) questions in Part II.

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

Part I - 140 marks.

Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score maximum possible marks.

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

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

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

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

**Chief Examiner's Comments:**

**Question 1**

Most of the candidates did not understand the question very well, 70% of them did not get it right, it was only 30% who understood it.

**Question 2**

The question sought to test candidates' knowledge on the concept of insurance. It was popular and well attempted; performance was high 80%. They showed a good understanding of the question.

**Question 3**

This question was well attempted by most candidates, and about 90% got it right while only a few got below average. There is need for the candidates to read and be more conversant with the course book.

**Question 4**

The question is to test the candidates' knowledge of marine policies, and 85% of the candidates were able to score above average.

**Question 5**

The question was well understood by the candidates who attempted it, and 90% of them got it correctly.

**Question 6**

The question was understood by few of the candidates with 60% pass. However, the performance was average in all.

**Question 7**

It was well answered by many candidates and majority performed above average, only a few went outside the range.

**Question 8**

The question was attempted by 45% of the candidates and most of them did not understand the question, as it was not well answered as reflected in the performance.

**Question 9**

About 159 candidates attempted the question and only few candidates got below average.

**Question 10**

This is another question which was answered very well by the candidates - 90%. Only very few misunderstood what are the features of insurable interest.

**Question 11**

70% of the candidates attempted the question and it was averagely passed, while few confused the question for general business.

**Question 12**

This question was well attended to, and about 98% of the candidates understood the question and gave correct answers. The performance was good.

**Question 13**

The question was well attempted and passed although candidates could not express their answers in a professional way.

**Question 14**

Most of the candidates who attempted this question had a good knowledge of the questions and well answer by all candidates; while there was an average performance, which is okay.

**Question 15**

Most of the candidates who attempted the question were able to answer it very well and success rate is okay and commendable.

**Question 16**

The question tested candidates' knowledge and understanding of moral and physical hazard, and were able to answer it averagely, while the (b) part was not done very well, 80% performed averagely.

**Question 17**

Most of the candidates who attended the questions answered it well (at least 85%), however (c) part was not well understood by the candidates (as to the player in the Industry).

**Question 18**

The question was to know those who understood how to handle claims, but was not well attempted by the candidates. The performance was averagely at 55%.

**Comments on Overall Performance:**

This diet performance is better than last diet, as we have a large number 62.27%, but there is still room for improvement.

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

There is a need for the candidates to study more and read instructions very well before answering any question.

**Part I****Answer ALL questions in Part I.****Each q****Question carries 10 marks.**

1. 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.

**Solution**

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)

2. (a) With any three (3) concise but correct points, explain briefly the concept of insurance to a non-insurance person. (6 marks)
- (b) State any four (4) common characteristics of insurable risks. (4 marks)

**Solution**

(a) Insurance is unlike most other products: it is a conditional promise. In return for a fee (the premium), the insurer promises to make a payment (referred to as the claim) if an event of a specified nature occurs (usually referred to as an insured peril) and the insured consequently suffers loss or damage. As such insurance is a risk transfer mechanism, the basic proposition is that the insured exchanges uncertainty of a low frequency, high severity risk (such as fire) for certainty of a lower cost premium.

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

- (b) The common characteristics of insurable risks are:
- \* pure risk;                      \* determinable;                      \* fortuitous;                      \* homogeneity;
  - \* insurable interest;                      \* independence;                      \* public policy.

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

(Grand Total: 10 marks)

3. (a) How many insurance principles do we have? (2 marks)
- (b) Identify and discuss any four (4) of these principles. (8 marks)

**Solution**

(a) They are six insurance principles. (2 marks)

(b) These are:

**Utmost Good Faith:** this principle deals with the issue of disclosures by parties to insurance unlike other commercial contracts that are based on that of caveat emptor, which applies that the buyer should beware. The buyer has a duty in law to disclose all facts that would influence an insurer in deciding whether or not to accept the risk, and at what premium. The facts are called material facts. The duty of disclosure is also on the insurer.

**Indemnity:** this is a very important principle that makes sure the correct value is paid to the person who suffered the loss. That is when you suffer a loss, the insurer will try to place you back into the position you were in before the loss – no more, no less.

**Insurable Interest:** this is the principle that empowers the insured to buy insurance because of his relationship with the subject matter of insurance. Where there is no insurable interest, the proposer cannot enter into an effective insurance contract.

**Proximate Cause:** means the active efficient cause that sets into motion a chain of events thereby leading to a loss. Proximate cause helps us to identify the insured peril, the excepted perils and the uninsured peril.

**Subrogation:** this is a corollary of indemnity as where there is no indemnity it cannot operate. This principle allows the insurer having paid for a loss to stand in the position of the insured to recoup from the tortfeasor that caused.

**Contribution** – this is another corollary of indemnity which arises when two or more insurers cover the same risk. The essence is to prevent the insured from claiming for the same loss from both insurers and thereby making a profit.

**(1 mark for each correctly stated principle. 1 mark for each correct and completely stated explanation. Sub-Total per principle: 2 marks. Maximum of 4 principles to be graded. Grand Sub-Total: 8 marks)**  
**(Grand Total: 10 marks)**

4. List any five (5) commonly encountered types of marine policies.

**Solution**

The commonly encountered types of marine policies are:

- \* time;            \* voyage;        \* mixed;            \* building /construction policy;
- \* small craft;   \* slip;             \* open cover.

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

5. (a) Enumerate three (3) reasons why some insurances are compulsory. **(6 marks)**  
(b) Enumerate two (2) of the three (3) categories of person in the insurance marketplace. **(4 marks)**

**Solution**

(a) The reasons why some insurances are compulsory are:

- to provide funds to meet awarded damages;
- to ease the State’s financial burden;
- in response to national concern; and
- for protection.

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

(b) The three (3) categories of person in the insurance marketplace are the:

- \* insureds;                                \* insurers;        and        \* intermediaries

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

**(Grand Total: 10 marks)**

6. List five (5) of the powers of control and intervention that are available to NAICOM.

**Solution**

The powers of control and intervention that are available to NAICOM are:

- by order, remove from office any director or other officer of the insurance institution;
- by order, to appoint any person or persons as a director or directors, of the insurance institution and provide in the order for the person or persons so appointed to be paid by the insurance institution such remuneration as may be set out in the order;
- appoint any person to advise the insurance institution in relation to the proper conduct of its business, and provide in the order for the person so appointed to be paid by the insurance institution such remuneration a may be set out in the order;
- withdraw authorisation to operate within a regulated market;
- temporarily suspend authorisation to operate within a regulated market;
- impose a fine – this is what tends to hit the headlines, particularly large fines imposed on well-known institutions;
- initiate a criminal prosecution;
- impose a limitation on authorised activity;
- specify remedial action requirements – actions required to correct the identified problem;
- a combination of more than one of the above.

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

7. State five (5) core activities of an insurance company.

**Solution**

The core activities of an insurance company are:

- \* underwriting;
- \* investment and related functions;
- \* compliance management;
- \* enterprise risk management;
- \* claims management;
- \* compliance with AML/CFT requirements.

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

8. State any four (4) of the five elements that are considered in the calculation of insurance premium.

**Solution**

The five elements that are considered in the calculation of insurance premium are:

- \* expected claims;
- \* reserves;
- \* expenses;
- \* stimated outstanding claims at the year-end;
- \* profit.

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

9. (a) What is proposal form? **(2 marks)**  
(b) Enumerate any three (3) general questions found in proposal form. **(8 marks)**

**Solution**

(a) A proposal form is the document **(1 mark)** used by an insurance company to gather together all the material facts **(1 mark)** which are necessary for deciding on the terms of acceptance for the proposed risk(s). **(2 marks)** **(Sub-Total: 4 marks)**

- (b) The general questions found in proposal form are:  
\* name; \* address; \* occupation; \* age; \* past claims \* period of insurance.  
**(2 marks for each correctly stated general question. Maximum of 3 to be graded. Sub-Total: 6 marks)**  
**(Grand Total: 10 marks)**

10. Enumerate any four (4) common features of insurable interest.

**Solution**

The common features of insurable interest are that:

- \* the risk must be pure in nature;
- \* the risk must be fortuitous;
- \* the risk must be homogeneous;
- \* the risk must not be against public policy.
- \* the risk must be determinable;
- \* the risk must have insurable interest;
- \* the risk be independent of each other;

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

11. Enumerate any four (4) special features of a standard life assurance policy.

**Solution**

The special features of a standard life assurance policy are:

- \* premium payments;
- \* paid-up policies;
- \* participation in profits;
- \* investments
- \* surrender values;

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

12. (a) What is a complaint? (2 marks)

(b) Enumerate any four (4) reasons why complaints are important to firms. (8 marks)

**Solution**

(a) A complaint is any expression of dissatisfaction, whether written or oral, whether justified or not. (2 marks)

(b) Complaints are important to firms because:

- complaints may be the most valuable form of feedback available to the company;
- complaints are a source of information about where its customers want it to improve its services and product offering;
- complaints represent an opportunity for direct personal contact with the customer and a chance to save business, rebuild trust and enhance customer loyalty;
- complaints provide important information to help a company to improve its product and services;
- handling of complaints effectively and efficiently makes good commercial sense;
- complaints ensure compliance with regulations.

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

(Grand Total: 10 marks)

13. List any four (4) institutions that provide reinsurance cover in the insurance market.

**Solution**

The institutions that provide reinsurance cover in the insurance market are:

- \* reinsurance companies;
- \* captive insurance companies;
- \* primary insurers;
- \* Lloyd's syndicates
- \* pools;

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

14. Enumerate any:

(a) three (3) headings that should be contained in a policy schedule. (6 marks)

(b) two (2) operational expenses that the insurer incurs in the running of its insurance business. (4 marks)

**Solution**



- (a) The headings that should be contained in a policy schedule are:
- \* the name of the insured;
  - \* the address of the insured;
  - \* the nature of the business;
  - \* the period of insurance;
  - \* premiums;
  - \* the limits of liability;
  - \* reference to any special exclusion, conditions, e.t.c.
  - \* the policy number.
- (2 marks for each correctly stated heading. Maximum of 3 to be graded. Sub-Total: 6 marks)
- (b) The operational expenses that the insurer incurs in the running of its insurance business are:
- \* salaries to staff;
  - \* office costs of all forms;
  - \* advertising costs;
  - \* commission.
- (2 marks for each correctly stated heading. Maximum of 2 to be graded. Sub-Total: 4 marks)  
(Grand Total: 10 marks)

## Part II

Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) Enumerate and briefly explain the four (4) components of life assurance premium. (12 marks)
- b) Write short notes on:
- (i) adjustable premium (9 marks)
  - (ii) flat premiums (6 marks)
  - (iii) application of insurance tax in Nigeria. (3 marks)

### Solution

- (a) The components of life assurance premium are:
- \* mortality;
  - \* expenses;
  - \* investments;
  - \* contingency.
- (Candidates are required to explain these components briefly. 2 marks for correctly stated component. 1 mark for correct and completely stated explanation. Sub-total per component: 3 marks. Grand Sub-Total: 12 marks)

(b) (i) **Adjustable Premium:** in certain cases, the premium base will not be known at the start of the insurance year. All that will be possible is to give an estimate of what the figure might be. This would be the case of employers' liability insurance. The insured will be able to estimate what the total wage bill for the coming year will be. The rate will be applied to this estimated figure and at the end of the year will submit a declaration, showing the actual wages paid. At this point the premium will be adjusted up or down, depending on the actual wages figure.

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

(ii) **Flat Premiums:** in some classes of insurance, it is the practice to charge what is known as a flat premium rather than apply a rate to a premium base. Travel insurance, for example, is almost always subject to a flat premium. In motor insurance too, a flat premium could be set for a particular model of car but this may be modified by discounts or loadings taking in to account the hazards associated with the individual proposal, for example, age of driver, mileage, garaging, and claims' experience.

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

(iii) **Insurance Tax:** does not apply in Nigeria however the VAT is applied to brokers' commission.

**Sub -Total: 3 marks**

**(Grand Total: 30 marks)**

16. (a) Enumerate by definition and with two (2) examples each, the main differences between moral hazards and physical hazards. **(14 marks)**  
(b) Enumerate any four (4) characteristics of physical hazards. **(8 marks)**  
(c) State any four (4) reasons why an insurer will buy reinsurance. **(8 marks)**

**Solution**

(a) **Moral Hazards:** relates to attitude of the insured or proposer rather than the subject matter of insurance. The insured is the prime source of moral hazards, e.g. the behavior of the insured, whether the insured lack the duty of care or he is dishonest or he is a regular claimant.

**Physical Hazards:** relates to or attaches to physical characteristics of the subject matter of insurance, e.g. property insurance – the nature/mode of construction of a building, whether there are fire extinguishers or water hose reel in the building, to reduce the effect of the damage.

**(3 marks for correct definition. 2 marks for each correctly stated example. Maximum of 2 examples to be graded. Sub-Total per term: 7 marks. Grand Total: 14 marks)**

- (b) The characteristics of physical hazards are:  
\* mode of construction of the building; \* mode of lightening;  
\* nature of operations; \* method of cleaning;  
\* housekeeping; and \* disposal of waste.  
**(2 marks for each correctly stated characteristic. Maximum of 4 to be graded. Sub -Total: 8 marks)**

- (c) The reasons why an insurer will buy reinsurance are:  
\* for security; \* for stability; \* to build capacity;  
\* to prevent catastrophic loses; \* for macro benefits.  
**(2 marks for each correctly stated characteristic. Maximum of 4 to be graded. Sub -Total: 8 marks)**  
**(Grand Total: 30 marks)**

17. The reinsurance market place is made of the three key groups in most markets:  
(a) State any three (3) groups of buyers of reinsurance. **(6 marks)**  
(b) Who is an intermediary in the reinsurance market? What name is given to the group of the intermediary in the reinsurance market. **(4 marks)**  
(c) State any three (3) reinsurance risk carriers in the global insurance market. **(6 marks)**  
(d) Identify and explain the two (2) forms of reinsurance. **(14 marks)**

**Solution**

- (a) The groups of buyers of reinsurance of reinsurance are:  
\* primary insurers; \* captive insurers; \* lloyd's syndicates; \* reinsurers.  
**(2 marks for each correctly stated group. Sub-Total: 6 marks)**

(b) An intermediary in the reinsurance market is the go-between between a direct underwriter and a reinsurance company **(2 marks)**. The name given to the group of the intermediary in the reinsurance market is the reinsurance broker **(2 marks)**. **(Sub-Total: 4 marks)**

- (c) The reinsurance risk carriers in the global insurance market are:  
\* reinsurers; \* primary insurers; \* captive insurers;  
\* Lloyd's syndicate; \* pools.  
(2 marks for each correctly stated player. Maximum of 3 to be graded. Sub-Total: 6 marks)

(d) The two forms of reinsurance are facultative and treaty reinsurances. (2 marks)

**Facultative Reinsurance:** in this form of reinsurance, there is no prior agreement between the insurer and the reinsurer. How it operates that the insurer on getting the risk will shop around for a reinsurer that will accept it from him. This meant that, like primary insurance, each risk was offered individually to the reinsurer by the primary insurer, and the reinsurer could decide whether or not to accept it. This involved a great deal of time, effort and cost.

**Treaty Reinsurance:** in this form of reinsurance, an agreement is made between the primary insurer and the reinsurer to the effect that all risks within certain parameters will be offered (cede) to the reinsurer. The reinsurer cannot decline the risk, and the primary insurer cannot select which risks to offer and which to retain. You can see that there are benefits to both parties in this form of reinsurance.

(3 marks for each correctly stated form. 2 marks for each correct and completely stated explanation.  
Maximum of 2 to be graded under each form. Sub-Total per form: 7 marks. Grand Sub-Total: 14 marks)  
(Grand Total: 30 marks)

18. (a) On notification of a claim, the first thing an insurer must do is to identify whether the claim, as notified, is a valid one by asking a range of questions. Concisely enumerate any six (6) of such questions. (18 marks)
- (b) Enumerate six (6) laws, rules, regulations, codes of practice that an insurance institution is expected to comply with apart from the insurance-specific laws. (12 marks)

### Solution

(a) The range of questions that an insurer must ask on the notification of a claim to verify its authenticity of the claim are:

- was the policy, against which a claim is being made, in force at the time of the incident/event?
- is the general nature of the claim covered by the policy in terms of both the nature of the incident and the monetary values ascribed to it?
- are there any conditions, endorsements or restrictions contained in the particular policy that would exclude the claim?
- is the sum insured adequate? (Check for under-insurance)
- has the insured complied with all relevant policy conditions?
- does the person making the claim have a right to claim under the policy?
- are there any other policies in force under which the claim could also be made?
- is there any other reason why the insurer might wish to reject the claim?

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

(b) The laws, rules, regulations, codes of practice that an insurance institution is expected to comply with apart from the insurance-specific laws are:

- employment law; \* health and safety law and regulations;

- contract law; \* the law of agency
- property law and regulations; \* generally accepted accounting principles (GAAP)
- company law; \* stock exchange rules;
- corporate governance regulations; \* data protection and privacy law
- tax regulations of:
  - \* employees' remuneration; \* corporate earnings; \* VAT;
- competition law and regulations; \* human rights law and regulations
- environmental law and regulations

**(2 marks for each correctly stated law/rule/regulation/code. Maximum of 6 to be graded. Sub-Total: 12 marks)**

**Grand Total: 30 marks)**