



*Chartered Insurance
Institute of Nigeria*

Chief Examiners' Report

October 2024

Intermediate In Insurance

(101-109)

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	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>CANDIDATES SHOULD VISIT & UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS ETC ON THE FOLLOWING SITES naicom.com (NAICOM), nigeriainsurers.org (NIA), ncrib.net (NCRIB), nigeriailan.com (ILAN), cinigeria.com (CIIN)</p>	
<p>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).</p>	
<p>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</p>	



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I01
INSURANCE LAW

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

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

I01 – INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Comments:

Question 1

This question examined the knowledge of candidates on very relevant bodies in the insurance industry. Over 97% attempted the question, however close to 70% were able to do justice to the questions in these parts and scored above average.

Question 2

This question examined the candidates' knowledge of law-making, particularly the process. Many of the candidates who attempted the question did not have adequate knowledge of the legal terms. Over 95% attempted the question and about 40% were able to score above average.

Question 3

Nearly 90% of the candidates attempted this question related to terms of jurisprudence. Among those who attempted it, approximately 50% achieved scores above average.

Question 4

Approximately 85% of all candidates attempted this question, which focused on contractual terms, specifically the role of consideration in insurance contracts. Of those who attempted it, 80% demonstrated a solid understanding of the topic and scored above average.

Question 5

Nearly 95% of all candidates attempted this question, which assessed their understanding of trespass in the law of tort. Approximately 90% of those who attempted it, having seen it directly in the course book, scored above average.

Question 6

Almost 90% of all candidates attempted this question, which tested their understanding of the law of negligence. Over 90% of those who attempted the first two parts of the question scored above average. However, more than 50% of the candidates faced challenges in correctly addressing the foreseeability test. Overall, nearly 80% of the candidates who attempted the question achieved average pass marks.

Question 7

This question examined candidates' understanding of the award of damages. 90% of all the candidates attempted the question with 70% of those that attempted it performing above average,

Question 8

This question assessed the candidates' knowledge of contracts. 80% of all the candidates attempted the question and close to 75% of the candidates that attempted it performed above average.

Question 9

Approximately 80% of all candidates attempted this question, which focused on contractual terms. Nearly 75% of those who attempted it scored above average.

Question 10

Although this was one of the compulsory questions, fewer than 10% of all candidates attempted it. This question aimed to assess candidates' understanding of legal maxims, yet less than 25% of those who attempted it achieved an above-average score.

Question 11

Nearly 90% of all candidates attempted this question, with about 60% of the candidates achieving an above-average score. With improved preparation, candidates can expect to see better results in future examinations.

Question 12

Approximately 85% of candidates attempted this question. Only 40% of those who attempted it achieved an above-average score, while 60% performed below average.

Question 13

This question examined candidates' understanding of the legal aspects of insurance. Over 96% of the total candidates attempted this question and close to 86% of the candidates who attempted the question scored above average.

Question 14

This question was on actions that discharge a contract. Over 95% of the total candidates attempted this question and less than 75% of those candidates scored above average,

Question 15

The question was on the relationship between principal and agents and what could cause "frustration" and it was among the optional questions. Close to 60% of the candidates attempted the question. Less than 40% of the candidates that attempted performed above average.

Question 16

This question was on common law rules and standard terms and contracts, particularly advantages and disadvantages and it was an optional question. Approximately 10% of all the candidates attempted it. Less than 30% of all the candidates that attempted it scored above average.

Question 17

The question evaluated candidates' understanding of the conditions, laws, and clauses related to the "contribution" effect of double insurance on property. It was an optional question, with nearly 65% of candidates attempting it. About 50% of all candidates achieved above-average pass marks.

Question 18

Nearly 60% of all candidates attempted this optional question, which focused on the classification of law and its characteristics. Approximately 80% of those who attempted the question achieved above-average scores.

Comments on Overall Performance:

There was a noticeable improvement in the overall performance of candidates in this diet compared to previous examinations.

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

Examination candidates should strive to cover the entire syllabus in their preparation. Engaging in group discussions can enhance their understanding, and reviewing the examiner's reports will provide valuable guidance for their studies.

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 10 marks.

1. (a) State the arm of the Nigerian insurance industry that is responsible for the professional discipline of individuals. (2 marks)
- (b) State the full name of the trade association for insurers, brokers, loss adjusters and reinsurers respectively in the Nigerian insurance industry. (8 marks)

Solution

- (a) Chartered Insurance Institute of Nigeria (2 marks)
 - (b) 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)

2. Briefly explain the terms:
 - (a) Legislative Process;
 - (b) Green and White Papers;
 - (c) Private and Public Acts;
 - (d) Private Bill and Private Members' Bill
 - (e) A Bill and an Act.

Solution

1. (a) Legislative Process is the formal process involved in law making. (2 marks)
 - (b) Green and White Papers: Green paper is issued by the government to invite public opinion on the move to introduce a new law (1 mark), and White paper is issued after to give an advance notice of *move* definite proposals regarding the new law which will be drawn up in a form of a bill (1 mark). (2 marks)
 - (c) Private and Public Acts: Private Act is a law passed to benefit a particular individual, organisation, or group (1 mark) e.g. the CIIN Act of 1993. Public Act contains a law affecting the whole community e.g. Theft Act (1 mark). (2 marks)
 - (d) Private Bill and Private Member's Bill: The Private bill is a bill that benefits a particular group or individual (1 mark). Private Members Bill is introduced by individual members as members of the Parliament rather than by the government. (2 marks)
 - (e) A Bill and An Act: A bill is a law in the making (1 mark) whilst an Act is a bill that has been processed and enacted into law (1 mark). (2 marks)
- (Total: 10 marks)

3. Distinguish between the following terms:
 - (a) Reversing and over-ruling; (3 marks)
 - (b) Disapproving and distinguishing; (3 marks)
 - (c) Persuasive and *authoritative* precedents. (4 marks)

Solution

- (a) Reversing & Over-Ruling: *There is Reversing when an order of a court of first instance is overturned on appeal and if on further appeal to a higher court, the order of the court of first instance is restored* (1½ marks). By overruling, a precedent set in an earlier judgment is overturned and the reason for the judgment is substituted with a new one (1½ marks). (3 marks)
- (b) Disapproving and Distinguishing: *Disapproving happens when a decision of the court offers an opinion that an earlier case is wrongly decided but the court is unable to overrule it. The decision therefore stands but the disapproval may lead to it being overruled in the future* (1½ marks).

Distinguishing, on the other hand, is when a court declines to follow a previous decision on the grounds that the facts in the case and the one before it are not the same. (1½ marks) (3 marks)

(c) Persuasive and *Authoritative* Precedents:

Solution

Persuasive precedents are influential but non-binding decisions. They are cited to sway the mind of the court. e.g. Decision made in lower court or court of equal standing or coordinate jurisdiction. Decisions of court outside the Nigerian system, Obiter dicta, textbooks, learned treaties and the law of other jurisdictions. *Authoritative Precedents are the ones binding on the court as a matter of course* (6Marks)

(Grand Total: 10 marks)

4. Consideration is an important element of a valid contract.

- (a) Define “consideration” as a contractual term. (2 marks)
- (b) What constitutes a consideration in an insurance contract? (2 marks)
- (c) Give any three (3) of the rules of consideration. (6 marks)

Solution

- (a) Consideration is the price that supports a promise. It may be either a profit or benefit to the promisor’ or a detriment to the promise. (2 marks)
- (b) The item that constitutes a consideration in an insurance contract is the premium paid by the insured is his consideration. (2 marks)
- (c) The following are the rules of consideration. Consideration:
 - (i) must be real or genuine;
 - (ii) need not be adequate;
 - (iii) must not be past;
 - (iv) must move from the promisee;
 - (v) must not be something which the promisee is duty-bound to do.

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

(Grand Total: 10 marks)

- 5. (a) What is trespass in the law of tort? (2 marks)
- (b) What are the three (3) main focus of trespass? (6 marks)
- (c) Enumerate any of the main types that trespass on/to human beings can take. (2 marks)

Solution

- (a) Trespass in the law of tort is a direct, intentional and unjustifiable interference by the defendant with the person, goods, or land of another person which is actionable *per se*. (2 marks)
- (b) The three main focus of trespass are:
 - (i) the person;
 - (ii) the goods;
 - (iii) land.(2 marks for each correctly stated focus. Sub-Total: 6 marks)
- (c) The main types that trespass on/to human beings can take are:
 - (i) assault;
 - (ii) battery;
 - (iii) false impression;(2 marks for any correctly stated type. Maximum of 1 to be graded. Sub-Total: 2 marks)

(Grand Total: 10 marks)

- 6. (a) Define the tort of negligence. (2 marks)
- (b) What are the three (3) elements that must be present for a claimant to succeed in an action for negligence? (6 marks)
- (c) What is the significance of the case of *Overseas Tankship (UK) Ltd v. Morts Dock and Engineering Co. Ltd (The Wagon Mound)* (1961) in the law of negligence. (2 marks)

Solution

(a) Negligence is failure to take care in circumstances where the law demands that care should be taken giving rise to the award of damages by the person who suffers harm as a result. (2 marks)

(b) The elements that must be present for a claimant to succeed in an action for negligence are:

* a duty of care must be owed; (2 marks)

* a breach of the duty owed by the defendant had occurred; (2 marks)

* the damage suffered by the claimant must be as a result of the negligent act. (2 marks)

(c) The significance of the case of *Overseas Tankship (UK) Ltd v. Morts Dock and Engineering Co. Ltd (The Wagon Mound)* (1961) in the law of negligence is that the case establishes the test of foreseeability to determine the link between causation and damage. An injury will not be remedied if it is not reasonably foreseeable, it will be regarded as too remote. (2 marks)

(Grand Total: 10 marks)

7. The purpose of an award of damages is to compensate the claimant for the loss which the defendant has caused him.

(a) Define damages. (2 marks)

(b) Explicitly state the aim of awarding damages. (2 marks)

(c) State and briefly discuss any three (3) categories of damages known to law. (6 marks)

Solution

(a) Damages are a monetary award that the court will award to a claimant who was wronged by a breach of contract tortious wrong by the defendant. (2 marks)

(b) It is to compensate the claimant by paying for the loss which the defendant was caused by the unlawful act or omission (2 marks)

(c) The categories of damages known to law are:

(i) special damages; (ii) general damages; (iii) aggravated damages;

(iv) exemplary (punitive) damages; (v) nominal damages; (vi) contemptuous damages.

(Candidates are required to correctly and briefly explain any of the categories in their own words. 1 mark for each correctly stated category. 1 mark for each correct and completely stated explanation. Sub-Total per category: 2 marks. Maximum of 3 to be graded. Sub-Total: 6 marks)

(Grand Total: 10 marks)

8. (a) What is a contract in law? (3 marks)

(b) Distinguish between the following types of contracts:

(i) contracts under seal and simple contract; (3 marks)

(ii) unilateral and bilateral contracts; (2 marks)

(iii) void and voidable contracts. (2 marks)

Solution

(a) A contract is a legally binding agreement that the court will recognise and enforce. (3 marks)

(b) (i) Contracts Under Seal and Simple Contract: A contract under seal is a formal central contract in writing; which is witnessed and also formally had to be sealed (1½ marks); while simple contract is any legal agreement made in any form – whether in writing or orally (1½ marks) (3 marks)

(ii) Unilateral & Bilateral Contracts: unilateral contracts are contracts in which only one party is legally bound. The other party is not legally bound and will not be liable if he fails to exercise the options given to him (1 mark); while bilateral contracts are contracts where each party makes a promise to the other and are all equally bound, one party promises to do something in exchange for the promise of the other party (1 mark). (2 marks)

(iii) Void and Voidable Contracts: void contracts are contracts that give no right or *impose no* duty on either party (1 mark); while voidable contracts are contracts that though are binding; any of the parties to the contract may choose to void the terms of the contract if such party so wishes. (2 marks)

(Grand Total: 10 marks)

9. (a) What are “contractual terms?” (2 marks)
(b) Briefly state and discuss the four (4) ways by which the law has classified contractual terms. (8 marks)

Solution

- (a) Contractual terms are the detailed provisions contained in an agreement of parties. (2 marks)
- (b) The law has classified contractual terms as stated below:
- (i) Express terms: unequivocal term(s) which may be oral and written in form. It must be clear and unambiguous.
 - (ii) Implied terms: these are classifying contracts using terms that are not expressly stated but can be inferred from the circumstances of the agreement of the parties that those terms are implied.
 - (iii) by custom *or usage* (iv) *in law-enacted Acts*

(Candidates are required to briefly discuss these classifications. 1 mark for correctly stated way; 1 mark for correct and completely stated explanation. Sub-Total per way: 2 marks. Grand Sub-Total: 8 marks)
(Grand Total: 10 marks)

10. (a) What is the “*in pari delicto potior est defendentis*” rule? (4 marks)
(b) Enumerate explicitly any two (2) exceptions to the rule in (a) above. (6 marks)

Solution

(a) The *in pari delicto potior est defendentis*” means that “in a case of equal or mutual fault”, the position of the defending party is the better one. (4 marks) OR
The rule implies that illegality voids a contract (2 marks) and where two parties to a contract are in the wrong together, neither of them will be assisted by the court, but the defending party has a stronger position. (2 marks). (4 marks)

- (b) The three exceptions to the rule in (a) above are:
- if one party entered into an illegal contract through improper pressure, or is forced or misled *into it*;
 - when one party repents i.e. voluntarily abandons his evil way and abandons the illegal way;
 - When illegality arises under a Statute passed to protect a particular class of people in which case, a member of that class will be able to recover its property.
- (3 marks for each correct and completely stated exception. Maximum of 2 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

11. Highlight the four (4) remedies that are available to an aggrieved party who alleges a breach of contract and briefly explain the nature of these remedies.

Solution

The remedies that are available to an aggrieved party who alleges a breach of contract are:

- termination;
- an action for damages;
- an action for a specific performance;
- action for an injunction.

(Candidates are required to highlight by stating the remedies. 1½ marks for each correctly stated remedy. 1 mark for each correctly explained nature of the correctly stated remedy. Sub-Total per remedy: 2½ marks. Grand Total: 10 marks)

12. (a) State the *main duties* that a “Principal” owes his/her “Agent”? (2 marks)
- (b) In what one main way can the Agent protect the two duties stated in (a) above? (2 marks)
- (c) State any three (3) main remedies of the Principal against his Agent who is in breach of the required duties of the agent. (6 marks)

Solution

- (a) The duties that the Principal owes his/her Agent are:
 * the duty to remunerate; * the duty to indemnify.
(2 marks for any correctly stated duty. Maximum of 1 to be graded. Sub-Total: 2 marks)
- (b) One main way can the Agent protect the two duties stated in (a) above is through the acquisition of rights of lien on the principal’s property by the agent. (2 marks)
- (c) The main remedies of the Principal against his Agent who is in breach of the required duties of the agent are:
- sue the agent for damages for breach of contract;
 - sue the agent in tort (in *detinue*);
 - dismiss the agent for bribe-taking without notice or compensation;
 - sue the agent or the giver for the bribe paid;
 - rescind the contract for fraud and refuse payment of commission;
 - sue for an account if the agent fails to disclose full details of accounts of his agency.
- (2 marks for each correct and completely stated remedy. Maximum of 3 to be graded. Sub-Total: 6 marks)**
(Grand Total: 10 marks)

13. It is the peculiarity of the insurance business for an intermediary (an agent) to act at different times on behalf of both the proposer/insured and the insurer. As a professional independent assessor, explicitly enumerate any four (4) parameters for deciding that the agent is the principal of the proposer/insured.

Solution

As a professional independent assessor, the parameters for deciding that the agent is the principal of the proposer/insured are:

- where/when the agent gives general advice to the proposer/insured as to the cover received and the market in which the business should be placed;
- if no authority is given by the insurer and the only recognition they receive from the insurer is the payment of commission;
- where/when the proposer/insured completes the form and/or afterward, add to the answers in a proposal form and the proposer knew or ought to have known of this;
- where/when the agent completes a form on the proposer’s behalf and the form incorporates a wording to the effect that if the form is completed by someone, the person that completes it will be deemed to be the agent to the proposal;

- where/when the agent and the proposers are in collusion to defend insurers;
 - where/when the agent gives the insured advice about how to formulate the request.
- (2½ marks for each correct and completely stated parameter. Maximum of 4 to be graded. Total: 10 marks)**

14. (a) How can the following actions discharge a contract:
- (i) anticipatory breach; (ii) breach by failure to perform. **(6 marks)**
- (b) When a contract is breached, there will usually be effects. Enumerate any two (2) effects when such a breach occurs. **(4 marks)**

Solution

(a) (i) Anticipatory Breach: can discharge a contract where a party, before the actual performance of his obligation under the contract, indicates that he will not fulfil his obligation to the other party. He may for example renounce the contract or disable himself from performing the contract by doing something that will make performance impossible at that point, the party likely to be aggrieved must sue for breach immediately and not wait till the performance date. **(3 marks)**

(ii) Breach by Failure to Perform: this is the commonest form of breach. This can discharge a contract when a party deliberately fails to carry out what (s)he has agreed to do or (s)he may give an inadequate performance or tender no performance at all. **(3 marks)**

(Sub-Total: 6 marks)

- (b) The effects of a breach of a contract are:
- it may give rise to a claim;
 - it gives a right to avoid the contract;
 - the aggrieved party may claim some other remedies available in the law of contract.
- (2 marks for each correct and completely stated effect. Maximum of 2 to be graded. Sub-Total: 4 marks)**

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. (a) In what two (2) ways can “frustration” terminate an agency relationship? **(8 marks)**
- (b) Apart from “frustration”, enumerate any four (4) other factors that can lead to the termination of an agency relationship. **(10 marks)**
- (c) What is the effect of “frustration” on the:
- (i) principal and agent; (ii) third party. **(12 marks)**

Solution

- (a) Frustration can terminate an agency contract in the following ways:
- the subject matter of agency e.g. a house might be destroyed;
 - the task of the agent might have become impossible to fulfill, illegal, or futile;
 - the agent becomes a foreign enemy citizen;
 - illness of either party might cause the agency useless in non-consumer business terms.
- (4 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 8 marks)**

(b) Apart from “frustration”, the other factors that can lead to the termination of an agency relationship are:

- * insanity; * bankruptcy; * death of either principal or agent;
- * remuneration of the agent; * withdrawal of authority; * lapse of time;
- * performance; * agreement between the parties.

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

(c) The effect of “frustration” on:

(i) Principal and Agent: termination does not come into the relationship between the two immediately. Also, the pending earned commission must be paid to the agent. The agent must be indemnified by the Principal for all previous expenses incurred by him. Also, all outstanding rights of the principal subsist against the agent.

(ii) The Third Party: termination may deprive an agent of an actual authority but not necessarily deprive the agent of the apparent or ostensible authority. In this case, the principal may still be liable to a third party who was made to believe the agent still had the authority to act. Where termination happens involuntarily, as in case of death or insanity, the agent’s authority ends automatically whether or not the third party is aware or ought to be aware of it.

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

(Grand Total: 30 marks)

16. (a) What are “Standard Terms Contracts?” **(3 marks)**
- (b) What is the main advantage that the phrase in “a” above gives? **(3 marks)**
- (c) Enumerate any possible disadvantage inherent in the use of “a” above. **(3 marks)**
- (d) Briefly discuss the “Common Law Rules” and “Statutory Restrictions” that the “Courts” and the “Parliament” respectively, have developed to curb the possible abuse of the phrase in “a” above. **(21 marks)**

Solution

(a) “Standard Terms Contracts” are contracts drawn up by one party for the other party. They are usually contained in printed forms for all customers who want the same type of goods or services e.g. insurance contracts. **(3 marks)**

(b) The main advantage is that it saves time and simplifies dealings of day to day nature. **(3 marks)**

(c) The possible disadvantages inherent in the use are that:

- abuse is possible because the other party may not get a good bargain;
- the other party may also not bother to read through the document;
- the drafter may include limitation or exclusion clauses that limit or exclude liability he should ordinarily bear and transfer to the other contracting party without him knowing or having the opportunity to renegotiate.

(3 marks for any correct and completely stated disadvantage. Only 1 to be graded. Sub-Total: 3 marks)

(d) “Common Law Rules” that the “Courts” and the “Parliament” respectively, have developed to curb the possible abuse of the phrase are that:

- the drafter must show he has incorporated exclusion/ limitation clauses in the contract so that the other party must have or be deemed to have seen it. Incorporation could be

alleged by the other party signing the document or by way of notice, displayed at the premises where the contract is made; (7 marks)

- the drafter must show that in the course of dealing, exclusion clauses and limitation clauses may be incorporated in a contract as a result of past dealings between parties in which exclusion clauses they regularly used. (7 marks)

“Statutory Restrictions” that the “*Courts*” and the “*Parliament*” respectively, *have* developed to curb the possible abuse of the phrase are as contained in:

- Unfair Contract Forms Act (1977); (7 marks)
- Insurance Act 2015 in the United Kingdom, contains important restrictions on the effectiveness of exclusion clauses for commercial and consumer contracts.

(Sub-Total: 21 marks)

(Grand Total: 30 marks)

17. (a) What is “contribution” in insurance? (3 marks)
- (b) What are the five (5) conditions for its operation? (10 marks)
- (c) What is a “contribution condition” in an insurance policy document? (3 marks)
- (d) What are the effects of the following on the operation of the concept:
- (i) escape clauses in a policy; (ii) more specific insurance clauses;
- (iii) rateable proportion; (iv) other non-contribution clauses. (14 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 all indemnity payments. (3 marks)

- (b) The conditions for the operation of “contribution” in insurance are that:
- each of the policies must be liable for the loss;
 - each of the policies must insure the same interest in the subject matter;
 - each of the policies must be a contract of indemnity;
 - each of the policies must insure the subject matter of the loss;
 - each of the policies must cover the peril that brings about the loss.
- (2 marks for each correctly stated condition. Sub-Total: 10 marks)

(c) “Contribution Condition” is a clause that sets out how the loss is to be met. If the insured has another policy that covers it the effect of the condition will be to change or override the common law rules relating to contribution. (3 marks)

(d) The effects of the following on the operation of “contribution” are:

(i) **Escape Clauses in a Policy:** this is a type of contribution condition. It effectively forbids the insured from taking out another policy without the consent of the insurers. It will be inserted in the policy that if the insured does take another policy without the insurer’s consent, the policy the policy will be avoided. It is to prevent the insured from taking multiple or double insurance for the same subject matter and thus perpetrate fraud. Purely accidental overlap will not make the clause operative. (3½ marks)

(ii) **More Specific Insurance Clauses:** a contribution Condition which may provide that where a loss is covered by another a more specific insurance, the Policy will respond only when the cover provided by the more specific insurance has been exhausted. The policy operates more like an excess of loss Policy, but only where the “primary” cover is more specific. The term “more specific” may or may not be specified in the Policy. However, the policy is more likely to be regarded as more specific if it describes the subject matter more precisely. (3½ marks)

(iii) Rateable Proportion Clauses: this type of contribution condition is now commonly used in indemnity insurance and used in conjunction with other contribution conditions. It usually states that the insurer will be liable for “a rateable proportion” only of any loss that is also insured by another policy. The effect is to prevent the insured from recovering in full under a policy that includes the condition. (3½ marks)

(iv) Other Non-Contribution Clauses: the policy may contain a clause that simply states that there will be no liability for any loss that is insured by another. It may state thus ... “There shall be no liability under this policy in respect of any loss for which the insured is entitled to indemnity under any other Policy”. The effect is to push the whole of any such loss onto the other insurer. (3½ marks)

(Sub-Total: 14 marks)

(Grand Total: 30 marks)

18. (a) Attempt a definition of law. (4 marks)

(b) What are the two (2) classifications of law? Give two examples of each. (6 marks)

(b) List and explain any four (4) of the characteristics of Nigerian law. (20 marks)

Solution

(a) Law may be described as a body of general rules which governs and controls the behavior of people in the country or state in which people live. Such rules are imperative in that they are backed up by sanctions. (4 marks)

Law may be classified into:

* public law; and * private law.

Public Law comprises constitutional law, administrative law and criminal law.

Private Law comprises of the law of contract, the law of torts, the law of trust, the law of property, the law of succession and family law.

(1 mark for each correctly stated classification. Sub-Total: 2 marks.

1 mark for each correctly stated example under each classification. Maximum of 2 examples to be graded under each classification. Sub-Total per classification: 2 marks. Grand Sub-Total:4 marks)

(Grand Sub-Total: 6 marks)

(b) The major characteristics of Nigerian law are:

* age and continuity in application; * little codification; * judge-made law;

* independence of the judiciary; * adversarial system; * rule of law.

(Candidates are required to list and explain any 4. 3 marks for correctly stated characteristic. 2 marks for each correct and completely stated explanation. Sub-Total per characteristic: 5 marks. Maximum of 4 characteristics to be graded. Grand Sub-Total: 20 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I02
COMMERCIAL PROPERTY AND
BUSINESS INTERRUPTION INSURANCES

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

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

I02 – COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION
INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I	-	140 marks.
Part II	-	60 marks.

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

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

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

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

Chief Examiner's Comments

Question 1

The question assessed candidates' understanding of life offices. Approximately 51% of the candidates attempted it, with 41% achieving above-average scores.

Question 2

This coursebook question tested candidates' knowledge of the formula for business interruption claims. An impressive 98% of the candidates attempted it, and 93% achieved above-average performance.

Question 3

The question examined candidates' understanding of the Theft Act 1968 concerning theft and robbery. Approximately 48% of the candidates achieved above-average performance.

Question 4

This coursebook question focused on the covers and parties involved in fidelity guarantee policy. Approximately 93% of the candidates attempted it, with 70% achieving above-average performance.

Question 5

The question examined candidates' knowledge of the definition of indemnity. About 91% attempted the question while 27% achieved an above average performance.

Question 6

This question assessed candidates' understanding of multi-tenure buildings and fire propagation. About 60% of candidates achieved above-average performance.

Question 7

This question focused on the criteria for accepting or declining risk in a fire policy. Approximately 80% of candidates scored above average, demonstrating a strong understanding of this topic.

Question 8

This question focused on distinguishing between fire and explosion and identifying the necessary safety measures for storing flammable substances. Approximately 60% of candidates performed above average, reflecting a moderate grasp of these concepts.

Question 9

The question examined candidates' knowledge of under-insurance. About 78% attempted the question, while 53% achieved an above average pass rate.

Question 10

This question assessed candidates' knowledge of various types of sprinkler systems. About 76% of candidates attempted the question, with 68% achieving an above-average pass rate, indicating a solid understanding of the topic among those who attempted it.

Question 11

This question focused on the elements of fire, a topic directly from the coursebook. Approximately 94% of candidates attempted it, with an impressive 95% achieving an above-average pass rate, demonstrating strong familiarity with this fundamental topic.

Question 12

This underwriting question focused on pre-loss surveys for fire. Around 96% of candidates attempted it, but only 60% achieved an above-average pass rate, indicating that while most candidates were familiar with the topic, a deeper understanding of pre-loss survey requirements would enhance performance.

Question 13

This question assessed candidates' understanding of reinstatement. The above-average pass rate was approximately 13%, suggesting that many candidates may need to strengthen their grasp of this topic for improved performance.

Question 14

This case study question evaluated candidates' understanding of the importance of pre-loss surveys. The pass rate was around 82%, indicating a strong performance by most candidates in this area.

Question 15

This optional question focused on underwriting, with approximately 33% of candidates attempting it. Among those who did, 75% achieved an above-average pass rate, reflecting a solid understanding of the topic.

Question 16

This coursebook question focused on additional covers offered by insurers in a fire and consequential loss insurance policy. Approximately 44% of candidates attempted the question, with about 35% achieving an above-average pass rate.

Question 17

This was another optional question regarding fidelity guarantee policies. Approximately 57% of candidates attempted the question, and around 70% of those who attempted it achieved an above-average pass rate.

Question 18

This was a coursebook question designed to assess candidates' knowledge of stock declaration. About 58% of candidates attempted the question, and approximately 38% achieved an above-average pass rate.

Comments on Overall Performance

The overall performance of candidates was satisfactory, but there is still significant room for improvement.

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 10 marks.

1. (a) Write out the full meaning of LOC as it relates to Life Assurance Practice in Nigeria. (1 mark)
- (b) State the three (3) classifications of life assurance business by the Insurance Act of 2003. (9 marks)

Solution

- (a) Life Offices Committee. (1 mark)
- (b) 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)

2. (a) Explicitly state a reason why business interruption losses cannot generally be detailed on a claim form, apart from the general questions such as name, policy number, etc.? (2 marks)
- (b) Explain the following:
 - (i) indemnity period;
 - (ii) maximum indemnity period.
 - (iii) excess;
 - (iv) insured profit or gross profit. (8 marks)

Solution

- (a) The main reasons why business interruption losses cannot generally be detailed on a claim form, apart from the general questions such as name, policy number, etc. are:
 - the formula for dealing with the claim is similar as between each basis of cover (insured profit, gross revenue, gross rentals, etc..) but the form would have to provide space for all the variations.
 - it is practically impossible to provide the correct amount of space on the form for all the items that go into the settlement; the adjustment formula for the special circumstances clause, the savings items, their adjustment for uninsured working expenses and the text for average;
 - all the work in both the above cannot be done until the end of the indemnity period in any event.(2 marks for any correct and completely stated reason. Maximum of 1 to be graded. Grand Sub-Total: 2 marks)
- (b) (i) Indemnity Period: is the actual period of interruption but not exceeding the maximum indemnity period that the business is affected by a real-life event. (2 marks)
- (ii) Maximum Indemnity Period- is the theoretical maximum foreseeable period of interruption as calculated by the insured (2 marks)
- (iii) Excess: is the amount which the insured bears for each and every loss. (2 marks)
- (iv) Insured Profit or Gross Profit: this is defined in wording and translates into the formula known as difference basis: [(Turnover + Closing Stock and Work in Progress) - [(Opening Stock and Work in Progress + Uninsured Working Expenses)] (2 marks)
(Sub-Total: 8 marks)
(Grand Total: 10 marks)

3. (a) What is “theft” as completely defined in the Theft Act 1968? (6 marks)
- (b) What is “robbery” as defined in Section 8 of the Theft Act 1968? (4 marks)

Solution

- (a) Theft is defined in the Theft Act 1968 as:
- (i) a person is guilty of theft if he or she dishonestly appropriates property belonging to another to permanently deprive the other of it, and thief and stealing shall be constructed; accordingly, (3 marks)
 - (ii) It is immaterial whether the appropriation is made to gain or is made for the thief's benefit. (3 marks)
- (b) "Robbery" is defined in S8 of the Theft Act 1968 as: "a person is guilty of robbery if he steals, (2 marks) and immediately before or at the same time doing so and to do so, uses force on any person or puts or seeks to put any person in fear of being then and there subject a force (2 marks). (Sub-Total: 4 marks) (Grand Total: 10 marks)

4. (a) Fidelity Guaranty covers different types of risk and thus has different sections. You have been directed by your Managing Director to present a technical pitch on it. Enumerate any three (3) sections of covers that should be covered in the fidelity guaranty insurance policy. (4 marks)
- (b) How many parties are involved in a fidelity guarantee policy? List them. (6 marks)

Solution

- (a) The sections of covers that should be covered in the fidelity guaranty insurance policy are: * money; * stock; * work in progress.
* equipment and machinery.
(2 marks for each correctly stated type of risk. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) There are three (3) parties involved in a fidelity guarantee policy. They are the:
* Insurer; * insured (i.e. the employer)
* the insured person (the employee whose fidelity is guaranteed)
(2 marks for each correctly listed party. Sub-Total: 6 marks)
(Grand Total: 10 marks)

5. (a) What is the indemnity period? (6 marks)
- (b) What is the risk insured in business interruption if an insured event occurs? (4 marks)

Solution

- (a) Indemnity period is the period beginning with the occurrence of the insured damage (2 marks) and ending not later than the maximum indemnity period specified in the policy (2 marks) during which the results of the business insured are affected in consequence of the damage (2 marks). (Sub-Total: 6 marks)
- (b) The risk insured is that of the damage making it impossible for the business to operate at all (or severely restrict its ability to operate as a result of essential parts of the activities being no longer available. (4 marks) (Grand Total: 10 marks)
6. (a) What is a "multi-tenure building"? (2 marks)
- (b) Enumerate any four (4) factors that affect the propagation of fire. (8 marks)

Solution

- (a) A multi-tenure is one where several firms occupy parts of the same building. (2 marks)
- (b) The factors that affect the propagation of fire are:
- Presence of combustible floors, ceilings, paintings, and wall linens.

- Presence of combustible textures and fittings such as benches, desks, cupboards, floor covering, books, and stationery.
- Stocks, packaging, and raw materials.
- Waste or timbers, pallets stored next to a building can aid the spread of a fire.

(2 marks for each stated factor. Sub-Total: 8 marks)

(Grand Total: 10 marks)

7. A marketer sold a fire policy and forwarded the sale to the underwriting department for further action. As a prudent underwriter, state and briefly explain any four (4) criteria of acceptance/declinature of risk that should be considered.

Solution

The criteria of acceptance/declinature of risk that should be considered in a fire policy are:

- * trade being executed;
- * risk/insured indices;
- * size of insurance;
- * physical hazard;
- * acceptance category.

(Candidates are required to also explain any stated criterion. 1½ marks for each correctly stated criterion. 1 mark for each correct and completely stated explanation. Sub-Total per criterion: 2½ marks.

Maximum of 4 to be graded. Total: 10 marks)

8. (a) What is the basic difference between fire and explosion? (4 marks)
- (b) What is the major safety measure that is required to be taken when storing flammable substances? (3 marks)
- (c) What are the three (3) standard fire contingencies? (3 marks)

Solution

- (a) The basic difference between a fire and an explosion is the speed of the ignition. (4 marks)
- (b) The major safety measure that is required to be taken when storing flammable substances is the installation of good ventilation or extraction in the flammable stores. (3 marks)
- (c) The standard fire contingencies are fire, lighting, and "limited" (or domestic) explosion. (1 mark for each correctly stated contingency. Sub-Total: 3 marks)
- (Grand Total: 10 marks)

9. (a) By reason of inflation, an insured might have the property being insured to having a sum insured that qualifies it as underinsured. What schemes are available to protect the insured from experiencing under-insurance caused by the effect of inflation? (4 marks)
- (b) Enumerate any three (3) contingencies that are normally suitable for "first loss" cover. (6 marks)

Solution

- (a) The schemes available to protect the insured from experiencing under-insurance caused by the effects of inflation are:
 * index linking schemes; * day one basis (adjustable)
 * day one basis (un-adjustable).
 (2 marks for each correctly stated scheme type. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) The contingencies that are normally suitable for "first loss" cover are:
 * storm; * flood; * escape of water;
 * impact; * sprinkler leakage; * theft.
 (2 marks for each correctly stated contingency. Maximum of 3 to be graded. Sub-Total: 6 marks)
- (Grand Total: 10 marks)

10. Enumerate and briefly explain any two (2) types of the most common types of sprinkler systems.

Solution

The most common types of sprinkler system are:

- * wet pipe; * alternate pipe; & * dry pipe.

(Candidates are required to explain any type of sprinkler correctly stated. 3 marks for each correctly stated type. 2 marks for each correct explanation. Maximum of 2 to be graded. Sub-Total per type: 5 marks. Grand Total: 10 marks)

11. State the four (4) essential elements of fire tetrahedron and briefly explain why they are considered to be essential elements of fire tetrahedron.

Solution

The four essential elements of “fire tetrahedron” are:

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

(Candidates are required to explain why those essential elements are correctly stated. 1½ marks for each correctly stated element. 1 mark for each correct explanation. Sub-Total per element: 2½ marks. Grand Total: 10 marks)

12. A prudent underwriter appointed a pre-loss surveyor to assess a business interruption policy proposal. List out any ten (10) items that should be found in the survey report on the risk.

Solution

The items that should be found in a survey report on a business interruption policy are:

- * insured; * premises; * business; * housekeeping; * operation;
* previous losses; * location; * explosion; * heating;
* usage and suitability; * fire extinguishing appliances; * lighting power.

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

13. Reinstatement may take place in a property insurance policy in three distinct ways. Explicitly enumerate and briefly explain any two (2) of these three distinct ways.

Solution

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

- by the insurer under the terms of the policy;
- by the insurer under Statute;
- by the insured under the terms of any contract.

(Candidates are required to explain any type of the ways correctly stated. 3 marks for each correctly stated way. 2 marks for each correct explanation. Maximum of 2 to be graded. Sub-Total per way: 5 marks. Grand Total: 10 marks)

14. When a decision has been made to carry out a pre-loss survey on a risk, there are certain objectives that are aimed to be addressed by having such a survey of a risk carried out especially when it has to do with a risk that a large claim had occurred on previously. What are these four (4) objectives?

Solution

The four objectives of having to carry out a pre-loss survey, especially on a risk that a large claim had occurred on previously are to:

- identify specific problems which affected the way the loss occurred;
- how it was dealt with;
- with a view to eliminating that cause of loss and/or
- minimizing damage should the event recur.

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

Part II

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

Each question carries 30 marks.

15. A prudent underwriter received a fire insurance proposal from a manufacturing company and upon its professional review of consideration of terms of risk acceptance as well as premium, terms and conditions; the prudent underwriter also decided to review the proposal with a focus on the occupation and housekeeping as it relates to fire insurance.
- (a) What is “occupation and housekeeping” in insuring a building used by the manufacturing company in respect of the type of policy being proposed? Give an example of each term that is related to a manufacturing company.
- (b) Identify five (5) examples of poor housekeeping in an insured manufacturing company premises.
- (c) Enumerate four (4) challenges/problems that can arise from poor housekeeping of the premises of an insured manufacturing company.

Solution

- (a) Occupation and Housekeeping: occupation in insuring a building for fire insurance is the use that the building is put up for usage and housekeeping in insuring a building for fire insurance can generally be referred to as the general order in which an insured maintains and manages the insured premises. This refers to the layout and suitability of the premises occupied and the day-to-day management and the cleanliness of the premises.

(3 marks for each correct definition. 2 marks for each correctly stated example. Sub-Total per term: 5 marks. Grand Sub-Total: 10 marks)

- (b) Some examples of poor housekeeping are:
- * untidy environment; * high piles of storage; * no compartmentation;
 - * unprofessional storage of foods to the ceiling and close to the lighting unit;
 - * congested premises; * accumulation of waste;
 - * multi-tenancy with varied exposure hazards.

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

- (c) The challenges/problems that can arise from poor housekeeping are:
- * probability of increased inception of fire; * increase in product liability claim;
 - * more prevalent occurrence of fire; * aiding the propagation of fire;
 - * loss of clients as a result of poor quality products;
 - * hindering firefighters efforts;

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

(Grand Total: 30 marks)

16. Aside from the three basic items on property and stock, insurers provide some additional covers in a fire and consequential loss insurance policy. Explain the following of such covers:

- (a) additional cost of reinstatement; (8 marks) (b) professional fees (8 marks)
(c) debris removal costs; (8 marks) (c) local authority cost (6 marks)

Solution

- (a) Additional Cost of Reinstatement: when building(s) and/or machinery(ies) are damaged, or destroyed, there is often a need to engage specialists to help design replacement, arrange planning permission or remove debris, or assist with terms of complying with local authority regulation.

These extra costs of reinstatement are insurable and can be termed miscellaneous cover; which when accommodated becomes additional costs of reinstatement.

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

(b) Debris Removal Cost: this may be minimal and incorporated into the building cost. There may arise reason(s) to rebuild on the same site and if this is not forthcoming, the insured may have to move their whole operation to another site. The cost to clear the old site and leave it safe is incurred under debris removal cost.

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

(c) Professional fees: this includes fees payable to Architects, Surveyors, Consulting Engineers, and Solicitors, whose service may be required to draw, plan, specifications, design and layout of new premises required to replace those destroyed by insured perils. The standard clauses make it clear that the sum insured includes such costs.

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

(d) Local Authority Cost: advisers to the insured should be able to identify cost to comply with requirements that it is "*known to be applicable but not yet made the subject of an order to comply*". The relevant sum insured can then be suitably marked up to take care of this.

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

(Grand Total: 30 marks)

17. (a) Briefly describe the four (4) types of fidelity guarantee policies available.

(20 marks)

(b) The original purpose of the Business All Risk Policy was to provide fire contingencies, theft and accidental damage insurance for simple non-hazardous risks. List any five (5) of such risks.

(10 marks)

Solution

(a) The following are the types of fidelity guarantee policies that are available:

(i) individual policy: this is the type of policy used where an employee (one) is covered by name for a stated amount;

(ii) collective policy: the policy incorporates a schedule containing the names and duties of all guaranteed individuals. The amount guarantee is set apart each year, which can be an individual sum or floating sum over the whole schedule;

(iii) blanket policy: this is where a sum covers a schedule of unnamed policy which includes all employees without showing names or positions;

(iv) position policy: this is usually issued for local government guarantees where instead of using names, the "position" is guaranteed for a special amount so that a change in the person holding the position does not affect the cover.

(3 marks for each correctly stated type. 2 marks for each correct and completely stated explanation. Sub-total per type: 5 marks. Grand Sub-Total: 20 marks)

(b) Some samples of non-hazardous risks are:

- * computer;
- * office business machine;
- * cups, trophy, regalia;
- * scientific equipment;
- * musical instrument;
- * fuel installation pumps;
- * exhibition;
- * deeds, plans, document, etc.;
- * museum & art galleries;
- * vending machine;
- * portable planes / cameras.

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

(Grand Total: 30 marks)

18. FOSTOM Limited has a stock policy covering merchandise in its warehouse. The company has estimated the maximum value at risk for the year 1st January 2023 to 31st December 2023 to be ₦2,000,000.00. The company has agreed to make a monthly declaration on the total stock. The insurer charges a rate of 0.15% for fire only. The following are the declarations.

Months	Amounts (₦)	Months	Amounts (₦)
January	1,600,000	July	1,200,000
February	1,600,000	August	1,500,000
March	1,400,000	September	1,800,000
April	1,400,000	October	1,800,000
May	1,600,000	November	1,900,000
June	1,100,000	December	1,800,000

Calculate:

- (a) The Provisional Premium; (b) Total Declaration.
(c) Average Declaration; (d) Earned Premium.
(e) Return/Additional Premium.

Solution

- (a) Provisional Premium = Estimated Value @ Risk * Rate
= ₦2,000,000 x 0.15% (3 marks)
= ₦3,000.00 (1 mark)
i.e. 75% of 3,000.00 = 225 (2 mark)
(Sub-Total: 6 marks)
- (b) Total Declaration = ₦ (160,000.00+ 150,000.00+ 140,000.00+ 140,000.00+
120,000.00+ 110,000.00+ 130,000.00+ 150,000.00+ 180,000.00+ 180,000.00+
190,000.00+ 180,000.00) (4 marks)
= ₦ 1,830,000.00 (2 marks)
(Sub-Total: 6 marks)
- (c) Average Declaration = formula
= $\frac{\text{₦ } 1,830,000.00}{12}$ (4 marks)
= ₦152,500.00 (2 marks)
(Sub-Total: 6 marks)
- (d) Earned Premium = formula
= ₦ 152,500 x 0.15% (4 marks)
= ₦ 228.75 (2 marks)
(Sub-Total: 6 marks)
- (e) Additional/Return Premium = Earned Premium –Provisional Premium (3 marks)
= ₦ 228.75 – 225.00 (2 marks)
= ₦ 3.75 (1 marks)
(Sub-Total: 6 marks)
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I03
INSURANCE BUSINESS AND FINANCE

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- The answer booklet should be handed over personally to the invigilator before you leave the Examination Hall.
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- Ensure that you write the full and correct candidate's number.
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WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2024 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I03 – INSURANCE BUSINESS AND FINANCE

INSTRUCTIONS TO CANDIDATES

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

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

Chief Examiner's Comment:**Question 1**

The performance was poor, indicating a shallow awareness of the guidelines among the candidates. Many wrote extensively on topics such as the principles of insurance, practices, NAICOM's supervisory powers, and capital requirements for setting up an insurance company, but only a few managed to answer correctly. This led to a below-average pass rate.

Question 2

This question was quite popular among candidates, who successfully showcased their understanding of mergers and acquisitions while also identifying the three main players in Nigeria's insurance market.

Question 3

The question assessed candidates' understanding of distribution channels in the Nigerian insurance industry. The results were promising, with an above-average pass rate of 80%, indicating strong overall performance.

Question 4

The question evaluated candidates' understanding of outsourcing and its associated benefits. While many candidates grasped the concept of outsourcing well, their explanations of the benefits were somewhat superficial. Additionally, some candidates discussed the importance of mergers and acquisitions, but only a few incorporated their practical experiences.

Question 5

The question evaluated candidates on the generic types of directors in an insurance company, as well as the functions and responsibilities of the Board of Directors in a public liability company. The performance was fair, with an overall pass rate of over 50%..

Question 6

The question assessed candidates' understanding of the characteristics of effective communication. However, many responses were quite flawed, as candidates often related the features to the usefulness of communication rather than its actual characteristics. The overall performance was just above average, with a pass rate of 50%.

Question 7

The question evaluated candidates' skills in decision making as a management function, including the stages involved in the decision-making process. A total of 87.7% of candidates attempted the question, with 68.6% achieving an above-average pass rate. Some candidates struggled because, instead of addressing the question, they focused on management business functions.

Question 8

The question asked candidates to list five roles and responsibilities of the Audit Committee. While 89.9% of candidates attempted it, only 35.7% achieved an above-average pass rate. Many candidates misinterpreted the question, leading to inadequate responses.

Question 9

68% of candidates followed to the practice of answering different questions on the same page. However, some candidates who performed below average focused on the functions of the market and strategies for improving market penetration, which resulted in a loss of marks.

Question 10

The question assessed candidates' understanding of the categorisation of claims. However, many candidates wrote about types of claims and the reasons for claims instead. The above-average performance rate was only 36% among those who attempted the question.

Question 11

The question assessed candidates' knowledge and understanding of gearing ratios and solvency. While a portion of candidates were able to clearly explain the concepts and formulas, the overall above-average performance was only 23%. Many candidates struggled to distinguish between solvency and gearing ratios.

Question 12

The question focused on the pillar of solvency requirements and its relevance to the insurance industry 40% of the candidates who attempted it, with 10% above-average performance.

Question 13

The question assessed candidates' understanding of Management Information Systems (MIS) and their basic features. It was noted that 90% of candidates did not grasp the question, particularly regarding the basic features of MIS. Among the 23% who attempted the question, the pass rate was only 9.3%.

Question 14

The question examined candidates' understanding of the components of financial statements and the importance of financial accounting. Among those who attempted it, 51% achieved an above-average performance.

Question 15

There was a significant disconnect between the candidates' responses and the expected solutions, as many provided answers that did not align with the questions asked. Consequently, only 30% of candidates achieved an above-average pass rate.

Question 16

The question assessed candidates' understanding of the users of financial information within an organisation and the distinguishing features of tangible and intangible assets. A remarkable 94% of candidates attempted the question, achieving an above-average pass rate of 81%.

Question 17

This question evaluated candidates' understanding of the role of external assessors in evaluating an insurance company's financial strength. The above-average pass rate for this question was 35%.

Question 18

The question assessed candidates' understanding of risk management and the key processes involved. The pass rate was 25%, and many candidates chose to avoid this question altogether.

Comments on Overall Performance:

The overall performance was not particularly encouraging, but it was not entirely disappointing either. There is significant room for improvement.

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

Candidates should engage in additional study through journals and articles related to insurance and stay updated on industry developments.

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 10 marks.

1. In recent years, National Insurance Commission (NAICOM) has consistently introduced regulations using circulars and guidelines to ensure a cohesive and progressive Nigerian Insurance Industry. Carefully enumerate any five (5) guidelines issued in the last fifteen years.

Solution

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)

2. (a) What does the phrase “merger and acquisition” mean? (1 mark)
(b) Enumerate and give an example each of the three (3) components of active players in an insurance market. (9 marks)

Solution

- (a) Merger and acquisition are business transactions in which the ownership of companies’ business organisation or operation unit is transferred to or consolidated with another business organisation. (1 mark)

- (b) The main components of active players in an insurance market are:

- i) **Sellers:** Insurance and reinsurance company;
- ii) **Buyers:** General public, insuring community, national and multinational companies, government agencies, schools and colleges;
- iii) **Middle Men:** insurance brokers, insurance agents and other intermediaries.

(2 marks for each correctly stated component. 1 mark for each correctly stated example. Sub-Total per component – 3 marks. Sub-Total: 9 marks)

(Grand Total: 10 marks)

3. (a) Enumerate five (5) channels of distribution in selling insurance products to the insuring community.
(b) Enumerate four (4) characteristics or attributes that are associated with the excellent delivery of CRM today.

Solution

- (a) The channels of distribution in selling insurance products to the insuring community are:

- | | | |
|---|-------------------------------------|-----------|
| * direct insurers; | * through the internet; | * agents; |
| * financial institutions e.g. banks, mortgage banks and building society; | | |
| * retailers and affinity groups; | * travels agent and tour operators; | |
| * independents intermediate. | | |

(1 mark for each correctly stated channel. Maximum of 5 to be graded. Sub-Total: 5 marks)

- (b) The characteristics or attributes that are associated with the excellent delivery of CRM today are:

- | | | |
|-----------------|----------------------------|-----------------|
| * reliability | * responsiveness | * accessibility |
| * safety | * courtesy | * consideration |
| * communication | * recognising the customer | * competence |

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

(Grand Total: 10 marks)

4. Many companies outsource a number of their key functions. Explain the word outsourcing and state any three (3) benefits a company will derive when outsourcing parts of its function.

Solution

(a) Outsourcing is the practice of bringing a third-party company or individual to perform task or provide services instead of doing the work by the company. It is often used to cut costs or access specialised talent in a specific field or area of operation i.e. the use of a skilled resource outside the company to handle work that could have been directly performed by in-house staff.

(4 marks)

The benefits that a company will derive when outsourcing parts of its function are:

- capability to develop new and specialised products;
- company has more time to focus on its core business;
- bring about new partnership opportunities between the firm and outsourced company;
- enhance budgeting cost;
- the company/business is guaranteed a certain level of service as indicated in the Service Level Agreement.

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

(Grand Total: 10 marks)

5. (a) Clearly identify and distinguish between the two (2) generic types of directors of an insurance company. (4 marks)
- (b) Explain three (3) functions and responsibilities of the Board of Directors of a public liability company. (6 marks)

Solution

(a) The two different generic types of directors of an insurance company are the:

* Executive Directors: i.e. those who work full time in the company and are given management responsibility for running part of the business e.g Executive Director (Finance or Marketing and/or Technical) Operations; Chief Executive Officer/Managing Director.

(2 marks)

* Non-Executive Directors: i.e. those who work part-time and are chosen for one particular reason and do not perform executive roles or functions. They simply attend board meetings and could also be appointed as board committee members. (2 marks)

(Sub-Total: 4 marks)

(b) The functions and responsibilities of the Board of Directors of a public liability company are:

- overseeing the executive management in their daily assigned duties;
- setting strategy and determination of policy direction of the organisation;
- overseeing the risk management activities as could affect the operations of the company;
- ensures that company integrity and principles are strictly followed and adhered to

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

(Grand Total: 10 marks)

6. Enumerate any five (5) characteristics of effective communication.

Solution

The characteristics of effective communication are:

- accelerate change in the culture and structure of the business;
- achieve a low turnover of employee;
- improved motivation and mutual trust;
- decision making is facilitated;
- bring about cooperation among staff;
- ensures all relevant members of staff help to meet the corporate objective.

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

7. (a) Define decision making as a Management function. **(2 marks)**
(b) Convincingly, explain the four (4) main steps in decision making. **(4 marks)**
(c) List any four (4) of the five “Cs” of decision making as an alternative approach to decision to (b) above. **(4 marks)**

Solution

(a) Decision Making as a management function is the act or process of deciding on something, especially with a group of people. Business managers are constantly forced to make important choices that influence how their organisations run. Decision making is a key management skill. Either wrong or right decision is essential to the operations of the organisation. **(2 marks)**

- (b) The four main steps in decision making are:
- understand the reason: why such a decision needs to be taken;
 - prior consideration and discussion of the option: to be laid before stakeholders, expect objection and consideration of alternatives;
 - taking the most appropriate decision: this may not always be the obvious. Disadvantage(s) and advantage(s) must be considered;
 - review: prior to when a decision has been taken, it is appropriate to review. See to it how anything can be learned to reshape and better decisions for subsequent periods.
- (1 mark for each correct and completely stated step. Sub-Total: 4 marks)**

- (c) The 5 “Cs” of decision making are:
* Consider; * Consult; * Commit; * Communicate; * Check.
(1 mark for each correctly stated “C”. Maximum of 4 to be graded. Sub-Total: 4 marks)
(Grand Total: 10 marks)

8. Enumerate any five (5) roles and responsibilities of the Audit Committee as contained and provided for in the Financial Reporting Council Guidance 2018.

Solution

The main roles and responsibilities of the Audit Committee as contained and provided for in the Financial Reporting Council Guidance 2018 are:

- monitoring the integrity of company financial statements;
- reviewing the company’s internal financial control;
- reviewing and monitoring the external auditor's independence and objectivity;
- report to the board, identifying areas considered actions or improvement is needed;
- developing and implementing the engagement of the external audit to supply non-audit services;
- monitoring and reviewing the effectiveness of the company’s internal audit function;

- making recommendations to the Board for the approval in the AGM appointment of external auditors.
(2 marks for each correct and completely stated “C”. Maximum of 5 to be graded. Total: 10 marks)

9. (a) What is “market research” as it relates to the function of being a unit of sales and marketing of an insurance company? (2 marks)
- (b) Identify four (4) functions of this arm of the marketing department of an insurance company. (8 marks)

Solution

(a) “Market Research” refers to the process of evaluating the viability of a new service or product through research conducted directly with potential customers. It allows a company to define its target markets and get opinions and other feedback from the consumers. (2 marks)

(b) The following are the functions of the market research of any organisation:

- * identify target market; * formulate marketing strategy;
- * develop marketing plan; * control marketing operations;
- * monitor the success of products or services.

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

(Sub-Total: 8 marks)
(Grand Total: 10 marks)

10. List and explain the four (4) factors that could be considered when deciding on categorisation of claims statistics to arrive at an estimate of the total cost of claims.

Solution

The factors that could be considered when deciding on the categorisation of claims statistics to arrive at an estimate of the total cost of claims are:

- length of tails i.e. the time from the incident date to the final date or day of payment;
- expected claim pattern;
- expectation of surplus or deficit in the run-off of claim;
- average claim values.

(Candidates are required to explain the correctly stated factor. Maximum of 4 to be graded. Total: 10 marks)

11. (a) What does the Gearing Ratio measure? State the formula. (6 marks)
- (b) Explain the meaning of the word “solvency”. Explain/State the formula. (4 marks)

Solution

(a) Gearing Ratio measures financial leverage and shows the extent to which a company finances its operations or activities from borrowing as opposed to shareholders' equity. (3 marks)

$$\text{Gearing Ratio} = \frac{\text{long-term borrowing}}{\text{shareholders' equity}} \times 100 \quad (3 \text{ marks})$$

(Sub-Total: 6 marks)

(b) Solvency is the possession of assets in excess of liabilities which is termed to be the ability to of the organisation to pay its debt. It is also the ability of an organisation to meet its long-term debt and financial obligation. Many companies have negative shareholders' equity which is a sign of insolvency. (2 marks).

The quickest assessment of a company's solvency is to get a total of the company's assets and deduct a total of the company's liabilities. (2 marks)

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

12. (a) What is the full meaning of ORSA as contained in Solvency II, Pillar 1 requirement? (1 mark)
(b) Enumerate the three (3) Pillar of Insolvency II requirements and structure and briefly explain its relevance to insurance finance. (9 marks)

Solution

- (a) ORSA means: Own Risk and Solvency Assessment. (1 mark)
(b) The requirements three (3) Pillar of Insolvency II requirements and structure are;
* Financial requirement; * governance and supervision;
* reporting and disclosure.
(2 marks for each correctly stated pillar. 1 mark for each correct and completely stated explanation. Sub-Total: 9 marks)
(Grand Total: 10 marks)

13. (a) Define Management Information System (MIS). (2 marks)
(b) Enumerate any four (4) basic features of Management Information System. (8 marks)

Solution

(a) Management Information system is an information system used for decision making. It is a Database of financial information organised and programmed in such a way that it produces regular reports on operations for every level of management in a company. Management Information System involves people and processes. (2 marks)

- (b) The basic features of Management Information System are:
- information flows horizontally and vertically; vertical between manager and team members;
 - reports generated by information systems range between low-level management the small area of the organisation renders control and a broader nature for top-level management concerned with overall control;
 - the center core of MIS is tactical for management control;
 - the control cycle is the comparison of actual results against a plan that cannot be effective unless the plan is carefully prepared;
 - information produced can be used to measure actual results and against the projected plan;
 - careful and clearly drawn-up specifications of the area of management responsibility i.e. areas of management responsibilities must not be ambiguous.
- (2 marks for each correct and completely stated feature. Maximum of 4 to be graded. Sub-Total: 8 marks)
(Grand Total: 10 marks)

14. (a) A company's financial statements have three major components/segments. List these three (3) components/segments and state what they focus upon. (6 marks)
(b) Enumerate any two (2) importance/functions of financial accounting. (4 marks)

Solution

(a) The major components in a company's financial statement are:

- income statement account: which shows the result of company as a consequent of transactions during account period i.e. sets out income, expenses tax and profit and loss;
- balance sheet: this is a statement of the financial position of the business at a point in time;
- cash flow statements: these are presented as an integral part of a company's financial statement to recognise accounting profit or loss.

(1 mark for correctly stated component. 1 mark for correct and completely stated focus. 2 marks per term. Sub-Total: 6 marks)

(b) The importance/functions of financial accounting are:

- it enables shareholders and stakeholders to know the financial status of the company;
- measures and records are identified and kept;
- from the financial accounting solvency is determined;
- demonstration of professional competence and dexterity by conforming with the technical and professional standards to their level of education and assigned position of responsibility;
- upholding professional standards in all dealings and relationships;
- respecting the confidentiality of information acquired in professional and business relationships;
- objectivity in making professional judgments in giving opinions and statement is made possible.

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

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. (a) What is Management by Objective (MBO)? **(4 marks)**
- (b) Examine the four (4) key management factors to embrace or keep in place in order to achieve the objectives of any viable organisation. **(8 marks)**
- (c) Enumerate three (3) advantages and three (3) disadvantages of MBO. **(18 marks)**

Solution

(a) Management by Objective (MBO) refers to the process of setting specific activities for employees to work forward. This has become a key part of performance management in recent times. Giving employees clear goals improves motivation. MBO is also a process of defining objectives within an organisation so that both management and employee agree to the objectives.

(4 marks)

- (b) The key management factors to embrace or keep in place in order to achieve the objectives of any viable organisation are:
- total support from the top management;
 - each job is directed towards the same organisation goal;
 - each manager's targeted performance must be driven by the overall target and achievement of the organisation;
 - each manager must know what their individual performance targets are;

- a manager must know what to demand from the subordinate/team member and how to judge the performance of the subordinate/team member.
(2 marks for each correct and completely stated factor. Maximum of 4 to be graded. Sub-Total: 8 marks)

(c)

S/N	Advantages	Disadvantages
1	Motivation to employee	Emphasis is more on short-term goal
2	Better coordination and communication	Employees may believe that MBO is the plan of management to ensure subordinates work harder and become more dedicated
3	Clarity of goal is ensured	There is the potential for considerable paperwork
4	Common goal for the whole organisation	It does not leave the group for subject goals
5	Managers can ensure the objectives of employees are linked to the organisation's goal	Managers may not be sufficiently skilled in interpersonal interaction such as coaching and counseling.
6	Employees tend to have a higher commitment to the objectives they set	

(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)
(Grand Total: 30 marks)

16. (a) Identify and list eight (8) users of the financial information of an organisation. (16 marks)
- (b) (i) What is an asset? (2 marks)
(ii) Give the distinctive features between tangible and intangible assets. (4 marks)
- (c) (i) What is benchmarking? (2 marks)
(ii) Enumerate any two (2) types of benchmarking that are commonly used. (6 marks)

Solution

- (a) The following are the users of the financial information of an organisation are:
* competitors; * financial analyst; * brokers; * regulator;
* general public; * customers; * owners * directors and managers;
* employees * tax authority; * creditors; * vendors.
(2 marks for each correct and completely stated user. Maximum of 8 to be graded. Sub-Total: 16 marks)
- (b) (i) An asset is a resource controlled by the enterprise that has current or future economic value to a business. (2 marks)
(ii) A tangible asset is any organisation asset that is physical and real e.g. land, cash, buildings, machineries, e.t.c. (2 marks) while the intangible asset is any organisation asset that is not physical such as trademark, copyright, goodwill, e.t.c. (2 marks)
(Sub-Total: 6 marks)
- (c) (i) Benchmarking is the process of measuring products, services and processes against those organisations known to leaders in one or more aspects of their operations. The process allows a company to compare its growth with that of another organisation. (2 marks)
- (ii) The three types of bench-marking that are commonly in use are:

- * internal benchmarking: i.e. the comparison of the performance of divisions and departments within the same organisation;
- * external benchmarking: i.e. the comparison of the company's overall performance with competing firms as regards structure, profitability, growth and market share;
- * functional benchmarking: i.e. the assessment of the company's main functions and process against the process and function of other similar organisations.

(2 marks for each correct and completely stated type. 1 mark for a correct and completely stated explanation. Sub-total per term: 3 marks. Maximum of 2 to be graded on. Sub-Total: 6 marks)

(Grand Sub-Total: 8 marks)

(Grand Total: 30 marks)

17. (a) State and explain four (4) reasons why an insurance organisation will pay a fee to an outside assessor to state an opinion on its financial strength. **(10 marks)**
- (b) Outline and discuss five (5) parameters or tools used by the rating company to have a credible rating result(s). **(20 marks)**

Solution

- (a) An insurance organisation will pay a fee to an outside assessor to state an opinion on its financial strength for the following reasons:
- to confirm to all concerned stakeholders that a third party is involved in measuring the strength of the organisation and by extension, the possibilities of the organisation meeting its financial commitments;
 - to have a rating for its financial strength when compared with other insurers;
 - to help strategise and note the strengths, weaknesses, opportunities and possible threats of the organisation;
 - to find a better way of mitigating or propagating such identified possible threats;
 - so that brokers, potential customers, and customers can decide on their risk appetites i.e. the confidence that can be established in such a company.
 - this allows a company ranked AAA to charge a higher premium and offer wider ranges of business than a company rated BBB.

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

- (b) The following are the parameters or tools used by the rating company to have a credible rating result(s):
- Economic and Industry Risk: i.e. the operating environment, the threat of new entrants, volatility of the sector, and risk of catastrophic losses. e.t.c.;
 - Competitive Position: the profile of business mix (strategies) in the competitive environment;
 - Management and Corporate Strategy: the quality and credibility of insurers, senior management and the vision, mission, and overall objective;
 - Operating Performance: checking the performance index or ratio: loss ratio, expenses ratio, combined ratio and return on equity, etc. i.e. structure, performance and profitability;
 - Investments: how does the investment strategy of the company fit with the liability profit and the magnitude of investment to the total company's earnings;
 - Liquidity: the ability to manage cash efficiently and borrow money if condition necessitates;
 - Capital adequacy: this is largely the examination of the level of capital required.
 - Financial Flexibility: this looks at the insurers' potential need for additional capital or liquidity in the future;

- Enterprise Risk Management (ERM): this is the method by which a company manages risk. ERM provides a framework to assess the frequency and security of risk, risk identification and reporting.

(2 marks for each correctly stated parameter/rule. 2 marks for correctly stated explanation. Sub-total per parameter/rule: 4 marks. Maximum of 5 to be graded. Sub-Total: 20 marks)
(Grand Total: 30 marks)

18. Risk management activities are aimed at protecting any organisation from interruption to its firm's strategic objectives. Explain the four (4) risk management process an organisation can adopt.

Solution

The four risk management processes that an organisation can adopt are:

* risk identification; * risk analysis * risk reporting * risk control.

Risk Identification: is a stage very critical stage in the Risk Management process. At this stage, the inherent risk is identified and risk is proactively managed the method to be adopted can be any of the following:

- Brainstorming and Risk Workshops: - the risk management teams hold meetings with various departments where the risks are identified through discussion brainstorming, e.t.c.;
- Site Visits: risk managers will visit the premise(s) to ascertain and inspect hazardous perils and check the position of housekeeping;
- Scenario Analysis: this is an analysis of the experiences of per group companies there and elsewhere;
- Flow Process Analysis: risk manager reviews the reliance on various stages of insurance processing.

Risk Analysis: this is a stage where all identified are grouped into their respective categories, such as strategies; investment, marketing, operations, and sourced information are then analysed to ascertain the probability of a risk event occurring and a way of control. Risks are then ranked to identify the highest risk class.

Risk Reporting: is a very good element of good corporate governance. In this instance, the risk indicators, identification, evaluation, risk reporting, and risk estimation should be reported monthly to the risk and compliance committee which will in return, report to the Board.

Monitoring and Alteration: in this instance, the entire process is monitored in order to ensure that changes in the risk environment are identified and acted upon the full risk identification and analysis process is done at regular intervals, quarterly or yearly.

(4 for each correctly stated generic process. 3½ marks for each correct and completely stated explanation under each process. Sub-Total: 7½ per process. Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I04
BUSINESS AND ECONOMICS

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.

I04 – BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.
Part II - 60 marks.

You are advised to spend not more than two (2) hours on Part I. You are strongly advised to attempt ALL the required questions to score 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 claims administration. Over 83% of candidates attempted the question, with 58% achieving an above-average pass rate. However, many candidates were not well-versed in claims administration.

Question 2

The question assessed candidates' understanding of marginal concepts in production management. Seventy-eight percent of candidates attempted it, with 49% achieving an above-average pass rate. Since this is a straightforward coursebook question, candidates are advised to engage more closely with their course materials.

Question 3

The question examined candidates' understanding of inflation. While 82% of candidates attempted it, only about 20% achieved an above-average pass rate, which is below expectations. Candidates should prepare more effectively for these examinations.

Question 4

The question assessed candidates' understanding of Business Continuity Management (BCM) and currency devaluation. 92% of the candidates attempted it, and 70% achieved an above-average pass rate, indicating a quite encouraging performance.

Question 5

The question evaluated candidates' understanding of the effects of mergers and acquisitions. While an impressive 99% of candidates attempted the question, only 46% achieved an above-average pass rate. Candidates are advised to prepare more thoroughly for the examination.

Question 6

The question examined candidates' understanding of examples of direct and indirect taxes. Approximately 85% of candidates attempted it, with an above-average pass rate of 79%. This performance was impressive, indicating that candidates had thoroughly covered this area of the coursebook during their preparation. They are encouraged to maintain this momentum and ensure that all aspects of the syllabus are addressed in their studies for the examination.

Question 7

The question assessed candidates' understanding of Business Continuity Management (BCM). Approximately 65% of candidates attempted it, with 34% achieving an above-average pass rate. Since this was a coursebook question, candidates are encouraged to engage more closely with their coursebook.

Question 8

This question examined candidates' understanding of "Business Culture" and "Ethics." Approximately 91% of candidates attempted it, with 64% achieving an above-average pass rate.

Question 9

The question examined candidates' understanding of fixed exchange rates, as well as the merits and demerits of floating exchange rates. About 85% of candidates attempted the question, and approximately 80% achieved an above-average pass rate, indicating encouraging performance.

Question 10

The question assessed candidates' understanding of the current economic effects of petroleum on Nigeria. Remarkably, 100% of candidates attempted the question, with about 99% achieving an above-average pass rate, which is highly encouraging.

Question 11

The question assessed candidates' understanding of the four basic agents of production and their respective rewards. The question was well attempted, with a response rate of 83.56%, and the above-average performance was excellent at 99.1%. Candidates demonstrated a strong understanding of this aspect of the syllabus and are encouraged to maintain this level of performance.

Question 12

The examiner examined the candidates' understanding of the definition of exchange rate and its types. Approximately 71% of candidates attempted the question, with 81.74% achieving an above-average pass rate, indicating good performance. However, a significant percentage of candidates did not attempt this question. Additionally, some candidates who did attempt it mistakenly interpreted it as a normal exchange process.

Question 13

The examiner assessed candidates' understanding of corporate global citizenship (CGC) and Corporate Social Responsibility (CSR). About 75% of candidates attempted the question, but the performance was below average at 49.5%. This indicates that candidates did not have a solid grasp of this area of the subject. They are encouraged to study harder in the future.

Question 14

The question examined candidates' understanding of the factors that influence the supply of products or services. Approximately 91% of candidates attempted it, with about 65% achieving an above-average pass rate. The performance was not encouraging, especially considering that the question was straightforward and based on the coursebook.

Question 15

This question assessed candidates' ability to graphically present a monopoly market. Less than 8% of candidates attempted it, and none achieved an above-average pass rate (0%).

Question 16

The question examined candidates' understanding of the balance of trade and payments in international trade. Only 18% of candidates attempted it, with 46% achieving an above-average pass rate.

Question 17

The question assessed candidates' understanding of market barriers. While 80% of candidates attempted it, only 48% achieved an above-average pass rate. This indicates that many candidates were not well prepared for the examination.

Question 18

This question assessed candidates' understanding of the principles of demand and supply, as well as elasticity in the insurance industry. An impressive 95% of candidates attempted it, with over 90% achieving an above-average pass rate, which is quite encouraging.

Comments on Overall Performance:

The overall pass rate of 54% is not too disappointing. However, candidates are advised to focus more on the coursebook rather than relying solely on past questions and answers.

Suggestions for Improvement(s) (if any):

Candidates are advised to prioritise studying the coursebook over focusing solely on questions and answers.

Candidates are also encouraged to 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 10 marks.

1. National Insurance Commission [NAICOM] market conduct and business practice guidelines require loss adjusters to submit a statement of claim adjusted in the half year. Enumerate any five (5) information that should be in this statement of claim.

Solution

The information that should be in this statement of claim are:

- * Name of insured;
- * Nature of claim;
- * Name of insurer;
- * Adjusted amount of claim (including Nil adjustment);
- * Sum insured;
- * Class of insurance;
- * Total adjuster's fee.

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

2. What happens to profit maximization under the following conditions?
(a) $MR=MC$; (4 marks) (b) $MR>MC$; (3 marks) (c) $MR<MC$ (3 marks)
Where MR = Marginal Revenue and MC = Marginal Cost

Solution

- (a) $MR=MC$ – Profit is maximised. (4 marks)
(b) $MR>MC$ – It is advisable to increase output to maximize profits. (3 marks)
(c) $MR<MC$ – It is advisable to reduce output to avoid losses. (3 marks)

(Grand Total: 10 marks)

3. What are (a) imported inflation; (b) stagflation?

Solution

(a) Imported inflation is inflation caused by an increase in the consumption of imported goods and services. Imported inflation is a general and sustainable price increase due to an increase in the costs of imported products. (5 marks)

(b) Stagflation is a period of stagnant economic growth (3 marks) accompanied by persistently high inflation (1 mark) and a sharp rise in unemployment (1 mark). (5 marks)

(Grand Total: 10 marks)

4. (a) Define “business continuity management” (BCM). Briefly explain the importance of the management phrase. (6 marks)
(b) What is devaluation? Give an example. (4 marks)

Solution

(a) Business Continuity Management (BCM) is the process of ensuring that an organisation is capable of surviving through a period of major disruption back to its normal mode of working. (2 marks)

BCM is an umbrella term that encompasses the preventive measures that can be taken pre-crisis and the planning that is put in place which can be adopted should a crisis occur, the management of the crisis as it happens as well as the recovery process post crisis. (4 marks)

(Sub-Total: 6 marks)

(b) Devaluation is the reduction in the value of a country's currency to other countries' currencies (3 marks) e.g., reducing Naira value to USD, GBP and others. (1mark)

(Grand Total: 10 marks)

5. Enumerate four (4) possible or probable merits of mergers and acquisitions in an insurance industry.

Solution

The possible or probable merits of mergers and acquisitions in an insurance industry are:

- the larger company should achieve greater cost-efficiency in the shape of lower unit costs through economies of scale and economies of scope;
- lower unit costs should lead to an improvement in overall performance and higher profits;
- the larger company will have access to new distribution channels. in the past, this was achieved by gaining control of a large salesforce through a branch network. these days, it is more usually achieved by buying a broker network or a direct dealing arm of an existing insurer;
- a merger with a competitor may be an effective way of gaining a competitive advantage over the remaining companies in the industry;
- a merger may be an effective way for a company to purchase new skills or enter a new market without having to develop the knowledge organically;
- a merger or acquisition may provide an investment opportunity to an insurance company that has spare capital;
- the only way to operate successfully within a global market is to be sufficiently large in size, and this may require growth through merger and acquisition.

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

6. Outline three (3) types of direct taxes and two (2) types of indirect taxes.

Solution

Types of Direct Taxes:

- Personal Income Tax;
- Company Tax which is also known as corporate tax;
- Poll Tax: which is a flat tax imposed on certain individuals in the society.
- Capital Tax: this is a tax imposed on a person that acquires a new property or capital assets such as land, car, personal house, e.t.c.
- Capital Gains Tax: this is a tax imposed on gains or profits derived from the sale of land or other capital assets, for instance, shares of companies.

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

Types of Indirect Taxes:

- Custom Duties or Tariffs
- Excise Duties
- Sales Tax.
- Value Added Tax

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

(Grand Total: 10 marks)

7. Business Continuity Management (BCM) Plan has certain basic requirements. State and explain any four (4) of these requirements.

Solution

The basic requirements of BCM are:

- * Leadership;
- * Coordination;
- * Continuity;
- * Awareness;
- * Ownership.

(Candidates are required to explain each of the stated requirements. 1½ marks for correctly stated requirement. 1 mark for a correct and completely stated explanation. Sub-Total per requirement: 2½ marks. Maximum of 4 to be graded. Grand Total: 10 marks)

8. (a) Explicitly explain the term “business culture” with at least three (3) distinct explanations. (6 marks)
- (b) Define ethics in two (2) different ways. (4 marks)

Solution

(a) In the business world, business culture is the model of style of business operations within a company which determines how different levels of staff communicate with one another as well as how employees deal with clients and customers. It sets standards for determining the difference between good and bad decision-making and behaviour. A firm's culture and management's ethical stance can influence the firm's approach to its business.

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

(b) Throughout literature there exists a range of definitions of ethics, some of which are:

- a set of moral principles and values; or
- the principles, norms and standards of conduct governing an individual or group; or
- moral principles that govern a person's behaviour or the conduct of an activity;
- ethics in business and economics is a study of situations that address moral issues of right and wrong;
- in general, ethics is about a set of rules which are based on written and unwritten principles and values held in society, including fundamental concepts of decent human conduct.

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

(Grand Total: 10 marks)

9. (a) What is a fixed exchange rate? (2 marks)
- (b) List two (2) merits and two (2) demerits of floating exchange rates. (8 marks)

Solution

(a) In a fixed exchange rate system, the government does not allow the exchange rate to fluctuate freely according to market forces. Instead, the government uses policies designed to maintain the exchange rate at a pre-arranged level. Usually, exchange rates are fixed by the central bank, which is required to intervene in the foreign exchange market to buy or sell its domestic currency to keep the exchange rate at its pre-arranged level. (2 marks)

(b)

S/N	Merits	Demerits
1	Automatic adjustments.	Uncertainty
2	No need for large foreign exchange reserves.	Inflation.
3	Insulation from price shocks.	Speculation may be destabilizing.

(2 marks for each correct and completely stated merit and demerit. Maximum of 2 to be graded under each term. Sub-Total per term: 4 marks. Grand Sub-Total: 8 marks)

(Grand Total: 10 marks)

10. Enumerate five (5) negative and five (5) positive contributions of the petroleum industry to the country's economy.

Solution

S/N	Positive Contributions	Negative Contributions
1	Source of government revenue	Environmental pollution

2	Generation of employment	Increased social vices like corruption and the quest for quick money in the society.
3	Infrastructural development	Destruction of other sectors of the economy such as agriculture
4	Source of foreign exchange	Rural-urban migration
5	Establishment of oil-related industry	High inflation rate
6	Major source of energy use in the country	Political instability
7		Economic instability.

(1 mark for each correct and completely stated contribution. Maximum of 5 under to be graded under each term. Sub-Total per term: 5 marks. Grand Total: 10 marks)

11. State and explain the four (4) basic agents of production and the respective reward for each successful deployment.

Solution

- Land: this is all the natural means or nature-given means of production. The reward of land is Rent.
- Labor: this is an effort(s) of men or the workforce involved in production. The reward of labor is Wages.
- Capital: this is man-made goods and equipment used for further production. The reward of capital is Interest.
- Entrepreneur or Organiser: this is the coordinator of production as well as the risk bearer. The reward of entrepreneurs is profit.

(1 mark for each correctly stated agent. ½ mark for each correct and completely stated explanation. 1 mark for each correctly stated reward on each agent. Sub-Total per agent: 2½ marks. Grand Total: 10 marks)

12. (a) What is the exchange rate? (2 marks)
 (b) There are two main types of (a) above. List and explain these two types. (8 marks)

Solution

(a) Exchange rate is the rate at which the currency of a country is exchanged with other countries' currencies e.g., Nigerian Naira to American dollar. (2 marks)

- (b) The two main types of exchange rates are:
 (i) fixed exchange rate; (ii) floating exchange rate.
(Candidates are required to explain the two types of exchange rates. 2 marks for each correctly stated type. 2 marks for each correct and completely stated explanation. Sub-Total per type: 4 marks. Grand Sub-Total: 8 marks)
(Grand Total: 10 marks)

13. (a) What is corporate global citizenship (CGC)? (2 marks)
 (b) Establish a link between CGC and CSR. (8 marks)

Solution

(a) Corporate Global Citizenship (CGC) is about how a company itself acts as a stakeholder, promoting the business as a valued entity acting in its own right. (2 marks)

(b) The link between CGC and other functions in a corporation could be explained as below, though hard to specify. Some see CGC as something that has evolved from CSR. It differs from CSR by its strategic nature and a fuller 'understanding of the role of business in

society'. While businesses may pursue a policy of CSR, some companies with global reach may see themselves playing an important role as citizens of the world. This means that they will often consider issues further from home when making investment decisions. A good example of CGC could be implementing high standards of health and Safety in factories in countries where these are not mandatory. A negative example, on the other hand, could be tolerating poor standards for the sake of profit.

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

14. Enumerate five (5) factors that can influence the supply of a product or service.

Solution

The factors that can influence the supply of a product or service are:

- price of the product or service;
- prices of substitutes and complements in production;
- input prices - any change that affects firms' production costs will affect profitability and therefore firms' supplies;
- technology - improvements in technology;
- expectations of the producers;
- political climate;
- international competition;
- exchange rate.

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

Part II

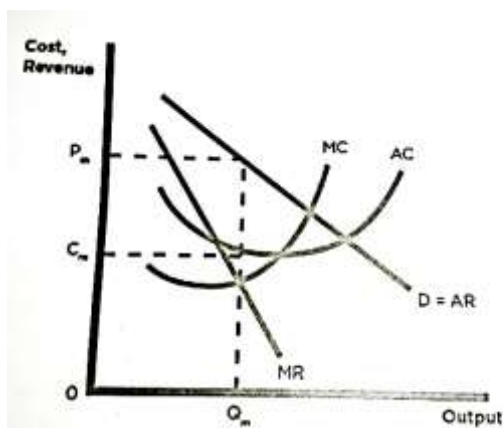
Answer TWO (2) out of the following FOUR (4) questions.

Each question carries 30 marks.

15. (a) With the aid of an appropriate diagram, describe the price and output determination, in a monopoly. (20 marks)
- (b) Itemise the five (5) components of COSO (Committee of Sponsoring Organization) internal control and state what is covered under each component. (10 marks)

Solution

(a)



(20 marks)

(b) The five components of COSO (Committee of Sponsoring Organization) internal control are:

- Control Environment: sets the tone for the organisation, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
- Risk Assessment: the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.
- Information and Communication: systems or processes that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.
- Control Activities: the policies and procedures that help ensure management directives are carried out.
- Monitoring: processes used to assess the quality of internal control performance over time.

(1 mark for each correctly stated component. 1 mark for each correct and completely stated explanation. Sub-Total per component: 2 marks. Grand Total: 10 marks)

16. (a) Define a balance of payment. **(2 marks)**
 (b) State the three (3) main categories of a balance of payment. **(3 marks)**
 (c) Describe succinctly in tabular form, and with four (4) descriptions each, the inflows and outflows of funds through the insurance industry transactions that affect a country's balance of payment. **(25 marks)**

Solution

(a) Balance of payments (BOP) is the record of all international financial transactions made by the residents of a country. **(2 marks)**

(b) The three main categories of the BOP are the:

- * current account; * capital account; * financial account.

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

(c)

S/N	Inflows of Money	Outflows of Money
1	Premiums received from overseas	Claims paid to policyholders overseas
2	Claims payments received from abroad	Premiums paid to insurers abroad
3	Brokers' commissions received from abroad	Commissions paid to brokers abroad
4	Returns on overseas investments held by the country's insurers, as well as profit remittances from overseas subsidiaries of the country's insurers	Returns on the country's investments held by foreign insurers, as well as profit remittances by foreign subsidiaries in the country to their home countries
5	Sale of overseas investments held by the country's insurers	Purchase of overseas investments by the country's insurers
6	Purchases of the country's investments by insurers overseas	Sales of the country's investments held by foreign insurers

(i) Candidates are required to put the response in a table. 1 marks for using a table irrespective of the response. 3 marks for each correct and completely stated description. Maximum of 4 per term. Sub-Total per term: 12 marks. Grand Sub-Total: 24 marks. Grand Sub-Total: 25 marks)

(Grand Total: 30 marks)

17. Explicitly explain any five (5) common barriers that make it difficult for some new entrants to enter into some industries.

Solution

Some common barriers that make it difficult for some new entrants to enter into some industries are:

Capital Costs: some industries are more expensive to enter than others because the cost of buying the necessary physical assets is very high. High capital costs are probably the principal barrier to entry into the insurance industry. High fixed costs make it difficult for start-ups to compete with established firms. Also, in a regulated industry, like insurance, the costs of compliance may deter new firms from entering the market. In more general terms, the larger established insurance companies will be enjoying lower costs as a result of economies of scale, making it even more difficult for potential new insurers to enter the market.

Marketing Costs: to compete effectively in most markets, including the insurance market, a well-known and respected brand name is required. A new insurance firm will at first find it difficult to enter a market dominated by established brands as consumers are likely to view a new and unknown brand with uncertainty. To combat this problem, the new entrant would have to make use of marketing to raise the profile of its new brand, which can be a very expensive process.

Sunk Costs: sunk costs cannot be recovered. To set up an insurance business, for example, employees need to be hired and trained. If at a later date, the owner of the company decides to withdraw from the insurance industry, the money spent on the buildings and fixtures will be partially recoverable as they can be sold to another buyer. However, the money spent on staff cannot be recouped as staff can hardly be sold on to another company. High sunk costs of this sort may dissuade new firms from entering the industry.

Legal Barriers: legal restrictions may limit the number of potential new entrants into a particular market. Such restrictions may be due to government policies on trade and inward investment, as can be illustrated by the problems facing insurance companies doing business in the emerging Chinese and Indian markets.

Authorisation By Regulatory Authorities is Needed to Write Premiums: in some industries, including insurance, certain minimum criteria must be complied with to gain a 'license'. Also, the international nature of insurance means that there is a need for universal acceptance of the relevant qualifications and standards.

Differences in Languages and Customs: this may mean that customers feel more comfortable with a local as opposed to an overseas provider.

Varying Taxation Rates: some of which may be deliberately aimed at protecting domestic companies and the wish to avoid risks attached to exchange rate fluctuations.

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

18. (a) Enumerate and explicitly explain any four (4) factors that influence the demand for a product or service. **(20 marks)**
- (b) Write short notes on the following;
- (i) Price elasticity of demand; **(4 marks)**
 - (ii) Income elasticity of demand; **(3 marks)**
 - (iii) Cross elasticity of demand. **(3 marks)**

Solution

The factors that influence the demand for a product or service are:

- **Consumers' Incomes:** a rise in consumers' incomes will tend to increase the market demand for a good or service. On the other hand, a fall in consumers' incomes will tend to reduce the market demand. Consumers' incomes would certainly be expected to

affect the demand for private health insurance policies as we would call private health insurance a normal good. If average disposable incomes in the country increased substantially, more people would consider buying private health insurance. As a result, one would expect the demand for such policies to increase at any given price.

- **Prices of Substitutes and Complements:** substitute goods are seen by consumers to be alternatives (such as frozen fish and fresh fish, and air travel and bus travel), while complementary goods are those that are generally consumed together (such as cars and fuel and chicken and chips).
- **Changes in the prices of substitutes and complements** may also cause a demand curve to shift. For example, if the price of a substitute should rise, the demand for a good will tend to increase as people switch away from the substitute, and the demand curve will shift to the right. Similarly, if the price of a complementary good should rise, demand will tend to fall.
- **Consumers' Tastes:** a large part of the demand for a product depends on how attractive and desirable the good is to consumers. If consumers' tastes change in favour of a particular product, then its demand curve will shift to the right; however, if consumers' tastes move away from a product, then its demand curve will shift to the left. Consumers' tastes will themselves be influenced by factors such as the quality of the good relative to similar goods, fashion and effective advertising and branding.
- **Expectations:** if consumers expect the price of a good to rise in the future, they may choose to bring forward intended future purchases to the present, causing the demand curve to shift to the right. Some people may even buy up stocks of the good at a lower price with the intention of re-selling in the future (thereby making a speculative profit). Similarly, if consumers expect a good's price to fall in the future, they may postpone purchases until after the expected price change has occurred, causing the demand curve to shift to the left.
- **Distribution of Income:** moving to a more equitable distribution of income in a country (by redistributing income from the rich to the poor) might tend to reduce the demand for luxury goods (because the rich are adversely affected) and reduce the demand for inferior goods (because the poor are better off). Therefore, demand for goods that appealed to a middle-income sector of the population would increase. Similarly, moving to a less equitable distribution of income (by redistributing income from the poor to the rich) might increase the demand for both luxury and inferior goods and consequently reduce the demand for goods that appeal to a middle-income sector.

(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 to be graded. Grand Sub-Total: 20 marks)

(b) (i) **Price Elasticity of Demand:** this is the response or change in quantity demanded of a product or service to changes in the price of the product. **(4 marks)**

(ii) **Income Elasticity of Demand:** this is the response or changes in the quantity demanded of a product or service to changes in the income of the consumers. **(3 marks)**

(iii) **Cross Elasticity of Demand:** this is the response or change in quantity demanded of a product or service (X) to changes in the price of another product (Y). This happens when the products are substitutes or compliments. **(3 marks)**

Grand Sub-Total: 10 marks
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I05
BUSINESS STATISTICS AND OPERATIONS RESEARCH

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I05 – BUSINESS STATISTICS AND OPERATIONS RESEARCH

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I	-	140 marks.
Part II	-	60 marks.

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

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

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

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

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

Chief Examiner's Comments

Question 1

The majority of candidates did not fully understand this question, with only about 46% achieving an above-average pass rate.

Question 2

The question was well understood by the candidates, with 75% achieving an above-average performance.

Question 3

The majority of candidates did not understand this question, resulting in a disappointing performance, with only about 38% achieving an above-average pass rate.

Question 4

75% of the candidates performed very well on this question, indicating that it was relatively simple for them.

Question 5

All candidates attempted this question, and approximately 65% achieved an above-average pass rate.

Question 6

The candidates understood part (a) of the question, but they struggled with part (b), resulting in an above-average pass rate of only 41%.

Question 7

This question was straightforward and standard, and all candidates attempted it. However, only 62% achieved an above-average pass rate.

Question 8

This question was attempted by all candidates, but only 4% achieved an above-average pass rate.

Question 9

All candidates attempted this question, but only 47% achieved an above-average pass rate.

Question 10

This question was straightforward and standard, with all candidates attempting it. However, only 25% achieved an above-average pass rate.

Question 11

Although all candidates attempted this question, the fact that only 30% achieved an above-average pass rate indicates a lack of full understanding among them.

Question 12

This question was straightforward, yet only 20% of candidates achieved an above-average pass rate.

Question 13

The majority of candidates who attempted this question performed below average, with only 7% achieving an above-average performance.

Question 14

This question was very simple, yet candidates did not fully understand it, resulting in only about 20% achieving an above-average pass rate.

Question 15

The majority of candidates attempted this question, and 55% of those who did performed very well, demonstrating a full understanding of the question.

Question 16

Only four candidates attempted this question, and just one of them scored above average, resulting in a 25% pass rate for those who attempted it.

Question 17

The majority of candidates who attempted this question performed above average, achieving an impressive pass rate of 85%.

Question 18

Only 50% of the candidates attempted this question, but about 75% of those who did achieved an above-average pass rate, indicating that they understood the question.

Comments on Overall Performance

Overall, the performance is not encouraging, with a global pass rate of 41%.

Suggestions on Improvement(s) (if any)

Candidates should prepare thoroughly for the examination, as the performance was not encouraging.

Candidates are also encouraged to 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 10 marks.

1. State four (4) of the six central principles in the Code of the Chartered Insurance Institute of Nigeria.

Solution

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)

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

Solution

(a) The limitations of statistics are:

- statistics is not suitable for the study of qualitative phenomena;
- statistics does not study individuals;
- statistical laws are not exact;
- statistics table may be misused;
- statistics is only, one of the methods of studying a problem.

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

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

(Sub-Total: 4 marks)

(Grand Total: 10 marks)

3. Explicitly state the following:
(a) any three (3) principles of sampling; (6 marks)
(b) any two (2) limitations to sampling; (2 marks)
(c) the two (2) types of sampling. (2 marks)

Solution

(a) The four principles of sampling are the:

- * principle of statistical regularity;
- * principle of inertia of large numbers;

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

- (b) The limitations to sampling are:
- sampling is to be done by qualified and experienced persons; otherwise, the information will be unbelievable;
 - sample method may give extreme values sometimes instead of mixed values;
 - there is the possibility of sampling errors but the census survey is free from sampling error.

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

- (c) The types of sampling are:
* probability sampling; * non-probability sampling; * mixed sampling.
(1 mark for each correct and completely stated type. Maximum of 2 to be graded. Sub-Total: 2 marks)
(Grand Total: 10 marks)

4. (a) Outline any three (3) of the probability sampling method. (6 marks)
(b) Differentiate between “sampling without replacement” and “sampling with replacement”. (4 marks)

Solution

- (a) Probability sampling method can be done in any of the following ways:
* simple random sample; * systematic sampling; * stratified sampling;
* cluster sampling; * multistage sampling.
(2 marks for each correctly stated method type. Maximum of 3 to be graded. Sub-Total: 6 marks)

- (b) In “sampling without replacement”, population elements can enter the sample only once i.e. the units once selected are not returned to the population before the next draw (2 marks), while in “sampling with replacement” population units may enter the sample more than once (2 marks).

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

5. Outline four (4) objectives of collecting statistical information.

Solution

The objectives of collecting statistical information are:

- to describe the methods of collecting primary statistical information;
- to consider the status involved in carrying out a survey;
- to analyze the process involved in observation and interpreting;
- to define and describe sampling;
- to analyse the basis of sampling;
- to describe a variety of sampling methods.

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

6. (a) List any three (3) models of classification of data. (6 marks)
(b) Outline any two (2) objectives of classifying data. (4 marks)

Solution

- (a) The models of data classifications are:
* chronological classification; * geographical classification;
* qualitative classification; * quantitative classification.

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

- (b) The objectives of classifying data are to:
- condense the mass of data in an easily assailable form;
 - eliminate unnecessary details;
 - facilitate comparison and highlight the significant aspects of data;
 - enable one to get a mental picture of the information and help in drawing inferences;
 - help in the statistical treatment of the information collected.
- (2 marks for each correctly stated objective. Maximum of 2 to be graded. Sub-Total: 4 marks)**
(Grand Total: 10 marks)

7. Explicitly explain any five (5) requirements of a “good table”.

Solution

The requirements of a good table are:

- a table should be formed in keeping with the objects of statistical inquiry;
- a table should be carefully prepared so that it is easily understandable;
- a table should be formed to suit the size of the paper, but such an adjustment should not be at the cost of legibility;
- if the figures in the table are large, they should be suitably rounded or approximated; the method of approximation and units of measurements too should be specified;
- rows and columns in a table should be numbered and certain figures to be stressed may be put in ‘box’ or ‘circle’ or in bold letters;
- the arrangements of rows and columns should be in a logical and systematic order; this arrangement may be alphabetical, chronological, or according to size;
- the rows and columns are separated by single, double, or thick lines to represent various classes and sub-classes used. The corresponding proportions or percentages should be given in adjoining rows and columns to enable comparison. A vertical expansion of the table is generally more convenient than a horizontal one;
- the averages or totals of different rows should be given at the right of the table and that of columns at the bottom of the table. Totals for every sub-class too should be mentioned;
- in case it is not possible to accommodate all the information in a single table, it is better to have two or more related tables.

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

8. (a) State any two (2) main reasons for constructing frequency distribution. **(2 marks)**
- (b) Outline four (4) significance of diagrams and graphs. **(4 marks)**
- (c) Outline four (4) general rules for constructing diagrams. **(4 marks)**

Solution

(a) The main reasons for constructing frequency distribution are:

- to facilitate the analysis of data;
- to estimate frequencies of the unknown population distribution from the distribution of sample data; and
- to facilitate the computation of various statistical measures.

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

(b) The significance of diagrams and graphs are:

- | | |
|---------------------------------------|---|
| * they are attractive and impressive; | * they make data simple and intelligible; |
| * they make comparison possible; | * they save time and labour; |
| * they have universal utility; | * they give more information; |

* they have a great memorising effect.

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

- (c) The general rules for constructing diagrams are:
- a diagram should be neatly drawn and attractive;
 - the measurements of geometrical figures used in the diagram should be accurate and proportional;
 - the size of the diagrams should match the size of the paper;
 - every diagram must have a suitable but short heading;
 - the scale should be mentioned in the diagram;
 - diagrams should be neatly as well as accurately drawn with the help of drawing instruments;
 - index must be given for identification so that the reader can easily make out the meaning of the diagram;
 - a footnote must be given at the bottom of the diagram;
 - economy in cost and energy should be exercised in drawing diagrams.

(1 mark for each correct and completely stated rule. Maximum of 4 to be graded. Sub-Total: 4 marks)
(Grand Total: 10 marks)

9. (a) What is “operations research”? **(2 marks)**
(b) State the four (4) conditions which will make Managers use operations research specialists. **(8 marks)**

Solution

(a) Operations research is the scientific method, involving the use of carefully constructed models based on some measurable variables which has to do with recognition of risk and uncertainty. **OR** Operations research is a quantitative approach to problem-solving for executive management. **(2marks)**

(b) The conditions which will make Managers to use operations research specialists are when:

1. the problems are complex and also involve many variables;
2. there is ‘data’ that describes the decision environment;
3. the goals of the decision maker can be described in quantitative terms;
4. workable models are available for the problem at hand.

(2 marks for each correct and completely stated condition. Sub-Total: 8 marks)
(Grand Total: 10 marks)

10. (a) Outline any three (3) types of models used in insurance. **(6 marks)**
(b) Differentiate between “normative and descriptive models”. **(4 marks)**

Solution

(a) The types of models used in insurance are:

* Resource Allocation Models;	* Queueing Models;
* Inventory Models;	* Replacement Models;
* Competition Models;	* Random Number Simulation Models.

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

(b) Normative Models concerned with finding the best optimum or ideal solution to a problem. Many mathematical models fall into this classification **(2 marks)**; while Descriptive Models describe the behavior of a system without attempting to find the best solution to any problem. Simulation model tends to fall within these categories. **(2 marks)**

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

11. (a) State three (3) limitations to an operations research approach. (6 marks)
 (b) Outline two (2) characteristics of good operations research solution. (4 marks)

Solution

- (a) The limitations to an operations research approach are:
- it is often difficult to balance the requirement of reality and simplicity;
 - the quality of data collection may be poor;
 - the quality of data collection may be inaccurate;
 - in many cases, the solution of operations research problems is restricted by the lack of a suitable solution technique;
 - the derived solution may be sub-optimal;
 - the boundary of the problems may be too narrow.

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

- (b) The characteristics of good operations research solution are:
- * the solution should be appropriate;
 - * the solution should be economically viable;
 - * the solution should be reliable;
 - * the solution should be accurate.

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

12. State and explain any four (4) assumptions in Linear Programming Models.

Solution

The assumptions in Linear Programming Models are:

- **Linearity:** it is assumed that decision variables are of the first power. There is no provision for higher powers like squares and cubes in any of the equations and inequalities.
- **Divisibility:** values of the decision variables are allowed to be fractions and need not be integers alone.
- **Deterministic Parameters:** it is assumed that the values of the parameters are known and are constant. This means that the model assumes a static state. It is pertinent to point out that in real-life situations, there are probabilistic model parameters.
- **Non-Negativity:** all decision variables must take on non-negative values.
- **Additivity:** the linearity concept also implies that the total measures of the objective function and the total usage are additive in nature.

(1½ marks for each correctly stated assumption. 1 mark for each correct and completely stated explanation. Maximum of 4 to be graded. Total: 10 marks)

13. Identify any five (5) characteristics of the Linear Programming Problem.

Solution

The characteristics of a Linear Programming Problem are:

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

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

14. State the five (5) characteristics of a simple queue.

Solution

The characteristics of a simple queue are:

- there are discrete customers from an infinite population of potential customers;
- there is an infinite maximum queue;
- there are no simultaneous arrivals customers at a queue;
- the queue discipline is on a first-served basis i.e. with no priorities and the customer leaves before being served;
- the queue is in a steady state of operation. (the theory for the system in the transient state just after the operations have started is more complicated);
- the number of arrivals in a unit of time follows the Poisson distribution;
- service times are random, and follow a negative exponential distribution;
- traffic intensity is less than 1.

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

Part II

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

Each question carries 30 marks.

15. (a) What do the following terms mean:
(i) statistics; (ii) primary data; (iii) secondary data. (6 marks)
- (b) Explain the following methods of data collection, stating two each of their merits and demerits:
(i) interview method; (8 marks) (ii) registration method; (7 marks)
(iii) mailing questionnaire method (9 marks).

Solution

(a) (i). Statistics: it is a body of theories and methods that have been developed for handling the collection and description of sample data to draw useful conclusions.

(2 marks)

(ii). Primary Data: this is data collected firsthand for specific raw purposes e.g. social, and industrial surveys. (2 marks)

(iii) Secondary Data: this is already existing information collected for use; or data obtained from someone's else record. (2 marks)

(Sub-Total: 2 marks)

(b) Interview Method: here, the interviewers visit the informant at the home, shop, office, market place or on the street to ask questions and enter replies in a specific place. (4 marks)

Advantages

- People usually respond when confronted in person;
- Interviewer notes specific reactions and eliminates misunderstanding about the question;
- Interviewer can give his personal assessment of the response.

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

Disadvantages

- Expensive – Time-consuming
- Bias of interviewer if not well-trained
- Decline response in face-to-face interview

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

(Grand Sub-Total: 8 marks)

(ii) Registration Method: here, data are collected by keeping a record of events immediately after they occur or as soon after their occurrences; birth, death, divorce, e.t.c. (3 marks)

Advantages

- More efficient
- Reliable information collected

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

Disadvantages

- Very costly
- Burden of reporting on informant

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

(Grand Sub-Total: 7 marks)

(iii) Mailing Questionnaire Method: here, a set of questions called a questionnaire is mailed to the informant who answers and returns the completed form to the office of origin. (3 marks)

Advantages

- It is cheap and quick
- More reliable information could be obtained
- Confidential questions are answered
- No interviewer bias.

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

Disadvantages

- Problem of non-response
- No interviewer present to explain ambiguous questions
- Wrong person may complete the form

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

(Grand Sub-Total: 9 marks)

(Grand Total: 30 marks)

16. A manufacturer of bags makes three types of bags P, Q and R which are processed on three machines: M_1 , M_2 and M_3 . Bag P requires 2 hours on machine M_1 ; 3 hours on machine M_2 and 2 hours on Machine M_3 . Bag Q requires 3 hours on machine M_1 , 2 hours on machine M_2 and 2 hours on Machine M_3 and Bag R requires 5 hours on machine M_2 and 4 hours on machine M_3 . There are 8 hours per day available on machine M_1 , 10 hours per day available on machine M_2 and 15 hours of time per day available on machine M_3 . The Profit gained from bag P is ₦3.00 per unit, from bag Q is ₦5.00 per unit and from bag R is ₦4.00 per unit.

(a) Formulate a linear Programming Problem. (7 marks)

(b) What should be the daily production of each type of bag so that the products yield the maximum profit using the simplex method? (23 marks)

Solution

(a)

Let X_1 , be P type of bag

Let X_2 , be Q type of bag

Let X_3 , be R type of bag

The objective function is $3X_1 + 5X_2 + 4X_3$ (1 mark)

The Linear programming problem is

For the Machine 1 $2X_1 + 3X_2 \leq 8$ (1 mark)

For the Machine 2 $3X_1 + 2X_2 + 5X_3 \leq 10$ (1 mark)

For the Machine 3 $2X_1 + 2X_2 + 4X_3 \leq 15$ (1 mark)

The Linear programming problem is

Maxz = $3X_1 + 5X_2 + 4X_3$

s.t $2X_1 + 3X_2 \leq 8$

$3X_1 + 2X_2 + 5X_3 \leq 10$

$2X_1 + 2X_2 + 4X_3 \leq 15$

$X_1, X_2, X_3, \geq 0$ (3marks)

(Sub-Total: 7marks)

(b)

Maxz = $3X_1 + 5X_2 + 4X_3$

s.t $2X_1 + 3X_2 + X_4 = 8$

$3X_1 + 2X_2 + 5X_3 + X_5 = 10$

$2X_1 + 2X_2 + 4X_3 + X_6 = 15$

$X_1, X_2, X_3, X_4, X_5, X_6, \geq 0$ (3marks)

Table 1:

B, V	CB	X ₁	X ₂	X ₃	X ₄	X ₅	X ₆	X _B	Minimum Ratio
X ₄	0	2	3	0	1	0	0	8 (1 mark)	8/35
X ₅	0	3	2	5	0	1	0	10 (1 mark)	15/2
X ₆	0	2	2	4	0	0	1	15 (1 mark)	
Z _j		0	0	0	0	0	0	Z = 0 (1 mark)	
C _j		3	5	4	0	0	0		
Z _j - C _j		-3	-5	-4	0	0	0		

The solution is not optimum but feasible

X₂ is the incoming variable

X₄ is the outgoing variable

$R_1 = 1/3R_1,$ $R_2 = -2/3R_1 + R_2,$ $R_3 = -2/3R_1 + R_3,$ (1 mark)

Table 2:

B, V	CB	X ₁	X ₂	X ₃	X ₄	X ₅	X ₆	X _B	Minimum Ratio
X ₂	5	2/3	1	0	1/3	0	0	8/3 (1 mark)	** 14/15
X ₅	0	5/3	0	5	-2/3	1	0	14/3 (1 mark)	29/15
X ₆	0	2/3	0	4	-2/3	0	1	29/3 (1 mark)	
Z _j		10/3	5	0	5/3	0	0	Z = 40/3 (1 mark)	
C _j		3	5	4	0	0	0		
Z _j C _j		1/3	0	-4	5/3	0	0	(2 marks)	

The solution is not optimum but feasible

X₃ is the incoming variable

X₅ is the outgoing variable

$$R_1 = R_1, \quad R_2 = 1/5R_2, \quad R_2 = -4/5R_2 + R_3, \quad (1 \text{ mark})$$

Table 3

B, V	CB	X ₁	X ₂	X ₃	X ₄	X ₅	X ₆	X _B
X ₂	5	2/3	1	0	1/3	0	0	8/3
X ₃	4	1/3	0	1	-2/15	1/5	0	14/15
X ₆	0	0	0	-2/5	-4/5	1		49/15
Z _j		14/3	5	4	17/15	4/5	0	Z = 256/15
C _j		3	5	4	0	0	0	
Z _j C _j		5/3	0	0	17/15	4/5	0	

(6marks)

The solution is optimum and feasible

$$X_2 = 8/3, \quad X_3 = 14/15 \quad \text{and} \quad Z = 256/15 \quad (2\text{marks})$$

(Sub-Total: 23 marks)

(Grand Total: 30 marks)

17. The data below shows the premium of some clients in an insurance company in a given day in thousand naira;

77	33	76	47	41	45	65	41	83	58	55	43	39	55	66	43
66	32	45	36	54	45	41	25	71	69	56	51	61	77	37	57
40	44	68	82	44	38	55	40	47	42	51	32	58	49	66	72
39	51	80	55	62	78	50	51	56	48	38	64	59	45	46	63
68	26	61	49	33	64	45	44	29	45	73	73	92	37	47	55
44	50	45	48	51	36	92	46	72	38	59	53	44	71	57	61
41	39	57	83												

Construct a group frequency distribution table using the class interval of: 25 – 31, 32 – 38, e.t.c. and calculate the average weight, median weight and modal weight.

Solution

Premium	LB	Tally	f	X	$f_i x_i$
25 – 31	24.5 - 31.5	III	3	28	84
32 – 38	31.5 - 38.5	IIII I	11	35	385
39 – 45	38.5 - 45.5	IIIIIIIIIIIIII	24	42	1008
46 – 52	45.5 - 52.5	IIIIIIII	15	49	735
53 – 59	52.5 - 59.5	IIIIIIII II	17	56	953
60 – 66	59.5 - 66.5	IIII I	11	63	693
67 – 73	66.5 - 73.5	IIIIII	9	70	630
74 – 80	73.5 - 80.5	III	5	77	385
81 – 87	80.5 - 87.5	III	3	84	252
88 – 94	87.5 - 94.5	II	2	91	182
(3 marks)	(5 marks)	(5 marks)			(5 marks)
			$\Sigma f = 100$ (1 mark)	(1 mark)	5306 (1 mark)

(i). $\bar{X} = \frac{\Sigma f_i x_i}{\Sigma f_i} \text{ (1 mark)} = \frac{5306}{100} \text{ (1 mark)} = 53.06 \text{ (1 mark)}$

\therefore Average premium is 53.06

(ii). Median = Med = $L_1 + \left(\frac{\frac{\Sigma f}{2} - \Sigma f_i}{f_m} \right) c \text{ (1 mark)}$

$= 45.5 + \left(\frac{50 - 38}{15} \right) 7 \text{ (1 mark)}$

$= 45.5 + (0.8)7$

$= 45.5 + 5.6$

$= 51.1 \text{ (1 mark)}$

(iii). Mode = $M_o = L_1 + \left(\frac{f_1 - f_o}{2f_1 - f_o - f_2} \right) c \text{ (1 mark)}$

$$= 38.5 + \left(\frac{24-11}{2(24)-11-15} \right) 7 \text{ (1 mark)} = 38.5 + \left(\frac{13}{22} \right) 7$$

$$= 38.5 + 4.136$$

$$= 42.636 \approx 43 \text{ (1 mark)}$$

(Grand Total: 30 marks)

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

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

- (a) Fit a least squares regression line that determine the relationship between the age and premium.
 (b) Determine the expected premium if the age of the client is forty-five.
 (c) Determine the degree of relationship between the premium and the age.
(30 marks in all but not in equal proportion)

Solution

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

(½ Mark each for any 10 of the bold value in each row. i.e. Grand Sub-Total: 15 marks]

(a) $Y = a + bx$ **(1 mark)**

$$b = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{n\Sigma x^2 - (\Sigma x)^2} \text{ (1 mark)} = \frac{13(3505) - (153)(262)}{13(2283) - (153)^2} \text{ (1 mark)}$$

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

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

$\therefore Y = 9.8694 + 0.8738 (X)$ **(1 mark)**

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

(b). Age of 45 \rightarrow Premium = $9.8694 + 0.8738 (45)$ **(1 mark)** = 49.192
 = 49 **(1 mark)**

c. $r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$ **(2marks)**

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

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

(Grand Total: 30marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I06
OPERATIONAL MANAGEMENT

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

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

I06 – OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I	-	140 marks.
Part II	-	60 marks.

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

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

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

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

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

Chief Examiner's Comments

Question 1

45% of candidates achieved an above-average pass rate on the question. However, they did not demonstrate a firm understanding of the requirements. The question regarding NAICOM requirements for the board of directors was fair.

Question 2

73% of candidates achieved an above-average pass rate on the question, which focused on the consequences of change. The topic seemed familiar to them.

Question 3

54% of candidates achieved an above-average pass rate on the question, which assessed their knowledge of network diagrams.

Question 4

69% of candidates achieved an above-average pass rate on the question, demonstrating a fair understanding of the material.

Question 5

Only 4% of candidates achieved an above-average pass rate on the question, indicating that they found the term "deliverables" to be unfamiliar.

Question 6

85% of candidates achieved an above-average pass rate on the question, which focused on ACD, suggesting that it was very familiar to them.

Question 7

92% of candidates achieved an above-average pass rate on the question, indicating that questions about physical items in a conducive office appeared simple for everyone to answer.

Question 8

89% of candidates achieved an above-average pass rate on the question, suggesting that the topic of outsourcing was familiar to them.

Question 9

89% of candidates achieved an above-average pass rate on the question.

Question 10

Only 5% of candidates achieved an above-average pass rate on the question, which assessed their knowledge of the supervisory impact on salespersons. Better preparation could have significantly improved their performance.

Question 11

53% of candidates achieved an above-average pass rate on the question, although confusion between "fringe benefits" and "compensation" contributed to this performance.

Question 12

Only 34% of candidates achieved an above-average pass rate on the question, and their responses lacked the required sequence.

Question 13

61% of candidates achieved an above-average pass rate on the question. However, some candidates were not familiar with the topic of "what should not be delegated."

Question 14

64% of candidates achieved an above-average pass rate on the question, which assessed their knowledge of action-centered leadership.

Question 15

83% of candidates achieved an above-average pass rate on the question.

Question 16

Only 34% of candidates achieved an above-average pass rate on the question, as the (b) part, which asked for essential items of communication, was largely misinterpreted by them.

Question 17

57% of candidates achieved an above-average pass rate on the question.

Question 18

27% of candidates achieved an above-average pass rate on the question.

Comments on Overall Performance:

Overall, 58% of candidates achieved an above-average pass rate on the question.

Suggestions on Improvement(s) (if any):

Candidates need to prepare more thoroughly to achieve improved performance.

Candidates are also encouraged to 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 10 marks.

1. 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.

Solution

The standards regarding the structure and composition of Insurance and Reinsurance Companies Board of Directors:

- The Structure and Composition of the Board shall be such as to maintain the confidence of the Shareholders and Management.
- The insurance/reinsurance company shall have not less than seven (7) members and not more than fifteen (15) members on its Board.
- 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.
- 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.
- 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.
- No member of the Board shall draw remunerations beyond the normal entitlements for such appointment.
- 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
- Non-Executive Directors shall not be re-nominated and appointed for more than 3 terms of 3 years each.
- Appointment of Non-Executive Directors shall be decided by the Board through a defined selection process.
- 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.
- 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.
- 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.
- To represent minority interests, all Public Limited Liability Insurance/Reinsurance Companies shall provide a seat for minority shareholder on the Board;
- All nominated members of the Board shall complete and file with the Commission, Personal History Statement (PHS) Form at the point of application to the Commission.

- 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 groups,

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

2. The “consequences of change” rather than the “change itself” provoke resistance. Enumerate any four (4) reasons why employees question the need for change at a very personal level.

Solution:

The reasons why employees question the need for change at a very personal level are:

- * why it is needed;
- * whether their jobs are safe;
- * what their new roles will be;
- * what the plans will be for the future;
- * whether they will have to move house;
- * when the change will take place.

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

3. (a) Explain the term “network diagram” in Management. **(4 marks)**
 (b) Enumerate two (2) reasons why “network diagrams” are used to plan management activities. **(6 marks)**

Solution:

(a) “Network Diagram” in Management is a graphical representation that shows the existing network topology of the department, team and/or organisation. It shows how events, tasks, and activities connect in a project. A well-defined network diagram increases the productivity of the organisation by facilitating resources, evaluating alternatives, and analyzing progress.

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

- (b) The reasons why “network diagrams” are used to plan management activities are:
 (a) to demonstrate the logical sequence;
 (b) inter-relationships and timing of planned management activities; and
 (c) highlight the shortest time within which a particular program can be completed.

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

4. Key Performance Indicators can either be result-oriented or effort-oriented. Give two (2) examples of each.

Solution:

Examples of results-oriented performance measures:

- * sales volumes and/or revenues;
- * rates of return in investment;
- * market share;
- * asset growth.

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

Examples of effort-oriented performance measures:

- * number of potential customer contacted;
- * number of complaints handled;
- * extent of relationships with customers;
- * effort applied to improve staff relations;
- * staff turnover and absence rates;
- * active pursuing of debtors.

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

5. (a) What is “deliverables” in project management? (4 marks)
 (b) Enumerate the two (2) most common types of deliverables in project management. (6 marks)

Solution:

(a) Deliverables in project management is the output that the project is required to deliver and by when. (4 marks)

- (b) The two types of deliverables:
 (i) a listing of the reports/outputs and their target dates; (3 marks)
 (ii) a detailed breakdown of the specific outputs that will be delivered. (3 marks)

(Sub-Total: 6 marks)
 (Grand Total: 10 marks)

6. ACD means Automatic Call Distributor. Enumerate any four (4) customer benefits of ACD.

Solution:

The customer benefits of ACD are:

- it automatically routes calls to the person best placed to handle them;
- service to customers is quicker (no switchboard);
- customers get a more professional service;
- customers are more likely to get calls answered (through queuing);
- it helps companies to meet consumer needs;
- ACDs can be linked to computers and automated services (seven days a week, 24 hours).

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

7. Enumerate any five (5) items that are expected to be in a conducive physical work environment.

Solution:

A conducive physical work environment should consist of:

- * space; * desks/workstations; * décor; * lighting;
- * acoustics; * facilities; * temperature; * health and safety;
- * power and wiring; * building access and parking; and * staff security.

(Candidates are required to justify the correctly stated item. 1 mark for correctly stated item. 1 mark for correct justification. Sub-total per item: 2 marks. Maximum of 5 to be graded. Grand Total: 10 marks)

8. (a) Define the term out-sourcing. (4 marks)
 (b) Enumerate any three (3) factors motivating increasing outsourcing actions by organisations in recent times. (6 marks)

Solution:

(a) Outsourcing is the practice of bringing a third-party company or individual to perform tasks or provide services instead of doing the work by the company. It is often used to cut cost or access specialised talent on a specific field or area of operation i.e. the use of a skilled resource outside the company to handle work that could have been directly performed by in-house staff.

(4 marks)

(b) The factors motivating increasing outsourcing actions by organisations in recent times are:

- the perceived cost benefits;

- the access it provides to a wider skills base;
- the need to survive the effects of fast-changing technology;
- the need to survive the effects of narrow margins; and
- the need to survive the effects of fierce competition.

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

9. Working 8.00 a.m. – 5.00 p.m. daily is referred to as “Full-Time Fixed Hours”. Enumerate two (2) advantages and two (2) disadvantages of this system.

Solution:

S/N	Advantages	Disadvantages
1	Easy to administer	Inflexible for extended hours working
2	Staff have fixed working hours	Overtime normally payable for additional hours
3	Employees can focus on project deadlines since schedules are consistent	Restricts employees who may have urgent and important issues to attend to
4	Issues are addressed immediately since team leaders are present	Inconvenient for employees who require flexible working hours like nursing mothers

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

10. A salesperson may exceed set targets because of the intervention of the sales manager. Identify and state four (4) contributory factors to the effective performance of such a salesperson.

Solution:

The contributory factors to the effective performance of such salespersons are:

- * individual performance;
- * job behavior;
- * organisational behaviour
- * manager or supervisor performance; and
- * environmental changes.

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

11. The employment package of an employee consists of both financial rewards and fringe benefits. Enumerate any five (5) examples of fringe benefits.

Solution:

Some examples of fringe benefits are:

- * holiday entitlement;
- * non-contributory pensions;
- * medical insurance schemes;
- * company cars;
- * subsidised loans;
- * co-ownership schemes;
- * catering, welfare and recreational facilities;
- * working conditions.

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

12. Hearing is not listening. Hearing is simply one of the five basic senses we have but listening is intentional. Correctly state the three (3) stages of listening in the way it should occur.

Solution:

The three stages of listening are:

- making an effort to hear something;
- considering with thoughtful attention;
- involves interpretation and understanding.

(Candidates are required to state them in the way it should occur. 1 mark for correctly stated sequential order. 3 marks for each correct and completely stated stage. Grand Total: 10 marks)

13. Delegation benefits the manager, the team members and the organisation; however, managers are advised not to delegate two types of tasks. State these two (2) grouped types and justify the essence of the advice.

Solution:

Managers are advised not to delegate these two types of tasks:

- those which they have been asked expressly to carry out personally; and
- those which involve the interpretation of instructions from more senior management.

(Candidates are required to justify the reasons behind the advice on these two types of tasks. 3 marks for each correctly stated task. 2 marks for each correct and completely stated justification. Sub-Total per task: 5 marks. Grand Total: 10 marks)

14. Dr. John Adair's Action Centred Leadership was to identify three key areas of effectiveness in leadership. Enumerate these three (3) areas and briefly explain them.

Solution:

Dr. John Adair's Action Centred Leadership contribution was to identify three key areas of effectiveness, which are:

- (a) the task (2 marks): the primary need to get the job done (1 mark);
- (b) the team (2 marks): the need to build a cohesive unified team, a bunch of star players does not always equate to a team (1 mark);
- (c) the individual (2 marks): we all have a variety of needs which motivate us to action to satisfy them; to be wanted, to be useful, to have our way. If these needs are not met, we become frustrated, and this affects our performance (2 marks).

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. Herzberg split the factors of motivation into two main groups.
- (a) What are these two (2) factors? **(4 marks)**
 - (b) Define these two (2) factors. **(8 marks)**
 - (c) Enumerate four (4) components under each of the factors. **(18 marks)**

Solution:

- (a) These two factors are motivation factors (2 marks) and hygiene factors (2 marks). **(4 marks)**
- (b) Motivation Factors are those factors which make people work better or harder. **(4 marks)**

Hygiene Factors are those which are a negative influence if they are not right, but do not really have any positive effect if they are more than adequate. **(4 marks)**

- (b) Motivation Factors:
 - * Achievement; * Recognition; * Work Itself; * Responsibility
 - * Advancement**(2¼ for each correctly stated component. Maximum of 4 to be graded. Sub-Total: 9 marks)**

Hygiene Factors:

- * Company Policy & Administration; * Supervision; * Salary
- * Relationship; * Working Condition.

(2¼ for each correctly stated component. Maximum of 4 to be graded. Sub-Total: 9 marks)

(Grand Sub-Total: 30 marks)

16. (a) Define “communication”. (2 marks)
- (b) Some things are required to be present where people are communicating effectively. Enumerate the four (4) essential items that need to be present to achieve effective communication. (12 marks)
- (c) In voice communication, there are four types of questions that can be used to achieve different objectives. State and explain these four (4) types of questions. (16 marks)

Solution:

(a) Communication is the sharing of information, attitudes, thoughts, feelings and ideas. It is a two-way process and is transmitted through words, tones and behaviour.

(b) The essential items that need to be present to achieve effective communication are:

- a ‘message’ to be sent or transferred;
- a ‘sender’ who transmits the message;
- a ‘receiver’ who receives and acts on the message;
- a ‘result’ which is in the form of action or some other response.

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

(c) The four types of questions that can be used to achieve different objectives in voice communication are:

(i) Closed Questions: these are questions that bring about a ‘yes’ or ‘no’ (or other one word) answer. These questions are useful for controlling and directing a conversation as they establish facts and can help decide whether action is required. An example is ‘Have you a copy of the policy?’

(ii) Open Questions: these questions are used to open people up as they cannot be answered with a ‘yes’ or ‘no’ response

(iii) Probing Questions: these bring out more specific information and elicit more detail, e.g. ‘What time did we receive that telephone call?’

(iv) Reflective/Leading Questions: reflective questions help to check if our understanding is correct. If so, the listener will simply agree with you. If the assumption is incorrect, they will say so.

(2 marks for each correctly stated group. 2 marks for each correct and completely stated explanation.

Sub-Total per group: 4 marks. Grand Sub-Total: 12 marks)

(Grand Total: 30 marks)

17. (a) Briefly explain Dr. Selye three (3) stages of stress. (12 marks)
- (b) Stress sources normally relate to the job and the organisation. Enumerate five (5) examples of job-related causes of stress and four (4) examples of organization-related causes of stress. (18 marks)

Solution:

(a) The three stages of stress identified by Dr. Selye are:

- Alarm: the first stage leads to the following changes in the body – increased heart rate, sweating, shallow breathing, tightening of muscles, and stomach spasms. However, these changes release energy and this helps to focus concentration;
- Resistance: this is the second stage, where the body prepares to resist potential threats. When the threat recedes, the body returns to its normal state;

- Exhaustion: the third stage occurs when there is a prolonged or excessive threat. This is the danger stage as lengthy endurance will mean the body's chemicals become a kind of poison and a stress management approach will be needed to return the body to a normal state.

(2 marks for each correctly stated stage. 2 marks for each correct and completely stated explanation. Sub-Total per stage: 4 marks. Grand Sub-Total: 12 marks)

(b) Stress sources normally relate to the job and the organisation.

Job-related causes of Stress Sources are:

- * work overload; * role ambiguity; * person mismatch with the job;
- * poor working environment; * work hours.

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

Organisation Related Causes of Stress Sources are: Organisation sources are:

* time pressures and deadlines, pressure to achieve ever-increasing targets/perfect results;

- * poor management, 'bullying' style; * poor communication;
- * employment security and prospects; * office politics.

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

(Grand Total: 30 marks)

18. (a) Call/Contact Centres are used to handle a wide range of customer relationship issues. State and briefly explain any three (3) ways by which such services are provided. **(12 marks)**

(b) Identify and briefly explain six (6) ways by which "call/contact centres" can help improve customer service delivery. **(18 marks)**

Solution

(a) The ways by which such services are provided are through:

1. telesales: whereby sales agents will fulfil sales roles over the telephone;
2. telemarketing: whereby marketing agents will make potential customers aware of products and services over the phone;
3. customer support: whereby callers can contact a call centre for help with technical or service problems;
4. automated services: – whereby, for example, bank customers can transfer money from one account to another, or simply find out their account balances by telephone.

(2 marks for each correctly stated way. 2 marks for each correct and completely stated explanation. Sub-Total per way: 4 marks. Maximum of 3 ways to be graded. Grand Sub-Total: 12 marks)

(b) The ways by which "call/contact centres" can help improve customer service delivery are:

- increased availability: call/contact centres can provide service with wider opening hours, in some cases 24 hours a day, seven days a week, 365 days a year.
- speed of answer: calls can be answered quickly with prompt handling of customer requests.
- skilled staff: calls can be routed to appropriately skilled staff who have been trained to handle particular types of inquiry.
- multi-contact channels: many call/contact centres can handle a wide variety of customer contacts such as telephone, post, internet and web chat. This enables the customer to use their preferred type of channel when contacting a company.
- use of technology: automated services can be offered to customers on a 24-hour basis. This enables the customer to contact the company at any time that suits them.

- internet – support telephone services can be offered to customers should they have an enquiry when considering making a purchase through the internet. Examples of how call/contact centres can help reduce costs.
- economies of scale: building and staff cost economies can be achieved by concentrating the handling of high-volume tasks in one location.
- use of technology and the internet: to reduce staff costs and increase efficiency; the use of telesales, telemarketing, obtaining sales leads, up and cross selling are further examples of how increased revenue can be achieved.

(2 marks for each correctly stated way. 1 mark for each correct and completely stated explanation. Sub-Total per way: 3 marks. Maximum of 6 ways to be graded. Grand Sub-Total: 18 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I07
MARINE AND AVIATION 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

I07 – MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Comments

Question 1

The attempt was excellent, with over 80% participation; however, the performance was below average. Candidates must become more familiar with NAICOM requirements for registering new insurance and reinsurance companies..

Question 2

The attempt was excellent, with participation exceeding 90%, and the performance was also impressive, with over 76% achieving an above-average pass rate. This indicates that the candidates had a good understanding of the question.

Question 3

The attempt was excellent, with over 90% participation, and the performance was good, at 60%. This indicates that the candidates had a solid understanding of the question.

Question 4

The attempt was excellent, with participation exceeding 90%, and the performance was good at 60%. This suggests that the candidates had a solid understanding of the question.

Question 5

The attempt was excellent, and the performance was good, indicating a solid understanding of the question.

Question 6

The attempt was excellent at 100%, but the performance was below average. Candidates need to attend tutorials and study their coursebooks more thoroughly.

Question 7

The attempt was excellent, exceeding 90%, but the performance was below average at 45%. Candidates need to attend lectures and tutorials and read their coursebooks more diligently.

Question 8

The performance was below average despite an excellent attempt. Candidates did not demonstrate a good understanding of the question and are advised to attend lectures for better preparation.

Question 9

The performance was very poor, despite an excellent attempt. Candidates showed a lack of understanding of the question and need to attend lectures and study their coursebooks more diligently.

Question 10

The performance was very poor, despite an excellent attempt of over 85%. This indicates that candidates did not understand the question, and they need to attend tutorials and lectures for better preparation.

Question 11

The performance was below average at 45%, despite an excellent attempt of over 90%. Candidates are encouraged to attend lectures and tutorials for improved understanding.

Question 12

The performance was very poor, below 30%, indicating a lack of understanding of the question. However, the attempt was excellent at over 80%. Candidates are encouraged to study their coursebooks and attend lectures and tutorials for better preparation.

Question 13

The attempts were excellent, but the performance was very poor regarding the knowledge of the question. Candidates are encouraged to attend tutorials and study their coursebooks for better performance.

Question 14

The attempt was excellent, with over 90% participation; however, the performance was just below average.

Question 15

The performance was very poor, and the attempt was also low at 30%. Candidates did not demonstrate an understanding of the question. They need to attend tutorials and lectures to improve their comprehension.

Question 16

The attempt rate was average at 50%, but the performance was very poor, below 40%. Candidates did not demonstrate a good understanding of the question.

Question 17

The attempt rate was average at 50%, while the performance was good at 70%. Candidates demonstrated a solid understanding of the question.

Question 18

The attempt was very good, and the performance was equally strong. This indicates that candidates had a solid understanding of the questions.

Comments on Overall Performance:

The overall pass rate was 25%.

Suggestion on Improvement(s) (if any)

Candidates are encouraged to attend tutorials and lectures and to also study their coursebooks for proper understanding of the course and its application.

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 10 marks.

1. 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.

Solution

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)

2. (a) What unit of distance is used in marine navigation?
(b) What is the equivalent length of the unit of navigation in the arc of a great circle?
(c) What is the main cause of surface currents?
(d) What is the direction of circulation of ocean currents in the northern hemisphere?
(e) What are the two (2) types of ocean currents, considering their temperatures?

Solution

- (a) The unit of distance used in marine navigation is the nautical mile. (2 marks)
(b) The equivalent length of the unit of navigation in the arc of a great circle is one minute (1'). (2 marks)
(c) The main cause of surface currents is the direction of the wind blowing on the sea surface. (2 marks)
(d) The direction of the circulation of the ocean currents in the Northern Hemisphere is clockwise. (2 marks)
(e) The two types of ocean currents, considering their temperatures, are warm (1 mark) and cold currents (1 mark).

(Grand Total: 10 marks)

8. List any five (5) of the perils featured under Section 6.1 of the Institute Time Clauses (Hulls).

Solution

The perils featured under Section 6.1 of the Institute Time Clauses (Hulls) are:

- * perils of the seas, lakes, rivers and other navigable waters;
- * fire, explosion;
- * violent theft from persons from outside the vessel;
- * jettison
- * contact with land conveyance, dock or harbor equipment or installation;
- * accident in loading, discharging, or shipping cargo or fuel;
- * piracy.

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

9. (a) Enumerate two (2) covers that the 3/4th “Collision Liability Clause” covers.
(b) What is the essence of “Sistership Clause”?

Solution

(a) The 3/4th “Collision Liability Clause” covers the following:

- any liability that the assured may incur by way of damages to the owners of any other ship or vessel (and cargo thereon) owing to a collision by the insured vessel;
 - it is a supplementary cover which applies to the vessel itself and extends to three-fourths of such liability;
 - there is a limit set to one collision at three-fourths of the insured value of the vessel;
 - the remaining one-fourth liability is not covered by this clause;
- ship owners cover the one-fourth balance of collision damage in their protection and indemnity clubs.

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

(b) “Sistership Clause” enables vessels belonging to the same owner (2 marks) to be treated as if it belong to a different owner and management (1 mark) to claim collision damages (1 mark) and compensation for salvage services (1 mark) rendered to a sister ship.

(5 marks)

(Grand Total: 10 marks)

10. (a) Define the term “representation” in two (2) sentences in relation to Sec 20: “Representation Pending the Negotiation of Contracts” of the Marine Insurance Act of 1906. **(4 marks)**
(b) Enumerate the three (3) “categories of representation”. **(6 marks)**

Solution

(a) Sec 20: ‘Representation Pending the Negotiation of Contracts’, of the Marine Insurance Act of 1906 defines representations as:

- as verbal or written statements to the underwriters by the Assured or by the broker;
- which may influence a prudent insurer to accept the risk or the rate of premium to be charged if accepted.

(2 marks for each definition above. Sub-Total: 4 marks)

(b) The three (3) categories of representation are:

- * material fact;
- * fact;
- * expectation or belief.

(2 marks for each correctly stated category. Sub-Total: 6 marks)

(Grand Total: 10 marks)

11. (a) Name the principal statute that governs Marine Insurance. **(2½ marks)**
(b) State any three (3) main components of the London Marine Insurance Market. **(7½ marks)**

Solution

- (a) The principal statute that governs marine insurance is the Marine Insurance Act 1906 i.e. MIA (1906). (2½ marks)
- (b) The main components of the London Marine Insurance Market are:
- (i) Lloyds;
 - (ii) The principal British Insurance Companies;
 - (iii) The agencies and branches of many overseas companies;
 - (iv) Underwriting agency companies writing on behalf of member companies and mutual associations.
- (2½ marks for each correctly stated component. Maximum of 3 to be graded. Sub-Total: 7½ marks)
(Grand Total: 10 marks)

12. (a) In what three (3) ways do insurable interest arise in Aviation Insurance? (3 marks)
- (b) Why is aircraft hull insurance not strictly a contract of indemnity? (3 marks)
- (c) When there is a loss/an accident, how is an aircraft hull treated in relation to the principle of indemnity? (4 marks)

Solution

- (a) Insurable Interest can arise in aviation insurance through:
- * ownership; * contract; and
 - * possession (e.g. bailees, e.g. hangar keepers, aircraft repairers).
- (1 mark for each correctly stated way. Sub-Total: 3 marks)
- (b) Aircraft hull insurance is not strictly a contract of indemnity because an accident to an Aircraft reduces its resale value and this is not taken into consideration in the claim settlement and so the insured is not fully indemnified. (3 marks)
- (c) To protect the insured's interest, the aircraft is usually insured at an agreed value at the outset of the insurance (2 marks) which means that indemnity is agreed at inception rather than at the time of loss (2 marks). (4 marks)
- (Grand Total: 10 marks)

13. With reference to marine insurance, define the following:
- (a) Notice of Abandonment; (4 marks);
 - (b) Constructive Total Losses; (4 marks);
 - (c) Salvage (2 marks)

Solution

- (a) Notice of Abandonment: in marine insurance, where the insured has been paid for a total loss, the insurer is entitled to claim anything that remains of the insured subject matter. The action of giving up the subject matter to the insurer is referred to as abandonment. Where there is an actual total loss, abandonment is automatic. However, in the liability of a constructive total loss, the insured must serve a Notice of Abandonment. This is a formal notice indicating the insured's willingness to give up the subject matter to the insurer. It is not the same as the act of abandonment itself. If the Notice is not served, the insured is deemed to have suffered a partial loss and may claim only for this.
(2 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) Constructive Total Losses: Marine insurance recognises not only actual total loss but also recognises constructive total losses. These occur where the subject matter is not destroyed but the insured is deprived of the possession of their ship or goods, and it is unlikely that the ship, and goods can be recovered or the cost of recovering goods or ship would exceed their value.
(2 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 4 marks)

c. Salvage: this is the right of the insurer to take over the subject matter of marine insurance after settling the insured (or after indemnifying the insured). Salvage refers to the act of rescuing a ship, its cargo, or other property from a perilous situation. Salvage operations are carried out to recover the lost or damaged property and minimize the financial loss for the insurance company or the owner. (2 marks)

(Grand Total: 10 marks)

14. Enumerate any five (5) perils covered by the Perils Clause of the Institute Time Clauses (Hulls) 1/11/95.

Solution

The Perils covered by the Perils Clause of the Institute Time Clauses (Hulls) 1/11/95 are:

Loss or damage to the subject-matter insured caused by:

- perils of the seas, river lakes, or other navigable waters; * fire, explosion;
- violent theft by persons from outside the vessel; * jettison;
- contract with land conveyance, dock or harbor equipment or installation;
- earthquake volcanic eruption or lightning; * piracy;
- accidents in loading discharging or shipping cargo and fuel;
- bursting of boilers breaking of shafts or any latent defect in the machinery or hull;
- negligence of repairers provided such repairers or charterers are not an assured hereunder;
- barratry of masters, officers or crew;
- contact with aircraft, helicopters or similar objects falling therefrom provided that such loss or damage has not resulted from want of due diligence by the assured, owners or managers, or superintendents or any of their on-shore management;
- master officers crew or pilots are not to be considered owners within the meaning of this clause should they hold a share in the vessel.

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

Part II

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

Each question carries 30 marks.

15. (a) Enumerate the liabilities of both the sender and the carrier, under the Carriage of Goods by Road Act 1965, with at least six (6) different liabilities. (18 marks)
- (b) List any four (4) important information contained in the schedule of Llyod's Marine Policy (MAR91). (12 marks)

Solution

(a) The liabilities of both the sender and carriers, under the carriage of goods by the Road Act are as follows:

The Sender:

- the sender is liable for various types of damage and expenses due to defective packing; unless the defect was apparent or known to the carrier at the time they took over the goods and they made no reservations concerning it;
- the carrier is liable for either total or partial loss of goods.

- the carrier may dispute that total or partial loss has occurred, claiming that it is only delay, however, where goods have not been delivered within 30 days of expiry of the agreed time limit, it may be held that the goods are lost;
- where there is a stated time limit in the consignment note, the goods shall be held to be lost if not delivered within 60 days from the time the carrier took over the goods;
- the carrier is presumed to be liable for goods that arrive damaged, delayed or short-delivered, but it must be established that the goods were not damaged whilst being taken over by the carrier or reservations have not been made concerning the amount, weight and number accepted for carriage;
- the carrier shall not be held liable if the loss, damage, or delay was caused by the wrongful act, instruction or neglect of the claimant; inherent vice of the goods; or through circumstances which the carrier could not avoid and the consequences of which they were unable to prevent;
- the burden of proving that loss, damage or delay was due to one of these causes rests upon the carrier.

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

(b) The important information contained in the schedule of Llyod's Marine Policy (MAR91) are:

- | | |
|--|-----------------------|
| * the name of the assured; | * special conditions; |
| * details of the subject matter insured; | * endorsements |
| * summary of the pertinent clauses; | * warranties. |

**(3 marks for each correctly stated information. Maximum of 4 to be graded. Sub-Total: 12 marks)
(Grand Total: 30 marks)**

16. Outline 10 (ten) steps in the process of paying for imported goods by Documentary Credit.

Solution

The following are steps in the process of payment for imported goods by Documentary Credits:

- the importer and exporter conclude a sales contract, providing payment through documentary credit;
- the importer instructs their bank known as the issuing bank, to prepare credit in favour of the exporter;
- the issuing bank asks a bank in the exporter's country, usually the exporter's bank, to advise the credit to the exporter;
- the exporter would ascertain that the documentary credit matches the terms of the agreement in the sales contract. Any discrepancy found will be amended;
- the exporter then sends the goods to the importer;
- the exporter presents the document as well as the bill of exchange to the bank nominated in the documentary credit as paying/accepting/negotiating bank;
- the paying/ accepting/negotiating bank checks the document, and if they are in order either pays the exporter (under a sight credit) or at a later date (under a deferred payment credit);
- the paying bank sends the documents to the issuing bank;
- the issuing bank checks the documents and if they are in order, reimburses the paying/accepting/negotiating bank, as previously arranged;
- the importer pays the issuing bank the amount due on terms which have been agreed;
- the issuing bank releases the documents to the importer;
- the importer uses the documents to take delivery of the goods.

(3 marks for each complete and correctly stated information. Maximum of 10 to be graded.

Grand Total: 30 marks)

17. (a) Enumerate five (5) bodies that the Nigerian Civil Aviation Act 2006 prescribe minimum insurance for. **(15 marks)**
- (b) What three (3) important documents are the bodies in (a) required to submit in respect of their insurance? **(6 marks)**
- (c) What is the full form of “MTOW” and what is its use in the Nigerian Aviation Industry? **(9 marks)**

Solution

- (a) The bodies which the Nigerian Civil Aviation Act 2006 prescribes minimum Insurance for are:

* aircraft owners; * airlines; * aerodrome;
* air navigation; * meteorology services; * ground handling services;
* aviation fuel supplier; * airstrip; * heliport.

(3 marks for each correctly stated body. Maximum of 5 to be graded. Sub-Total: 15 marks)

- (b) The three (3) important documents the bodies in (a) required to submit in respect of their insurances are:

* valid insurance certificates; * evidence of payment of premium; and
* policy documents.

(2 marks for each correctly stated document. Sub-Total: 6 marks)

- (c) The full form of ‘MTOW’ is Maximum Take Off Weight. **(3 marks)**

It is used to determine the minimum third-party liability limit for an aircraft engaged in aircraft operations in Nigeria **(6 marks)**. **(Sub-Total: 9 marks)**

(Grand Total: 30 marks)

18. List 10 (ten) of the risks covered by the Institute Cargo Clauses “B” (1/1/09).

Solution

The risks covered by the Institute Cargo Clauses “B” (1/1/09) are:

Loss of or damage to the subject matter insured reasonably attributable to:

- Fire or explosion;
- Vessel or craft being stranded, grounded, sunk or capsized;
- Overturning or derailment of land conveyance;
- Collision or contact of vessel, craft or conveyance with any external object other than water;
- Discharge of cargo at port of distress;
- Earthquake, volcanic eruption or lightning.

Loss or damage of the subject matter insured caused by:

- General average sacrifice.
- Jettison or washing overboard.
- Entry of sea, lake or river water into the vessel, craft, hold, conveyance, container, lift van or place of storage.
- Total loss of any package lost overboard or dropped whilst loading onto or unloading from a vessel or craft.

(3 marks for any correctly stated risk type. Maximum of 10 to be graded)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I08
AVIATION AND SPACE INSURANCE

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

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

I08 – AVIATION AND SPACE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question aimed to assess candidates' understanding of NAICOM requirements for the registration of insurance and reinsurance companies. While the attempt was excellent at 100%, the performance was below average. This indicates that candidates lacked familiarity with the requirements and needed to thoroughly review NAICOM's regulations.

Question 2

The attempt was excellent, with a 100% participation rate, and the performance was equally outstanding at 100%. This reflects that the candidates had a strong understanding of the question.

Question 3

The attempt was excellent at 100%, and the performance was also outstanding at 100%. This indicates that candidates demonstrated a strong understanding of the Warsaw and Hague Conventions governing air travel.

Question 4

The attempt was excellent at 100%, but the performance was average at 50%. This suggests that while all candidates engaged with the question, there may be gaps in their understanding or application of the material. Further review and preparation are recommended.

Question 5

The performance was below average at 40%, despite a 100% attempt rate. This indicates that candidates struggled with the topic, highlighting a need for more focused study and attendance at tutorials to improve their understanding and performance in future assessments.

Question 6

The question aimed to assess candidates' knowledge of claim adjusting in aviation. The attempt was excellent at 100%, and the performance was also outstanding, indicating that candidates had a strong understanding of the topic.

Question 7

Candidates demonstrated a strong understanding of the question, with both the attempt and performance being excellent at 100%. This indicates thorough preparation and comprehension of the topic.

Question 8

Candidates exhibited a strong understanding of the applications for which satellites are used, achieving an excellent performance of 100%, along with a complete attempt rate of 100%. This reflects their thorough knowledge and preparation in this area.

Question 9

The attempt was excellent at 100%, and the performance was also excellent, indicating a strong understanding of the question. Candidates clearly demonstrated their knowledge and readiness in this area.

Question 10

The question was excellently answered, with a 100% attempt and an above-average performance. This indicates that candidates not only engaged thoroughly with the coursebook but also demonstrated a solid understanding of the topic.

Question 11

The question examined candidates' knowledge of the schedule of aviation/space insurance policy. The attempt was excellent at 100%, and the performance was also excellent, indicating that candidates demonstrated a thorough understanding of this aspect of the syllabus.

Question 12

This question examined candidates' knowledge of the part of licenses. The attempt was excellent at 100%, and the performance was also excellent at 100%, indicating that candidates thoroughly understood the topic.

Question 13

The attempt was excellent at 100%, but the performance was average at 50%. This indicates that candidates did not demonstrate a good understanding of the question and may need to review the relevant material to improve their comprehension.

Question 14

The attempt was excellent at 100%, and the performance was good at 75%. This indicates that candidates have a solid understanding of the question and grasped the necessary concepts effectively.

Question 15

The attempt was excellent at 100%, and the performance was also excellent. This demonstrates that candidates have a strong understanding of the question and the relevant concepts.

Question 16

No candidates attempted this question, indicating a lack of engagement or familiarity with the topic. This may require further review and emphasis in future preparations.

Question 17

No candidates attempted this question, suggesting a need for better preparation or awareness of the topic among the candidates. It may be beneficial to review this area in future sessions to encourage participation.

Question 18

The attempt was excellent at 100%, and the performance was also outstanding, exceeding 100%. This indicates a strong understanding of the question by the candidates, reflecting their preparation and knowledge of the subject matter.

Comments on overall performance:

The performance was excellent, indicating that the candidates demonstrated a strong understanding of the material and effectively addressed the question. This level of achievement reflects their preparedness and grasp of the subject matter.

Suggestion(s) for improvement (if any):

Candidates are encouraged to ensure that 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 10 marks.

1. 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.

Solution

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 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 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)

2. (a) An aircraft must be controlled in three axes covering three (3) main focal points around its centre of gravity. What are these three (3) axes? (6 marks)
- (b) What does the term “free flight” refer to? (4 marks)

Solution

- (a) An aircraft must be controlled in three axes covering roll, pitch and yaw.
(2 marks for each correctly stated axes. Sub-Total: 6 marks)

- (b) Free Flight refers to a situation where aircraft can select or change their track, altitude, and speed as they wish (within given parameters) and provide their separation from other traffic when outside a terminal area with only minimal intervention from air traffic control.

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

(Grand Total: 10 marks)

3. The Warsaw Convention and Hague Protocol contain substantive elements that significantly govern air travel. Enumerate any four (4) of those elements.

Solution

The substantive elements in the Warsaw Convention and Hague Protocol that significantly govern air travel are:

- * definitions of key terms;
- * liability of the carrier;
- * general provisions;
- * documents of carriage;
- * provisions relating to combined carriage;
- * final provisions.

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

4. (a) In aviation and space insurance, deductible insurance can be arranged in a number of different ways. State any two (2) of these ways. **(4 marks)**
- (b) (i) What return of premium will typically be made under the aircraft laying-up returns clause? **(4 marks)**
- (ii) When will this be usually made? **(2 marks)**

Solution

(a) In aviation and space insurance, deductible insurance can be arranged in the following ways:

- reducing, by a fixed amount, the deductible on all aircraft;
- reducing the deductible on all aircraft to the same level, irrespective of the type of aircraft;
- limiting the total amount they could pay during any one year, irrespective of the number of claims.

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

- (b) (i) Seventy-five percent **(2 marks)** of the difference between the hull flight rate and ground rate **(1 mark)** for any lay-up of 30 days or more **(1 mark)**.
(Sub-Total: 4 marks)

- (ii) Return of premium will be made at expiry. **(2 marks)**
(Grand Total: 10 marks)

5. List any four (4) segments that the aviation and space insurance market is divided into as it relates to the aerospace industry.

Solution

The segments of aviation and space insurance markets are:

- * operators of corporate aircraft; * private operators;
- * airlines; * airport authorities;
- * manufacturers and servicing of aircraft and other equipment.

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

6. In aviation and space insurance, state five (5) aspects that a claims adjuster must be satisfied with to validate a claim.

Solution

In aviation and space insurance, the aspects that a claims adjuster must be satisfied with to validate a claim are:

- the aircraft was one of the aircraft insured under the policy;
- the policy was in effect when the accident occurred;
- the accident occurred within the geographical limits of the policy;
- the purpose of use to which the aircraft was being put at the time of the accident was a purpose of use covered by the policy;
- the pilot was a permitted pilot under the terms of the policy;
- none of the general exclusions apply or the general conditions have been breached;
- the proposed settlement represents an equitable settlement under the terms of the policy.

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

7. (a) What are the three (3) conventions in force related to offenses committed on board an aircraft in flight? **(6 marks)**
- (b) What insurance covers are available in respect of cargo? **(4 marks)**

Solution

- (a) The three (3) conventions in force related to offenses committed on board an aircraft

in flight are the:

- * Tokyo Convention 1963;
- * Montreal Convention 1971.
- * Hague Convention 1970

(2 marks for each correctly stated convention. Sub-Total: 6 marks)

- (b) The insurance cover available in respect of cargo is cargo liability and cargo all-risks.

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

(Grand Total: 10 marks)

8. List the five (5) main applications for which satellites are used.

Solution

The five main applications for which satellites are used are:

- * communication services;
- * earth observation;
- * meteorology;
- * navigation systems; and
- * science.

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

9. In relation to Aviation insurance, what is:

- (a) a deposition? **(3 marks)** (b) the purpose of a pre-trial conference **(3 marks)**
(c) the definition of “flight” under the Hague Convention 1970? **(4 marks)**

Solution

(a) A deposition is the proceeding in which the person requested to appear (the deponent) can be asked questions under oath by attorneys for any of the parties. The deposition testimony may be used at trial to discredit a deponent if their trial testimony conflicts with their prior deposition testimony. **(3 marks)**

(b) The purpose of a pre-trial conference is to determine whether a pre-trial settlement can be reached or if the action will ultimately go to trial. **(3 marks)**

(c) “Flight” under the Hague Convention 1970 is defined as commencing once the external doors of the aircraft are closed and lasts until the doors are opened for disembarkation. **(4 marks)**

(Grand Total: 10 marks)

10. (a) State the two (2) ways by which deductible insurance can be arranged in aviation and space insurance. **(4 marks)**

(b) (i) Under the aircraft laying-up returns clause, what return of premium will typically, be made? **(4 marks)**

(ii) When will the premium in (i) above be usually made? **(2 marks)**

Solution

(a) The two ways by which deductible insurance can be arranged in aviation and space insurance are:

- standard level of deductible can be lowered by operators buying a deductible policy;
- insurers may allow the insured to offer a lower premium than competitors with a higher deductible.

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

(b) (i) Under the aircraft laying-up returns clause, the return of Premium that will typically be made is 75% of the difference between the flight rate and the ground rate for any lay-up of 30 days or more. **(4 marks)**

(ii) the premium in (i) above, the return of premium will be made at the expiry of the policy period. **(2 marks)**

(Grand Total: 10 marks)

11. List any five (5) details that the schedule of an aviation/space insurance policy will have.

Solution

The details that the schedule of an aviation/space insurance policy will have are:

- * policy number;
- * insured's name and address;
- * policy period;
- * details of the aircraft insured;
- * uses covered;
- * geographical limits;
- * pilots' proficiency requirements;
- * policy limits.

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

12. (a) State the four (4) categories of pilot license. **(4 marks)**
(b) State any six (6) of the roles of the (IATA) International Air Transport Association. **(6 marks)**

Solution

(a) The four categories of pilot licenses are:

- * student pilot;
- * private pilot;
- * commercial pilot; and
- * air transport pilot.

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

(b) The roles of the IATA International Air Transport Association are:

- * airport slots;
- * benefits of aviation;
- * commercial fuel policy;
- * changes and economic regulation;
- * environmental policy;
- * infrastructure issues;
- * international treaties;
- * liberalisation;
- * new distribution capability;
- * passenger rights;
- * security;
- * taxation.

(1 mark for each correctly stated role. Sub-Total: 6 marks) (Grand Total: 10 marks)

13. Outline any four (4) reasons why direct aviation insurers might buy reinsurance.

Solution

The reasons why direct aviation insurers might buy reinsurance are:

- to protect against exceptional losses;
- to avoid undue fluctuations in underwriting results, resulting from a series of losses in the same class;
- to protect from the accumulation of losses from one particular source e.g. a natural catastrophe;
- to increase the capacity of direct insurers without increasing their retention. This would enable the insurers to present an image as a much larger and more influential insurer than would otherwise be the case;
- to obtain technical advice from specialist reinsurers. To be able to provide coverage in those countries where risks have to be insured through a local insurer.

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

Grand Total: 10 marks)

14. State any ten (10) items of key underwriting information an insurer would require when rating a commercial airfield for airport liability insurance.

Solution

The items of key underwriting information an insurer would require when rating a commercial airfield for airport liability insurance are:

- * the insured;
- * name of the airport;
- * the location;
- * how many aircraft movements are there per annum;
- * is the insured responsible for ground handling of aircraft?

- * does the insured handle aircraft maintenance? If so, advise how many aircraft are in their care at any one time; * maximum value of aircraft at any one time;
- * average value at any one time;
- * is the airport responsible for the fueling? If so, annual throughout split by fuel type;
- * is fuel delivered by bowser or hydrant?
- * is the insured responsible for security? If not who is?
- * does the insured provide ancillary services such as car parking and restaurants, e.t.c?
- * or are they contracted out to concessionaires?
- * is the insured responsible for passenger assistance?
- * is the insured responsible for ground transportation?
- * are all outstanding contracts subject to the standard international Air Transport Association Contracts?

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

Part II

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

Each question carries 30 marks.

15. (a) When an aircraft is engaged in international navigation, some documents are required to be carried in the aircraft in compliance with Article 29 of the Chicago Convention 1944. Enumerate any four (4) of these documents. **(8 marks)**
- (b) (i) Enumerate, with a very brief explanation, the three (3) sources by which law itself is created in the Aviation Industry. **(6 marks)**
- (ii) Explain, giving four (4) reasons, why major aviation litigation takes place in federal courts. **(16 marks)**

Solution

(a) The documents are required to be carried by an aircraft that is engaged in international navigation in compliance with Article 29 of the Chicago Convention 1944 are:

- aircraft's certificate of registration and airworthiness;
- appropriate licenses for crew (iii) log book requirements;
- radio station license (if applicable) (v) passenger manifest;
- cargo manifest.

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

- (b) The three sources by which law itself is created in the aviation industry are:
- * federal statutes, treaties, executive agreements; * common law;
 - * State statutes.

(2 marks for each correctly stated source. Sub-Total: 6 marks)

- (ii) The reasons why major aviation litigation takes place in federal courts are:

- federal laws generally are involved;
- federal judges are more familiar with federal laws;
- federal court cases tend to move more quickly than state court cases;
- federal court juries are drawn from a wider pool of people than state court juries, thereby tending to lessen local biases;
- federal procedures are more uniform and allow for national as opposed to intrastate
- consolidation of cases;
- most aviation trial lawyers, both claimant and defense, prefer to be in federal courts.

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

(Grand Total: 30 marks)

16. (a) Describe the role of the reinsurance market in insurance transactions. (3 marks)
 (b) Explain the roles of three (3) out of the various types of reinsurance available with respect to aviation insurance. (27 marks)

Solution

(a) The role of the reinsurance market in insurance is a crucial row that is achieved by supporting the direct underwriters in promoting additional capacity. Another critical aspect is the need to spread the risk of loss. (3 marks)

(b) Reinsurance, with respect to aviation insurance, can be undertaken in a number of ways:

- * facultative; * excess of loss;
- * quota share treaty (surplus lines); * stop loss.

- Facultative Reinsurance: this is “one-off” specific insurance on a given risk or part of it. it is coverage purchased by a primary insurer to cover a single risk – or a block of risks held in the primary insurer’s book of business.

- Excess of Loss: this type of contract protects a direct insurer for losses above an agreed retention for all amounts they are liable for arising out of one occurrence up to another specified amount. This type of protection can be taken out to cover a particular underwriter’s entire portfolio in a given class. This type of contract is usually purchased in layers (e.g. ₦25,000.00 excess ₦50,000.00/₦50,000.00 excess ₦75,000.00 and so on t premium would either be expressed as a fixed amount or generally as an amount adjustable at a percentage of the direct insurers overall net premium income for that class of business.

- Quota Share: the direct insurer will reinsure an agreed proportion of all risks in a defined class of business. This can be arranged based on a fixed or variable percentage of the direct insurer’s signed line on a fixed or variable monetary amount. The cessions to the treaty would be proportional to the direct insurers' own writings and the reinsurance premiums paid would be the same percentage of the net premium that equates to the (reinsurance) cession. This type of treaty is advantageous to a direct insurer as it allows them to write bigger lines on the original business (and this makes them more attractive to brokers)

- Stop Loss: this protects a direct insurer from losses in excess of their net premium income. Stop loss insurance protects against the aggregation of losses in any given class the direct insurer will decide their retention for the period insured. The stop loss reinsurances will protect the direct insurer for amount above the retention up to – another set percentage of the net premium income cover can be arranged in layers. The premium will normally be a percentage of applicable net premium income.

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

(Grand Total: 30 marks)

17. (a) Discuss this statement: “the coverage that is provided under a loss of use policy”. (10 marks)
 (b) Justify the decision made why an aircraft operator might buy loss of use coverage. (5 marks)
 (c) Explain why pilots buy loss of license insurance. (5 marks)
 (d) Identify any four (4) circumstances in which loss of license policy coverage will usually terminate. (10 marks)

Solution

(a) A loss of views provides coverage if an aircraft may become unavailable for use due to an accident that is covered under hull insurance or would have been but for the deductible. This may be as a standalone policy or, in the case of some majority airline policies,

may be included as part of the main policy package. The policy or coverage excludes when an aircraft has been a total loss and also excludes claims covered under a breach of warranty provision. A condition should be included that an aircraft should be returned to operation as quietly as possible. The policy will pay out a set sum per day subject to a maximum number of days and generally continues as an excess period; the policy limit may also contain an overall aggregated.

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

(b) An aircraft operator might buy loss of use coverage as an aircraft is not earning money when it is not in use but fixed costs such as lease payment or insurance still have to be paid. The paid amount may also cover the cost of hiring a replacement aircraft while the damaged one is in.

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

(c) Pilots must hold a valid license in order to carry out their duties. These licenses require the aircrew to fulfil medical requirements which are reviewed regularly. In the event that the license is withdrawn by the authorities, the pilot will be unable to work, so the loss of license insurance will provide a cash benefit to assist.

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

(d) The circumstances in which loss of license policy coverage will usually terminate are where:

- the insured persons employment ends;
- the insured person dies;
- payment is made by the insurers for bodily injury or illness;
- the insured person undertakes flying which is more hazardous than usual unless previously agreed by insurers;
- the insured person undertakes active duties with any armed forces other than part-time
- training on a non-combat assignment;
- the insured person reaches retirement age.

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

18. As an insurance broker, one of your indigenous clients Messrs. ABC Aviation Company Limited has brought a light aircraft to operate within the Federal Republic of Nigeria. Your client has asked you to obtain a quote to insure the aircraft. Identify:

- (a) seven (7) information that your client needs to provide for you to obtain a quote; **(14 marks)**
- (b) three (3) coverage insurance areas that your client needs; **(6 marks)**
- (c) any two (2) provisions required in the insurance if your client has obtained finance to buy the aircraft. **(10 marks)**

Solution

- (a) The client needs to provide the following information to obtain a quotation:
- | | | |
|------------------------------|--|-------------------------------------|
| * name of the insured; | * address of insured; | * make and model of aircraft; |
| * age of aircraft; | * registration; | * agreed value level of deductible; |
| * usage- e.g. crop spraying; | * utilization; | * passenger seating; |
| * liability limit; | * names and flying experience of pilots; | |
| * loss history of pilots; | * geographical limits required; | |

* maintenance provider.

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

- (b) The coverage areas that the client will need to buy insurance to cover are:
- Section I: Loss of or damage to aircraft
 - Section II: Legal liability to third parties (other than passengers)
 - Section III: Legal liability to passengers
 - Section IV: Under exclusions – accidental loss caused of or damage to the aircraft caused by wear and tear, breakdown, defect or failure or damage by cumulative effect.

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

- (c) When using finance to buy an aircraft, the finance company will want the insurance covering the asset to contain certain provisions protecting them and their property, some of which are:
- to be added as additional insured under the liability coverage;
 - be a loss payee up to the amount of the loan outstanding;
 - protecting in case the insured breaches a policy condition or a warranty which might result in the policy not responding in the event of a claim;
 - at least 30 days' notice in the event of cancellation or material change to the policy
(normally seven days in the event of war risks);
 - the usual way in which the hull provisions would be included in the policy would be by the inclusion of an Aircraft Financial Interest endorsement- AVN 28B.

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

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

OCTOBER 2024 DIET EXAMINATION PAPER

SUBJECT I09
INSURANCE PRACTICE AND REGULATION

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

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

I09 – INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Comments

Question 1

With a 65% above average pass rate achieved, it indicates a solid understanding of the material among the candidates. This performance reflects a good level of preparedness and grasp of the question.

Question 2

With a 36% above average pass rate achieved, it suggests that there is significant room for improvement among the candidates. This performance indicates that many may not have fully grasped the topic or were not adequately prepared for the examination.

Question 3

It appears that the candidates who attempted the question misinterpreted it, focusing their explanations on the pension scheme instead of the intended topic. This suggests a lack of clarity in understanding the question's requirements.

Question 4

It's encouraging to see that all the candidates who attempted the question demonstrated a good understanding of the topic, with 63% achieving an above-average pass rate.

Question 5

50% of the candidates who attempted this question performed well, while many of those who struggled seemed to be writing off-topic.

Question 6

This question was not treated with the seriousness it deserved, as only 68% answered it correctly. Candidates need to enhance their preparation for future examinations.

Question 7

Most candidates who attempted this question did not understand it well, resulting in a low pass rate of 39.56%, especially in comparison to other questions on similar topics.

Question 8

Most candidates misinterpreted this question due to a lack of understanding, leading to a low pass rate of 16.18%.

Question 9

The question was well attempted achieving a 75.09% above average pass rate.

Question 10

The majority of candidates did not understand this question well, as only 8% achieved an above-average pass rate.

Question 11

The question was straightforward, allowing all candidates to answer it easily, and everyone who attempted it achieved an above-average pass rate.

Question 12

Approximately 53% of the candidates who attempted this question achieved an above-average pass rate.

Question 13

The candidates excelled in this question, achieving a remarkable 99% above-average pass rate.

Question 14

The candidates confused the characteristics of insurable risk with the responsibilities of a prudent underwriter, resulting in only a 25% above-average pass rate.

Question 15

Most candidates who attempted the question performed well, achieving an above-average pass rate of 84.75%.

Question 16

Candidates who attempted this question performed commendably, achieving an above-average pass rate of 88.55%.

Question 17

Candidates who attempted this question performed exceptionally well, achieving an above-average pass rate of 93.16%.

Question 18

Most candidates avoided this question; however, among those who attempted it, an above-average pass rate of 68% was achieved.

Comments on Overall Performance:

Overall performance was commendable, showing an improvement compared to the last diet.

Suggestions on Improvement(s) (if any):

Candidates should be encouraged to prepare more and read instructions before answering questions.

Candidates are also encouraged to ensure that they adhere to the instruction of starting each question on a fresh page in the answer booklet. It should be noted that (a), (b), (c), from a question, has the same number 1 and should be answered together; but once it is another number entirely, the other number is required to start on a new sheet in the answer booklet.

The above will ensure that there is no deduction of 10% of earned marks from the final score of the candidates.

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. 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.

Solution

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)

2. Enumerate any five (5) groups of generic laws that an insurance organisation needs to comply with as an organisation before it can operate as a company or business entity.

Solution

Some of the laws that an insurance organisation needs to comply with as an organisation before it can operate as a company or business entity are:

- * employment law;
- * health & safety law ad regulations;
- * contract law;
- * law of agency;
- * property law and regulations;
- * company law;
- * generally accepted accounting principles (GAAP);
- * stock exchange rules;
- * corporate governance regulations;
- * data protection and privacy law
- * tax regulations on - employees' remuneration; corporate earnings; VAT;
- * competition law and regulations;
- * human rights law and regulations;
- * environmental law and regulations.

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

3. (a) What is a "scheme?" (3 marks)
(b) Where can the term "scheme" be used? Tailored for who? Underwritten by who" and for what timeline? (7 marks)

Solution

(a) A scheme is used for a special insurance package that is usually restricted to a specific customer segment. (3 marks)

(b) The term scheme can be used where for example, a profession or trade can design an insurance package (2 marks) tailored for a specific member or specific members (2 marks); which is to be underwritten by an insurer (2 marks) for a guaranteed period (1 mark) e.g. 3 to 5 years. This package is usually designated as a scheme. (Sub-Total: 7 marks)

(Total: 10 marks)

4. The Chartered Insurance Institute of Nigeria is the educational arm of the Nigerian Insurance industry and its members are guided by publicised code of ethics. Enumerate any four (4) of the central principles in the CIIN Code of Ethics.

Solution

The six central principles in the CIIN Code of Ethics are:

- act responsibly and with integrity in their professional activities at all times to their clients as a whole;
- comply with the code of ethics, all relevant laws and other regulating requirements and appropriate code of ethics and code of conduct;
- demonstrate professional competence by meeting the technical and professional standards in all dealing and relationships;
- respect the confidentiality of information required in professional and business relationship judgement in giving opinions and statements;
- uphold professional standards in all dealings and relationships
- apply 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)

5. Concisely but briefly explain the following insurance policies:

- | | |
|-----------------------------------|--------------------------|
| (a) Third Party, Fire, and Theft; | (b) Annuity; |
| (c) Goods-in-Transit | (d) All Risks Insurance. |

Solution

(a) Third Party, Fire and Theft: this is a type of motor insurance policy that provides cover for losses to property, bodily injury/death, legal costs, and expenses; caused by the insured to third parties as a result of an accident. It does NOT cover own damage to the insured's vehicle;

(2½ marks)

(b) Annuity: is a product type by which a person (called an annuitant) can receive regular incomes as agreed with the annuity provider for an agreed period, which could be monthly/quarterly/ half-yearly/ yearly. It comes in various types. **(2½ marks)**

(c) Goods-in-Transit: is an insurance product that provides compensation for the owner of the goods if the goods are damaged/or lost during the covered transit period, either by using the insured's vehicles or hired vehicle. **(2½ marks)**

(d) All Risks Insurance: is an insurance product that provides compensation for the owner of the insured properties if they are damaged/or lost during the agreed period from all losses that are not excluded by the policy. This means that although the name is all-risk policies, there are still some fundamental germane risks that are not covered by the policy. Such risks could be risks linked to war, terrorism, acts of God, e.t.c. **(2½ marks)**

(Grand Total: 10 marks)

6. In four (4) distinct explanations, write a summary of the procedure of co-insuring the insurance business.

Solution

A brief summary of the procedure of co-insuring insurance business by an insurance company called the primary insurer or (leader). The leader issues a collective policy and is responsible for all negotiation/arranging surveys, calculating, collection of premiums, issuance of policy documents and endorsements issuance. All the participating insurance companies are required to ensure that the premium level/policy terms are in line with their policies and each is expected to sign up for their respective shares of the risks. The names of all the participating insurance companies are also noted in the policy document, along with their respective share and each one is liable for its own agreed/stated proportion of the risk being covered.

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

7. (a) Enumerate any two (2) of the main operational expenses of an insurer. **(4 marks).**
- (b) Write out the full meaning of the acronym LTA and briefly explain what it means. **(6 marks)**

Solution

- (a) The main operational expenses of an insurer are:
 * salaries to staff; * office costs of all forms;
 * advertising costs; * commission costs.
(2 marks for each correctly state expense. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) LTA means Long Term Agreement **(1 mark)**. It is an agreement that comes into play when the insurer and insured come to an agreement that for as long as the insured offers the business for renewal **(2 marks)** and the insurer accepts the risk **(1½ marks)**, a certain discount will be granted on the premium payable within the agreed period of time **(1½ marks)**.
(Sub Total: 6 marks)
(Grand Total: 10 marks)

8. Employers' Liability Insurance is one form of liability insurance.
- (a) Who are the beneficiaries under this policy? **(3 marks)**
- (b) What is the number of years that the policy is usually valid, from the date of inception? **(2 marks)**
- (c) What is the insurance cover under the policy? **(5 marks)**

Solution

- (a) The beneficiaries of employers' liability insurance are survivors/named beneficiaries of deceased employees in case of death **(1½ marks)** and/or the injured/disabled employee in case of disability **(1½ marks)**. **(Sub-Total: 3 marks)**
- (b) The number of years that the policy is usually valid for, from the date of inception, is 40 years. **(2 marks)**
- (c) The policy covers work-related **(1 mark)** injury **(1 mark)** or sickness **(1 mark)** resulting in death **(1 mark)** or disability **(1 mark)**. **(Sub-Total: 5 marks)**
(Grand Total: 10 marks)

9. (a) What is the full meaning of the acronyms: (i) MPL; & (ii) EML? **(4 marks)**
- (b) Briefly explain the acronyms above with an example each. **(6 marks)**

Solution

- (a) MPL: Maximum Probable Loss. **(2 marks)**
 EML: Estimated Maximum Loss. **(2 marks)**
- (b) MPL is the maximum financial liability that an underwritten policy is liable for when an insured event occurs **(2 marks)**. An example is: Let's take for instance that the building consists of two separate structures one valued at ₦5,000,000.00 and the other at ₦3,000,000.00, an underwriter could ascertain that in the event of a fire, the loss would not exceed ₦5,000,000 which is the target risk. MPL value would be the value of the target risk- ₦5,000,000.00. **(1 mark)**

EML is the underwritten estimated financial liability that an underwritten policy is projected to be liable for when an insured event eventually occurs **(2 marks)**. An example is: Estimated

Probable Loss represents that amount which would be expected to equal or exceed 95% of the losses incurred by the risk. (1 mark)

(Sub-Total: 6 marks)
(Grand Total: 10 marks)

10. (a) What is the meaning of the term micro-insurance? (4 marks)
(b) Enumerate any three (3) of the main objectives of the NAICOM issued guidelines on the practice of micro-insurance in the Nigerian insurance space. (6 marks)

Solution

(a) The term micro-insurance is the term used to describe all insurances that are issued or effected on the micro level, with a peculiar focus on reaching the non-insured and increasing insurance penetration (i.e. taking insurance to the grassroots) in whatever jurisdiction that such is being practiced. (4 marks)

(b) The main objectives of the NAICOM issued guidelines on the practice of micro-insurance in the Nigerian insurance space are:

- it provides minimum standards for the conduct of micro-insurance in Nigeria;
- it ensures consumer protection;
- it establishes general features of micro-insurance products;
- it establishes the duties and responsibilities of micro-insurance operators and service providers;
- it establishes conditions for entry and exit from the micro-insurance market.

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

(Grand Total: 10 marks)

11. Enumerate any six (6) of the General Insurance Policy Types that are in existence in insurance. Briefly explain any two (2) of the enumerated types.

Solution

The General Insurance Policy Types that are in existence in insurance are:

- * Fire Insurance; * General Accident; * Motor Vehicle;
- * Marine Insurance; * Aviation Insurance; * Oil and Gas Insurance;
- * Engineering Insurance; * Bonds; * Credit Guarantee;
- * Miscellaneous Insurance.

(Candidates are required to explain any two. 1 mark for each correctly stated policy type. Maximum of 6 to be graded. Sub-Total of this: 6 marks. 2 marks for each correct and completely stated explanation.

Maximum of 2 types to be explained and graded. Sub-total: 4 marks. Grand Total: 10 marks)

12. (a) What does a standard fire insurance policy cover? (2 marks)
(b) Enumerate any four (4) damages/risks that a standard fire policy specifically covers. (2 marks)

Solution

(a) A Standard fire insurance policy covers damage to property caused by fire, lightning or explosion which is brought about by gas used for domestic purposes only. (2 marks)

(b) The damages/risks that a standard fire policy specifically covers are:

- * storm/tempest/flood; * subsidence/land slip; * burst pipes/ earthquake;
- * aircraft and articles dropped from; * riot/civil commotion strikes;
- * malicious damage /explosion; * impact by vehicles; * explosion.

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

(Grand Total: 10 marks)

13. Enumerate five (5) distinct buyers of insurance in the insurance market of any sovereign country, including yours.

Solution

The distinct buyers of insurance in the insurance market of any sovereign country, including yours, are:

- * government; * parastatals; * multinationals; * conglomerates;
- * manufacturing; * banking industries; * health institutions; * corporate bodies
- * tourist/hospitality industries/hotel; * transport industries;
- * educational institution; * oil /energy industry.

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

14. Enumerate any four (4) major considerations that a prudent underwriter will review before making an informed decision on a particular proposed risk.

Solution

The major considerations that a prudent underwriter will review before making an informed decision on a particular proposed risk are:

- assess all information provided on each risk offered to the pool;
- decide whether or not to accept the risk;
- decide the quantum of the risk that will be accepted into the pool;
- decide the premium rate to be applied to accept the quantum of the risk to be accepted;
- determine the terms and conditions to be used to accept the risk;
- determine the scope of cover to be offered to accept the risk.

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

Part II

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

Each question carries 30 marks.

15. (a) (i) What is Arbitration? **(4 marks)**
(ii) As it relates to insurance, briefly explain the import of the decision in an arbitrated case. **(6 marks)**
(b) Enumerate any five (5) generic core activities of an “underwriter”. **(10 marks)**
(c) Enumerate four (4) benefits of direct selling to customers by an insurer. **(10 marks)**

Solution

(a) (i) Arbitration is an alternative dispute mechanism process whereby a team of independent people (called arbitrators) are required to look at the merits of a case and make a judgement. **(4 marks)**

(ii) The import of the decision of the arbitrator is that it is binding and final on the insurer **(2 marks)** but not on the insured **(2 marks)**, who has the right, if not satisfied, to escalate the issue to either the Regulator, through NAICOM complaints bureau or to the courts **(2 marks)**.

(Sub-Total: 6 marks)

(Grand Sub-Total: 10 marks)

(b) The core activities of an underwriter are:

- (i) Underwriting; (ii) Enterprise Risk Management;
- (iii) Investment and Related Functions; (iv) Claims Management;
- (v) Compliance Management; (vi) Report Writing;
- (vi) Compliance with AML/CFT Requirement.

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

- (c) The benefits of direct selling to customers by an insurer are:
- no commission payable;
 - closer contact with the customer providing opportunities to cross-sell other covers;
 - exploit modern, efficient marketing;
 - explore processing tools such as call centre and the internet;
 - higher retention rate at renewal.
- (2½ marks for each correctly stated benefit. Maximum of 4 to be graded. Sub-Total: 10 marks)
(Grand Total: 30 marks)

16. (a) How many insurance policies are compulsory by law in your country or in Nigeria. List four (4) of them. (8 marks)
- (b) List four (4) professionally qualified groups of service providers in an insurance industry. (8 marks)
- (c) What is the excess of loss ratio? (4 marks)
- (d) List five (5) types of liability policies that can be purchased in an insurance industry. (10 marks)

Solution

- (a) There are four (4) types of Insurance stipulated as compulsory by law in Nigeria.

They are:

- | | |
|---|-------------------------------------|
| (i) Motor Third Party Insurance; | (ii) Builder Liability Insurance; |
| (iii) Occupiers Liability Insurance; | (iv) Employers Liability Insurance; |
| (v) Health Care Professional Indemnity Insurance; | (vi) Group Life Assurance |
- (2 marks for each correctly stated type. Maximum of 4 to be graded. Sub-Total: 8 marks)

- (b) Group of service providers in an insurance industry are:
- | | | | |
|--------------------|-----------------|-----------------------|------------|
| * loss adjusters; | * underwriters; | * brokers; | * lawyers; |
| * medical doctors; | * IT Firms | * trade associations. | |
- (2 marks for each correctly stated type. Maximum of 4 to be graded. Sub-Total: 8 marks)

- (c) Excess of Loss Ratio is a non-proportional method of reinsurance protection for the entire portfolio of risk rather than on individual losses when the loss ratio exceeds the figures specified in the reinsurance contract. (4 marks)

- (d) The types of liability policies that can be purchased in an insurance industry are:
- | | | |
|------------------------------|-------------------------------------|----------------------|
| * Employer Liability; | * Public Liability; | * Product Liability; |
| * Professional Indemnity; | * Directors and Officers Liability; | |
| * Personal Public Liability | | |
| * Business Public Liability. | | |
- (2 marks for each correctly stated type. Maximum of 5 to be graded. Sub-Total: 10 marks)
(Grand Total: 30 marks)

17. The reinsurance marketplace is made up of the three key groups in most markets.
- (a) State three (3) buyers of reinsurance. (6 marks)
- (b) State the intermediary in the reinsurance market. (4 marks)
- (c) State three (3) reinsurance risk carriers in the market. (6 marks)
- (d) Identify and explain the two (2) forms of reinsurance. (14 marks)

Solution

- (a) The buyers of reinsurance are:
- | | | | |
|---------------------|---------------------|-----------------------|--------------|
| * primary insurers; | * captive insurers; | * Lloyd's syndicates; | * reinsurers |
|---------------------|---------------------|-----------------------|--------------|
- (2 marks for each correctly stated buyer. Maximum of 3 to be graded. Sub-Total: 6 marks)
- (b) The intermediary in the reinsurance market is the reinsurance broker. (4 marks)
- (c) The reinsurance risk carriers in the market are:

- * reinsurers; * primary insurers; * captive insurers;
- * Lloyd's syndicate; * pools.

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

(d) The two forms of reinsurance are facultative and treaty reinsurances. (2 marks)

Facultative Reinsurance: in this form, there is no prior agreement between the insurer and the reinsurer. How it operates is that the insurer on getting the risk will shop around for a reinsurer that will accept it from him. This meant that, like primary insurance, each risk was offered individually to the reinsurer by the primary insurer, and the reinsurer could decide whether or not to accept it. This involved a great deal of time, effort and cost.

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

Treaty reinsurance: in this form, an agreement is made between the primary insurer and the reinsurer to the effect that all risks within certain parameters will be offered (cede) to the reinsurer. The reinsurer cannot decline the risk, and the primary insurer cannot select which risks to offer and which to retain. You can see that there are benefits to both parties in this form of reinsurance.

(3 marks for each correct and completely stated explanation. A maximum of 2 is graded. Sub-Total: 6 marks) (Grand Sub-Total: 14 marks)

(Grand Total: 30 marks)

18. (a) On notification of a claim, the first thing an insurer must do is identify whether the claim, as notified, is a valid one by asking a range of questions. Enumerate five (5) of such questions. (20 marks)
- (b) List and briefly explain the four (4) components of life assurance premium. (10 marks)

Solution

- (a) The range of questions to be asked are:
- was the policy, against which a claim is being made, in force at the time of the incident/event?
 - is the general nature of the claim covered by the policy in terms of both the nature of the incident and the monetary values ascribed to it?
 - are there any conditions, endorsements or restrictions contained in the particular policy that would exclude the claim?
 - is the sum insured adequate? (check for under-insurance)
 - has the insured complied with all relevant policy conditions?
 - does the person making the claim have a right to claim under the policy?
 - are there any other policies in force under which the claim could also be made?
 - is there any other reason why the insurer might wish to reject the claim

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

- (b) The components of a life assurance premium are:
 * mortality; * expenses; * investments; * contingency.

(Candidates are required to briefly explain these four components. 1½ marks for each correctly stated component. 1 mark for each correct and completely stated explanation. Sub-total per component: 2 ½ marks. Grand Sub-Total: 10 marks)

The laws or rules or regulations or codes of practice that an insurance institution is expected to comply with apart from the insurance-specific laws are:

(2 marks for each correctly stated law/rule/regulation/code of practice. Maximum of 5 to be graded. Sub-Total: 10 marks)

(Grand Total: 30 marks)