



*Chartered Insurance  
Institute of Nigeria*

*Chief Examiners' Report*

October 2024

*Associateship*

*(A01-A09)*

# GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 @ the detriments of Parts B & C (Diploma & Advanced)
Start each question on a fresh page	Write after invigilators have declared "time-up"
Read and follow instructions clearly (ensure you download and read the "students' instructions" from the website)	Write your name on any part of the answer scripts
Master the tricks of answering questions intelligently by following tips learnt before the exams and concentrating on questions that would fetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum	Avoid the Annual Students' Forum
<p><b>CANDIDATES SHOULD VISIT &amp; UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS ETC ON THE FOLLOWING SITES <a href="http://naicom.com">naicom.com</a> (NAICOM), <a href="http://nigeriainsurers.org">nigeriainsurers.org</a> (NIA), <a href="http://ncrib.net">ncrib.net</a> (NCRIB), <a href="http://nigeriailan.com">nigeriailan.com</a> (ILAN), <a href="http://cinigeria.com">cinigeria.com</a> (CIIN)</b></p>	
<p><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></p>	
<p><b>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</b></p>	



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A01

RISK, REGULATION AND CAPITAL ADEQUACY

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A01 – RISK, REGULATION AND CAPITAL ADEQUACY

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

All candidates attempted this question, and approximately 78% of them scored above average.

### **Question 2**

All candidates attempted this question, achieving an above-average performance with an 81% pass rate.

### **Question 3**

Also, all the candidates attempted this question and the pass rate was encouraging, with about 88% of them scoring above average.

### **Question 4**

The majority of candidates had a good understanding of this question, with 78% performing above average.

### **Question 5**

84% of the candidates performed above average on the question.

### **Question 6**

This question was straightforward, and 94% of the candidates scored above average.

### **Question 7**

All the candidates attempted this question and 88% of them performed above average.

### **Question 8**

78% of the candidates perform relatively above average.

### **Question 9**

This is a compulsory question, and the candidates' performance was not encouraging. Approximately 57% scored above average, but some candidates struggled to understand the question.

### **Question 10**

Majority of the candidates who attempted this question performed very well, achieving a 95% above average performance.

### **Question 11**

Majority of the candidates did not attempt this question and 82% of the candidates who attempted it scored below average.

### **Question 12**

82% of the candidates attempted this question with a 75% above average performance.

**Question 13**

About 80% of the candidates did not attempt this question and only 25% of those that attempted it performed above average.

**Question 14**

51% of the candidates who attempted this question performed very well. It was noted that most candidates did not fully understand the question based on their supplied responses and answers.

**Comments on Overall Performance:**

Overall performance of the candidates was encouraging with a 63% above average performance.

**Suggestion(s) on Improvement(s) (if any)**

Candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labeled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Enumerate any four (4) features of the arithmetic mean.

### Solution

The features of the arithmetic mean are:

- (i) it makes use of all the variables given in the data;
- (ii) it is easy to calculate;
- (iii) it is easy to understand;
- (iv) it is the most known of all the averages;
- (v) it can be used for further mathematical processes;
- (vi) it can be affected by extreme values.

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

2. (a) If a building is worth ₦40 million and there is also a pre-determined probability of a total loss occurring at 30%. What is the expected loss value?  
(b) Enumerate any three (3) benefits of risks.

### Solution

- (a)  $\text{₦}40,000,000.00 \times 30\% = \text{₦}12,000,000.00$  (1 mark)  
(Sub-Total: 3 marks)

- (b) The benefits of risks are:

- the acceptance of certain risk in our everyday lives, allows us to achieve some positive results;
- risk imbues a safety consciousness in us;
- risk also enables us to improve our knowledge on variables of interest;
- risks create endless opportunities in the business world, which eventually leads to positive rewards for the investors.

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

3. Outline any three (3) disadvantages of the facultative reinsurance when compared to the treaty reinsurance.

### Solution

The disadvantages of the facultative reinsurance when compared to the treaty reinsurance are:

- (i) there are usually delays in acceptance of the risks under the facultative reinsurance arrangement;
- (ii) the ceding commission under the facultative reinsurance arrangement is usually lower when compared with that of the treaty reinsurance arrangement;
- (iii) reinsurance administration may be cumbersome for the facultative;
- (iv) there is a possibility of loss of goodwill under the facultative reinsurance, since there are usually delays in the acceptance of the offer placed with the reinsurer;
- (v) accounting procedures in facultative reinsurance arrangement are not as simplified as that of the treaty reinsurance.

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

4. (a) Define probability in relation to an event (E) occurring. (2 marks)  
(b) List out all the total outcomes (H= Head, T = Tail) for a fair coin which is tossed twice. (4 marks)

### Solution

- (a) The Probability of an event (E) occurring is the ratio of the total number of times event (E) can occur to the total number of possible outcomes. (2 marks)
- (b) The total outcomes for a fair coin which is tossed twice are: HH; HT; TH and TT.  
(1 mark for each correctly stated outcome. Sub-Total: 4 marks)  
(Grand Total: 6 marks)
5. (a) Explicitly enumerate any two (2) generic meanings of a risk. (2 marks)
- (b) Clearly enumerate any four (4) ways by which a fire insurance proposal may be made by the proposer to an insurance company. (4 marks)

**Solution**

- (a) The generic meanings of a risk are:  
 \* risk as the main cause of an undesired outcome;  
 \* risk as the object (otherwise referred to as the subject matter);  
 \* risk as the probability (i.e. likelihood) of an undesired event taking place;  
 \* Taking a risk by not putting in place what a reasonable man would have put in place or doing something that a reasonable man would not have done giving the same circumstance  
 (1 mark for each correct and completely stated meaning. Maximum of 2 to be graded. Sub-Total: 2 marks)
- (b) The ways by which a fire insurance proposal may be made by the proposer to an insurance companies are through:  
 (i) direct telephone; (ii) a written proposal form; (iii) a broker;  
 (iv) online (via e-channel); (v) a broker's slip in Lloyd's market;  
 (vi) through a formal presentation of a large commercial risk by a broker.  
 (1 mark for each correctly stated factor. Maximum of 4 to be graded. Sub-Total: 4 marks)  
 (Grand Total: 6 marks)

6. Describe the following express conditions in an insurance contract:  
 (a) an excess; (b) a warranty; (c) the policy exclusions.

**Solution**

- (a) An excess is each and every amount of claim which is borne by the insured. (2 marks)
- (b) A warranty is an undertaking by the insured that certain things shall be done or not be done or that certain things shall be in place or not be in place. (2 marks)
- (c) The policy exclusions are the various risks which are not covered in the ordinary course of the policy. (2 marks)  
 (Grand Total: 6 marks)

7. Outline any six (6) main advantages of reinsurance to direct insurance companies.

**Solution:**

The main advantages of reinsurance to direct insurance companies are:

- \* it assists in the further spread of risks for the insurance companies;
- \* enables bigger capacity for the insurance companies;
- \* provides catastrophe protection;
- \* stabilisation of claims ratio;
- \* enhances product development initiatives.
- \* enables a profit sharing arrangement
- \* brings about confidence in the insurance companies;
- \* provides underwriting and other financial advisory services;
- \* provides training and development programmes.



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

8. (a) Find the Arithmetic Mean of 2,4,6, 5 and 8.  
(b) Find the median of 4/10, 6/8, 10/18, 12/16 and 8/14  
(c) Find the mode of 2, 5, 2, 3, 2, 3, 4,5, 4, 2 and 5.

**Solution**

(a) Mean  $(x) = \sum x/n$  (½ mark)  
=  $(2 + 4 + 6 + 5 + 8)/5$ . (1 mark)  
=  $25/5 = 5$ . (½ mark)

(b) Arrangement in ascending or descending order:

4/10, 10/18, 8/14, 6/8, 12/16 (1 mark)

The median is: 8/14. (1 mark)

(c) The mode is 2. (2 marks)

**(Grand Total: 6 marks)**

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) State four (4) of the six central principles in the Code of the Chartered Insurance Institute of Nigeria. (10 marks)
- (b) (i) What is Risk Management? (6 marks)
- (ii) Your organisation just started its own Enterprise Risk Management (ERM) Department and Management decided to appoint you as the head of the department as a result of your past expertise on assigned tasks. Explicitly enumerate and explain the “risk management process” that you will advise your organisation to put in place in order to be able to make sound ERM decisions. (34 marks)

**Solution**

(a) They are:

- act 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 practice and other regulatory requirements and appropriate code practice and code of conduct
- demonstrating professional competence by meeting the technical and professional standards commensurate to their level of qualification and position of responsibility
- upholding professional standards in all dealings and relationships
- respecting the confidentiality of information required in professional and business relationships
- applying objectivity in making professional judgements and in giving opinions and statements.

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

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

Risk management may simply be defined as the process whereby organisations methodically address the risks attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

**(6 marks for either of the definitions. Sub-Total: 6 marks)**

- (ii) The risk management process is as outlined below:
1. Set Out the Organisation's Strategic Objectives: These are long term planned objectives which an organization is set out to achieve. Risk management generally enhances an organisation's strategic objectives through the following:
    - by providing a framework in terms of activities in the most sequential and guided ways for the organisation;
    - effective and efficient allocation and use of the organisation's capital as well as other resources;
    - by protecting the organisation's assets from all those risks that may threaten them;
    - by providing an enabling environment for the people to work;
    - it also aids the decision making process through coordinated planning and direction of business activities;
    - volatility is reduced, especially in the less important aspects of the business.
  2. Risk assessment, which is of the following components:
    - (a) risk analysis; and
    - (b) risk evaluation.

Risk Assessment: is the overall process of risk analysis and evaluation. There are two components of risk assessment; risk analysis and risk evaluation.

Risk Analysis comprises risk identification, description and estimation.

- (i) risk identification: this is a systematic way of identifying all the activities that may expose the organization to various risks;
  - (ii) risk description: this is the explicit description of all the risks identified under the risk identification stage in a way that would be readily understood by all the stakeholders;
  - (iii) risk estimation: these are the estimates both in terms of quantitative and qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as H – M – L may be employed in describing the estimated values or attributes. H – stands for High; M – stands for Medium or Middle; L – stands for Low.
- (b) Risk Evaluation: this is the second and last component of risk assessment whereby opinions (judgments) are formed about the importance (value) and acceptability (appetite) of risk.
3. Risk Reporting (In Terms Of Threats & Opportunities)  
This reports both the downside and upside aspects of the risks. In other words, we are reporting on what are the threats and opportunities associated with the risks under consideration.

**(1 mark for each correctly outlined risk management process and 5 marks for the explanation. Sub-Total: 6 marks)**

4. Decision  
Taking informed decisions regarding the importance and acceptability of the risks having considered the threats & opportunities they present to the organisation  
**(1 mark for each correctly outlined risk management process and 5 marks for the explanation. Sub-Total: 6 marks)**
5. Risk Treatment  
The process of selecting and implementing measures to modify the risk and includes:  
– risk avoidance  
– risk control  
– risk transfer  
– risk financing  
Furthermore, please note that the minimum standard requirement for the risk treatment method chosen is that it should be cost-effective, and laws & regulations compliant.
6. Residual Risk Reporting  
Reporting the overall information about all the risks to the appropriate stakeholders as they are all affected separately.  
The stakeholders are – the board, the CEO, executive management, business units/departments, departmental heads and various individuals.
7. Monitoring  
There should be regular & continuous monitoring of the risk management process with a view of ensuring that there are no omissions in the actions identified to be carried out & any deviations noticed must be reported to the appropriate channel or authority.  
**(3 marks for each correctly stated process. 3 marks for each correct but completely stated explanation under each correctly stated process. Sub-Total per process: 6 marks for the first 5 correctly stated and explained process. For the 6<sup>th</sup> one, 2 marks for each correctly stated process. 2 marks for each correct but completely stated explanation. Grand Sub-Total: 34 marks)**  
**(Grand Sub-Total: 40 marks)**  
**(Grand Total: 50 marks)**

### Part III

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

Each question carries **34** marks.

10. (a) A fair coin is tossed thrice.  
(i) Write out the total possible outcomes.  
(ii) What is the probability of getting head all through?  
(iii) What is the probability of getting at least one tail?  
(iv) What is the probability of getting at least one head? **(17 marks)**
- (b) A fair coin is tossed four times.  
(i) Write out the total possible outcomes  
(ii) What is the probability of getting head all through?  
(iii) What is the probability of getting at least one tail?  
(iv) What is the probability of getting at least one head? **(17 marks)**

### Solution

- (a) (i) HHH, HHT, HTH, HTT, THH, THT, TTH, TTT **(8 marks)**  
(ii)  $1/8 = 0.125$  **(3 marks)**  
(iii)  $7/8 = 0.875$  **(3 marks)**

(iv)  $7/8 = 0.875$  (3 marks)

(Sub-Total: 17 marks)

(b) (i) HHHH, HHHT, HHTH, HHTT, HTHH, HTHT, HTTH, HTTT, THHH, THHT, THTH, THTT, TTHH, TTHT, TTTH, TTTT (8 marks)

(ii)  $1/16 = 0.0625$  (3 marks)

(iii)  $15/16 = 0.9375$  (3 marks)

(iv)  $15/16 = 0.9375$  (3 marks)

(Sub-Total: 17 marks)

(Grand-Total: 34 marks)

11. G & K Lawson Company specialises in bread production. If 10% of the bread production is bad and therefore unsaleable. Find the probability that out of 10 breads baked:

(a) exactly one bread is bad; (12 marks)

(b) exactly three breads are bad; (8 marks)

(c) at most three breads are bad. (14 marks)

**Solution**

(a) Exactly one bread is bad

Let the probability that a bread is bad be represented by q.

Thus,  $q = 10/100 = 0.1$  (2 marks)

But,  $p + q = 1$  (1 mark)

Therefore,  $p = 1 - 0.1 = 0.9$  (1 mark)

$P(x) = {}^n C_x q^x p^{n-x}$  (1 mark)

$P(1) = {}^{10} C_1 q^1 p^9$  (2 marks)

$= \frac{10!}{1! (10 - 1)!} * 0.1^1 * 0.9^9$  (2 marks)

$= \frac{10 * 9!}{9!} * 0.1 * 0.38742 = 10 * 0.1 * 0.38742 = 0.38742$  (3 marks)

(Sub-Total: 12 marks)

(b) Exactly three breads are bad

$P(x) = {}^n C_x q^x p^{n-x}$  (1 mark)

$P(3) = {}^{10} C_3 q^3 p^7$  (2 marks)

$= \frac{10!}{3! (10 - 3)!} * 0.1^3 * 0.9^7$  (2 marks)

$= \frac{10 * 9 * 8 * 7!}{3! * 7!} * 0.001 * 0.4783 = 0.0574$  (Approximately). (3 marks)

(Sub-Total: 8 marks)

(c) At most three breads are bad

The probability that at least three breads are bad = P (0 bread is bad) + P (1 bread is bad) + P(2 breads are bad) + P(3 breads are bad). (4 marks)

$P(0) = {}^{10} C_0 q^0 p^{10}$  (1 mark)

$= \frac{10!}{0! (10 - 0)!} * 0.1^0 * 0.9^{10}$  (1 mark)

$= 1 * 1 * 0.38742 = 0.3487$  (Approximately) (1 mark)

$P(1) = {}^{10} C_1 q^1 p^9$  (1 mark)

$= \frac{10!}{1! (10 - 1)!} * 0.1^1 * 0.9^9$

$$= \frac{10 \times 9!}{9!} * 0.1 * 0.38742 = 10 * 0.1 * 0.38742 = 0.3874 \text{ (Approximately) (1 mark)}$$

$$P(2) = {}^{10}C_2 q^2 p^8 \quad (1 \text{ mark})$$

$$= \frac{10!}{2! (10-2)!} * 0.1^2 * 0.9^8$$

$$= \frac{10 * 9 * 8!}{2 * 1 * 8!} * 0.01 * 0.43046 = 0.1937 \text{ (Approximately) (1 mark)}$$

$$P(3) = {}^{10}C_3 q^3 p^7$$

$$= \frac{10!}{3! (10-3)!} * 0.1^3 * 0.9^7$$

$$= \frac{10 \times 9 \times 8 \times 7!}{3! \times 7!} * 0.001 * 0.4783 = 0.0574 \text{ (Approximately) (1 mark)}$$

Therefore, the probability of at most three breads are bad is:

$$P(0 \text{ bread is bad}) + P(1 \text{ bread is bad}) + P(2 \text{ breads are bad}) + P(3 \text{ breads are bad})$$

$$= 0.3487 + 0.3874 + 0.1937 + 0.0574 = 0.9872 \quad (2 \text{ marks})$$

(Sub-Total: 14 marks)

(Grand Total: 34 marks)

12. (a) What is “correlation”? (3 marks)
- (b) Enumerate and explain any four (4) types of correlation. (24 marks)
- (c) What is “co-efficient of correlation”? State its standard range and the symbol that is used to represent it. (7 marks)

### Solution

(a) Correlation may be defined as the level or degree of relationship which exists between two variables. It may equally be described as the strength of association between two variables. (3 marks)

(b) The following are the types of correlation:

(i) Positive Correlation: A positive correlation is said to exist between two variables X and Y, if an increase in variable X leads to an increase in variable Y. Positive correlation may also be referred to as Direct Correlation.

(ii) Negative Correlation: A negative correlation is said to exist between two variables X and Y, if an increase in variable X leads to a decrease in variable Y. Negative correlation may also be referred to as Inverse Correlation.

(iii) Zero Correlation: A zero correlation is said to exist between two variables X and Y where there is no any form of relationship between the two variables.

(iv) Spurious Correlation: This is a correlation between two variables which does not actually indicate the real relationship that is existing between the two variables.

(v) Perfect Correlation: The correlation between two variables X and Y are said to be a perfect correlation if all the values of X and Y are plotted against each other and all the points obtained lie on a straight line. A perfect correlation may either be a positive or negative.

(3 marks for each correctly stated type. 3 marks for each correct and completely stated explanation. Sub-Total per term: 6 marks. Maximum of 4 to be graded. Grand Sub-Total: 24 marks)

(c) Coefficient of correlation may be defined as a statistical measure which determines the level of linear relationship between two variables. (3 marks) It is usually represented by the symbol ‘r’ or ‘R’. (2 marks). It ranges from – 1 to +1. (2 marks)

(Grand Sub-Total: 7 marks)

(Grand Total: 34 marks)

13. (a) In a minimum of two (2) distinct explanations, enumerate what you understand by the term ‘retention limit’? **(6 marks)**
- (b) Distinguish between “retention limit” and “deductible” in relation to reinsurance practice. **(8 marks)**
- (c) State and briefly explain any four (4) factors usually taken into consideration when fixing the retention limit of a non-life direct insurer. **(20 marks)**

### **Solution**

(a) Retention limit may be defined as the maximum amount of risk an insurance company is able to keep for its own account or as the maximum amount of liability an insurance company is prepared to pay per any loss occurrence on a risk. It is usually expressed as a fixed figure or amount, but may also be stated in percentages when a quota share treaty is in use. It varies from one insurance company to the other.

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

(b) Generally, retention limit and deductible mean the same in technical terms, but while retention limit is used for proportional reinsurance treaties, deductible is used for non-proportional reinsurance treaties. Another name or term used for a deductible in reinsurance practice is priority.

**(4 marks for each distinguishing point under each term. A maximum of 1 point to be graded under each term. Sub-Total: 8 marks)**

(c) The factors usually taken into consideration when fixing the retention limit of a non-life direct insurer are:

- i. The paid-up capital: The paid-up is part of the ordinary shares of a company that have been fully paid for by the shareholders. In fixing a limit of retention, the paid-up capital of the company is one of the major factors to be considered. The relationship between the direct insurer’s retention limit and the paid-up capital is that a company with a higher paid-up capital should have a higher retention limit and vice versa.
- ii. Assets and other free assets: The assets and other free assets of a direct insurer are the liquid assets that the direct insurer may quickly dispose of in the shortest possible time to meet the cost of claims payment whenever they fall due. The more liquid assets available to an insurance company, the higher the retention is expected to be.
- iii. The size of the portfolio: The size of the portfolio refers to the distributions of the various sums insured with a direct insurer under its different policies. The lower the size of the portfolio, the lower the retention limit should be and the bigger the life portfolio, the higher the retention limit.
- iv. Types and spread of risks: These are the various types of insurance policies in the portfolio of the direct insurer. The more the spread, the higher the retention limit should be.
- v. Size and frequency of losses in the past (if any): The size and frequency of losses in the past is also a major factor to be considered when the limit of retention for the direct insurer. The size of losses refers to the severity of the loss to the direct insurer and the frequency means the number of occurrences of these losses in the past. Where the size and frequency of losses are not significant in the past, the limit of retention is expected to be high and vice versa.

**(3 marks for each correctly stated factor. 2 marks for each correct and completely stated explanation. Sub-total per factor: 5 marks. Maximum of 4 factors to be graded. Sub-Total: 20 marks)**

**(Grand Total: 34 marks)**

14. (a) When an insurance company decide to be rated in order to know its positioning in the global scheme of things, it approaches a rating agency for the exercise. Explicitly enumerate any three (3) reasons why insurance companies prefer to have a financial rating by the rating agencies. **(9 marks)**
- (b) As the Chief Risk Evaluator for your insurance organisation, explicitly state any four (4) procedures/stages that are involved between the rating agency and your organisation in the rating process. **(16 marks)**
- (c) As a risk assessor, differentiate between “perceived and actual risks”, with at least three (3) clearly stated differences. **(9 marks)**

### **Solution**

- a) Insurance companies prefer to have a financial rating by rating agencies because:
- it demonstrates to policyholders that a third party has measured the likelihood of the insurance company being able to meet their financial obligations/commitments
  - it allows for financial strength comparisons among different insurance companies
  - Brokers and clients can decide on their risk appetite by choosing the financial rating that they prefer for their insurance carriers.
  - it allows for premium differentiation among the insurance companies, where by an extremely strong companies charge higher premium than a low rated company
  - it is another means of determining whether an insurance company is solvent or insolvent

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

- b) The procedures/stages involved in the rating process between the insurance company and rating agency are:
- the insurance company meets the agency and signs a contract
  - at least two analysts spend a day with the senior executives to understand the insurance company’s business
  - an exhaustive analysis is undertaken over the next five weeks and may require answers to further questions
  - the lead analyst will then recommend a rating to a committee of eight analysts who then debate the methods and reasoning
  - the committee will vote on the rating
  - the insurance company is then told of the rating and can either accept it or appeal and the committee re-sits
  - once agreed the rating agency issues a press release
  - the rating agency will then monitor the insurance company and carry out an annual review.

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

- (c) Perceived risks are risks as being perceived by individual persons. They are generally influenced by the following characteristics:
- \* familiarity;
  - \* frequency and severity of the risky event;
  - \* level of control;
  - \* personal or societal consequences.

While Actual risks are those risks we can directly observe, especially through physical counting of the current or past events relating to them. Examples are the number of motor accidents, theft cases, fire incidents and number of death claims say over the last

3 underwriting years. Since these events have actually taken place and are observable, we may thus refer to them as “real or observable risk”.

**(1½ marks for every correctly stated point under each term. Maximum of 3 to be graded under each term. Sub-Total per term: 4½ marks. Grand sub-Total: 9 marks)**

**(Grand Total: 34 marks)**





CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A02

REINSURANCE: PRINCIPLES AND APPLICATION

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A02 - REINSURANCE: PRINCIPLES AND APPLICATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

The question dealt with candidates' understanding of retention. The performance was average as most of the candidates had a good understanding of the term and the implication of setting retention low or high.

### **Question 2**

This question was attempted by nearly all the candidates with 51% passing, indicating an average performance.

### **Question 3**

The question aimed to assess candidates' knowledge of risk profiles. The attempt rate was impressive at 95%, with a performance percentage exceeding 75%, indicating very good results. Candidates' responses demonstrated a solid understanding of the questions.

### **Question 4**

The question was well attempted, focusing on candidates' knowledge of reinsurance treaties, including their types and subtypes. Approximately 94% of the candidates who attempted it scored above average.

### **Question 5**

Many candidates answered this question, with about 50% performing above average while the other 50% did not. Part (b) focused on the types of reinsurance accounting available, and 70% of candidates who attempted it scored above average, while 30% did not.

### **Question 6**

This question assessed candidates' knowledge of the differences between the underwriting year and the year of accounting. Majority of candidates attempted it, with 60% performing above average and 40% not meeting that standard.

### **Question 7**

Approximately 97% of the candidates attempted the question, and 62% of those who did scored above 50% of the allotted marks.

### **Question 8**

This question was not well understood by the candidates. The examiner assessed their knowledge of how a reinsurer can be involved in the decision-making process of a cedent's claim and how reinsurance brokers can be reinsure-rated. 66% of the candidates who attempted the question did not perform well due to their lack of understanding of the claims control clause and the claims cooperation clause in reinsurance.

### **Question 9**

This compulsory question had a pass rate of 86%. It assessed candidates' applied knowledge of portfolio reviews of reinsurance and reinsurance programs aimed at achieving economies of scale and enhancing stability. The results were impressive.

**Question 10**

Candidates performed well on the retrocession input but demonstrated limited understanding of the other parts. Despite being a popular question, overall performance was just barely above average, and candidates did not score well on it.

**Question 11**

This elective question was a very popular choice, with about 90% of the candidates attempting it. It assessed candidates' knowledge of alternative dispute resolution, and the responses were excellent. Overall performance was above average, at 85%.

**Question 12**

The (a) part had an 80% above average performance. In the (b) part, 70% of the candidates who attempted the question performed above average, while 30% did not. However, in the (c) part, only 40% of those who attempted it scored above average, leaving 60% not performing at that level.

**Question 13**

This question was not popular among the candidates, as fewer than 40% attempted it, with about 60% of those who did scoring above average.

**Question 14**

This elective question was attempted by 68% of the candidates, with only 62% performing above average.

**Comments on Overall Performance:**

The performance in this diet showed significant improvement compared to previous ones, achieving an above-average global performance rate of 63%.

**Suggestion(s) on Improvement(s) (if any)**

Candidates are encouraged to study their coursebooks, regular releases and the Insurance Act. They are also encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Why is fixing retention an important aspect of reinsurance? What does low and high retention mean in reinsurance?

### Solution

Fixing retention is an important aspect of reinsurance because it has a direct impact on the performance of the retained account, hence the financial stability of the reinsured. (2 marks). Specifically, high retention means that more losses will be retained by the cedant which may affect its financial strength (2 marks). Low retention means that the cedant is giving away more premium unnecessarily which may have an adverse effect on the profitability of the retained account (2 marks).

(Total: 6 marks)

2. Briefly explain your understanding of a hard market in an underwriting cycle.

### Solution

A hard market is a phenomenon characterised by increased prices of reinsurance cover. It can also be characterised by a reduction in the available reinsurance capacity. Sometimes, prices may remain at about the same level but there will be restrictions in the non-financial terms or coverage that is granted. This is usually experienced after a large market or catastrophe loss has occurred, leading to many reinsurers recording losses and some reinsurers withdrawing capacity thereafter.

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

3. (a) How will you describe the risk profile? (2 marks)  
(b) How are the risks in the risk profile document usually presented? (1 mark)  
(c) Enumerate any three (3) details that could be shown in a risk profile. (3 marks)

### Solution

(a) The risk profile is prepared by the insurer to show the risks that exist in a portfolio. (2 marks)

(b) The risks will usually be presented in bands by grouping using the sum insured or the EML. (1 mark)

(c) The details that could be shown in a risk profile are:  
\* risk band; \* number of risks in the band;  
\* total sum insured or other measure of exposure in the risk band.  
\* premium in the risk band; \* losses in the risk band.

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

(Grand Total: 6 marks)

4. (a) Explain treaty reinsurance. (2 marks)  
(b) State the two (2) types of treaty reinsurance and state any sub-type under each type. (4 marks)

### Solution

(a) A treaty reinsurance is an arrangement where there is an agreement between an insurer and reinsurer on the reinsurance of risks. When the agreed criteria are met, the insurer is obliged to cede the business and the reinsurer is obliged to accept the business. It is therefore known as obligatory reinsurance. (2 marks)

(b)

S/No	Type	Sub-Types
1	Proportional Treaty	Quota Share; Surplus
2	Non-Proportional Treaty	Risk Excess of Loss; Event/Catastrophe Excess of Loss; Aggregate/ Stop Loss Excess of Loss

(1 mark for each correctly stated type. 1 mark for any correctly stated sub-type. Maximum of 1 sub-type to be graded. Sub-Total per type: 2 marks. Grand Sub-Total: 4 marks)  
(Grand Total: 6 marks)

5. (a) Explain what it means to settle reinsurance accounts on a “balance of account” basis. (4 marks)
- (b) What type of reinsurance accounting is this usually applicable to? (2 marks)

**Solution**

- (a) To settle a reinsurance account on a “balance of account” basis means that only the resulting balance between premiums, commissions and paid claims is settled by the debtor party. The other way is for the cedant to settle the premium while the reinsurer pays commission and losses. However, calculating the balance is way easier and ensures that the whole transaction is in one place. It ensures that both parties have a clear picture regarding the profitability or otherwise of a treaty at a point in time.  
(2 marks for any correct and completely stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 4 marks)

- (b) This type of reinsurance accounting is usually applicable to proportional reinsurance accounts. (2 marks)  
(Grand Total: 6 marks)

6. Briefly differentiate between “underwriting year” and “year of account” basis of writing a proportional treaty.

**Solution**

On an underwriting year basis, the year of origin of the ceded risk is very important in that all transactions (premium, claims etc) whenever they occur would be recorded against the year in which the risk was ceded. For example, if a risk is ceded in the Year 2020 but recorded a loss in 2021, the claims would be recorded in the underwriting year 2020. The underwriting year basis of accounting for transactions can impose an administrative burdensome. The year of account basis was devised to facilitate technical accounting and it involves accounting for premiums, commissions and losses in the calendar year in which they are accounted for irrespective of the year of origin of cession or the year of origin of the loss.

(3 marks for any correct and completely stated explanation. Maximum of 1 to be graded under each term. Sub-Total per term: 3 marks. Grand Total: 6 marks)

7. (a) What is a sliding scale commission?
- (b) What is the main reason/advantage for including a sliding scale commission?

**Solution**

- (a) A sliding scale commission is a commission on a reinsurance placement that is granted on a proportional treaty in place of a flat commission. (3 marks)
- (b) The main reason/advantage for including a sliding scale commission in a treaty is because it has the advantage of rewarding a reinsured for a good treaty result by granting a higher commission and imposing a penalty for a bad result by granting a lower commission.

The commission granted is therefore dependent on the performance of the treaty measured by the loss ratio. A lower loss ratio will correspond to a higher commission and vice versa. There will usually be a provisional commission granted at the beginning pending when the performance of the treaty is determined.

**(3 marks for any correct and completely stated reason. 1 reason to be graded. Sub-Total: 3 marks)**  
**(Grand Total: 6 marks)**

8. (a) Explain any way that a reinsurer can be involved in the decision-making process of claims of any of its cedants. **(3 marks)**
- (b) Reinsurance brokers are usually remunerated for their services. State and explain any of the ways by which such remuneration takes place when it occurs. **(3 marks)**

### **Solution**

- (a) A reinsurer can be involved in the decision-making process of claims of any of its cedants through:
- (i) **Claims Control Clause:** this means that the reinsurer would assist the cedant as to the next steps, for example, appointing a surveyor or any other expert that may be required. The reinsurer would in effect step into the original insurer's position and handle the case as if they were the original insurer;
- (ii) **Claims Co-operation Clause:** this means that the original insurer agrees to involve the reinsurer in the handling of a claim, but all decisions are ultimately by the original insurer.  
**(2 marks for each correctly stated way. 1 mark for a correct explanation of the stated way. Sub-Total: 3 marks)**
- (b) The possible ways a reinsurance broker can be remunerated are:
- (i) **Through Brokerage:** i.e. by paying a certain percentage of the reinsurance premium payable under the reinsurance cover.
- (ii) **Through Fee:** i.e. by paying a flat amount that is not dependent on the reinsurance premium. This method removes any bias that the broker may have when the brokerage is a percentage of the premium.  
**(2 marks for each correctly stated way. 1 mark for a correct explanation of the stated way. Sub-Total: 3 marks)**  
**(Grand Total: 6 marks)**

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

9. (a) National Insurance Commission (NAICOM) requires that a promoter is required to furnish the Regulator documents at the first stage of the registration process of an insurance or a reinsurance company. List any five (5) of these documents. **(10 marks)**
- (b) Two organisations are reviewing its reinsurance portfolios and have both decided to review the level of retentions on its different portfolios in order to achieve economies of scale and improve profitability. State and explain any five (5) factors that will be considered in arriving at the retention to be set. **(25 marks)**
- (c) You are currently conducting a review of the reinsurance programmes in place in your company. Enumerate any five (5) situations where a new or different type of reinsurance package may be required for a cedant. **(15 marks)**

## Solution

(a) To register an insurance or a reinsurance company with NAICOM a promoter is required to furnish the Regulator with the following documents:

- Submission of Letter of Intent from the Promoter(s);
- Invitation Letter to the Promoters for Pre-qualification Interview;
- Profile of the Directors/current CV of the proposed CEO stating minimum qualification in accordance with Section 31 of Insurance Regulation 2003;
- A Sworn Declaration of Non-Disqualification of the proposed Directors in accordance with Section 2(1) of the Insurance Act 2003 shall be submitted.
- Proposed Company name;
- Draft Memorandum and Articles of Association (MemArt) of the Proposed Company.
- v) Evidence of Financial Soundness of the Shareholders supported by a Sworn Affidavit confirming such;
- Evidence of Confirmation (Clean Bill of Health) from the Primary Regulator and Approval to the Promoter/Joint Venture Partners by the Regulator (where necessary);
- Holding Company Structure and Funding - if the Company is a Part of a Holding Company;
- The Class of Insurance (whether General, Life and/or Reinsurance Insurance Business) to be transacted.

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

(b) The factors that will be considered in arriving at the retention to be set are:

- \* assets, capital and free reserves and solvency;
- \* types and patterns of losses;
- \* size and nature of portfolio, premium income and profitability;
- \* cost of reinsurance;
- \* types of reinsurance required;
- \* market environment;
- \* strategic and financial considerations

**(Candidates are required to explain any correctly stated factor. 3 marks for each correctly stated factor. 2 marks for each correct and completely stated explanation. Sub-Total per factor: 5 marks. Maximum of 5 factors to be graded. Grand Sub-Total: 25 marks)**

(c) A new or different type of reinsurance package may be required for a cedant in the following situations:

- the needs of the reinsured have changed and the existing reinsurance arrangement is no longer suitable;
- rare risks previously protected by facultative cover may be more common, necessitating treaty protection;
- the retention and capacity of existing treaties will not enable the reinsured to compete effectively;
- surplus treaty may become ideal as a reinsured grows in its data collection and financial strength;
- where there is a need to negotiate the terms and conditions of existing treaties. this is where the existing treaties and arrangements are still suitable but the reinsured wants to alter the terms and conditions. the terms and conditions can include: the capacity, scope of the cover, number of reinstatement and the cost, event limit, e.t.c.;
- where the cedant changes reinsurer or broker: the reinsured should however consider whether the price differential is worth the time and cost involved in changing the reinsurer;
- where the cedant arranges alternatives to traditional reinsurance contracts: there are a number of alternative risk transfer solutions that can be used in place of the traditional



reinsurance cover. this includes insurance linked securities, securitization, derivatives, captives etc.

**(3 marks for each correct and completely stated situation. Maximum of 5 factors to be graded. Grand Sub-Total: 15 marks)  
(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. (a) An insurance company writes different classes of liability insurance. There has been a suggestion to combine these classes of liability under one reinsurance treaty. Describe three (3) advantages and disadvantages each of this proposal. **(18 marks)**
- (b) (i) What does the term “retrocession” mean? **(2 marks)**  
(ii) Enumerate any two (2) reasons why a reinsurer would buy retrocession. **(4 marks)**
- (c) State four (4) reasons why a reinsurer will want to review and check the statement of accounts submitted by its cedants. **(10 marks)**

### **Solution**

- (a) Advantages of combining different liability classes under one reinsurance treaty are:
1. reinsurance requirements will usually be similar across the classes, hence one treaty for all classes seems sensible;
  2. ease of administration – calculation and payment of instalments, adjustments, e.t.c.;
  3. it allows small companies to include within their main treaty, classes too small to warrant separate insurance treaties;
  4. the insurer maintains flexibility by purchasing different limits under excess of loss treaties for different classes.
- Disadvantages of combining different liability classes under one reinsurance treaty are:
1. the insurer is unable to split reinsurance costs accurately between departments;
  2. a common retention level applies to all classes for excess of loss cover. this may not be suitable for the classes. For example, motor may be capable of sustaining a high retention, but public liability may be only a fraction of this retention amount;
  3. it is more difficult for the reinsurer to exercise underwriting judgement since the results of different classes are obscured;
  4. different classes of business may end up subsidising one another.
- (3 marks for each correct and completely stated advantage/disadvantage. Maximum of 3 to be graded under each term. Sub-Total per term: 9 marks. Grand Sub-Total: 18 marks)**
- (b) (i) Retrocession is a method by which reinsurers protect their own portfolios or the businesses written by them and it works in similar way that an insurer company buys reinsurance protection.
- (ii) The reasons why a reinsurer would buy retrocession are to:
- increase acceptance capacity; \* limit the exposure to loss;
  - give greater stability to the results.
- (2 marks for each correct and completely stated reason. Maximum of 2 to be graded. Sub-Total: 4 marks)**
- (c) The reasons why a reinsurer will want to review and check the statement of accounts submitted by its cedants are to ensure that the statement of accounts:
- are mathematically correct;

- include all transactions which have taken place in respect of the individual contracts since the last periodic account was received;
- was received within the timeframe set out in the contract wording;
- include all elements set out in the contract wording which details the items contained in the accounts;
- was compiled in accordance with the relevant terms and conditions set out in the contract wording.

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

**(Grand Total: 34 marks)**

11. (a) Describe “alternative dispute resolution” with three (3) explicit explanations. **(5 marks)**
- (b) Enumerate and explicitly explain any four (4) forms of alternative dispute resolution. **(20 marks)**
- (c) A firm decided to engage the services of a reinsurance broker instead of handling their reinsurance needs directly. Enumerate any three (3) factors that the firm should consider when selecting a reinsurance broker. **(9 marks)**

### **Solution**

- (a) Alternative Dispute Resolution is a form of a formal dispute resolution procedure wherein that there is no judge or arbitrator. In this instance, the parties themselves arrive at a solution which may not reflect the true legal standings of the parties but will be a solution that all parties can accept. The proceedings have the status of “without prejudice” settlement discussions which will not be binding until all parties agree.

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

- (b) The following are examples of alternative dispute resolution:
- Negotiation: this is the starting point for all forms of dispute resolution;
  - Mediation: the parties select an independent third party who will assist them in arriving at a solution;
  - Conciliation: it is like mediation but the conciliator will produce a recommended solution if the parties do not themselves form one;
  - Expert Evaluation: the parties agree to appoint a mutually acceptable expert in the field of the dispute and to abide by the expert’s opinion;
  - Arbitration: a term used to describe contractual conciliation but in which the process is enforced by authorizing the mediator to make an arbitration award which can be enforced in courts;
  - Mini trial: presentations are made to a panel of senior executives of the disputing parties, chaired by a neutral third party. The panel will arrive at a conclusion as to how settlement should be effected.

**(3 marks for each correctly stated example. 2 marks for correct and completely stated explanation. Sub-Total per example: 5 marks. Maximum of 4 to be graded. Sub-Total: 20 marks)**

- (c) The factors that the firm should consider when selecting a reinsurance broker are:
- expertise of the Broker;
  - financial stability and probity of the Broker;
  - reputation for service and being able to service their needs;
  - ability of the Broker to offer value-added security vetting of reinsurers.

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

12. You are explaining a proportional treaty statement of account to a young intern who recently joined your department.
- (a) State and briefly explain six (6) items on the statement of account that may be categorised as outgo (debit) to the reinsurer to the intern. **(12 marks)**
- (b) State and briefly explain eight (8) items on the statement of account that may be categorised as income (credit) to the reinsurer to the intern. **(16 marks)**
- (c) Describe to the intern, two (2) checks that you will perform when reviewing claims from a surplus treaty in order to make an informed sound decision. **(6 marks)**

### Solution

- (a) The items on the statement of account that may be categorised as income (credit) to the reinsurer are:

\* premium;                      \* return commission;                      \* return brokerage;                      \* interest;  
 \* recoveries;                      \* premium reserve released;                      \* loss reserve released;  
 \* cash loss refunds;                      \* loss portfolio.

**(Candidates are required to explain any correctly stated item. 1 mark for each correctly stated item. 1 mark for each correct and completely stated explanation. Sub-Total per item: 2 marks. Maximum of 6 items to be graded. Grand Sub-Total: 12 marks)**

- (b) The items on the statement of account that may be categorised as outgo (debit) to the reinsurer are:
- Return Premium: i.e. reversal of premiums which have already been paid to reinsurers but which due to various reasons now require to be paid back to the reinsured;
  - Commission: i.e. the agreed commission reflects the costs incurred by the reinsured in obtaining the business being protected by the treaty;
  - Brokerage: this is paid to the broker where a broker is involved in the placing and accounting of the treaty;
  - Tax: certain taxes can be deducted from the premium before paying to the reinsurer;
  - Premium Reserve Retained: treaties may allow for premium reserves to be retained. Where this is the case, it is usually a fixed percentage of the premium;
  - Loss Reserve Retained: this is to provide the reinsured with further security for the performance of the reinsurer's obligation in respect of outstanding reported claims at the end of the treaty year. It is usually a percentage of outstanding losses at the end of the year;
  - Losses Paid: this is the reinsurer's share of the paid losses under the treaty;
  - Cash Losses: a cash loss is a predefined agreed limit over which losses must be paid by the reinsurer on demand in advance of settlement of normal periodic account;
  - Premium Portfolio: this is to transfer unexpired liability under the treaty from one reinsurer to another;
  - Loss Portfolio: this allows a reinsurer to be relieved of losses outstanding at the end of the treaty year.

**(1 mark for each correctly stated item. 1 mark for each correct and completely stated explanation. Sub-Total per item: 2 marks. Maximum of 6 items to be graded. Grand Sub-Total: 16 marks)**

- (c) The checks that you should perform when reviewing claims from a surplus treaty in order to make an informed sound decision are:
- reviewing the individual cessions to the treaty to ensure that they are properly ceded;

- ensure that cessions comply with the table of retention and limits in each class of business;
- ensure compliance with the provisional loss advice;
- ensure compliance with the provisional cash loss limits.

**(3 marks for each correct and completely stated check. Maximum of 2 to be graded. Sub-Total: 6 marks)**  
**(Grand Total: 34 marks)**

13. (a) You are the reinsurance manager of XYZ Insurance Company. The Executive Management has requested a profitability analysis of the reinsurance programmes in the last five years. Briefly describe five (5) factors you will consider when presenting the results of your analysis of the profitability of reinsurance programmes. **(20 marks)**
- (b) (i) What does the term “commutation” mean in reinsurance? **(5 marks)**  
(ii) Explain three (3) benefits of commutation to the reinsured. **(9 marks)**

### **Solution**

The factors to be considered when presenting the results of the analysis of the profitability of reinsurance programmes are:

- the parties involved i.e. the reinsured and the reinsurer since they have different expectations over time;
- profit which will also be affected by other factors such as expenses, costs and investment income;
- the type of contract: proportional treaties are on a continuous basis subject to notice of cancellation, hence a measure of profit has to be over a period of time. Non-proportional treaties and facultative arrangements are usually renewable on an annual basis with the results being measurable over a shorter timescale than for proportional treaties;
- the circumstances prevailing when the contract was effected, in terms of portfolio composition or premium income;
- the loss experience: to enable us to determine and project the profitability of the program;
- the acquisition and servicing costs need to be considered;
- the market cycle should be considered as an unprofitable contract in a soft market may become profitable for the reinsurer when written in a hard market condition;
- the commissions payable on proportional treaties would require review on a regular basis to ensure that it is reasonable.

**(2 marks for each correctly stated factor. 2 marks for each correct and completely described explanation. Sub-total per factor: 4 marks. Maximum of 5 to be graded. Sub-Total: 20 marks)**

- (b) (i) A commutation is a method of discharging liabilities in insurance. It is a form of final settlement by a compromise between an insurance company and its reinsurer or between a reinsurer and its retrocessionaires in order to settle an outstanding claim. It is therefore a means of releasing the reinsurer from the obligations to indemnify in exchange for that reinsurer paying to the reinsured an agreed sum that is designed to cover all present and future claim amounts. Once the amount has been paid, the reinsurer is no longer liable for any further obligations arising from the contract either for known claims or any future unknown claims.

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

- (ii) The benefits of commutation in reinsurance are:
- avoidance of bad debts;
  - where a reinsurer experiences financial difficulty(ies), it may be unwilling or unable to pay claims as and when due;
  - cash flow may be an overriding consideration where the reinsured is experiencing financial problems;
  - commutation could lead to a quick resolution among parties in place of arbitration or litigation.

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

14. You have been called upon to speak with some undergraduates studying insurance in a higher institution of learning.

- (a) Enumerate any nine (9) essential information required to administer the premium from proportional facultative placement to the students. **(18 marks)**
- (b) Enumerate any eight (8) essential information required to administer the claims from proportional facultative placement to the students. **(16 marks)**

### **Solution**

(a) The essential information required to administer the premium from proportional facultative placement are:

- \* unique reference number;
- \* intermediary identifier (if applicable) and name of original insured;
- \* period of original insurance;
- \* reinsured's retention;
- \* reinsurance brokerage;
- \* reinsurance placement – share being offered for reinsurance;
- \* order involved if different from reinsurance placement;
- \* any other original deductions including brokerage;
- \* reinsurer's written and signed line
- \* location;
- \* perils covered;
- \* sums insured;
- \* original commission;
- \* original gross rate;
- \* original currency;

**(2 marks for each correctly stated information. Maximum of 9 to be graded. Sub-Total: 18 marks)**

(b) The essential information required to administer the claims from proportional facultative placement are:

- \* unique claims reference;
- \* name of original insured;
- \* period of original insurance and reinsurance;
- \* cause of loss;
- \* details and circumstances of loss, usually in the form of a report;
- \* estimate of original incurred loss for 100% amount;
- \* summary of settled amounts and corresponding changes to the outstanding losses;
- \* reinsured's retention;
- \* intermediary or reinsured identifier;
- \* location;
- \* date of loss;
- \* perils covered;
- \* reinsurer's signed lines.

**(2 marks for each correctly stated information. Maximum of 9 to be graded. Sub-Total: 18 marks)**  
**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A03

FINANCE AND ACCOUNTING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A03 - FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

You are advised to spend not more than 45 minutes on Part I and strongly advised to attempt ALL the required questions to score the 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 assessed candidates' understanding of the differences between income statements and statements of financial position. Approximately 98.38% attempted it, and 95.98% of those who did achieved a passing mark. This impressive performance indicates that candidates grasped this aspect of the syllabus, and they are encouraged to maintain this level of understanding.

### **Question 2**

The examiner assessed candidates' knowledge of the contents of directors' reports as presented in the annual reports and accounts. The question was well attempted, with a participation rate of 93.6%, and 93.29% of those who attempted it performed above average. This encouraging performance may be attributed to their thorough preparation for the question.

### **Question 3**

The question examined candidates' understanding of the solvency margin that an insurance company must maintain. Approximately 97% of the candidates attempted it, and 96% of those who did performed above average, indicating impressive results.

### **Question 4**

The question assessed candidates' knowledge of how an issue can be made and shares listed for the first time. Approximately 90% of the candidates attempted the question, with about 86% performing very well. Candidates are encouraged to maintain this level of performance in future examinations.

### **Question 5**

The question evaluated candidates' understanding of the circumstances under which a subsidiary company's account would be excluded from the consolidated accounts of the parent company. While over 90% of candidates attempted it, the performance was below average, at about 41%. This may be attributed to a lack of familiarity with the topic. Candidates are encouraged to prioritise thorough preparation for future examinations.

### **Question 6**

The question centered on the items that may be included in a company's director's report. Approximately 96% of candidates attempted it, but only 11% performed above average. This low performance may be due to a lack of understanding of the requirements. Candidates are encouraged to prepare diligently for upcoming examinations to improve their performance.

### **Question 7**

The examiner assessed the candidates' understanding of the three components of responsibility accounting. This appears to be a familiar topic for the candidates, as approximately 97% attempted the question, with about 95% passing. The results were excellent, likely reflecting the familiarity of diligent candidates with this area of study.

### **Question 8**

The question assessed candidates' knowledge of basic cost concepts. Approximately 100% of the candidates attempted it, with 90% performing above average, which is highly encouraging. Candidates are advised to prepare thoroughly for their examinations.



**Question 9**

This compulsory question evaluated the candidates' ability to prepare a simple final account for an insurance company based on a given trial balance. While almost all candidates attempted it, only 60% performed above average. This indicates that the majority of candidates are not well-versed in preparing final accounts, which is a key component of the course.

**Question 10**

The question assessed candidates' understanding of the suitability of equity and property investments for shareholders' funds. Approximately 11% of candidates attempted it, and their performance was average. Candidates need to commit to rigorous preparation for future examinations.

**Question 11**

The question assessed candidates' understanding of the solvency margin, the key factors influencing its size, and methods for calculating it. Approximately 85% of candidates attempted the question, and the performance was commendable, with 71% scoring above average. However, candidates are encouraged to enhance their preparation to achieve even better results in the future.

**Question 12**

The question evaluated candidates' understanding of the differences between financial accounting and management accounting, as well as the reasons for preparing budgets. Approximately 95% of the candidates attempted it, with about 85% performing above average. This is a very good performance, indicating that they prepared adequately for the examination.

**Question 13**

The three-part question assessed candidates' understanding of agents and brokers as intermediaries. Approximately 76% attempted the question, and about 98% of them scored above average. This is another commonly encountered question. Candidates are advised to cover all aspects of the syllabus while preparing for their examinations.

**Question 14**

The question examined candidates' knowledge of the solvency margin in insurance operations and the advantages of supervising insurance companies. Approximately 45% of candidates attempted it, with 89% of those performing above average. This is a good performance, indicating that candidates are becoming more familiar with the question. They are advised to maintain this momentum in future examinations.

**Comments on Overall Performance:**

An overall performance of 58.05% is a positive development, indicating that candidates prepared more adequately for the course this diet. They are encouraged to maintain this level of preparation in future examinations.

**Suggestion(s) on Improvement(s) (if any)**

Candidates are encouraged to adhere to instructions carefully to improve their performance in future examinations.

Candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Explicitly outline two (2) differences between profit and loss accounts (income statement) and balance sheet (statement of financial position).

### Solution

The differences between profit and loss account (income statement) and balance sheet (statement of financial position) are:

Profit & Loss	Balance sheet
1. Deals with operational performance of an entity for a year	1. Shows the financial position of an entity as at the end of a period usually (a year)
2. Shows the profitability on a period of one year	2. Shows the assets and liabilities of an entity
3. Shows the income & expenditures over a period of one year	3. Shows the position of Assets and liabilities as at a particular date usually at the year ended.

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

2. The Directors' report as appeared in the annual reports and accounts of a company contains some elements or activities. Enumerate any four (4) of these elements or activities.

### Solution

The elements/activities that the Directors' report as appeared in the annual reports and accounts of a company contains are:

- changes in asset values, directors' shareholding and other interests;
- contribution for political and charitable purposes;
- acquisition by a company of its shares or a change on them;
- employment, training and advancement of disabled persons;
- health, safety and welfare of work of employees;
- involvement of employees in the affairs, policy and performance of the company.

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

3. List six (6) factors that determine what the size of the solvency margin of an insurance company should be.

### Solution

The factors that determine the size of the solvency margin of an insurance company should be the:

- size of the insurer (net retention);
- types of business undertaken (class and geography);
- efficiency of management (claims and expense control. e.t.c.);
- risk of outstanding claims exceeding provisions;
- possibility of a collapse in investment values at a time when cash is needed;
- danger of default by debtors, particularly reinsurers;
- harmful effects of an increase in inflation rates;
- degree of exposure to exchange rate risk;
- existence of equalisation (or other reserves counted as liabilities);
- bases of valuing assets and liabilities.

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

4. When raising share capital, although the prospectus “all look the same”, there are usually four (4) general ways in which an issue can be made and the shares listed for the first time. List three (3) of these four ways.

**Solution**

The general ways in which an issue can be made and the shares listed for the first time are:

- \* an offer for sale;
- \* an offer by tender;
- \* by placing;
- \* by introduction.

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

5. Enumerate any three (3) conditions when a subsidiary company account will not be included in the consolidated accounts of the parent company.

**Solution**

The conditions in which a subsidiary company accounts will not form part of the consolidated accounts of the parent company are:

- severe long item restriction which substantially hinders the parent company's right over the assets or management of the subsidiary;
- inclusion is not material for giving a true and fair view;
- necessary information cannot be obtained without disproportionate expense or undue delay;
- the activity of the subsidiary company is so different from those of other group undertakings as to make inclusion incompatible with the true and fair view;
- health, safety and welfare at work of employees;
- involvement of employees in the affairs, policy and performance of the company.

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

6. Outline any four (4) items that are included in the “directors’ report”.

**Solution**

The items that are included in the “directors’ report” are:

- i. changes in asset values, directors’ shareholdings and other interests’ contributions for political and charitable purposes;
- ii. any acquisition by a company of its shares or a charge on them;
- iii. employment, training and advancement of disabled persons;
- iv. health, safety and welfare at work of employees;
- v. involvement of employees in the affairs policy and performance of the company.

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

7. Responsibility accounting has 3 components or centers. List these three (3) components or centres.

**Solution**

The three components (or centres) of responsibility accounting are:

- \* cost centre;
- \* profit centre; and
- \* investment centre.

**(2 marks for each correctly stated component/centre. Total: 6 marks)**

8. What do the following terms mean in Finance and Accounting?

- (a) variable cost; **(2 marks)**
- (b) fixed cost; **(1 mark)**
- (c) sunk cost; **(1 mark)**
- (d) opportunity cost; **(1 mark)**
- (e) incremental cost. **(1 mark)**

## Solution

- (a) Variable Cost: these are costs that vary in a direct linear relationship to activity level. For instance, if the commission rate is 15% of the premium, then for every ₦1.00 of the premium, an insurer pays 15kobo to its intermediary. (2 marks)
- (b) Fixed Cost: these are costs that remain constant for a specified period of time regardless of the level of activity. They are sometimes therefore called period fixed costs because in the long term, they vary. (1 mark)
- (c) Sunk Cost: these are those already incurred which will be totally unaffected by the proposal alternatives. They are relevant for decision making. (1 mark)
- (d) Opportunity Cost: these are those costs that measure the sacrifice of choosing one alternative course of action which requires another alternative to be discarded. (1 mark)
- (e) Incremental Cost: this basically establishes the additional cost or reverses resulting from a decision. It is also referred to as marginal cost. (1 mark)
- (Grand Total: 6 marks)**

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) In recent years, National Insurance Commission (NAICOM) has consistently introduced regulations using circulars and guidelines to ensure cohesive and progressive Nigerian Insurance Industry. Carefully enumerate any five (5) guidelines issued in the last fifteen years. (10 marks)
- (b) Prepare final accounts from the following information obtained from the record of New Era Insurance Company Limited.

Trial Balance 31 Dec 2018

	₦'000	₦'000
Share Capital		20,000.00
Reserves		12,000.00
Investments	75,000.00	
Premiums		120,000.00
Commission	16,000.00	
Expenses Paid	10,000.00	
Agents	18,000.00	
Creditors		7,000.00
Claims	35,000.00	
Land & Building	7,000.00	
Investment Income		5,000.00
Cash & Bank	<u>3,000.00</u>	
	<u>164,000.00</u>	<u>164,000.00</u>

#### Additional Information:

- i. Premium = Unearned Premium bid - ₦30,000.00 plus written ₦90,000.00.  
Provision for unearned premium at 31 December = 40% of premium written.
- ii. Commission = Unearned Commission bid ₦4,000.00 plus paid ₦12,000.00.  
Unearned Commission as at 31 December = ₦5,000.00
- iii. Claims - Paid ₦60,000.00 less outstanding bid ₦25,000.00 Outstanding Claims as at 31 December = ₦30,000.00
- iv. Expenses Outstanding as at 31 December = ₦100.00
- v. Provide 1 % of Agents balances against bad debts.

As at 31 December, ₦550.00 investment income is accrued due. The trial balance figure is made up of ₦5,500.00 received less ₦500.00 due the previous year. (35 marks)

(c) IFRS 17 applies to some contracts. List any five (5) of such contracts. (5 marks)

**Solution**

(a) The guidelines issues in recent timelines are:

- (i) Bancassurance guideline;
- (ii) Corporate governance guideline;
- (iii) Takaful guideline;
- (iv) Microinsurance guideline;
- (v) Webb Aggregators guideline;
- (vi) Guidance on IFR
- (vii) Market conduct guideline

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

(b)

**NEW ERA INSURANCE COMPANY LIMITED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 2018** (1 mark)

	₦	₦	
Unearned Premium	30,000		(1 mark)
Premium Written	90,000	120,000	(1 mark)
Less Commission Paid	12,000		(1 mark)
Expenses Paid	10,000		(1 mark)
Claim Paid	60,000		(1 mark)
Agent Paid	18,000		(1 mark)
Provision	2,100	<u>102,100</u>	(2 marks)
Profit		<u>17,900</u>	(4 marks)

**RENEWED-HOPE INSURANCE COMPANY LIMITED BALANCE SHEET AS AT 31ST DECEMBER, 2018** (1 mark)

	₦	₦	
<b>NON-CURRENT ASSETS</b>			
Land and Building		7,000	(1 mark)
Investment		75,000	(1 mark)
		<u>82,000</u>	(2 marks)
<b>CURRENT ASSESTS</b>			
Unearned Premium	30,000		(1 mark)
Less Provision	12,000	18,000	(2 marks)
Unearned Commission		9,000	(1 mark)
Cash& Bank		<u>3,000</u>	(1 mark)
		<u>112,000</u>	(2 marks)
<b>EQUITIES &amp; LIABILITIES</b>			
Share Capital		20,000	(1 mark)
Reserves		12,000	(1 mark)
Debtors	15,000		(1 mark)
Creditors	4,000		(1 mark)
	11,000		(2 marks)
Overdraft	7,000	4,000	(2 marks)

(Grand Sub-Total: 35 marks)

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

**(1 mark for each correctly listed contract. Maximum of 5 to be graded. Sub- Total: 5 marks)**

**(Grand Sub-Total: 35 marks)**

**(Grand Total: 50 marks)**

### Part III

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

**Each question carries 34 marks.**

10. (a) Enumerate any four (4) reasons why equity and property investment will be suitable for shareholders' funds. **(12 marks)**
- (b) An institutional investor can invest properly in a number of ways. List and briefly explain any four (4) of these ways. **(8 marks)**
- (c) (i) Explain in four (4) distinct ways the term “debentures”. **(8 marks);**  
(ii) Explain in three (3) distinct ways the term “unsecured loan stocks”. **(6 marks)**

### Solution

(a) Equity and property investment will be suitable for shareholders funds for the following reasons:

- they offer capital appreciation plus income;
- shareholders' funds always form the basis for the solvency margin which insurers are obliged to maintain;
- they must thus grow a least in line with the growth in business and investment must make a large contribution to this growth
- the investment must provide a basis for the dividends payable to the shareholders;
- an eye must be kept on the relative size of the shareholders' fund and insurance fund;
- shareholders' fund must be managed inextricably with the general fund investment.

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

(b) An institutional investor can invest properly in the following number of ways:

- purchasing properties: it may be existing property or from a developer;
- developing properties itself: the entity may choose to engage in developing properties by itself rather than purchasing existing properties or buying from developers;
- financing a development: and taking a share of the resulting income;
- providing mortgage finance: to a development company and also taking a share in the equity of the company;

- entering into sale and leaseback arrangements: a property owner, needing funds for other developments, sells his property to an investor for a sum of money and then leases it back at an annual rental.

**(1 mark for each correctly stated way. 1 mark for each correct and completely stated explanation. Sub-Total of each way: 2 marks. Maximum of 4 to be graded. Sub-Total: 8 marks)**

(c) (i) Debentures:

- these are normally issued by companies to raise money;
- they are secured by a charge on specific assets of the company or by a floating charge over all the assets or by both;
- trustees are appointed to represent the debenture holders;
- trustees are responsible for ensuring that the terms of the trust deed covering the issue of the debentures are observed;
- where the terms are breached, the trustee will be able to exercise the rights granted under the trust deed.

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

(ii) Unsecured Loan Stocks:

- these are similar to debentures but they have no specific security;
- holders of such stocks must rely on the standing of the issuing company;
- in the event of failure to meet the terms of the issue, stockholders would rank as unsecured creditors;
- it may also be convertible;
- yield would consequently be above those obtainable on debentures.

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

**(Grand Sub-Total: 14 marks)**

**(Grand Total: 34 marks)**

11. (a) What do you understand by the term solvency margin? Identify any six (6) of the main factors affecting its size. **(22 marks)**

(b) Enumerate and explain the two (2) methods of calculating the general business solvency margin. **(12 marks)**

### **Solution**

(a) Solvency margin is the excess of the value of (an insurer's) assets over the amount of its liabilities, that value and amount determined in accordance with any applicable valuations.

The main factors affecting the size of the solvency margin are:

- the size of the insurer (not retention);
- the types of business undertaken (class and geography);
- the efficiency of management (claims and expense control, underwriting);
- the risk of outstanding claims exceeding provisions thereon;
- the possibility of a collapse in investment values at a time when cash is needed;
- the danger of default by debtors, particularly reinsurers;
- the harmful effect of an increase in inflation rates;
- the degree of exposure to exchange rate risk;
- the existence of equalization or other reserves counted as liabilities;
- bases of valuing assets and liabilities.

**(4 marks for correct and completely stated definition. 3 marks for each correct and completely stated factor. Maximum of 6 to be graded. Sub-Total: 22 marks)**



(b) The two methods of calculating the general business solvency margin are:

- Based on Premiums: the starting point is the gross premium income for the business premiums for the previous financial year. This is then divided by the number of months in the financial year and multiplied by 12. A figure is then calculated, being 18% of the first 10 million units of account and 16% of the rest. The calculated figure is added together and multiplied by a percentage which is normally that which claims net of reinsurance recoveries beat gross claims incurred in the last financial year. However, the percentage must not be less than 50%.
- Based on Claims: add together all claims incurred (gross) in the reference period (usually the last three financial years). Divide this figure by the number of months in the reference period and multiply by 12. Calculate 26% of the first seven million units of account and 23% of the balance. This calculated figure is then reduced by the same percentage as in Method 1 (above) for reinsurances.

(2 marks for each correctly stated method. 4 marks for correct and completely stated explanation. Sub-

Total for each term: 6 marks. Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

12. (a) Outline and explain any six (6) differences between "financial accounting" and "management accounting". (30 marks)

(b) Enumerate any two (2) reasons for budgeting. (4 marks)

### Solution

(a) The differences between "financial accounting" and "management accounting" are:

- Aggregation: Financial Accounting reports on the results of an entire business. Managerial accounting almost always reports at a more detailed level, such as profits by product, product line, customer and geographic region. Financial accounting reports are more likely to be distributed to outsiders, while the results of managerial accounting are more likely to only be used by insiders.
- Efficiency: Financial accounting reports on the profitability (and therefore the efficiency) of a business, whereas managerial accounting reports on specifically what is causing problems and how to fix them, while financial accounting reports are used by outsiders to decide whether to invest in or lend to a business.
- Proven Information: Financial accounting requires that records be kept with considerable precision, which is needed to prove that the financial statements are correct. Outside auditors rely on this information when auditing a firm's financial statements. Conversely, managerial accounting frequently deals with estimates rather than proven and verifiable facts.
- Reporting Focus: Financial accounting is oriented toward the creation of financial statements, which are distributed both within and outside of a company. Managerial accounting is more concerned with operational reports which are only distributed within a company.
- Standards: Financial accounting must comply with various accounting standards when information is compiled for internal consumption.
- **Systems:** Financial accounting pays no attention to the overall system that a company has for generating a profit, only its outcome. Conversely, managerial accounting is interested in the location of bottleneck operations and the various ways to enhance profits by resolving bottleneck issues.
- Time Period: Financial accounting is concerned with the financial results that a business has already achieved, so it has a historical orientation. Managerial accounting may address budgets and forecasts, and so can have a future orientation.

- **Timing:** Financial accounting requires that a financial statement be issued following the end of an accounting period. Managerial accounting may issue reports much more frequently, since the information it provides is of most relevance if managers can see it right away.
- **Valuation:** Financial accounting address the proper valuation of assets and liabilities and so is involved with impairment revaluations and so forth. Managerial accounting is not concerned with the value of these items only their productivity.
- **Certification:** These is also a difference in the accounting certifications typically found in each of these areas. People with the Certified Public Accounting designation have been trained in financial accounting, while those with the Certified Management Accountant designation have been trained in managerial accounting .
- **Pay Levels:** Pay levels tend to be higher in the area of financial accounting and somewhat lower for managerial accounting, perhaps because there is a perception that more training is required to be fully conversant in financial accounting.

**(3 marks for each correctly stated difference. 1 mark for each correct and complete comparison per term i.e 2 marks for each completely stated difference. Sub- Total per difference: 5 marks. Maximum of 6 differences to be graded. Grand Sub-Total: 30 marks)**

(b) The reasons for budgeting are to:

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

**(2 marks for each correctly stated reason Maximum of 2 to be graded. Grand Sub-Total: 4 marks)  
(Grand Total: 34 marks)**

13. (a) What are the differences between an insurance Broker and an insurance agent?  
Enumerate at least five (5) differences on each term. **(20 marks)**
- (b) Enumerate any four (4) main roles of “Intermediaries Trade Associations.” **(10 marks)**
- (c) Distinguish between cash and credit agents. **(4 marks)**

### **Solution**

a)

Differences		
S/No	Insurance Brokers	Insurance Agents
1	They are all licensed professional members	They are licensed members and not necessarily professionally certified.
2	They can transact businesses with all insurers	They can only transact business with named insurers
3	Their activities are well/heavily regulated	Their activities are not heavily regulated
4	They are remunerated with higher rate of commission	Their remunerations are lower than that of Brokers
5	They require a minimum paid-up capital before they can transact business	They do not require any paid-up capital before they can transact business
6	They are required by practice to have an effective Professional Indemnity cover for key employees	They are not required to have any Professional Indemnity cover

**(2 marks for each correctly stated point. Maximum of 5 under each term. Sub-Total per term: 20 marks.  
Grans Sub-Total: 20 marks)**

- b) The main roles of “Intermediaries Trade Associations” are:
- Representation: regular contacts at office level with members to enable joint representation on matters of common concerns;
  - Support for Members: designed to enhance service to clients e.g. newsletters, compliance manuals and aids;
  - Members' Promotion: advertising, public relations, public enquiry and similar services on behalf of members;
  - Training and Recruitment: there is growing education and training programme for members;
  - Dealing with Complaints: from public on an advisory basis, in addition to general advice on technical matters.

**(1½ marks for each correctly stated role. 1 mark for each correct explanation. Sub-Total per role: 2½ marks. Maximum of 4 to be graded. Grand Sub-Total: 10 marks)**

(c) Cash Agents merely introduce business to their principals but do not collect premiums. They are also paid a lower rate of commission than credit agents; while Credit Agent who in this context include all Brokers, collect premiums on behalf of their principals and usually settle with them monthly or quarterly on account. In insurance, credit agents are often authorized by their principals to grant covers, issue policies/certificates of insurance and perhaps even settle claims.

**(2 marks for any correct and completely stated point on each term. Maximum of 1 point to be graded on each term. Sub-total per term: 2 marks. Grand Sub-Total: 4 marks)**

**(Grand Total: 34 marks)**

14. (a) (i) What is solvency margin in relation to the operations of insurance companies. **(4 marks)**
- (ii) List five (5) factors that should be considered in attempting to assess the solvency margin scientifically. **(10 marks)**
- (b) Enumerate any ten (10) reasons in favour of supervision of Insurance Companies. **(20 marks)**

### **Solution**

(a) (i) Solvency margin is the excess of the value of (an insurer's) assets over the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulations. It is a sort of cushion and like a cushion its desirable size depends on the contours of the user and the circumstances of its use. **(4 marks)**

(ii) The factors that should be considered in attempting to assess the solvency margin

scientifically are:

- (i) the size of the insurer (net retention);
- (ii) the type: of business underwritten;
- (iii) the efficiency of management;
- (iv) the risk of outstanding claims exceeding provisions therefore;
- (v) the possibility of a collapse in investment values at a time when cash is needed;
- (vi) the danger of default by debtors particularly reinsurers;
- (vii) the harmful effects of an increase in inflation rates;
- (viii) the degree of exposure to exchange rate risk;
- (ix) the existence of equalization or other reserves counted as liabilities
- (x) bases of values assets and liabilities

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

- (b) The reasons in favour of supervision of insurance companies are:
- (i) requirement for compulsory insurance;
  - (ii) authorisation of insurers;
  - (iii) control of managers, e.t.c.
  - (iv) regulation of expense charges;
  - (v) regulation of policy condition;
  - (vi) limitation of expense charges;
  - (vii) financial requirement deposit, minimum capital, solvency;
  - (viii) requirement for annual and that returns;
  - (ix) powers of direction and other intervention;
  - (x) controls on advertising and marketing;
  - (xi) controls on intermediaries, commission payments, e.t.c.
  - (xii) nationalisation and the prohibition of overseas competition;
  - (xiii) compulsory compensation schemes for affected policyholders and claims;
  - (xiv) regulation and directives.

**(2 marks for each correct and completely stated reason. Maximum of 10 to be graded. Sub-Total: 20 marks) (Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A04

PRINCIPLES OF PROPERTY AND PECUNIARY

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A04 – PRINCIPLES OF PROPERTY AND PECUNICARY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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 poorly answered. 40% of those who attempted the question performed above average, while the remaining 60% did not.

### **Question 2**

95 % of the candidates attempted this question, and 70% demonstrated a complete understanding of it.

### **Question 3**

98% of the candidates attempted this question. More than 50% of them understood the question and provided answers that yielded an above average performance.

### **Question 4**

95% of candidates attempted this question. More than 50% demonstrated a thorough understanding of all aspects and performed above average, while the remaining candidates could not define all types of policies mentioned in the question.

### **Question 5**

The candidates performed above average in this practical question.

### **Question 6**

Close to 97% of the candidates attempted the question, with more than 60% performing above average. However, many of those who attempted it failed to include some essential but basic information.

### **Question 7**

Most candidates attempted this question, but only 20% performed above average, while 80% did not achieve an above-average score.

### **Question 8**

98% of the candidates attempted this question, but only 18% of those who did performed above average.

### **Question 9**

96% of the candidates attempted this question, but less than 10% of those who did performed above average.

### **Question 10**

70% of the candidates attempted this question, and 60% of them achieved an above-average performance.

### **Question 11**

About 70% of the candidates attempted this question, and 70% of them achieved an above-average performance.

**Question 12**

40% of the candidates attempted this question, but less than 10% of them performed above average.

**Question 13**

Most candidates avoided this question, with only 5% attempting it. Among those who did, the overall performance was below average, with less than 5% achieving an above-average score.

**Question 14**

Approximately 55% of all candidates attempted this question. It was noted during the grading exercise that questions covering more than one chapter in the coursebook tend to pose challenges for candidates, likely due to inadequate preparation. Less than 7% of those who attempted the question scored above average.

**Comments on Overall Performance:**

Very low performance.

**Suggestion(s) on Improvement(s) (if any)**

Candidates are continually encouraged to study and understand the principles thoroughly and to be able to present them effectively. Inadequate and half-hearted preparation will not lead to consistently achieving above average performance.

Candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions



## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. (a) When a risk is placed with a fire insurer, such insurers usually conduct a pre-loss action in order to have a better understanding of the risk. What is the name of this pre-loss action that fire insurers are expected to do before committing themselves to acceptance of the risk/business? Do they do this for all fire businesses? (4 marks)
- (b) Give two (2) reasons for the responses in (a) above. (2 marks)

### Solution

- (a) The name of this pre-loss action that fire insurers are expected to do before committing themselves to acceptance of the risk/business could be said to be a fire survey, an adequate pre-loss inspection, or a pre-loss risk survey. (2 marks for any correctly stated term)
- No, fire insurers do not do this for all fire businesses. (2 marks)
- (Sub-Total: 4 marks)

- (b) The reasons for the action in (a) above are that:

- it gives details of the risks being proposed;
- it provides details of the exposures involved;
- it will provide details of type of firefighting appliances available;
- it will give estimated maximum loss if it happens;
- it will enable the underwriter to be able to make an informed decision.

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

(Grand Total: 6 marks)

2. (a) As an A04 examination candidate, you are aware of insurers risk/loss control. Enumerate three (3) areas of loss that the fire insurance policy will exclude especially for commercial property except if commensurate extra premium is paid.
- (b) When notified of demolition and excavation by the insured of the building adjoining site, enumerate any three (3) important underwriting decisions that should be made on such as a prudent underwriter.

### Solution

- (a) The areas of loss that the fire insurance policy will exclude especially for commercial property except if the commensurate extra premium is paid are:

- \* riot;
- \* explosion of industrial boiler;
- \* civil commotion;
- \* subterranean fire;
- \* earthquake;
- \* malicious damage.

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

- (b) The important under-writing decisions that should be made on such as a prudent underwriter are:

- fire insurers can vary policy terms and conditions;
- delete loss that could consequently follow such exercise (demolition and or excavation) by endorsement;
- cancel the cover/policy entirely;
- charge a higher premium for such extra peril(s).

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

(Grand Total: 6 marks)

3. Concisely enumerate any three (3) cogent reasons why it is necessary for business interruption insurers to seek reinsurance.

**Solution**

The cogent reasons why it is necessary for business interruption insurers to seek reinsurance are to:

- provide protection against exceptionally large individual losses;
- avoid undue fluctuation in property insurance results;
- obtain and achieve spreading of risk;
- increase the capacity of the direct insurer on material damage and business interruption;
- obtain technical advice from the reinsurance experts, particularly on complex areas of business interruption insurance.

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

4. List three (3) types of fidelity insurance policies and explain the cover provided under each of the listed types.

**Solution**

The types of fidelity insurance policies are:

(i) Individual Policy: this policy is issued where one employee is covered by name for a stated amount.

(ii) Collective Policy Named: here, the policy incorporates a schedule setting out names and duties of guaranteed individuals, the amount for each name stated either on an individual basis or a floating basis.

(iii) Collective Policy Unnamed: here, the policy is issued on the basis that employees are covered by category. For example, for managers, accountants, clerks, and cashiers amounts guaranteed could be per capita or floating.

(iv) Blanket Policy: here, a form of unnamed policy is used which includes all employees without showing names or positions.

(v) Position Policy: this is commonly issued to Local Government employees instead of names, position is guaranteed for a specified amount.

**(1 mark for each correctly stated cover type. 1 mark for each correct and completely stated explanation. Maximum of 3 cover types to be graded. Total: 6 marks)**

5. Enumerate any three (3)

(a) reasons for the development of combined policies later followed by packaged policies by insurers; and

(b) benefits that an insured can derive in having a combined policy(ies).

**Solution**

(a) The reasons for the development of combined policies later followed by packaged policies by insurers are to:

- provide competitive edge; \* add values for the fairest combination of cover;
- reduce the cost of providing insurance such as staff cost and resourcing;
- shove up profit margins; \* cut cost generally and expenses.

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

(b) The benefits that an insured can derive in having combined policy(ies) are:

- one proposal form is what will be required to be completed;
- a single policy booklet or folder is what will be kept or referred to;
- rebate-ably reduced premium will be payable;

- there will be a common renewal date for all covers;
- it will be easier to reference day-to-day dealing with insurers and/or intermediaries.  
(1 mark for each correctly stated benefit. Maximum of 3 to be graded. Sub-Total: 3 marks)  
(Grand Total: 6 marks)

6. Specify six (6) general information that are required to be found in a risk presentation/broking slip for underwriting purposes.

**Solution**

The general information that is required to be found in a risk presentation/broking slip for underwriting purposes are:

- \* name of insured; \* main address or risk address; \* renewal date;
- \* nature of cover required; \* holding brokers; \* competing brokers (if any);
- \* name of contact person (brokers); \* email address; \* telephone numbers.
- \* business description/ occupation; \* dates of cover commencement;
- \* extra covers required; \* deadline for quotation;

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

7. Is the principle of indemnity breached when a claim is settled on the agreed value? Give any two (2) reasons for your answer.

**Solution**

No, the principle of indemnity is not breached when a claim is settled on an agreed value, agreed at the inception of insurance cover. (2 marks)

The reasons for the answer above are as follows:

- once valuation is bona fide;
- bona fide in the sense that the agreed value was fixed by a professional valuer approved by the insurers;
- no over valuation, (value so excessive and known to the insured to be excessive but not disclosed to the insurer) hidden from the insurer;
- the valuation is not so excessive that makes the policy a wagering.

(2 marks for each correct and completely stated reason. Maximum of 2 to be graded. Sub-Total: 4 marks)  
(Total: 6 marks)

8. State any three (3) early drawbacks/difficulties that contractors may go through when tendering for contracts under the “Private Finance Initiative”.

**Solution**

The early drawbacks/difficulties that contractors may go through when tendering for contracts under the “Private Finance Initiative” are:

- high tendering cost for contractors;
- too many requirements and complex contractual networks;
- length of contracts including operational risks;
- legal capacity of health trust and local authorities;
- how to adapt to sharply changing methods of operation in the future;
- the wide use of service contracts as opposed to construction (work that will cost more).

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



- Contractors Pollution Liability Covering: it covers sudden and gradual coverage for third party liability including defense costs; claim made basis; extended reporting period option; completed operations coverage; cover available for contractor's client as additional assured; multi-year coverage up to five years for a specific project.
  - Professional Indemnity Covering: it covers acts, errors, or omissions resulting from specified professional services; claim made basics; defense costs included in indemnity limit; extended reporting period option; coverage for pollution related errors or omissions; completed services cover available; multi-year coverage up to five years for a specific project; cover available for laboratories.
- (3 marks for each correctly stated type. 2 marks for each correct description. Sub-Total per type: 5 marks. Maximum of 4 to be graded. Sub-Total: 20 marks)**  
**(Grand Sub-Total: 25 marks)**

(c) The important information that a prudent underwriter will be looking out for in a pre loss fire survey report are the:

- |   |  |
|---|--|
| * insured name;                                 | * risk address/full description of risk; |
| * insured nature of business/ process;          | * construction of building;              |
| * Number of storeys in a building;              | * heating methods;                       |
| * Electricity and mode of wiring;               | * fire protection system                 |
| * type of storage & goods kept on the premises; |  |
| * firefighting equipment;                       | * EMPL/EML                               |
| * Nature of housekeeping;                       | * Special perils.                        |

**(1 mark for each correctly stated information. Maximum of 5 to be taken. Sub-Total: 5 marks)**  
**(Grand Total: 50 marks)**

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. An organisation that specialises in building blocks of shops and offices had written to you upon identifying you as a property and pecuniary insurances underwriting and claims scholar requesting you to kindly provide information to their clients using office and shops respectively as a form of trade/occupation on appropriate insurance for their trade. Write a response to them:
- (a) specifying details of “offices general package policy” covering a minimum of five (5) covers with ratings and limits for shops & offices accordingly;  
**(19 marks)**
- (b) Explain three (3) distinct features that distinguish machinery business interruption from fire business interruption policies. **(15 marks)**

#### Solution

- (a) “Offices general package policy” can include:
- All-Risks Cover: incorporating accidental loss or damage to buildings & contents;
  - Theft will be qualified or as agreed and specified with endorsement;
  - Business Interruption: this will ensure gross revenue plus additional expenditure;
  - Money: - Covering cash on hand;
  - Personal Accident: for assault/ hold up cover;
  - Glass: Standard where insured is responsible for such damage
  - Liability: to include employer's liability up to a fixed limit per incident; and public/products liability with appropriate limits accordingly;
  - Credit Insurance: outstanding debt balances.

**(2 marks for the correctly stated cover. 2 marks for each correct and completely stated explanation. Sub-Total per cover for the first 4: 4 marks. Sub-Total for the 5<sup>th</sup> cover: 3 marks. Maximum of 5 to be graded. Grand Sub-Total: 19 marks)**

(b) The features which distinguish machinery business interruption from fire business interruption policies are:

- Perils Insured: Machinery breakdown or accidental damage will affect the production process and ability to meet production requirements including profits, the insurance will operate following material damage to machinery, boilers/others and not from fire or from the range of associated perils insured under a fire policy.
- Selected Machines: All machinery in a process will not have the same effect on production. Selection can be made for those only essentials to be insured.
- Surveys and Technical Inspection: Underwriting of each risk is based on information obtained from a survey of the plant and machinery in its working environment. Acceptance of a risk may also be subject to a satisfactory report following technical inspection by a qualified engineer.
- Indemnity Period: The maximum indemnity period on both need not necessarily be the same. Machinery involved may be repaired specially on site or obtain replacements off the shelf but a fire where the effects may be catastrophic and require reconstruction of premises will take much longer.

**(3 marks for the correctly stated feature. 2 marks for each correct and completely stated explanation. Sub-Total per feature: 5 marks. Maximum of 3 to be graded. Grand Sub-Total: 15 marks)  
(Grand Total: 34 marks)**

11. (a) Insurers are expected to factor in brokerage commission in the premium charged. Enumerate 6 (six) other costs that need to be considered in arriving at gross premium for a standard fire insurance policy. **(12 marks)**
- (b) What do you understand by “scheme” in insurance placement and arrangements and enumerate four (4) examples of how this is or can be carried out? **(10 marks)**
- (c) Explain four (4) important objectives that an insurer wishes to achieve or establish by assessing underwriting performance. **(12 marks)**

### **Solution**

(a) The other costs that need to be considered in arriving at a gross premium for a standard fire insurance policy are:

- \* cost of survey; \* cost of underwriting/policy issuance;
- \* cost of negotiation & visits; \* cost of and to set up renewal;
- \* cost of handling mid-term changes; \* cost of set up each claim and agree;
- \* cost to set up each claim and agree;
- \* cost of all claims paid and reserves for future particularly catastrophes claims;
- \* other overheads such as the purchase of reinsurance; \* profit

element.

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

(b) Scheme: this is a special arrangement used in the provision of an insurance package for a particular group that may require insurance of a special type or special form, provided the risks are the same for all the prospect/scheme members. The risk is insurable and good premium will be earned. **(2 marks)**

Schemes can be arranged for:

- cyclists: covering all-risks on cycle and accessories, personal accident benefits, public liability cover to a limit;

- householders: extended warranty on cookers and appliances;
- event organizers: all risks on tent canopies, marquee and contents public liability and compensation for event cancellation;
- travel: covering medical expenses for delay, baggage; personal accident trip cancellation by transporter other liability;
- special purchases: like purchases of a particular personal computer, handsets, e.t.c.;
- employees: group life covers employees of organizations.

**(2 marks for each correctly stated way of inaugurating a scheme. Maximum of 4 to be graded. Sub-Total: 8 marks)**

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

(c) The important objectives that an insurer wishes to achieve or establish by assessing underwriting performance are:

- identify the effect on the account (and profits) of plans made in previous years;
- identify trends in income and expenditure and the effect on profits;
- enable insurers to make new plans;
- enable insurers to revise old plans and what the assessment revealed;
- to allow future required results to be achieved.

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

**(Grand Total: 34 marks)**

12. (a) With a minimum of four (4) explanations/characteristics, explain what is meant by the “nature of “contract works” policy”? **(12 marks)**
- (b) When an underwriter is considering a “contract works policy”, explain any three (3) actions that can be carried out under the underwriting process of the policy. **(12 marks)**
- (c) Enumerate five (5) main perils that are likely to cause claims under Civil Engineering Completed Risks Insurance (CECR) and five (5) main exclusions under the same CECR policy. **(10 marks)**

### **Solution**

(a) Contract work policy can form part of a contractor is combined wording inclusive of public liability risk in the market. The nature of Contract Works Policy are:

- it is a first party, material damage cover;
- it is not interested in other parties;
- consequential losses may be excluded;
- the risk is expected to have arisen at the site due to contract conditions and competition in the insurance market;
- it can be extended to cover transit risks, contractor depot risk, legal liability under plant hire by some measures of design errors;
- subrogation rights belong to contractor works insurer;
- it can cover public liability risks.

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

(b) The actions that can be carried out under the underwriting process when considering “contract works policy” are:

- some insurer issue separate policy different from contract all risk policy for contract work;
- many of the policy are underwritten in the construction insurance market;





- common policy for property developers;
- covering policyholder against an event that may result in not being able to utilise the property being developed;
- policy can be issued on either an interest policy or an anticipated rent policy;
- interest would be paid on proposed selling price for period of delayed in finding a new purchaser;
- employer's loss of liquidated damages;
- this cover provision under JCT clause 22D.
- Cost Overrun and Project Completion Cover:
  - scheme protect owners against the immediate costs and liabilities from delayed completion;
  - subject to risk management expert evaluation of risk;
  - limit exist for any one risk;
  - delay caused by breach of contract, lack of funds, shortage of materials excluded.
- Interruption Following Latent Defects Cover:
  - cover throughout duration of inherent defects if noticed on the building
  - cover loss of rent with additional cost of working
  - loss of revenue
  - cover will be issued depending on the nature and use of the premises
  - policy wording similar to regular loss of profits wording as extensions for policy cover and indemnity period be issued
  - under policy cover and indemnity period, the indemnity period would commence on the date that the business on premises is interrupted rather than day of discovery of damage;
  - option to defer commencement by up to 12 months may be agreed with insurers.
- Advance Profits Cover
  - for manufacturing risk and construction risk;
  - involve manufacturing suppliers to building trade;
  - fire or other catastrophe peril affect future turnover;
  - can be extended to cover new ventures, major expansion for other premises, or overseas;
  - losses in transit including marine perils covered;
  - realistic sum/amounts necessary for calculating sum insured.

**(2 marks for each correctly stated type. 2 marks for each correct and completely stated explanation. Maximum of 3 explanations per type. Sub-Total per type: 8 marks. Maximum of 4 to be graded. Sub-**

**Total: 32 marks)**

**(Grand Total: 34 marks)**

14. (a) All-risks policy are available for adoption to both private and commercial insurance clients. Enumerate:
- (i) the two (2) basic/general types of all-risks policy available; **(4 marks)**
  - (ii) perils that are covered under a standard all-risks policy; **(4 marks)**
  - (iii) four (4) causes of loss which insurers will not insure in a property insurance policy; **(8 marks)**
  - (iv) four (4) causes of loss / perils insurer will allow to be added as 'buy-back' on payment of extra premium. **(8 marks)**

- (b) Explain if insurers on an all-risks policy can impose territorial limit. (10 marks)

**Solution**

- (a) (i) The types of all-risks policy available are:
- standard all-risks designed for all the perils which are insurable on a standard fire a special perils plus accidental damage for buildings, machinery stored on a premise, e.t.c.;
  - commercial all-risks resigned for all risks insurance of specific machine or a group of similar machines where the commercial machines will be covered with this form of policy;

(2 marks for each correctly stated type. Sub-Total: 4 marks)

- (ii) The perils covered under a standard all-risks policy are all losses or destruction/damage to property that occurred and the cause is not specifically excluded. (4 marks)

- (iii) The causes of loss which insurers will not insure in a property insurance policy are:
- \* its own inherent risk, wear and tear;
  - \* trade risks of the insured;
  - \* normal settlement of new structures ;
  - \* property insured elsewhere;
  - \* radioactive contamination and explosive nuclear assemblies;
  - \* consequential loss but on discussion and agreement.
  - \* sonic bangs;
  - \* property in open;
  - \* property insured by a marine policy;
  - \* tourism;
  - \* pollution;
  - \* war risks;

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

- (iv) The causes of loss/perils insurers will allow to be added as ‘buy-back’ are causes (loss) which insurers will usually allow to be added a ‘buy-backs’ on payment of extra premium are:
- \* fraud and dishonesty of insured in employment;
  - \* subsidence, ground heave, landslip;
  - \* goods-in-transit;
  - \* fixed glass;
  - \* land bridges and civil engineering works;
  - \* theft;
  - \* jewelry and others;
  - \* sanitary and similar ware;
  - \* money and other negotiables;
  - \* crops and trees.

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

- (b) Insured can make limited choices on territorial limit provided the insurer agrees and endorses same in the policy. (4 marks)

Usually, three choices are available: -

- \* Premises of insured
- \* Country where Policy is issued
- \* Worldwide

(2 marks for each correctly stated choice. Sub-Total: 10 marks)

Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A05

LIFE ASSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A05 – LIFE ASSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

The question examined candidates' understanding of offer price and bid price under the unit-linked policies and the outcome indicated a very poor understanding of the concepts.

### **Question 2**

This question examined candidates' understanding of the pastimes that might be investigated by the underwriter in life assurance proposal underwriting. A large percentage of candidates demonstrated no knowledge of this concept.

### **Question 3**

Most candidates did not understand the ways in which trust may be created.

### **Question 4**

Although the question on "buyer and reinsurance" appeared straightforward, many candidates scored below average.

### **Question 5**

Part (a) of the question assessed candidates' understanding of bankruptcy and was well-attempted by the majority. However, part (b) was poorly answered.

### **Question 6**

Candidates frequently used the terms "mortgagor" and "mortgagee" interchangeably, leading to incorrect explanations in part (a) for most of them. Performance on part (b) was average.

### **Question 7**

The performance was good but some candidates could not state the uses of surplus correctly.

### **Question 8**

Candidates demonstrated a solid understanding of underwriting as it relates to insurance, with an overall above-average performance.

### **Question 9**

This question was widely attempted, indicating that the majority of candidates have a solid understanding of the uses of technology as it relates to the course.

### **Question 10**

This question covered retention and the factors influencing retention in life assurance. Many candidates attempted it and performed above average.

### **Question 11**

The question examined candidates' knowledge of trusts across three parts, with a generally good performance overall.

**Question 12**

The question pertained to policies under the Assurance Act of 1867. Few candidates attempted it, and the overall performance was below average.

**Question 13**

The majority of candidates attempted this question. However, the analysis of performance showed that many have a poor understanding of the question.

**Question 14**

The question assessed candidates' knowledge of annuities, and the overall performance was moderately above average.

**Comments on Overall Performance:**

The overall performance indicated a very poor outcome in Part I, while Parts II and III showed moderate performance.

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

Candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Differentiate between an offer price and a bid price under the unit-linked policies.

### Solution

An offer price is the price which the life office uses to allocate units to a policy when premiums are paid (3 marks); while a bid price is the price which the life office will give for the units if the policyholder wishes to cash in or claim under the policy. (3 marks).

(Grand Total: 6 marks)

2. Outline any six (6) pastimes that might be investigated by the underwriter in life assurance proposal underwriting.

### Solution

The pastimes that might be investigated by the underwriter in life assurance proposal underwriting are:

- \* boxing;                      \* diving;                      \* motor racing;
- \* motor cycle racing; \* mountaineering;      \* parachuting                      \* hang-gliding.

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

3. Outline any four (4) ways in which a trust may be created.

### Solution

The ways in which a trust may be created are:

- \* by deed;                      \* by will;                      \* by statute;                      \* verbally;
- \* impliedly from the conduct of the parties.

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

4. (a) Enumerate the three (3) buyers of reinsurance in the reinsurance marketplace.  
(b) Explain, with at least two (2) explanations, a guaranteed bond in relation to life assurance cover.

### Solution

- (a) The three buyers of reinsurance in the reinsurance marketplace are:

- \* direct insurers;                      \* captive insurers;                      \* reinsurers.

(1 mark for each correctly stated buyer. Sub-Total: 3 marks)

- (b) A guaranteed bond is a bond where the income or capital growth is guaranteed. It will usually be a single premium endowment for a fixed period of three, four, or five years. It provides a guaranteed level of withdrawals for a fixed term, followed by the return of capital on the maturity date. (3 marks)

(Grand Total: 6 marks)

5. (a) What is bankruptcy? (2 marks)  
(b) What is "Life Assurance Premium Relief"? How does it work? (4 marks)

### Solution

- (a) Bankruptcy is the name given to the situation where a person cannot (or in some cases will not) pay their debts. (2 marks)

- (b) This is using a life assurance premium on qualifying life policies to get tax relief. It works by allowing policyholders to claim a deduction on the premiums paid towards qualifying life assurance policies, thereby reducing their taxable income (4 marks)

(Grand Total: 6 marks)

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

### **Solution**

(a) A second mortgage would arise in a situation where the mortgagor seeks another or an additional loan with the same mortgaged property from another mortgagee (2 marks); while a sub-mortgage will arise in a situation where the original mortgagee needs to seek for a loan amount and makes use of the mortgaged property in his custody as collateral for the loan amount, but without transferring all his rights in the original mortgage to the new mortgagee to exercise (2 marks).

(Sub-Total: 4 marks)

(b) The rights of a mortgagee are:

- \* a right of repayment;
- \* a right to appointment of a receivership;
- \* a right of power of sale;
- \* consolidation right;
- \* foreclosure right;
- \* tacking.

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

(Grand Total: 6 marks)

7. (a) Define the term “surplus” as it relates to actuarial valuation. (2 marks)

(b) Enumerate any two (2) uses of surplus as correctly defined in (a) above.

(4 marks)

### **Solution**

(a) Surplus is the excess of the life fund over the net liabilities as at the valuation date. When there is a surplus, it means that the portfolio of such a life office is healthy and therefore solvent. (2 marks)

(b) The uses of surplus as correctly defined in (a) above are:

- \* to establish reserves for future uses;
- \* to increase or add to the current reserves level;
- \* to pay bonuses and dividends.

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

(Grand Total: 6 marks)

8. (a) Define the term “underwriting” as it relates to insurance. (1 mark)

(b) State two (2) advantages of “underwriting” to a life office. (2 marks)

(c) Enumerate any three (3) avocations/hobbies/sports that are of higher risk of death to a prudent life underwriter. (3 marks)

### **Solution**

(a) Underwriting is the process of assessing a proposal and deciding whether to accept the risk or not and if so, at what rates of premium. (1 mark)

(b) The advantages of “underwriting” to a life office are that it ensures:

- an equitable evaluation of a proposer;
- appropriate premium for cover provided is charged;
- insurer will be financially strong to fulfil its obligation to all stakeholders.

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

(c) Avocation/hobby/sports that are of higher risk of death to a prudent life underwriter are:

- \* motor racing;
- \* mountaineering;
- \* boxing ;
- \* diving;
- \* parachuting;
- \* hang-gliding.

(1 mark for each correctly stated avocation/hobby/sport, and completely stated advantage. Maximum of 3 to be graded. Sub-Total: 3 marks)

(Grand Total: 6 marks)



## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) (i) Write out the full meaning of LOC as it relates to Life Assurance Practice in Nigeria. (1 mark)
- (ii) State the three (3) classifications of life assurance business by the Insurance Act of 2003. (9 marks)
- (b) As the head of life technical operations at a newly established life office, you have been required to outline four (4) uses each to which information technology, specifically, computer systems, may be put under the following heading:
- (i) New Business; (ii) Existing Business; (iii) Claims;  
(iv) Regulatory Requirements (v) Miscellaneous. (40 marks)

### Solution

- (a) (i) Life Offices Committee. (1 mark)
- (ii) The three classifications of life assurance business by the Insurance Act of 2003 are: \* Individual Life; \* Group Life Insurance and Pension Business; and \* Health Insurance.  
(3 marks for each correct and completely stated classification. Sub-Total: 9 marks)  
(Grand Total: 10 marks)
- (b) The uses each to which information technology, specifically, computer systems, may be put under the headings as:
- (i) New Business: information technology i.e. computer systems are used to:
- maintain an alphabetical index of lives assured and/or proposed;
  - produce quotations;
  - check whether non-medical limits are being exceeded;
  - produce and issue acceptance letters;
  - set up the initial policy record;
  - pay commission to the company's representatives and agents;
  - produce policy documents, e.t.c.
- (ii) Existing Business: information technology i.e. computer systems are used to:
- collect premiums;
  - maintain the record of notices of assignment;
  - administer reinsurance arrangements;
  - record changes of names or address of policyholders;
  - persistently produce statistics that show quality of business produced individual company's representatives;
  - allocate bonus and issuing bonus notices on with-profits policies, e.t.c.
- (iii) Claims: information technology i.e. computer systems are used to:
- produce and issue letters regarding impending maturities, calculating the maturity value and issue settlement cheques;
  - produce and issue letters of death claims as well as cheques;
  - calculate surrender values and issue letters to that effect;
  - pay regular withdrawals under the unit-linked policies;

- process policy loan applications;
  - pay monthly or weekly claims;
  - produce death claims statistics;
  - pay annuity instalments to the annuitants, e.t.c.
- (iv) Regulatory Requirements: regulatory systems are used to:
- produce and issue key features documents such as “reason why letters”;
  - produce and issue “execution only confirmation”;
  - produce and issue cancellation notices;
  - maintain a register of the company’s representatives;
  - produce accounts required by the Regulators;
  - maintain training and competence records for the company’s representatives. e.t.c.
- (v) Miscellaneous: information technology i.e. computer systems are used to:
- provide a wealth of management statistics and records;
  - administer staff wages and PAYE;
  - produce mortality tables;
  - calculate premium rates;
  - predict future mortality trends;
  - predict future business prospects financial modelling, e.t.c.

**(2 marks for each correctly stated use per term. Maximum of 5 to be graded under each term. Sub-Total per term: 8 marks. Grand Total: 40 marks)**  
**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. (a) Fully describe, with a minimum of four (4) descriptions, retention limit as applicable to life business. **(10 marks)**
- (b) List and explain any four (4) factors which may affect the level of retention limit of a life office. **(24 marks)**

#### **Solution**

(a) Retention limit may be described as the maximum amount of risk a life office is able to keep for its own account. It may also be defined as the maximum amount of liability a cedant is prepared to pay per any loss occurrence on a life. In life assurance, the limit of retention is per life and once this limit of retention has been fixed by the life office, any risk above this limit would be reassured. Therefore, if a life office has several policies from a single individual or in respect of the same life assured, it will only retain up to its maximum retention per life and shall cede the rest of the initial sum at risk of all the policies to the reassured(s). Retention limit varies from one life office to another and even within a life office it may vary across the lines of business.

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

- (b) The factors which may affect the level of retention limit of a life office are:
- i) paid-up capital: the paid-up is part of the ordinary shares of a company that have been fully paid for by the shareholders. A life office with a high paid-up capital should have a higher retention limit when compared to life offices with lower paid-up capital;

- ii) assets and other free assets: the free assets of a life office are the most liquid assets that the life office may quickly dispose of in the shortest possible time to meet their claims obligation. The more liquid assets which are available, the higher the retention is expected to be;
- iii) the size of the portfolio: the size of the portfolio refers to the distributions of the various sums assured with a life office under its different policies. The lower the size of the portfolio, the lower the retention limit should be and the bigger the life portfolio, the higher the retention limit per life;
- iv) types and spread of risks: these are the various types of life policies in the portfolio of the life office. For policies that accumulate reserves like the endowment and with-profit whole life policies, the retention limit should be higher;
- v) size and frequency of losses in the past (if any): the size and frequency of losses in the past play a major role when the limit of retention is to be fixed for the life office. Where the size and frequency of losses are not significant in the past, the limit of retention is expected to be high and vice versa;
- vi) experience of the chief life underwriter: the limit of retention equally depends on the experience of the chief life underwriter, as good underwriting would mean no or reduced death claims will occur;
- vii) ages of the life proposed/ life assured: the ages of the lives proposed for life assurance are also taken into consideration by the life office when fixing the retention limit;
- viii) the degree of sub-standard lives involved in the life portfolio: the usual practice is for the life offices to reduce their limits of retention per life on sub-standard lives.

**(3 marks for each correctly stated factor. 3 marks for each correct and completely stated explanation.**

**Sub-Total per factor: 6 marks. Maximum of 4 to be graded. Sub-Total: 24 marks)**

**(Grand Total: 34 marks)**

11. (a) What is the legal definition of a Trust? **(4 marks)**
- (b) Enumerate and explain any three (3) differences between a trust corporation and an individual trustee. **(18 marks)**
- (c) Distinguish between the following types of trusts:
- (i) bare and fixed trusts;
  - (ii) charitable and statutory trusts.
- (12 marks)**

**Solution**

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

(b)

No.	Trust Corporation	Individual Trustees
1	It is assumed to be immortal i.e. they are registered trustees	It is not immortal i.e. they are natural persons.
2	It is more expensive	It is less expensive
3	It possesses much more experience, especially in the areas of pension scheme administration and complex pension tax matters	It is not as experienced as the trust corporation
4	It offers increased asset protection, simplified succession planning and potential tax benefits	If offers only the expertise of the individual trustees involved.

5	It allows for greater separation of the trust's assets and the personal assets of the directors and shareholders	It does not allow for greater separation of the trust's assets and the personal assets of the individual involved
---	--	---

**(3 marks for each correct and completely stated difference. Maximum of 3 to be graded under each term. Sub-Total per term: 9 marks. Grand Total: 18 marks)**

(c) Bare trusts are trusts where the sole responsibility of the trustee is to transfer the trust property to a named beneficiary. Therefore, after transferring the trust property to the sole named beneficiary or beneficiaries, the trust shall automatically come to an end. **(4<sup>1/2</sup>)marks**

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

Charitable Trusts are trusts created for the benefit of the public. They are trusts with charitable interests and they are sometimes referred to as Public Trusts. Statutory Trusts are trusts that have been specifically created by the statute.

**(3 marks for each correct and completely stated explanation. Maximum of 2 explanations per term. Sub-Total per term: 6 marks. Grand Sub-Total: 12 marks)**  
**(Grand Total: 34 marks)**

12. (a) Explain the Policies of Assurance Act 1867 as it relates to life assurance. **(4 marks)**
- (b) Explain, with at least four (4) explanations, Section 3 of the Policies of Assurance Act 1867 regarding the principle of notice. **(10 marks)**
- (c) Explain the five (5) exceptions to the priority rule. **(20 marks)**

### **Solution**

(a) The Policies of Assurance Act 1867 is the Act which regulates the assignment of life policies **(2 marks)**. The Act provides that any person becoming entitled by assignment to a life policy has the legal power to sue in his own name to recover the monies payable. **(2 marks)**.  
**(Sub-Total: 4 marks)**

(b) Section 3 of the Act details the principle of notice **(2 marks)**. The section specifies that no assignment shall confer on the assignee or his representatives any right to sue until a written notice of the date and purpose of such assignment has been given to the assurance company. The section goes on to state that the date on which such notice is received by the assurer shall regulate the priority of claims under any assignment, and that a payment bona fide made for any policy by an insurer before the date when such notice was received is valid against the assignee. The Act refers to 'assignment' and not to 'an absolute assignment'.

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

- (c) The five exceptions to the priority rule are that:
- i) a trustee in bankruptcy takes the debtor's property subject to all existing equities. He cannot therefore take priority over an earlier interest of which notice has not been given;
  - ii) the rule does not apply to voluntary assignments (that is gifts or trusts). Notice does not give priority between consecutive voluntary assignees;
  - iii) the rule does not apply between assignee and the assignor. The equitable principle is that they are equally affected by knowledge of the facts;

- iv) the rule does not apply where there is evidence of willful blindness on the part of an assignee for value;
- v) the rule does not apply to mortgages for unlimited amounts.

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

**(Grand Total: 34 marks)**

13. (a) Explain each of the following life policies:
- (i) whole life policies; **(6 marks)**
  - (ii) non-profit whole life policies; **(7 marks)**
  - (iii) with-profits whole life policies; **(7 marks)**
  - (iv) low-cost whole life policies. **(7 marks)**
  - (v) single premium unit-linked whole life policies. **(7 marks)**

### **Solution**

(i) **Whole Life Policies:** a whole life policy is a very simple policy which pays out a sum assured whenever the life assured dies. Unlike term assurance, it is a permanent policy, not limited to an expiry date and since a claim is certain, premiums will be more expensive than for a term assurance, where a claim is merely possible or at worst probable. Whole life policies are substantive policies and can often be used as security for a loan either from the life office or from another lender.

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

(ii) **Non-Profit Whole Life Policies:** a non-profit whole life policy has a level premium, payable throughout life. It pays only a fixed sum assured, whenever death occurs. There are also policies which offer a cessation of premiums on attainment of a certain age, often 80 or 85 years. These contracts are slightly more expensive because premiums will be payable on average for a shorter period and also very rarely sold over the last few decades.

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

(iii) **With-Profits Whole Life Policies:** these policies are almost the same as non-profit whole life assurances, the only difference being that the amount payable on death is the sum assured plus whatever profits have been allocated up to the date of death. Premiums can be payable throughout life or can cease at, for example, 80 or 85 years. They are used for family protection and for inheritance tax funding.

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

(iv) **Low-Cost Whole Life Policies:** these policies are with-profits whole life contracts with a guaranteed level of cover. Low-cost whole life policies are written with two sums assured. The amount payable on death is the greater of the basic sum assured plus bonuses; or the guaranteed death sum assured. Premiums for this type of contract are lower than for ordinary non-profit whole life contracts; the benefits will not be as high as those of a full with-profits whole life policy.

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

(v) **Single Premium Unit-Linked Whole Life Policies:** these contracts – often called bonds; these are the simplest form of unit-linked policy. They are normally written as whole life contracts so that the investor can continue the contract as long as they like. When the policy is effected, the whole of the single premium is applied to purchase units in the selected fund at the offer price ruling on the day of payment. The policy can then be cashed in at any

time, the surrender value being the total value of the units at the bid price on the day of surrender.

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

**Sub-Total: 7 marks)**

**(Grand Total: 34 marks)**

14. (a) Describe an annuity, with a minimum of four (4) correct descriptions. **(10 marks)**
- (b) Enumerate any two (2) uses of annuity products. **(4 marks)**
- (c) Explain the following types of annuity products:
- |                          |                        |
|--------------------------|------------------------|
| (i) Immediate Annuity;   | (ii) Deferred Annuity; |
| (iii) Temporary Annuity; | (iv) Annuity Certain;  |
| (v) Guaranteed Annuity.  | <b>(20 marks)</b>      |

### **Solution**

(a) An annuity is a contract to pay a set amount (the annuity) every year while the annuitant (the person on whose life the contract depends) is still alive. Annuities are usually expressed in terms of the annual amount payable although in practice they can be payable monthly, quarterly, half-yearly, or yearly. An annuity can be payable in advance or in arrears. Where an annuity is payable in arrears, it can either be with proportion or without proportion. Most annuities are paid for by a single premium which is often called the consideration for the annuity. However, deferred annuities are often purchased by regular premiums. Annuities are commonly used by retired people to provide an income that is guaranteed to last for life. Annuities are also provided by pension arrangements. Generally, annuities are regarded as the opposite of life assurance in the sense that, unlike in life assurance when the benefit is payable upon the death of the life assured, annuity benefits usually cease when the annuitant dies. Therefore, annuities are more of a survival benefit rather than death benefit.

**(2½ marks for each correct and completely stated explanation. Maximum of 4 explanations to be graded.**

**Sub-Total: 10 marks)**

- (b) The uses of annuity products are that they may be used:
1. to make provision for pensions provision;
  2. to make provision for children's education;
  3. by the breadwinner for life protection; this an annuity which does not depend upon human duration of life;
  4. an annuity product may also be used for investment purposes;
  5. to augment pension.

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

- (c) (i) Immediate Annuity: an immediate annuity contract provides, in return for a single premium, an annual payment starting immediately and continuing for the rest of the annuitant's life. These contracts are often purchased by retired people who want an income that is guaranteed to last for the rest of their life, no matter how long (or short) that may be.
- (ii) Deferred Annuity: a deferred annuity is a contract that provides for an annuity to be payable commencing at some future date. The period between the date of the contract and the date the annuity is to commence – often called the vesting date or the maturity date – is the deferred period. Often, regular premiums are payable throughout the deferred period. If the annuitant dies during the deferred period, the office will usually return the premiums paid, with or without interest. Once the vesting date is reached, the annuity becomes payable and will continue

for the rest of the annuitant's life. Often, a cash option is available on the vesting date in lieu of the annuity. Many deferred annuities are effected in connection with pension schemes or personal pension contracts. Full cash options will not be available in those cases.

- (iii) **Temporary Annuity:** a temporary annuity is an annuity which is payable for a fixed period or for the annuitant's lifetime, whichever is the shorter. It thus differs from an immediate annuity, which is guaranteed to continue throughout life. If the annuitant survives the fixed period, the annuity ceases. The annuity will also cease if the annuitant dies during that period.
- (iv) **Annuity Certain:** an annuity certain is a contract to pay an annuity for a specified period regardless of whether the annuitant survives. It does not depend on the age of the annuitant as payment is guaranteed for the set period whatever happens.
- (v) **Guaranteed Annuity:** a guaranteed annuity is an immediate annuity which is guaranteed to be payable for a minimum period regardless of when the annuitant dies. Thus, an annuity guaranteed for ten years will be payable for life or ten years, whichever is longer. If the annuitant dies during the guaranteed period, then the balance of the guaranteed instalments will be payable to the estate. However, a commuted cash sum may be payable instead.

**(2 marks for each correct and completely stated explanation per term. Maximum of 2 explanations to be graded. Sub-Total per term: 4 marks. Grand Sub-Total: 20 marks)**  
**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A06

MOTOR INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

A06 – MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question focused on methods of dispute resolution and the changes introduced by the RTA 1972. It was well attempted, with a pass rate exceeding 70%.

### **Question 2**

This question focused on ex-gratia payments and market value wordings. It was well attempted, with a pass rate above 60%.

### **Question 3**

This question focused on the information required by risk insurers concerning changes in risks. It was well attempted, with a success rate exceeding 60%.

### **Question 4**

This question focused on the application and operations of contribution. It was well attempted, with a pass rate above 50%.

### **Question 5**

This question focused on accessories, goods-carrying vehicles, and non-contributing clauses. It was well attended, with a pass rate exceeding 60%.

### **Question 6**

This question assessed candidates' knowledge of the "recovery/delivery of car clause." It was attempted at an average level, with a pass rate above average.

### **Question 7**

This question focused on the various categories of hire cars. Candidates demonstrated a fair understanding of the topic, as it was well attempted, resulting in a pass rate above average.

### **Question 8**

This question focused on undesirable rights that insurers may be reluctant to accept. It was fairly attempted, with a pass rate of approximately 60%.

### **Question 9**

This question focused on the NAICOM market conduct guidelines, the application of the TPPD limit, and contributory negligence. Candidates demonstrated a solid understanding of the NAICOM guidelines compared to the other topics. Although the question was well attempted, the pass rate was not encouraging, as the overall performance was generally below average.

### **Question 10**

This question focused on the certificate of insurance and RTA offenses. Candidates performed generally well, achieving an above-average score of 60%.

### **Question 11**

This question focused on ethics, considerations in the reinstatement of the policyholder, and "accident cases agreement." Unfortunately, it was poorly attempted by the candidates.

**Question 12**

This question focused on the Motor Insurance Policy Document. Candidates demonstrated an average understanding, and their overall performance was also average.

**Question 13**

This question focused on principal rating factors, public and private hire vehicles, and temporary cover notes. The average attempt and pass rate were not very encouraging.

**Question 14**

This question centered on "district" as a rating factor in commercial motor insurance within the motor trade. Performance was disappointing, which was unexpected given that it is a standard textbook question.

**Comments on Overall Performance:**

Overall performance was unsatisfactory, indicating that candidates were not adequately prepared. It was evident that they had not thoroughly studied the prescribed coursebook or other relevant industry publications.

**Suggestion(s) on Improvement(s) (if any)**

Candidates should ensure they prepare thoroughly and study comprehensively for the examination. Access to coursebooks, as well as guidelines from NAICOM and other industry publications, should be made available to support their study and preparation efforts.

Candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labeled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. (a) Enumerate any two (2) means of settling disputes under a motor policy. (4 marks)
- (b) What major change in practice was brought about by the Road Traffic Act 1972? (2 marks)

### Solution

- (a) The means of settling disputes under a motor policy are through:
  - \* arbitration; \* financial ombudsman service;
  - \* alternative dispute resolution(2 marks for each correctly stated mean. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) The major change in practice that was brought about by the Road Traffic Act 1972 was that insurers began the practice of issuing a 15-day temporary certificate with their renewal notices so that modestly late payment of the renewal premium would not leave a gap in cover for the purpose of the Road Traffic Act. (2 marks)  
(Grand Total: 6 marks)

2. (a) (i) Define the term “ex-gratia payment”. (2 marks)
- (ii) Justify the “ex-gratia payment” occasionally embarked upon by motor insurers. (2 marks)
- (b) State the usual wordings of a “market value” in relation to motor insurance policy. (2 marks)

### Solution

- (a) (i) Ex-gratia payment is a claim settlement or payment made to the insured out of favour and or other business considerations and NOT by right.
- (ii) The claimant/insured might have breached a warranty or a condition of the policy such that ordinarily, his claim should not have been paid and perhaps because of the long-standing relationship or other vital considerations, the claim is paid instead of outright repudiation of liability. When such payment is made, the insurer cannot recover from the reinsurer since liability is not engaged abinitio. (2 marks)
- (b) A typical wording for a “market value” in relation to motor insurance policy is: “*The maximum the company will pay is the market value of your car, accessories and spare parts at the time of loss or damage or the Insured value, whichever is less*”. (2 marks)  
(Grand Total: 6 marks)

3. Enumerate any three (3) information that motor insurers require regarding changes in risk, and state when these are required.

### Solution

- (a) The information that motor insurers require regarding changes in risk, and when these are required are:

S/No	Information	When Required
1	Change in drivers	Immediately
2	Convictions	Immediately
3	Conversions/Modifications of the vehicle	Immediately

4	Business Address	Immediately
5	Use of the vehicle	Immediately

(1 mark for each correctly stated information. 1 mark for each correctly stated when required. Sub-Total per information: 2. Maximum of 3 to be graded. Grand Total: 6 marks)

4. Contribution is a corollary of indemnity.
- (a) What is contribution? (2 marks)
- (b) Enumerate any four (4) conditions that must be present before Motor Insurers will apply the principle of “contribution”. (4 marks)

**Solution**

- (a) Contribution is the right of an insurer to call upon others similarly but not necessarily equally liable to the same insured to share the cost of an indemnity payment. (2 marks)
- (b) The conditions that must be present before Motor Insurers will apply the principle of “contribution” are:
- two or more policies of indemnity exist;
  - the policies cover a common interest;
  - the policies cover a common peril which gave rise to the loss;
  - the policies cover common subject matter;
  - each policy must be liable for the loss.

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

(Grand Total: 6 marks)

5. (a) To what extent are accessories covered under a Comprehensive Private Motor Policy? (2 marks)
- (b) What is a “goods carrying vehicle”? (1 mark)
- (c) What happens if two policies that: (3 marks)
- (i) will otherwise contribute to a loss each has a non-contributing clause?
- (ii) how is (i) above varied if only one policy has a non-contributing clause?

**Solution**

- (a) The extent to which accessories are covered under a comprehensive private motor policy is that the accessories must be for the insured motor and either in or on the motor itself or in the insured’s garage (6 marks)
- (b) A “goods-carrying vehicle” is a descriptive term used to describe all the different types of vehicles that are intended or designed to carry goods. They range from the largest articulated lorries (being 38cwt gross laden weight or larger) down to small goods-carrying delivery vans (5cwt size).

(2 marks for any correct and completely stated explanation/definition)

- (c) (i) Contribution applies to each – effectively because the clauses cancel each other out. (1½ marks)
- (ii) The policy that does not contain non-contribution clauses will be paid in full. (1½ marks)

(Grand Total: 6 marks)

6. In motor insurance, there exists a unique clause called “recovery/delivery of car clause”, which expects some duties of care (called thrusts) from both the insured and the insurer. Enumerate any two (2) thrusts required from:
- (a) the insured; (b) the insurer.

**Solution**

The thrusts required from the insurer are that:

- i. if the insured's car is disabled by the loss or damage covered in the policy, the insurer will pay the reasonable cost of protecting the insured's car and taking it to the nearest repairers.
- ii. after repair, the insurer will pay the reasonable cost of delivering it to the address of the insured if the insured sustains damage which is covered by the policy.

The thrusts required from the insured are that:

- i) the insured should do whatever is necessary to safeguard the car and its accessories;
- ii) the insured should give the insurer the full account of the damage and a detailed estimate of the cost involved in the repair;
- iii) provided the insured does (ii) above, (s)he may ask the repairer to carry out any reasonable and necessary repairs at once.

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

7. Enumerate and briefly explain any three (3) of the various categories of hire cars.

### **Solution**

The various categories of hire cars are:

- public hire vehicles: i.e. vehicles that can ply for hire, which means a taxi or hackney carriage;
- private hire vehicles: these are not licensed, and cannot therefore ply for hire, but may be booked (normally by telephone) through the operator's office or agency.
- self-drive hire vehicles: these are vehicles (either private or smaller commercial types used for passenger carrying) hired out to the public.
- hearses and funeral vehicles: these are vehicles hired out for burials of loved ones.

**(1 mark for correctly stated category. 1 mark for each correct and completely stated explanation. Sub-Total per category: 2 marks. Maximum of 3 to be graded. Total: 6 marks)**

8. Enumerate any three (3) categories of occupation that motor underwriters may not be willing to accept.

### **Solution**

(c) The categories of occupation that motor underwriters may not be willing to accept are as stated below, though many Insurers will have accepted some risks in their non-preferred categories either by virtue of a desire to secure some other piece of business from an intermediary or insured or because of mid-term changes in occupation:

- |                                  |                              |
|----------------------------------|------------------------------|
| * members of the armed forces;   | * professional entertainers; |
| * betting shop proprietors;      | * private hire;              |
| * owners/tenants of public house | * public hire                |

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

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

9. (a) According to the provision of the National Insurance Commission (NAICOM) Market Conduct and Guidelines, correctly enumerate any five (5) information that an insurance broker's record on clients' accounts should contain. **(10 marks)**
- (b) Engineer Martins recently purchased a Toyota Highlander Space Car which he insured on a comprehensive basis with Excellence Insurance Company Limited. The vehicle was involved in a ghastly motor accident along Ile-Ife – Ilesha

Road, Osun State, Nigeria damaging extensively a brand-new Lexus Jeep valued at about ₦5,000,000.00. Liability is not in doubt but the third party property damage limit is only ₦3,000,000.00. Mr. Popoola, the owner of the Lexus Jeep made a claim on Engineer Martins who, in turn, passed the claim to Excellence Insurance Company Limited. All these were done within three days of the occurrence of the accident. As the Claims Manager of Excellence Insurance Company Limited, how would you handle this claim, stating justifications for your position? **(10 marks)**

- (c) What is the position of insurers on the issue of “contributory negligence” taking into consideration the cases of *Dawrent vd. Nutt (1960)*, *Geier vs. Kujawa (1970)* and *Froom vs. Butcher (1975)*? **(20 marks)**
- (d) Write short notes on the following:
- (i) Relevant Disability;                      (ii) Prospective Disability;
  - (iii) Special Damages;                      and
  - (iv) General Damages, in relation to Personal Injury Awards. **(10 marks)**

### **Solution**

- (a) The information that an insurance broker’s record on clients’ accounts should contain
- \* Cheques/cash in hand;                      \* Clients’ bank balances;
  - \* Premium receivable from clients;                      \* Premium payable to reinsurer;
  - \* Commission payable to insurance brokers;
  - \* Premium received awaiting remittance to insurers;
  - \* Commission received awaiting remittance;
  - \* Others.

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

- (b) Since liability is not in doubt **(2 marks)** and notification of the accident was prompt **(2 marks)**, and the company, Excellence Insurance Company Limited received all relevant and convincing documents, the Claims Manager will settle the claim with its own insured, Engineer Martins for ₦3,000,000.00 (Three Million Naira only) **(2 marks)** being the policy limit under Engineer Martins Policy **(2 marks)**. Engineer Martins may then arrange to settle Mr. Popoola’s claim of ₦5,000,000.00 **(2 marks)**.  
**(Sub-Total: 10 marks)**

- (c) The number of cases where in a motor claim the issue of liability is clear-cut is comparatively small.

Very often the speed of both vehicles will have to be considered as will be the state of alertness of the drivers and the manner of driving having regard to road conditions and the state of the weather.

It does not necessarily follow that the driver of a vehicle on the main road is blameless when a third party emerges from a minor road. It follows that where a collision occurs at an entirely uncontrolled crossroads that prima facie each driver is equally to blame.

*The question of the contributory negligence of passengers can be of importance:*

In *Dawrent Vs. Nutt* (1960) husband/wife together were travelling in an unlighted vehicle. It was held that both were to blame for the accident but as the wife was not driving her share of blame must be less than that of her husband and was placed at 25%. **(5 marks)**

The contributory negligence of a passenger not wearing a seat belt was first raised in *Geier Vs. Kujawa* (1970) where it was held that for a passenger not to wear a seat belt did not constitute contributory negligence. **(5 marks)**

However, the case of *Froom Vs. butcher* (1975) settled the question by holding that even a third party who failed to wear a seat belt was guilty of contributory negligence and his damages were reduced. It is necessary for the defendant to show not only the failure to wear but also that the failure to do so contributes to the injury. The rule is in line with that imposed on motorcyclists who fail to wear crash helmets. The issue of contributory negligence in motor cases is one of great importance. **(5 marks)**

**(2½ marks for each correct and completely stated response on contributory negligence in the opening statements. Maximum of 2 to be graded. Sub-Total: 5 marks. Each correctly stated fact of the case earns 5 marks. Grand Sub-Total: 20 marks)**

- (d)
- (i) Relevant Disability: this is any prescribed disability and other disability likely to cause. Danger to the public if the person who has such a disease drives.
  - (ii) Prospective Disability: this is a disability that by its nature is intermittent or progressive and may in the future become a relevant inability.
  - (iii) Special Damages: are damages that are in respect of a quantifiable financing loss, such as loss of earnings, both present and future and medical expenses and other “out-of-pocket” expenses including the cost of services rendered to the plaintiff.
  - (iv) General Damages: are damages which relate to non-financial loss and one less easily assessed, for example, pain and suffering and loss of expectation of life.

**(2½ marks for each correct and completely stated explanation under each term. Maximum of 1 to be graded under each term. Grand Sub-Total: 10 marks)**  
**(Grand Total: 50 marks)**

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

- 10.
- (a) “It is an offense to alter or falsify a Certificate of Motor Insurance”. Confirm the authenticity or otherwise of this statement in relation to the Road Traffic Act 1988; with an explanation. **(7 marks)**
  - (b) Section 143 of the RTA sets out the offenses for “driving without insurance and permitting driving without insurance”. Under what two (2) circumstances could a person using a motor vehicle in contravention of this section of the Act escape conviction if when charged to court, the person can successfully provide a strong defense? **(6 marks)**
  - (c) (i) Enumerate any three (3) categories of people that may claim indemnity under private car policies (both third party and comprehensive)? **(9 marks)**  
(ii) Apart from paying for third party damages, enumerate any four (4) costs that an insurer will pay on the occurrence of a valid motor claim to a third party. **(8 marks)**



- (iii) Give any two (2) reasons why insurers do not include a “drive other vehicles” extension in Commercial Vehicle Policies”. (4 marks)

**Solution**

- (a) The authenticity of the statement is confirmed. (4 marks)  
Section 173 makes it an offense for any person, with intent to deceive, to forge, alter use documents, or lend to or allow documents to be used by another. It then lists the documents concerned; included in the list is the certificate of motor insurance. (3 marks)

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

- (b) A person charged with using a motor vehicle in contravention of RTA provision shall not be convicted if when charged to court, he can prove that:
- the vehicle did not belong to him and was not in his possession under a contract of hiring or loan;
  - he was using the vehicle in the course of employment;
  - he neither knew or had reasons to believe that there was in force to the vehicle such a policy of insurance or security.

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

- (c) (i) Those who may claim under private car policies (both third party and comprehensive) are:
- the insured;
  - anyone who is driving on the order of the insured or with his permission;
  - a passenger who is responsible for causing an accident, if the insured requested his insurer to provide indemnity;
  - the insured’s employer or partner, should he, rather than the insured, receive a claim;
  - anyone using (but not driving) the care with the insured’s permission for social, domestic and pleasure purposes.

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

- (ii) The costs which an insurer will pay in addition to third party damages are:
- claimant’s cost and the expenses of handling a claim;
  - defense of the insured in a court of summary;
  - representation of the insured at an inquest or fatal accident inquiry;
  - defense of a charge of manslaughter or of causing injury or death through dangerous;
  - driving, where the charge arises out of an incident which may be subject to indemnity under the policy.

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

- (iii) Insurers do not include a “drive other vehicle” extension in commercial vehicle policies for the following reasons:

- because extensions are personal to the insured and most commercial vehicle policies are issued to firms, e.t.c.
- because commercial vehicles vary so much in size e.t.c. insurers would never know the liability they may be covering and
- because most commercial vehicle owners have replacement vehicles to call upon.

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

**(Grand Total: 34 marks)**

11. (a) Give a general overview of the ethical consideration in respect of the

policyholder with particular reference to the case of *Rozanes Vs. Bowen* (1928).

(10 marks)

(b) What is “declined cases agreement” and how does it operate? (16 marks)

(c) What are the implications of the “declined cases agreement” to the Insurers?

(8 marks)

### **Solution**

Insurance contracts are entered into based on utmost good faith (*uberrima fided*). While both parties to the contract are bound by such a principle, its application was felt to be important because the precise details of individual insured risk are far more likely to be known by the prospective insured. Recognition of the unequal position of each party has resulted in the requirement of utmost good faith.

In *Rozanes Vs. Bowen* (1928), it was expressed as such:

It has been for centuries in England the law in connection with insurance of all sorts, fire, marine, life guarantee, and every other kind of policy, that, as the underwriter knows nothing and the man who comes to him to ask him to insure knows everything, it is the duty of the insured, the man who desires to have a policy, to make full disclosure to the underwriter without being asked of all the material circumstances because the underwriter knows nothing and the insured knows everything.

Unlike most other types of contracts, the rule of *caveat emptor* (let the buyer beware) does not apply. However, the *uberrima fides* doctrine requires the disclosure of all material facts. This has been embodied in the Marine Insurance Act 1906, wherein s.17 states:

A contract of marine insurance is a contract based upon the utmost good faith, and, if the good faith is not observed by one party, the contract may be avoided by the other party.

The common law requirement is that for either party to comply with the duty of utmost good faith, then they must disclose all material facts.

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

(b) With an increasingly competitive motor market, there is a higher lapse ratio as policyholders shop around at renewal. Notwithstanding the perceived flexibility of the market, problems can arise where, for example, an insurer justifiably avoids a policy but the policyholder is subsequently unable to arrange cover elsewhere as the risk is deemed to be unacceptable by the rest of the market.

To ensure that motorists in such circumstances are not precluded from arranging insurance cover there is an informal market agreement that, in the event of the market being unable to offer future cover, the risk will be reconsidered by the ‘last’ insurer, who will be obliged to offer terms. This is sometimes referred to as the Declined Cases Agreement.

Somewhat perversely, it means that the insurers who had discovered the non-disclosure or misrepresentations and felt that the risk was such that the contract was formally deemed never to have existed are then required to again insure that very same risk. This does, of course, mean that the insurer can theoretically offer any terms or premium it chooses for the dubious privilege of covering a risk which is, in all probability, totally undesirable.

Clearly, the rationale behind such an approach is to prevent the level of uninsured driving from being unnecessarily increased. The incidence of referrals back to the last insurer is rare indeed. One wonders whether those policyholders whose policies are avoided, or are subject to a declination of indemnity, then disclose such decision to a subsequent insurer. If not, then

perhaps the problem is perpetuated; the dishonest policyholder will continue to be so until discovered as being so.

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

- (c) What happens if a dishonest policyholder is unable to obtain insurance elsewhere following avoidance of the policy, and has to revert to their previous insurer, who had discovered numerous non-disclosures following submission of a highly dubious theft claim which was believed by the insurers to be fraudulent, but who were unable to accumulate sufficient evidence to satisfy such a belief.

In such circumstances, the insurer concerned is compelled to continue insuring what would be in any other circumstances a undesirable and unacceptable risk. There would always be a fear that the policyholder could default on any premium payments and/or submit another dubious claim.

**(4 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 8 marks)**  
**(Grand Total: 34 marks)**

12. (a) "The policy document is the evidence of the contract". Justify this statement in relation to Motor Insurance. **(16 marks)**
- (b) Distinguish between the "Recital" and "Operative" Clauses of a Motor Policy. In addition, state how each of the clauses is usually stated in the policy document. **(18 marks)**

### **Solution**

(a) Insurance is a simple contract subject to the law of contract. It is thus subjected to the essentials of a valid contract such as offer, acceptance, genuineness of consent (i.e. consensus ad-idem); capacity and legality of an object, e.t.c. A simple contract may not necessarily be in writing but could be contracted orally.

Consequently, the insurance policy is not the contract but evidence of the insurance contract. In relation to Motor Insurance, this statement is very true.

"Insurance Contract is an agreement between two parties known as the Insurer and the insured, whereby in consideration of payment of a sum of money known as the premium by the Insured to the Insurer, the Insurer assumes the risk of an uncertain event which is not within his control and in which event the proposer has an interest so that if the anticipated event should happen at any time during the period of insurance, the Insurer is bound to indemnify the Insured". This also applied to Motor Insurance.

The Motor Insurance Policy is not the Contract but evidence of the Contract and claims are settled subject to the terms, exceptions and conditions of the Motor Insurance Policy.

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

- (b) The Recital Clause: this is the opening section of a Motor Policy. It recites that there are two parties to the contract, the insured and the insurer, and the circumstances under which the motor insurance contract had been made. **(5 marks)**

A typical recital clause in a motor policy reads as follows:

*"Whereas the Insured by a proposal and declaration dated as stated in the schedule which shall be the basis of this contract and is deemed to be incorporated herein has applied to the Company for the insurance hereinafter contained and has paid or agreed to pay the premium*

*as consideration for such insurance in respect of accident loss or damage occurring during the period of insurance”.* (4 marks)

The Operative Clause: This is the insuring clause. It states the scope or extent of cover granted by the policy and enumerates the circumstances under which the insurers undertake to indemnify the insured. (5 marks)

The Operative Clause is usually worded along the following lines:

*“Now this policy witnessed that in respect of accidental injury, loss or damage, occurring in during the period of insurance or during any subsequent period for which the company may accept payments for the renewal of this policy and subject to the terms, exceptions and conditions contained herein or endorsed hereon”.* (4 marks)

(Sub-Total: 18 marks)

(Grand Total: 34 marks)

13. (a) (i) Distinguish between “Public Hire Vehicles” and “Private Hire Vehicles”. (10 marks)
- (ii) Enumerate any four (4) principal rating factors for Private and Public Hire Cars. (10 marks)
- (b) What is the significance of the cooperation of the policyholder and/or driver in the Motor Claims Administration? (5 marks)
- (c) Enumerate any three (3) relevancies of a “temporary cover note”? (9 marks)

### **Solution**

(a) (i) Public Hire Vehicles: this is a taxi or hackney carriage licensed to ‘ply for hire’, which effectively means the right to be available on the streets for hire by the general public. Such a vehicle must have fewer than nine passenger seats. The hire by the public means that public hire vehicles can be hailed in the street, but local by-laws will invariably restrict the waiting points of such vehicles to certain designed areas (e.g. railway and bus stations). Aside from the above, taxi operators are regarded as high risk, generally because they must maximise the use of the vehicle and the drivers. Moreover, a substantial accidental damage excess is often imposed.

Private Hire Vehicles: these are not licensed as taxis and therefore cannot ply for hire, but they can be hired for passenger travel through the operator’s office or agency. Those hired vehicles fitted with a two-way radio can substantially increase the risk as radio contact can perhaps ensure high use of the vehicle, directing the vehicle to collection points of hires. Again, the utilisation factor tends to be extremely high to maintain competitiveness. The vehicles will tend to cover extensive mileage and drivers may work long shifts, be employed on a casual basis, or ‘moonlight’. As a consequence, insurers generally do not regard such risk as being particularly desirable. The one sector of the private hire market which is regarded as a good risk is the prestige limousine arena, where such vehicles are used for special occasions (e.g. wedding cars, hearses, e.t.c.), as the incidence of accident or loss is low although the passenger liability risk is potentially high.

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

(ii) These are both rated on a district basis, loading the premium for private car hire. In addition, the rating will be affected by the cubic capacity of the vehicle engine. Where the value exceeds a certain value, an excess charge will be made for the additional value. There will also be a substantial vehicle excess where the cover is comprehensive.

The principal rating factors for Private and Public Hire Cars are:

- \* types of vehicle;
- \* use;
- \* area/district;
- \* policy cover;
- \* driver;
- \* cubic capacity.

**(2½ marks for each correctly stated factor. Maximum of 4 to be graded. Sub-Total: 10 marks)**  
**(Grand Sub-Total: 20 marks)**

(b) The significance of the cooperation of the policyholder and/or driver in Motor Claims Administration is that once an incident is notified, insurers will need the cooperation of the policyholder and/or driver. This will cover many aspects such as the passing on of third party and/or legal documentation and assisting in any criminal or civil court case **(5 marks)**

(c) The relevancies of temporary cover note are:

- to avoid the problem of back-dating cover;
- to comply with the law of “no premium, no cover”
- to make administration easier as many motor insurers invariably incorporate in their renewal notice a temporary cover bearing the necessary wording to make it a certificate, usually for 15 days. Some Insurers have taken the view that it is easier (and arguably safer to provide the 15-day RTA cover through an addendum to the permanent certificate for the expiring year. Both approaches are valid and seek to achieve the same objective of providing a limited ‘safety net’ for the insured.
- to ensure that the vehicle is not on the road without proper insurance cover.

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

**(Grand Total: 34 marks)**

14. (a) What are two (2) relevancies of ‘District’ as a Rating factor in Commercial Motor Insurance Rating? **(6 marks)**
- (b) Define “Expenses Ratio” and state how it is managed. **(7 marks)**
- (c) What is a combined operating ratio? Explain the logic behind its deployment. **(7 marks)**
- (c) Enumerate any three (3) sections under the Motor Trade Combined Road and Garage (Loss and Damage) Policy. **(6 marks)**
- (d) Distinguish between “Specified Motorcycle” and Special Rider” Policies. **(8 marks)**

### **Solution**

(a) In a similar way to private motor, it is the district in which the vehicle is normally garaged where it is evident that long-distance haulage work is to be undertaken and therefore the vehicle will be exposed overnight anywhere in the county. Whilst the classification of district will vary from insurer, it is clear that the largest conurbations will form the highest rated areas, rural area being rated lower.

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

(b) Expenses Ratio is the proportion of premium devoted to expenses from the premium income. **(4 marks)**. It is managed after having understood the reasoning behind it and becomes greater when sales are low and smaller when more policies are sold. There is therefore a temptation to set rates low in terms of heavy competition, thus ensuring sufficient income to reduce the expenses ratio **(3 marks for any correctly stated how)**.

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

(c) Combined Operating Ratio is the combined effect of claims cost plus commission plus expenses. **(4 marks)**. Ideally, the combined ratio should be such as to provide an underwriting profit. i. e a combined ratio of less than 100%. However, in today’s

insurance market, this is seldom, if ever possible and therefore reliance is placed on investment return. In this way, a profit might still be made on a combined ratio greater than 100%. (3 marks for any correctly stated logic)

(Sub-Total: 7 marks)

(d) The sections under the Motor Trade Combined Road and Garage (Loss and Damage) Policy are:

- \* Material Damage;                      \* Motor Vehicle Road Risks
- \* Ministry of Transportation (MOT) – Loss of License Cover
- \* Engineering

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

(e) **Specified Motorcycle Policies:** here, the insurers would normally seek a complete proposal in respect of each ride, and often there will be a restriction on the total number of riders (e.g four). The premium in this instance will invariably be the highest calculated based on the youngest rider. (4 marks) while in **Special Rider Policies:** here, only the policyholder will be allowed to ride but with no restriction upon the number of motorcycles insured. The premium charged will be calculated based on the rider and the chosen as the maximum for full policy cover. These policies are being withdrawn from the market because of adverse claim experiences. (4 marks)

(Sub-Total: 8 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A07

LIABILITY INSURANCES

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A07 - LIABILITY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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**

Candidates demonstrated a great effort, with an 80% attempt rate and 70% achieving above-average performance. The question assessed their knowledge of liability insurance terms.

### **Question 2**

Candidates showed commendable effort, with an 80% attempt rate and a 75% above-average performance, reflecting their good preparation. This question also assessed their knowledge of liability terms.

### **Question 3**

Candidates displayed strong engagement, with a 90% attempt rate and a 65% above-average performance. This question assessed their understanding of the importance of housekeeping in liability insurance.

### **Question 4**

Candidates showed excellent engagement with a 95% attempt rate, achieving an impressive 80% above-average performance. This indicates a solid understanding of the topic covered in the question.

### **Question 5**

The question effectively assessed candidates' understanding of decided case law, with a commendable 90% attempt rate and an above-average performance of 80%. This reflects a strong grasp of the topic among the candidates.

### **Question 6**

The question assessed candidates' understanding of decided case law, achieving a 70% attempt rate. However, only 46% of those who attempted it performed above average, suggesting that many candidates faced challenges with this topic. Enhanced preparation in this area would be beneficial for future examinations.

### **Question 7**

The question evaluated candidates' knowledge of general and special damages, with a 60% attempt rate. The above-average performance was recorded at 67%, suggesting that those who attempted the question had a good grasp of the topic.

### **Question 8**

The question examined candidates' knowledge of public liability insurance operative clauses. Approximately 70% of the candidates attempted it, with 65% achieving above-average performance. This indicates a solid understanding of the topic among those who attempted it.

### **Question 9**

The attempt by candidates was 100%, but only 20% achieved above-average performance. This indicates a generally poor understanding of the material, suggesting inadequate preparation despite the questions being drawn from the coursebook and relevant industry topics. Candidates are encouraged to enhance their study efforts for better outcomes in future examinations.

**Question 10**

This elective question aimed to assess candidates' understanding of various types of liability insurance. It was attempted by 95% of candidates, who achieved an above-average performance rate of 65%.

**Question 11**

This elective question was intended to test candidates' knowledge of professional indemnity insurance. However, only 30% of candidates attempted it, and the above-average performance was just 10%. This indicates significant challenges in understanding the topic, suggesting a need for more focused preparation in this area.

**Question 12**

This elective question aimed to evaluate candidates' knowledge of employer's liability insurance. Unfortunately, only 10% of candidates attempted it, and the above-average performance was a mere 7%. This suggests a lack of familiarity with the topic, indicating that candidates may need to enhance their understanding and preparation in this area.

**Question 13**

This question saw a low attempt rate, with only 20% of candidates participating. The above-average performance was only 5%, indicating significant challenges in understanding the material. This highlights the need for candidates to improve their preparation and familiarity with the topic.

**Question 14**

This elective question was well-received, with 66% of candidates attempting it. The performance was encouraging, as 68% of those who attempted the question achieved an above-average score.

**Comments on Overall Performance:**

The overall above-average performance of about 40% indicates a concerning trend, reflecting inadequate preparation among candidates for this examination. This suggests that many may not have thoroughly engaged with the course material, highlighting the need for more diligent study practices moving forward.

**Suggestion(s) on Improvement(s) (if any)**

Candidates must prioritise their preparation and start early to ensure they cover all necessary topics thoroughly. This approach can lead to better understanding and improved performance in examinations.

Candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labeled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Explain the following as it relates to professional indemnity insurance:  
(a) discovery period; (b) ratio of partners to staff.

### Solution

- (a) Discovery Period: in professional indemnity insurance, the insurer will usually grant and extension after the policy has lapsed. The extension period may be three or six months and is meant to discover claims which arise due to the negligent act during the period of insurance but which do not come to light until after the policy has lapsed.
- (b) Ratio of Partner to Staff: This is one of the underwriting and rating factors in professional indemnity insurance. There should be an acceptable ratio between the supervisor and other staff i.e., there should be an acceptable number of staff which a supervisor can conveniently supervise in the course of business operation.  
(3 marks for each correct and completely stated explanation. Total: 6 marks)

2. Briefly explain the following terms:

- (a) volenti-non-fit injuria; (b) damnum sine injuria.

### Solution

- (a) Volenti-Non-Fit-Injuria: This maxim can be translated as 'no injury is done to a willing person'. Therefore, it is a defense to show that the plaintiff either expressly or impliedly consented to the risk of injury or damage. The consent must, however, be real and not obtained by duress.
- (b) Damnum Sine Injuria: this maxim means harm done without the commission of a legal wrong. In tort, not all actions or failure to take action which causes injury or damage give rise to a claim. For example, there is no duty to save a person from drowning even if one can swim very well.  
(3 marks for each correct and completely stated explanation. Total: 6 marks)

3. Explain, with three (3) explicit explanations, the term 'housekeeping' when used in liability policies.

### Solution

Housekeeping involves good management of the insured's premises and proper training of employees. It also involves training and education of staff on safety procedures. Good housekeeping involves training and education of staff on safety procedures. Good housekeeping involves cleanliness of office premises, good maintenance culture, good communication at all levels and good supervision of employees.

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

4. Distinguishable between libel and slander.

### Solution

Libel and slander are both torts of defamation. The law of defamation is designed to protect a person's reputation. A statement is defamatory if it injures the reputation of the plaintiff and subjects him/her to hatred and public ridicule. When such a statement is in writing or from radio or television, it is referred to as libel because they are in permanent form. Slander is a statement made orally and they are considered as non-permanent oral statements and in transient form and they are not actionable automatically i.e., there must be proof.

(3 marks for each correct and completely stated explanation per term. Total: 6 marks)

5. Explain the legal decision in the case of Mason v. Levy Auto part of England Ltd 1967.

**Solution**

This case is in connection with the rule of Ryland v. Fletcher 1868. In this case, the defendants use their yard for the storage of combustible materials including petrol, grease and oil (2 marks). A fire broke out in the defendant's yard and spread to neighboring premises resulting in extensive damage to the plaintiff's properties (2 marks). The court found the defendants guilty under the rule of Ryland v. Fletcher (2 marks).

(Total: 6 marks)

6. Fully explain the legal decision in the cases of:  
(a) Hayness v. Hardwood 1935; and  
(b) 'Headly Byrne V. Heller and Partner' 1963.

**Solution**

(a) Hayness v. Hardwood 1935: this is one of the important cases that proffer a solution to the maxim of 'volenti-non-fit-injuria'. The maxim states that 'no injury is done to a willing person' i.e., there must be consent on the part of the plaintiff. It was decided that the facts of this case are an injuria. In this case, the defense of volenti was rejected against a policeman on duty who was injured in his attempt to stop a runaway horse.

(3 marks)

(b) 'Headly Byrne V. Heller and Partner' 1963: this is a reference case that provided a solution to the liability that attaches to negligent misstatement. Negligence misstatement is a statement or advice whether verbal or in written and when acted upon results in financial loss. This case establishes that (i) duty of care is owed to avoid negligent misstatement and that there will be liability for negligent advice or careless statement which results in financial loss.

(3 marks)

(Total: 6 marks)

7. (i) Define "general damages" and "special damages".  
(ii) Relate each of the terms to mathematical assessment.

**Solution**

General Damages are damages which the law presumes will flow and which the plaintiff need not specifically prove (2 marks). They are commonly unliquidated damages i.e., those which cannot be accurately assessed mathematically (1 mark).

Special Damages are the damages which the plaintiff has to prove specifically (2 marks). Examples are posting loss of earnings, and property damage. They can be assessed mathematically (1 mark).

(Total: 6 marks)

8. (a) To what extent does a public liability policy to cover legal liability for damage to property. (4 marks)  
(b) What is risk management? (2 marks)

**Solution**

(a) A public liability policy covers legal liability for accidental loss of or damage to material property. The policy is only intended to cover physical or material property i.e., tangible property. The policy will not cover intangible properties such as goodwill, copyrights, trademarks and design rights.

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

(b) Risk Management: is the identification, analysis and economic control of those risks which can threaten the assets or earning capacity of an enterprise (2 marks).

(Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) (a) According to the provision of the National Insurance Commission (NAICOM) Market Conduct and Guidelines, correctly enumerate any five (5) information that an insurance broker's record on clients' accounts should contain. (10 marks)
- (b) Briefly discuss the following statements:
- (i) in product liability insurance, damages to the product itself is not covered; (7 marks)
- (ii) nuisance connotes something continuing. (7 marks)
- (c) Enumerate three (3) reasons for the popularity and expansion of directors' and officers' liability insurance. (9 marks)
- (d) Explain the following terms used in connection with liability insurance:
- (i) Total Temporary Disablement (TTD); (7 marks)
- (ii) Negligent Misstatement; (5 marks)
- (iii) Incorrect Labelling. (5 marks)

### Solution

- (a) The information that an insurance broker's record on clients' accounts should contain
- \* Cheques/cash in hand;
  - \* Clients' bank balances;
  - \* Premium receivable from clients;
  - \* Premium payable to reinsurer;
  - \* Commission payable to insurance brokers;
  - \* Premium received awaiting remittance to insurers;
  - \* Commission received awaiting remittance;
  - \* Others.

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

- (b) (i) The cover provided by product liability insurance excludes damages to the product itself caused by a defect to the product or unsuitability of the product for the purpose it is intended. The cover for the damage to the product is provided by product guarantee insurance which will also provide cover for the cost of removal, recall, repair, or replacement of the product. (7 marks)
- (ii) The general use of nuisance connotes something continuing. This is also reflected in the tort of nuisance. Either the interference must be continuing or a state of affairs that threatens a danger of interference. For example, one single escape of sewage could not support an action in nuisance. In the game of cricket, the frequency with which balls were hit onto the highway would be relevant in deciding whether there was a continuing state of affairs that constituted a danger. (7 marks)

(Sub-Total: 14 marks)

- (c) The reasons for the popularity and expansion of liability insurance are:
- the globalisation of commercial and industrial business which result in increase in assets of companies around the world;
  - government intervention by controlling the activities of multi-national;
  - government regulation of the operation of companies and the conduct of directors;

- government response to the public concern over the management of companies and the way company boards are structured and run;
- the issue of transparency and accountability of the company's directors.

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

- (d) (i) **Total Temporary Disablement:** This is one of the benefits of employers' liability insurance. An employee in the course of his/her duty may be involved in an accident resulting in bodily injury. The injury sustained may result in temporary disablement which could lead to the employee not being able to attend to his/her usual occupation during the period of disability. For example, if the injury prevents the employee from his duty for six weeks, then he/she has suffered temporary total disablement. If he/she can attend partially to any duty during the same period, then it is called temporary disablement.

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

- (ii) **Negligent Misstatement:** Legal liability now attaches to negligent misstatement which results in financial losses. A person who advises whether verbal or in writing will be liable if another person relies or acts on the advice which results in financial loss(es).

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

- (iii) **Incorrect Labelling:** In product liability insurance, legal liability for bodily injury or death may arise in many ways. This liability may arise from incorrect or wrong labeling of products. For example, incorrect dosage on medicines to be stated. Inks or food wrapping can migrate and contaminate the contents, e.t.c.

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

**(Grand Sub-Total: 17 marks)**

**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. (a) Explain the cover provided by the operative clauses of the following liability policies:
- |                                   |                                     |
|-----------------------------------|-------------------------------------|
| (i) product liability insurance;  |                                     |
| (ii) product guarantee insurance; | (iii) personal liability insurance. |
- (15 marks)**
- (b) List and briefly explain any four (4) liability risks which a company engage in manufacturing is exposed to. **(12 marks)**
- (c) Explain how the premium charged in employers' liability insurance is determined. **(7 marks)**

### **Solution**

- (a) (i) **Product Liability Insurance:** this policy will indemnify the insured against his legal liability to third party i.e. the consumers of the insured product for death, bodily injury, or diseases arising from the defect in the product manufactured, distributed, or supplied occurring during the period of insurance within the territorial limit. **(5 marks)**
- (ii) **Product Guarantee Insurance:** this policy will indemnify the insured against some risk that is not covered under a standard product liability policy; and in particular, those risks that relate to the failure of the product to fulfill its intended purpose. Specifically, the policy covers the product repair and replacement,

the financial loss suffered by the insured arising from the defective product, cost incurred by the insured for withdrawing the defective product from the market. (5 marks)

- (iii) Personal Liability Insurance: this policy will indemnify the insured against his/her legal liability for death, bodily injury and damage to property of third party arising from his/her negligence or members of his/her family residing with them in their private capacity. (5 marks)

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

(b) A manufacturing company is exposed to the following liability risks:

- Risk of legal liability to employees in the course of their employment: the management of the company through their negligence may incur legal liability to their employees for bodily injury, death, disease, or illness in the course of their employment. This risk is common where there is employer-employee relationship. The employer is expected to provide a safe place of work, safe tools and equipment, a safe system of work, comply with statutory provisions, employ competent employees, etc. If the employer is found wanting in any of these responsibilities, the employer will be exposed to the risk of legal liability from this shortcoming to their employees.
- Risk of legal liability to members of the public: this may arise through the negligence of their employees in the course of carrying out the business operations which may result in bodily injury, death and damage to property of any member of the public. The liability of the company may arise within their business premises and elsewhere (walk away) where their business practices are being carried out. The management of the company is vicariously liable for the negligence of their employees which may result in bodily injury or death to any member of the public.
- Risk of product liability arising from defects in their products to members of the public: it has been established that the manufacturer of a product is liable to the ultimate consumer of the product. Hence the company incurs legal liability to a third party (consumers of their product) resulting in bodily injury, death, disease, or illness arising from the defect in their product manufactured, distributed, or supplied
- Liability risk of professional negligence i.e. error, omission, mistake, etc. from professional advice given to their client. A professional owes a duty of care to their client and must exercise due care and skill as an expert in their profession. When a client relies on the company from the company and consequently suffers financial loss, the company will be guilty and incur liability risk for professional negligence
- Risk of legal liability to third parties for bodily injury, death, and damage to property through the operation of the company's motor vehicles in the course of their business

**(2 marks for each correctly stated risk. 2 marks for each correct and completely stated explanation. Sub-Total per risk: 4 marks. Maximum of 4 to be graded. Grand Sub-Total: 12 marks)**

(c) The premium charged on employers' liability insurance is based on the total estimated annual earnings of all employees engaged in the business and the type of business or trade involved (2½ marks). A rate (based on the insured occupation) is applied to the estimated annual earnings of all employees to produce the initial premium known as the deposit premium. (2½ marks) . The deposit premium is subject to declaration and adjustment.

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

**(Grand Total: 34 marks)**

11. (a) In relation to professional indemnity insurance, explain the following terms:  
 (i) professional negligence; (ii) discovery period. (10 marks)  
 (b) Civil law has its roots in three main sources. Explain the three (3) sources. (9 marks)  
 (c) Explain the following terms used in liability insurance:  
 (i) pain and suffering; (ii) latency; (iii) loss of amenities. (15 marks)

**Solution**

- (a) (i) Professional Negligence: This is the error, omission, wrong advice, mistake e.t.c. which is committed by people in professional practice in the conduct of their business. People in professional practice are to exercise a high degree of skill and care which results in professional negligence. (5 marks)  
 (ii) Discovery Period: The professional indemnity insurance, insurer will usually grant an extension after the policy has lapsed. The extension period may be three or six months and is meant to discover claims which arise due to the negligent act during the period of insurance but which do not come to light (not discovered) until after the policy has lapsed. (5 marks)  
**(Sub-Total: 10 marks)**

- (b) The three sources of civil law are:
- Custom: This is the law that has its roots in the custom of people as well as their trade customs. This law is used to settle or resolve mercantile disputes, the principle being that the law would follow the customs of a particular trade. This law can still be of importance in modern law if customs can give business officially to an agreement.
  - Common Law: This is the most important source of civil law. It is based upon the doctrine of binding precedent in which the decision of previous courts binds present courts. Court decisions are recorded in various published law reports and most common law is formed by reference to law reports.
  - Legislation: This is the law made by parliament and it is the most potent source of law. Many laws reform statutes have been passed by the parliament to deal with the perceived anomalies in common law. Some statutes directly change a particular area of law while others attempt to place limitations on the action of parties especially in contracts. Parliament is the highest form of law and it overrides the other two sources. It has become the most important source when the amendment in the law is quickly required.

**(2 marks for each correctly stated source. 1 mark for the correct explanation. Sub-Total per term: 3 marks. Grand Sub-Total: 9 marks)**

- (c) (i) Pain and Suffering: This involves bodily injury which the plaintiff need not specifically prove and represent the largest single source of litigation. Damages for pain and suffering will be set to reflect their nature and severity and how long they have lasted or are likely to last in the future.  
 (ii) Latency: Latency seeks to identify the gap in the time between the start of a chain of events and its end. It is the delay between the cause of liability and the claim being made. The side effects of a drug may become apparent many months or years after the patient has taken them.  
 (iii) Loss of Amenities: This reflects the physical and/or mental limitation associated with the injury or suffering by the plaintiff. For example, a pianist losing two



fingers would constitute a higher level of loss of amenities than a person who did not play any instrument.

**(2½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each term. Sub-Total per term: 5 marks. Grand Sub-Total: 15 marks)**

**(Grand Total: 34 marks)**

12. (a) In relation to employers' liability insurance, explain the following terms:  
(i) damage to employee's property; (ii) injury to feelings;  
(iii) arising out of and in the course of employment. **(15 marks)**
- (b) Enumerate any three (3) categories of persons regarded as employees for the purpose of employers' liability insurance. **(6 marks)**
- (c) In employers' liability insurance, an employee can claim compensation for exposure to excessive noise in the course of his/her employment. Discuss. **(13 marks)**

### **Solution**

- (a) (i) **Damage to Employee Property:** An employers' liability policy provides indemnity for liability for bodily injury, death, illness, or diseases. In many ways, in accidents at work involving bodily injury, an employee's clothing is damaged at the same time and their claim for replacement clothing will form part of a special damages item. In practice, therefore, most insurers are prepared to deal with special damages of this nature under an employers' liability policy.
- (ii) **Injury to Feelings:** the Sex Discrimination Act 1975 provides inter alia, that damages for an act of discrimination may include compensation for injury to feelings. This is not a risk which was ever contemplated by the drafters of an employers' liability policy. Injury to feeling which results in mental or emotional distress, however, might come within the scope of bodily injury and such an insured's legal liability would be covered under an employer's liability policy.
- (iii) **Arising Out of and in the Course of Employment:** in employers' liability, the injury, death, or disease must arise out of and in the course of employment. When an employee enters their employer's premises to go to work, they are usually acting in the course of their employment from the moment they pass through the boundary gate. Motor insurance policies must now cover liability to persons in the employment of the insured when traveling in the course of employment, such accidents to employees have been handled by motor insurers and not employers' liability insurers.

**(2½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each term. Sub-Total per term: 5 marks. Grand Sub-Total: 15 marks)**

(b) The categories of a person regarded as employees for the employer's liability policy include persons under a contract of service or apprenticeship extended to include:

- labor master and persons supplied by them;
- person employed by labor-only sub-contractors;
- self-employed persons;
- person hired or borrowed by the insured under an agreement;
- persons engaged in work experience.

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

(c) An employee can claim compensation for exposure to excessive noise which may result in deafness in the course of his/her employment. Generally, an employer who disregards the risks of noise-induced hearing loss will be held to be negligent and liable to pay compensation to their employees. Allegation of deafness does not give the employee an automatic right to compensation, they have to prove negligence and that the deafness was attributed to exposure in their employment.

**(4 marks for the first correct and completely stated explanation. 3 marks for consequent ones. Maximum of 3 explanations to be graded. Grand Sub-Total: 13 marks)**  
**(Grand Total: 34 marks)**

13. (a) The courts are generally reluctant to impose a duty in tort for nervous shock. Enumerate any five (5) reasons for this. **(10 marks)**
- (b) State and explain three (3) ways by which an insured can control risk exposure. **(9 marks)**
- (c) State the two (2) main criteria on which the maxim "*res ipsa loquitur*" is based. **(6 marks)**
- (d) List the three (3) factors that must be present before an occupier is said to owe a duty of care to a trespasser. **(9 marks)**

### **Solution**

(a) The courts are generally reluctant to impose a duty in tort for nervous shock for the following reasons:

- there is limited understanding of the workings of the brain;
- there is a greater likelihood of false claims involving nervous shock;
- it is difficult to satisfy the geniuses of a plaintiff alleging mental trauma compared with physical injury;
- there are complications in applying the test of duty of care and how far the duty is stretched;
- there is the problem of foreseeability that a particular individual will suffer nervous shock as a result of my action;
- there is a problem of proximity i.e. is the plaintiff sufficiently close? proximity in terms of time and space to guarantee the right of recovery.

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

(b) The ways by which an insured can control risk exposure are:

- Eliminate, Avoid, or Remove the Risk: Total elimination of risk may not be possible. Certain production functions that are prone to losses can be avoided and also a product line that is not profitable can be avoided thus eliminating the loss exposure completely;
- Risk Prevention or Minimisation: Certain measures can be put in place to prevent the occurrence of fire while a burglar alarm will prevent an intruder from operating and carting away properties;
- Risk Reduction or Minimisation: Some risk control measures can be put in place to anticipate the effect of loss and will ensure the severity is reduced accordingly. Examples are wearing of seatbelt, fire extinguisher, etc. Risk prevention and risk reduction and pre-loss minimisation and post-loss minimisation of risk control;
- Risk Transfer: This is known as the risk financing aspect of risk control. It involves the purchase of relevant insurance policies that will pay for the loss when it happens. Therefore, risk transfer anticipates the consequences of the loss exposures and transfers it to the insurance company by effecting or buying appropriate insurance policies.

**(2 marks for each correctly stated way. 1 mark for a correct and completely stated explanation. Sub-total per way: 3 marks. Maximum of 3 ways to be graded. Sub-Total: 9 marks)**

- (c) The main criteria on which the maxim “*res ipsa loquitor*” is based are:
- the object that has caused the damage or injury is under the direct control of the defendant;
  - the accident must be such that in the ordinary course of things it could not have occurred without negligence
- (3 marks for each correct and completely stated criterion. Sub-Total: 6 marks)**
- (d) The three factors that must be present before an occupier owes a duty of care to the trespassers are:
- the occupier is aware or should be aware of the danger;
  - the occupier knows or should know that the trespasser is or is likely to be in the vicinity of the danger;
  - the risk is one against which the occupier should provide protection.
- (3 marks for each correct and completely stated factor. Sub-Total: 9 marks)**  
**(Grand Total: 34 marks)**
14. (a) In vicarious liability, the liability of the principal does not attach to the tortious act of an independent contractor. Discuss four (4) exemptions to this statement. **(20 marks)**
- (b) Distinguish between liquidated and unliquidated damages. **(4 marks)**
- (c) What are the four (4) main requirements for an action of negligence? **(10 marks)**

### **Solution**

- (a) Vicarious liability does not attach to a principal for the tortious act of an independent contractor except in the following circumstances:
- **Unlawful Act:** If the task delegated to the contractor is in itself unlawful, liability will attach to the principal. For example, if the task delegated cannot be undertaken without creating a nuisance, the principal will be liable.
  - **Non-Delegatable Statutory Duty:** Certain acts of parliament impose an absolute responsibility on a principal to carry out a job. If he delegates such to a contractor and there is injury or damage, the principal will become vicariously liable.
  - **Strict Liability:** In cases involving strict liability, the principal will be vicariously liable for the contractor’s work.
  - **External Hazardous Work:** If a principal requires a contractor to carry out work which is inherently dangerous or involves an unusual risk of damage or injury, the principal will be vicariously liable.
  - **Work Done on or Near a Highway:** if the work is likely to endanger persons using the highway, then the principal will be liable in the event of injury or damage occurring.
  - **Bailee:** Property entrusted by the bailee to the sub-contractor will not relieve the original bailee of the responsibility if the property is stolen.
- (3 marks for each correctly stated circumstance. 2 marks for each correct and completely stated explanation. Sub-Total per circumstance: 5 marks. Maximum of 4 explanations to be graded. Sub-Total: 20 marks)**
- (b) Liquidated damage is damage that can be assessed by monetary valuation. For example, on liability claims involving damage to third property e.g. motor vehicle, building, etc. The repair cost can be assessed by the financial valuation of the damaged property. When the value of the property is ascertained, the court will use it as the basis for the award of damage to be paid by the negligent person **(2 marks)**. On the other hand, unliquidated damages are damages that cannot be assessed by reference to evidence of value (market price). An example is damages for pain and suffering **(2 marks)**.  
**(Sub-Total: 4 marks)**

(c) It has been stated that negligence is not actionable per se i.e. the plaintiff has no automatic right to compensation and therefore he/she has to prove negligence. The plaintiff has to prove the following to succeed in action in negligence:

- that the defendant owes a duty of care to the plaintiff;
- the defendant is in breach of that duty;
- that breach has caused damage or loss to the plaintiff; and
- the damage caused was foreseeable.

**(2½ marks for each correct and completely stated position. Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A08

RISK MANAGEMENT

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A08 – RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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 examined candidates' understanding of the consequences of individual damages and failure.

### **Question 2**

The question tested candidates' knowledge of physical inspection, and the overall performance was generally above average.

### **Question 3**

The candidates were assessed on the dimensions of review and the advantages of an organisation retaining risks. Of those who attempted the question, 78.57% performed above average, while 21.43% scored below average. This indicates that the majority of candidates had a good understanding of the question.

### **Question 4**

The question assessed candidates' knowledge of HAZOP. Among those who attempted it, 82% performed above average, 11% scored below average, and 7% did not attempt the question. This suggests a strong understanding of the topic among the majority of candidates.

### **Question 5**

The question assessed candidates' understanding of the personnel responsible for managing risk within an organisation. Candidates' performance will indicate their familiarity with the roles and responsibilities associated with risk management.

### **Question 6**

The question evaluated candidates' knowledge of hazard catalog formats and the events that could lead to land contamination. The majority of candidates demonstrated an above-average understanding of these concepts.

### **Question 7**

The question assessed candidates' understanding of the consequences of a fire, with overall performance being above average.

### **Question 8**

The question focused on candidates' understanding of the permanent membership of the group risk committee responsible for recommending risk decisions, and the overall performance was above average.

### **Question 9**

The question assessed candidates' knowledge of the arm of the Nigerian insurance industry that oversees the professional discipline of individuals and insurance trade associations. It also covered informed decision-making in risk management contingency planning and the mechanisms of how contingency planning operates.

### **Question 10**

The question focused on "killer risks" and the impacts of operational failures associated with these risks. The performance of the candidates was generally above average, indicating a good understanding of the topic.

**Question 11**

The question assessed candidates' understanding of the foundational elements necessary for effectively building operational risk management. However, it was an optional question, with only 33% of candidates attempting it. The pass rate was not encouraging, as only 8% of those who attempted the question achieved above-average scores, suggesting that the majority did not grasp the concepts being tested.

**Question 12**

The question focused on fault tree analysis and the concept of self-funding in risk management. The majority of candidates who attempted it demonstrated a good understanding of the topics, resulting in above-average performance. Only a small number of candidates struggled with the question, indicating that it was generally well understood.

**Question 13**

The question assessed candidates' ability to write a memo regarding the rebuilding of a recovery plan. With only 22% of candidates attempting the question and an above-average performance of just 26%, it indicates that a significant number of candidates lack a solid understanding of the topic. This suggests that more focus on the principles and practices related to recovery planning is needed in future study preparations.

**Question 14**

The question was optional, with approximately 76% of the candidates attempting it. However, the overall above-average performance was only 22%, indicating that 78% of those who attempted the question scored below average. This suggests that a significant portion of candidates struggled with the topic, highlighting the need for improved understanding and preparation in this area.

**Comments on Overall Performance:**

The overall performance was good, indicating that candidates are making progress. However, there is still room for improvement. Candidates are encouraged to adopt a continuous reading culture to enhance their understanding and knowledge, which will further boost their performance in future examinations. Consistent study habits and engagement with the coursebooks will contribute to their success.

**Suggestion(s) on Improvement(s) (if any)**

Based on the general performance, candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labeled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.



## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. In an organisation, the consequences of individual damage and failures can be severe, as well as stakeholders and their varying levels of interest, which are other ways in which an organisation can be damaged. This logically leads to consideration of the values and the responsibilities that need to be kept safe from damage and loss. Briefly analyse any three (3) of these needs that are essential to be considered when making the necessary reviews.

### Solutions

The needs that are essential to be considered when making the necessary reviews are:

- the safety of the people;
- the assets owned by the organisation and those assets belonging to others for which it carries responsibilities
- confidence in the business and thus the value of the brand name
- the avoidance of litigation costs
- the operational ability to continue to manage the organization effectively and deliver on promises and contracts

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

2. It is a statement of fact that physical inspection has its own merits and demerits. As the risk manager, list two (2) merits and two (2) demerits of physical inspection.

### Solution

The merits and demerits of physical inspection are:

S/N	Merits	Demerits
1	The risk environment and people are visited often by someone who has the specialised knowledge to take a professional view of what is seen	Surveyors can only see those exposures that are present and visible on the day of the survey
2	Fulfills the dual role of identifying the risks and managing them	A survey program can be expensive in use of both time and money.
3		A survey can raise confidence unrealistically
4		The risk manager may have difficulty obtaining authority to survey in detail third party premises
5		Regular visits by risk surveyors could if not carefully managed encourage the factory manager to believe that they can abdicate the responsibility for risk to that surveyor.

(1½ marks for each correct and completely stated merit and demerit. Maximum of 2 under each. Total: 6 marks)

3. (a) In risk management, there are usually two dimensions of review (i.e. questions to ask) to likelihood. List these two (2) dimensions. (4 marks)
- (b) State any two (2) advantages that can accrue to an organisation when such an organisation retains its risk. (2 marks)

### Solution

- (a) The two dimensions of review (i.e. questions to ask) to likelihood are:  
(i) could it possibly happen? (ii) how frequently could it happen?  
(2 marks for each correctly stated dimension. Sub-Total: 4 marks)

(b) The advantages that can accrue to an organisation when such an organisation retains its risk are:

- capital is retained within the organisation for use until needed;
- miscalculation of maximum possible losses or claims frequencies;
- the potential that fluctuations in loss levels will have a short-term impact.

[1 mark for each correct and completely stated advantage. Maximum of 2 to be graded. Sub-Total: 2 marks)

(Grand Total: 6 marks)

4. (a) What does HAZOP mean in risk management? (2 marks)  
(b) What are the four (4) generic questions that the study of HAZOP involves? (4 marks)

### Solution

(a) In risk management, HAZOP means Hazard and Operability. (2 marks)

(b) The four generic questions that the study of HAZOP involves are:

- what is the part intended to achieve;
- what deviations are possible away from the usually expected delivery;
- what could be the causes of these variations;
- what could be the consequences of those variations?

(1 mark for each correct and completely stated question. Sub-Total: 4 marks)

(Grand Total: 6 marks)

5. (a) As the risk manager of your organisation, you have been directed by the Managing Director to call a meeting with some personnel in the organisation who also manages risks in the organisation. List any six (6) of these personnel.

### Solution

Some personnel in the organisation who also manages risks in the organisation are:

- \* Audit Manager; \* Compliance Manager; \* Design Engineers;
- \* Facilities Manager; \* Legal Officer; \* Product Development Manager
- \* Company Secretary.

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

6. (a) As a risk manager you are requested by the Management to explain the two purposes that the hazard catalog format could be used for. Enumerate those two (2) purposes here. (4 marks)  
(b) Enumerate any two (2) events that would have occurred for land to be said to be contaminated. (2 marks)

### Solution

(a) The two purposes that the hazard catalog format could be used for are:

- risk managers who wish to identify where the losses may occur;
- risk managers who wish to identify from where threats may come.

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

(b) The events that would have occurred for land to be said to be contaminated are:

- occurrence of a ‘pollutant’.
- existence of a ‘receptor’ [e.g. human and other ecosystems such as rivers etc.]
- existence of a ‘pathway between the two’.

**(1 mark for each correct and completely stated event. Maximum of 2 to be graded. Sub-Total: 2 marks)**  
**(Grand Total: 6 marks)**

7. In setting out to model the consequences of a fire, list six (6) things that the Risk Manager and the Engineers will consider.

**Solution**

The things that the Risk Manager and the Engineers will consider in setting out to model the consequences of a fire are:

- ignition and fire source; \* smoke movement;
- heat transfer to neighbouring structures and materials; \* detection;
- the behaviour of those materials and structures in a fire; \* toxicity
- active fire safety features; \* waste and runoff
- the way humans behave and how they will exit the premises.

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

8. (a) Identify any two (2) permanent members of the group risk committee that has The responsibilities of recommending risk decisions of an organisation to the Board. **(2 marks)**
- (b) It would never be acceptable to take unreasonable risk with the safety of human beings, although an organisation may add their own killer risks to the existing common denominators. These risks bring their own challenges to the risk manager which are most likely to have their own special demands. State any two (2) of these special demands that are not directly related to the staff members as human beings. **(4 marks)**

**Solutions**

(a) The permanent member of the group risk committee that has the responsibilities of recommending risk decision of an organisation to the Board are:

- \* risk director ; \* compliance director; \* group internal auditor;
- \* legal director; \* finance director; \* public affair director.

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

(b) The special demands that are not directly related to the staff members as human beings are:

- clarity and currency of management information;
- risk avoidance wherever practical;
- contingency planning to ensure that the ‘killer’ needs at least are maintained.

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

**(Grand Total: 6 marks)**

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) (i) State the arm of the Nigerian insurance industry that is responsible for professional discipline of individuals; **(2 marks)**
- (ii) State the full name of the trade association for insurers, brokers, loss

adjusters and reinsurers respectively in the Nigerian insurance industry. **(8 marks)**

(b) Decision making on risk can still be a very personal thing, along with commercial factors within and without/around the organisation itself can also affect individual attitudes to risk. Analyze any six (6) additional factors that can bring about “informed decision making” in an organisation apart from these stated two above. **(30 marks)**

(c) Contingency planning is said to be one of the choices that an organisation has available under the risk and impact control when setting out to control unacceptable risk.

(i) Explain what contingency planning is. **(4 marks)**

(ii) Discuss three (3) ways in which a contingency plan works. **(6 marks)**

### **Solution**

- (a) (i) Chartered Insurance Institute of Nigeria **(2 marks)**  
(ii) Nigerian Insurers Association; Nigerian Council of Registered Insurance Brokers; Institute of Loss Adjusters of Nigeria; Professional Reinsurers Association of Nigeria respectively.

**(2 marks for each correctly stated and spelled association. Sub-Total: 8 marks)**

**(Grand Total: 10 marks)**

(b) The additional factors that can bring about “informed decision making” in an organisation apart from personal and commercial factors are:

- the financial strength and scale of the organisation which will determine the level of financial loss that can be absorbed without significant damage to any of the stakeholders;
- the culture of the organisation, its country of origin, its unique marketplace and of the board itself. culture in the context is made up of those traditions, attitudes and business styles that make each organisation and its marketplace unique;
- the flexibility within an organisation that will enable it to meet urgent needs and the option to cope with a risk incident in different ways;
- the impact of each risk incident on the future trading activities of the organisation;
- implement improvement plans, ensuring that everyone in the organisation is involved. ensure that everyone has achievable targets that can be met and recognised
- involve staff, make sure they know what the policy sets out to achieve and why, seeking their contributions to planning improvements. if necessary consider any additional training they need;
- report on progress and start a cycle of assessment, objectives setting and audit;
- establish partnerships with suppliers and customers, where appropriate to extend and promote your objectives.

**(5 marks for each correct and completely explained factor. Maximum of 6 to be graded.**

**Sub-Total: 30 marks)**

(c) (i) Contingency planning is one of the generic names for a process whereby the organisation will anticipate an incident and then prepare itself so that it cannot destroy the vital organs of the organisation. **(4 marks)**

(ii) The ways by which a contingency plan works could be:

- this can be simplistic but very effective examples are backing up computer data frequently and storing the backup tapes off-site;

- it can also be sophisticated i.e. it can include contracts for stand-by machinery and computers, detailed recovery plans and exercising of the staff involved;
- contingency plans can prepare for a whole range of incidents from computer failure, product recalls, kidnaps, terrorism, fire, weather damages, aggressive media attention and many others.

(The list above is NOT exhaustive. 2 marks for each correct and completely stated way. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 10 marks)  
(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) What is “killer risk”? (4 marks)  
(b) Concisely enumerate six (6) operational failures that killer risks can cause. (30 marks)

#### Solution

- (a) Killer Risks can be known by several names, but always represent those risks that have the potential to be so damaging as to destroy the entire organisation, if not properly monitored and handled. (4 marks)
- (b) The operational failure that killer risks can cause are:
- the loss of the regulatory approval or licenses that the organisation must possess. An operational failure could mean that the organisation fails to continue to meet the specified demands of that ongoing approval;
  - the credibility of the ‘brand’ or name of the organisation and its products;
  - any total operational dependencies on facilities; for example, the production line or on computers- including the information that they contain and the processing software;
  - breakdown of the pool of human resources either in skill availability or shift in morale and culture;
  - financial solvency;
  - competitor strengthening and behavior;
  - loss of business or financial control over the organisation.
- (5 marks for each correct and completely stated failure. Maximum of 6 to be graded. Sub-Total: 30 marks)  
(Grand Total: 34 marks)

11. (a) In an organisation, the Risk Manager needs foundations to build the “risk operations” effectively, if the risks are to be effectively recognised, measured and managed. Explain any two (2) of these foundations. (10 marks)  
(b) Enumerate any four (4) pillars that a “risk policy statement” covers. (20 marks)  
(c) Write briefly on Catastrophe Risk Exchange. (4 marks)

#### Solution

- (a) Some of the foundations needed by the risk manager to build the “risk operations” effectively are:
- the ears of the Board on the highest level of management within the organisation;
  - an ability to communicate the risk message right across the organisation to people who have the resources available and the power to affect decision-making;
  - a status within the organisation that not only reflects the importance of the role but ensures that others see that importance.
- (5 marks for each correct and completely stated foundation. Maximum of 2 to be graded. Sub-Total: 10 marks)

- (b) The pillars that a “risk policy statement” covers are:
- the role and objectives of the risk management functions and others;
  - how risks are to be identified, measured and prioritised for actions;
  - decision on which risks and which levels of impact can be retained with the organization.
  - the lines of authority and responsibility;
  - how risks are to be reported upwards and through the Board;
  - the methods by which change is monitored within the organisation thus ensuring that changes that could have an impact on the risks carried are identified for decisions.

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

- (c) The catastrophe risk exchange is an electronic system for trading insurance risk. Licensed risk bearers exchange [or swap] catastrophe exposures offered by other subscribers, insurers and reinsurers. This can avoid them being individually over-exposed to one type of risk and thus enables them to use their own capital more efficiently.

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

**(Grand Total: 34 marks)**

12. (a) State four (4) advantages of the fault tree approach. **(20 marks)**  
(b) Self-funding is one of the options the Risk Manager has when evaluating risk financing options. Enumerate any four (4) opportunities for self-funding. **(14 marks)**

### **Solution**

The advantages of the fault tree approach are:

- the concept of a documented fault tree enables the risk manager to consider, from the particular angle of risk, the chain that makes up the process of delivery of goods or services, and then consider the risks to each link in that chain;
- the concept is valid for a simplistic presentation of the dependencies that lie within the whole chain of events that lead through to that delivery. It is valid, quite separately, for a more focused look at one process alone, or even one particular piece of machinery;
- the fault tree can, in one statement, bring together the whole host of quite different threats to delivery; some scientific, some human, some political, some geographic and many others;
- the fault tree can highlight individual exposures for further research and attention. It can enable the risk manager to prioritise attention to those risk incidents most likely to occur or those risk incidents that would have the most significant impact;
- accordingly, the fault tree approach can be used quite differently, by mathematicians, engineers and scientists through to health and safety and continuity managers;
- fault trees can also be long or short, simplistic or highly technical and computerised, as is needed for a particular understanding. The underlying principle does not change in any fundamental way at all.

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

- (b) The decision to use a self-funding mechanism is an extension of the decision to retain risk. The same opportunities therefore also apply

- self-funding mechanisms go one step further, however, and enable the organisation to retain more risks internally. This would include a layer that is too large to be financed without damage to short-term cash flows and the asset base;
- more formal funding structures allow the use of taxation and location benefits in the positioning of captive companies and the fund itself;
- the mechanics of the funding can match precisely the needs and locations of the organisation. There is no demand to fit funding program into the infrastructure of an external risk carrier;
- a formal funding mechanism will allow some working capital to be released back into the organisation for day-to-day use;
- a layer of formal self-funding allows the organisation to gain direct access to reinsurance and capital markets for the largest exposures.

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

13. As the Head of the Risk Management of your organisation, write a memo to the Managing Director on how to go about rebuilding a recovery plan to ensure the survival of the organisation itself. Enumerate five (5) distinct needs that the recovery plan must fulfil.

**Solution**

MEMO

FROM:	Risk Manager	(1½ marks)
TO:	Managing Director	(1½ marks)
SUBJECT:	Recovery Plan	(1½ marks)
DATE:	06/10/2024	(1½ marks)

---

The above subject matter refers.

The underlisted are the various ways to go about rebuilding a recovery plan to ensure the survival of the organisation.

- limit damage, including the fast reinstatement of security and safety;
- accelerate the response through the use of trusted, authorised resources;
- create an order and priority to the recovery process;
- meet new communication challenges both within and beyond the organisation;
- meet urgent customer and other needs;
- protect the brand names;
- keep the organisation firmly within its marketplace.

**(2 marks for putting in memo format. 1 mark for appropriate reference to the subject matter. 3 marks for any correct and completely stated way. 2 marks for adequate and explicit explanation as candidates are required to explain whatever points they are referencing. Maximum of 5 to be graded. Sub-Total for contents: 25 marks.)**  
**(Grand Total: 34 marks)**

14. (a) At the last annual general meeting (AGM) of your organisation, it was announced that your organisation with effect from next month will start marketing the organisation's products to a new country, specifically Europe. As the Risk Manager you have been asked to list six (6) new risks that this change could expose the organisation and its people to. **(24 marks)**

- (b) The Risk Manager needs to undertake risk assessments on existing land and investigate both historic and current processes before acquisition. As the Risk Manager, discuss two (2) steps that need to be taken. **(10 marks)**

**Solution**

- (a) The new risks that this change could expose the organisation and its people to are:

- new regulatory controls;
- a new legal environment;
- new political risks;
- new compensation culture for defective products and other liabilities;
- different security needs for people, assets and information;
- competitor behaviours;
- new dependencies on distributors, shipping and other service suppliers;
- new customer behaviour patterns;
- counterparty and contract risks;
- exchange rate risks and currency conversion risks.

**(4 marks for each correctly listed risk. Maximum of 6 risks to be graded. Sub-Total: 24 marks)**

- (b) The steps that need to be taken when undertaking risk assessments on existing land and investigating both historic and current processes before acquisition as the Risk Manager:

- checking back on the ownership and the history of land for many years before the current owner (this is a key part of any risk assessment);
- a survey, including boreholes if thought necessary, to test for pollutants at different levels;
- bringing this information into a risk assessment of the geology and likely “receptors” in the area.

**(3 marks for each correctly stated step. 2 marks for each correct explanation under each correctly stated step. Sub-total per step: 5 marks. Maximum of 2 steps to be graded. Grand Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**





CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT A09

MARKETING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER  
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A09 - MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question examined candidates' understanding of marketing strategy, with 61% of candidates performing poorly. Only about 39% demonstrated above-average performance, indicating that a significant number of candidates may need to improve their preparation in this area.

### **Question 2**

This question had a 100% attempt rate, with approximately 91% of candidates achieving above-average performance, indicating a strong understanding of the question among the candidates.

### **Question 3**

This question assessed candidates' understanding of sales promotion, with 75% of them achieving above-average performance, indicating a solid grasp of the topic.

### **Question 4**

This question assessed candidates' understanding of customers' reactions to organisations' offerings. Unfortunately, only 5% of those who attempted it achieved above-average performance, suggesting that many candidates misunderstood the question.

### **Question 5**

This was a direct question, and 93% of the candidates attempted it, with 76% achieving above-average performance.

### **Question 6**

98% of the candidates attempted the question and 78% of the candidates performed above average.

### **Question 7**

95% of the candidates attempted the question, and 79% performed above average, indicating an impressive performance overall.

### **Question 8**

Almost all candidates attempted the question, with 76% achieving an above-average performance.

### **Question 9**

The question assessed candidates' understanding of corporate governance and the competitive marketing environment. Unfortunately, 20% of the candidates struggled to achieve an above-average performance, despite the question being contemporary.

### **Question 10**

Only 46% of the candidates attempted this question, and a mere 14% achieved an above-average performance. This indicates that 86% of those who attempted it provided similar responses, suggesting a lack of understanding of the question's requirements.

**Question 11**

The attempt rate for this question was 100%, with an impressive 90% of candidates achieving above-average performance.

**Question 12**

This was an elective question that 37% of candidates attempted, with only 22% achieving an above-average performance. It was evident that candidates misunderstood the question, as many mistakenly interpreted the process of communication as the stage of communication instead of addressing the specific aspects being asked.

**Question 13**

This was an optional question, and 89% of candidates attempted it. The question focused on public relations, with 42% of those who attempted it performing above average.

**Question 14**

Candidates showed a lack of patience in understanding the question. Out of the 83% who attempted it, only 33% performed above average.

**Comments on Overall Performance**

Candidates achieved an overall pass rate of 50%.

**Suggestion(s) on Improvement (if any)**

Candidates are encouraged to focus more on their studies, while the Institute should enhance its publicity efforts regarding corporate governance.

Candidates are encouraged to prepare more thoroughly and attend tutorial classes as part of their examination preparation.

Additionally, candidates should ensure they follow the instructions to start each question on a new page in the answer booklet. It is important to note that sub-questions labeled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Adherence to these guidelines will prevent the deduction of 10% of the marks that could have been earned on the affected questions.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. State any four (4) marketing corporate strategies that an organisation can use to achieve its main objectives.

### Solution

The marketing corporate strategies that an organisation can use to achieve its main objectives are:

- a marketing budget;
- detailed plans relating to all market research activities;
- detailed plans relating to advertising and promotion activities;
- detailed plans relating to sales activities;
- detailed evaluation of achievements.

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

2. (a) What is sales promotion? (2 marks)  
(b) State any four (4) objectives of a sales promotion. (4 marks)

### Solution

- (a) Sales promotion is a specific activity designed to make a featured offer to a defined customers within a limited time span. (2 marks)

- (b) The objectives of a sales promotion are to:

- \* increase sales;
- \* counteract competitor activity;
- \* encourage repeat purchases;
- \* encourage affiliated purchases;
- \* induce a trial purchase;
- \* encourage payment in advance.

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

(Grand Total: 6 marks)

3. Enumerate and briefly explain any three (3) types of sales promotion.

### Solution

The types of sales promotion are:

- \* price reduction;
- \* coupons;
- \* vouchers;
- \* competitions;
- \* special functions.

(Candidates are required to briefly explain the stated types. I mark for any correctly stated type. 1 mark for a correct and completely stated explanation. Sub-Total per type: 2 marks. Maximum of 3 to be graded. Sub-Total: 6 marks)

4. Highlight any four (4) ways that customers react to organisation offerings.

### Solution

The ways that customers react to organisation offerings are:

- the number of sales made in a given period;
- the value of sales made in a given period;
- the organisations' share of the total market;
- its competitors' share of the total market;
- the number and value of sales within different regions or market segments.

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

5. (a) Business customer segments of the insurance market can be divided according to their buying criteria. State any two (2) of these criteria. (4 marks)

- (b) State any two (2) techniques that an insurance company can use to differentiate its services from another insurance company. (2 marks)

**Solution**

- (a) The criteria that business customer segments of the insurance market can be divided into according to their buying criteria are:
- risk covered by the insurance, e.g. fire, public liability, car fleet, business interruption, property;
  - the financial security of the insurance organisation, i.e. how is it rated by independent rating institutions?
  - the insurance organisations reputation, i.e. does it generally have a ‘good’ or ‘bad’ name in the market?

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

- (b) The techniques that an insurance company can use to differentiate its services from another insurance company are:
- \* variation in premium ; \* variation in the scope of the cover offered;
  - \* varying commission rates to intermediaries;
  - \* variations in the policyholder’s participation in the risk (via excesses, franchises and deductibles); \* no claims discounts and other incentives.

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

(Grand Total: 6 marks)

6. (a) In a marketing audit, there are usually five areas of activities; enumerate any three (3) of these areas.
- (b) List any three (3) market research principles.

**Solution**

- (a) The areas of activities in a marketing audit are:
- \* internal audit; \* the organisation; \* the organisations;
  - \* offering; \* external audit; \* the competition;
  - \* the market for customers; \* the business environment.

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

- (b) Market research principles are:
- \* quantitative sales and sales performance research; \* competitor intelligence;
  - \* new product trials; \* qualitative research; \* buying behaviour.

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

(Grand Total: 6 marks)

7. Insurance intermediaries can assist in the efficiency of marketing for insurers. Enumerate and briefly explain the three (3) generic ways that this can happen.

**Solution**

The generic ways that insurance intermediaries can assist the efficiency of marketing for insurers are:

- \* functional efficiency; \* scale efficiency; \* transactional efficiency.

(Candidates are required to explain any stated way. 1 mark for each correctly stated way. 1 mark for each correct and completely stated explanation. Sub-Total per way: 2 marks. Grand Total: 6 marks)

8. (a) What is the difference between the literal and the modern meaning of the term market? (2 marks)
- (b) What are the two (2) marketing implications of the product life cycles? (4 marks)

## Solution

- (a) In its literal sense, a market is a place where goods are bought and sold (1 mark) while in its modern sense, a market means all the existing and potential customers who might buy an organisation's products (1 mark).  
(Sub-Total: 2 marks)
- (b) The two marketing implications of the product life cycles are
- **sustained growth:** an organisation needs to generate new products and services or enter new product and services markets if it is to sustain its growth and profitability over time;
  - **development of existing products:** an organisation needs to extend or develop existing products and services so as to extend their lives.
- (1 mark for each correctly stated implication. 1 mark for a correct and completely stated explanation.  
Sub-Total per implication: 2 marks. Grand Sub-Total: 4 marks)  
(Grand Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) A good corporate governance structure/framework is a necessity in every industry. The National Insurance Commission (NAICOM), as the regulator of the Nigerian Insurance Industry, issued a corporate governance guideline for insurance and reinsurance companies. State any five (5) standards regarding the structure and composition of Insurance and Reinsurance Companies Board of Directors as released by NAICOM in the guideline. (10 marks)
- (b) (i) Explain the phrase "competitive marketing environment" in marketing. (5 marks)
- (ii) Enumerate and explain any five (5) elements that contribute to a competitive marketing environment in any commercial industry space. (25 marks)
- (c) What are the four (4) key assumptions for an insurance organisation's marketing plan? (10 marks)

## Solution

- (a) The standards regarding the structure and composition of the Insurance and Reinsurance Companies Board of Directors:
1. The Structure and Composition of the Board shall be such as to maintain the confidence of the Shareholders and Management.
  2. The insurance/reinsurance company shall have not less than seven (7) members and not more than fifteen (15) members on its Board.
  3. The Board shall consist of Executive and Non-Executive Directors out of which not more than 40% of the members shall be in the executive capacity.
  4. In addition to the provision of Principle 2.7 of the NCCG 2018, no one person shall occupy the position of Chairman and Managing Director/CEO in related insurance companies at the same time.
  5. No two members of the same family (nuclear and extended) shall occupy the position of the Chairman and Managing Director/Chief Executive of any Insurance Company.
  6. No member of the Board shall draw remunerations beyond the normal entitlements for such appointment.

7. Membership of the Board shall include at least one Independent Director, who does not represent any particular shareholding interest nor hold any business interest. Corporate Governance Guidelines for Insurance and Reinsurance Companies
8. Non-Executive Directors shall not be re-nominated and appointed for more than 3 terms of 3 years each.
9. Appointment of Non-Executive Directors shall be decided by the Board through a defined selection process.
10. The Chief Executive Officer of the Company shall be the person approved by the Commission and shall be a member of the Board throughout his/her tenure.
11. Each Executive Director of the Company shall be a person approved by the Commission and shall be a member of the Board throughout his/her tenure.
12. For purposes of succession, every Insurance/Reinsurance Company shall have an Executive Director (Technical) who shall have minimum qualifications and experience equivalent to that of the Chief Executive Officer prescribed by the extant Rules.
13. To represent minority interests, all Public Limited Liability Insurance/Reinsurance Companies shall provide a seat for minority shareholder on the Board;
14. All nominated members of the Board shall complete and file with the Commission, the Personal History Statement (PHS) Form at the point of application to the Commission.
15. All insurance institutions shall operate independently and the Board and Management shall be responsible and accountable for the conduct /operations of the company irrespective of any relationship with other companies or group,

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

- (b) (i) “Competitive Marketing Environment” is a market space where organisations compete to gain market share. **(5 marks)**
- (ii) The elements that contribute to a competitive marketing environment in any commercial industry space is:
- Competitive rivalry: not only must the organisation be aware of its competitive position; it must also understand its rival’s ambitions and strategies;
  - The threat of potential entrant: the competitive environment must also be viewed from the perspective of identifying new insurance organisations competing for the same audience;
  - The threat of substitution: which may result in the development of a substitute for insurance.
  - The threat of new technology: which is more common in these days and age;
  - the threat of creative financing
  - The bargaining power of customers: the power of buying generally increases the more they buy;
  - The bargaining power of suppliers: in the insurance industry, this reflects the availability and affordability of underwriting capacity.

**(3 marks for each correctly stated element. 2 marks for each correct and completely stated explanation. Sub-Total per element: 5 marks. Maximum of 5 to be graded. Grand Sub-Total: 25 marks)**

- (c) The four key assumptions for an insurance organisation’s marketing plan are:
- continued collaboration with partnership organisations;
  - consistent foreign exchange rate level;



- consistent price level of reinsurance;
  - continued occupation of an existing office or premises.
- (2½ marks for each correct and completely stated assumption. Sub-Total: 10 marks)  
(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) In any insurance organisation that prioritises marketing in its service delivery process, there are strategies involved in improving the marketing process. Highlight and explain the four (4) main strategies involved. (24 marks)
- (b) State and explain the three (3) factors that affect organisation in international trade - whether or not they are selling products outside the domestic market. (10 marks)

#### Solution

- (a) The four main strategies involved are:
- Reducing Divergence by standardising the service and limiting the extent to which it might be customised to individuals. While this offers the prospect of reducing cost and improving productivity, it can also alienate those customers for whom customisation is a considerable benefit.
  - Increasing Divergence by allowing for greater customisation and flexibility, for which it might be possible to change premium prices. This may be a suitable strategy for niche positioning of the insurance service.
  - Reducing Complexity by omitting steps and activities from the process. This has the effect of making control easier since some peripheral activities disappear.
  - Increasing Complexity by adding more services to the core insurance offering these services are intended to be for the customers' benefit but they can also make the process so complicated that customers are reluctant to waste the effort they have already made by moving to a competitor

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

- (b) The three factors that affect organisation in international trade, whether or not they are selling products outside the domestic market, are:
- variable exchange rate;
  - differences in local and foreign inflation rates;
  - differences in the growth rates of different economies.

(Candidates are required to state and explain.

3 marks for the first correctly stated factor. 2 marks for the other two correctly stated factors.

1 mark for each correct and completely stated explanation. Maximum of 1 explanation to be graded under each factor.

Sub-Total for the 1<sup>st</sup> factor: 4 marks; Sub-Total for the 2<sup>nd</sup> & 3<sup>rd</sup> factor: 3 marks

Grand Sub-Total: 10 marks

Grand Total: 34 marks)

11. (a) What are goods? (4 marks)
- (b) Highlight any four (4) attributes that differentiate goods from services. (24 marks)
- (c) In what two (2) ways can the adoption of technology by an organisation be positive opportunity to the organisation as a distribution channel? (6 marks)

#### Solution

- (a) Goods are materials or physical things, either natural or man-made, which are used to

satisfy human needs and wants.

(4 marks)

- (b) The attributes that differentiate goods from services are:
- goods are tangible and have a physical dimension; services do not;
  - goods are perishable, consumable, or durable; services are not;
  - goods usually conform to a recognisable and consistent specification, and this is frequently subject to official government regulation; services do not;
  - to be bought and sold, goods do not rely on personal interaction between the buyer and the producer of the goods; services do;
  - to be attractive to buyers, goods rely significantly more on their inherent qualities rather than external benefits; services rely on both;
  - all other things being equal, the value of goods can be assessed at the time they are bought; the value of services cannot.

(3 marks for each correct and completely stated difference on good. Same on service i.e. 6 marks for each correct comparison. Maximum of 4 to be graded. Sub-Total: 24 marks)

- (c) The adoption of technology by an organisation can be a positive opportunity for the organisation as a distribution channel in the following ways:
- by allowing a direct link to anyone anywhere;
  - by allowing companies to build interactive relationships with customers and suppliers;
  - by delivering new products and services at very low cost.

(3 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 6 marks)  
(Grand Total: 34 marks)

12. Advertising can be very effective in breaking down barriers in the communication process over time.

(a) What are the four (4) communication stages? (10 marks)

(b) State in two (2) ways each how advertising breaks down barriers at the various stages. (24 marks)

### Solution

(a) The four communication stages are:

\* unawareness; \* awareness; \* comprehension; \* conviction.

(2½ marks for each correctly stated stage. Sub-Total: 10 marks)

(b)

Communication Stage	How Advertising Help
Unawareness	Make impact Fly the flag Inform about product/ service Overcome forgetfulness
Awareness	Convey specificity Inform about what product/ services do Provide assurance
Comprehension	Establish credibility Reduce hostility Emphasize benefits Demonstrate fitness
Conviction	Overcome apathy Get customers to act Encourage ownership

	Generate demand
--	-----------------

(3 marks for each correctly stated way under each stage. Maximum of 2 to be graded. Sub-Total per stage: 6 marks. Grand Sub-Total: 24 marks)  
(Grand Total: 34 marks)

13. (a) What is the Public Relations (PR) Function? (4 marks)  
(b) Explicitly enumerate any four (4) of the main tasks that are usually addressed by PR departments. (16 marks)  
(c) (i) What is a product brand? (4 marks)  
(ii) What does it usually comprise? (2 marks)  
(d) List any four (4) marketing elements that can be trademarked. (8 marks)

**Solution**

(a) Public Relations (PR) function is to plan and sustain efforts to establish and maintain goodwill between an organisation and its potential and existing customers. (4 marks)

(b) The main tasks that are usually addressed by the PR departments are:

- building or maintaining a corporate image;
- supporting other communication activities;
- handling specific problems;
- reinforcing position;
- assisting in the launch of new products and services;
- influencing specific external groups.

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

(c) (i) The brand of a product or service is represented by a corporate marque or logo that helps to identify it, communicate its image and values, and differentiate it from the goods and services of other organisations. (4 marks).

(ii) It usually consists of a name, sign, symbol, or some combination of the three (2 marks).

(Sub-Total: 6 marks)

(d) The marketing elements that can be trademarked are:

\* logos; \* symbols; \* slogans; \* packaging; \* signage.

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

(Grand Total: 34 marks)

14. (a) What is a market-led organisation? (4 marks)  
(b) What is the main aim of the direct marketing? (4 marks)  
(c) Enumerate the four (4) media that direct marketing encompasses. (10 marks)  
(d) What four (4) distinct distribution features does the internet present? (16 marks)

**Solution**

(a) A market-led organisation is an organisation that concentrates most effort on discovering what customers want and regards all other business functions including product developments, production and delivery as subsidiaries to maximise customer satisfaction. (5 marks)

(b) Direct marketing is aimed at creating a two-way personal relationship between the organisation and its customers. (5 marks)

(c) The four media that direct marketing encompasses are:

- \* direct mail;
- \* telemarketing/ telesales;
- \* direct response;
- \* internet marketing.

**(2½ marks for each correctly stated medium. Sub-Total: 10 marks)**

(d) The four distinct distribution features that the internet presents are:

- a direct link between customers and businesses to complete transactions or swap information more easily;
- technology that lets companies by-pass traditional distributors;
- a way for organisations to develop and deliver new products and services for new customers;
- a way for organisations to use the internet to become dominant players in the electronic channel of a specific industry or segment, controlling access and customers and setting new business rules.

**(4 marks for each correct and completely stated feature. Sub-Total: 16 marks)**

**(Grand Total: 34 marks)**