



Chartered Insurance  
Institute of Nigeria

*Chief Examiners' Report*

April 2025

*Associateship*  
*(A01-A10)*

## 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 (Intermediate and Associateship Level)
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.	Nuture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum	Avoid the Annual Students' Forum
CANDIDATES SHOULD VISIT & UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS ETC ON THE FOLLOWING SITES <a href="http://naicom.com">naicom.com</a> (NAICOM), <a href="http://nigeriainsurers.org">nigeriainsurers.org</a> (NIA); <a href="http://ncrib.net">ncrib.net</a> (NCRIB); <a href="http://ilan.com.ng">ilan.com.ng</a> (ILAN); <a href="http://ciinigeria.org">ciinigeria.org</a> (CIIN)	
INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPRIT. 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).	
STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!	



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A01

RISK, REGULATION AND CAPITAL ADEQUACY

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A01 – RISK, REGULATION AND CAPITAL ADEQUACY

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question assessed candidates' understanding of coin tossing in probability. It was attempted by 98% of the candidates, with 67% achieving a pass. This indicates a good level of understanding among the majority.

### **Question 2**

Divided into parts (a) and (b), this question examined candidates' understanding of risk-averse and risk-seeking behaviours, and the factors influencing individual risk decisions. Almost 99% attempted the question, and 61% passed, reflecting a generally satisfactory performance.

### **Question 3**

This was a straightforward question which candidates understood well. Consequently, 85% of those who attempted it passed, demonstrating strong comprehension.

### **Question 4**

81% of candidates passed this question, indicating that it was clearly stated and well understood.

### **Question 5**

This question tested knowledge of data classification and analysis. While 43% of the candidates who attempted it passed, the majority scored below average, showing gaps in understanding of the topic.

### **Question 6**

Designed to evaluate the application of probability theory, this question was attempted by a good number of candidates. Of those, 70% passed, indicating a sound understanding of theoretical concepts.

### **Question 7**

Although 89% of candidates attempted this question, only 23% passed. This suggests that many candidates struggled with interpretation, resulting in poor performance.

### **Question 8**

This question was attempted by 95% of the candidates, with 70% performing excellently. This indicates a strong grasp of the topic and good overall preparation.

### **Question 9**

This was a compulsory three-part question. While 99% attempted it, only 6% passed. Performance was especially poor in parts (a) and (b), highlighting a lack of understanding of the subject matter.

### **Question 10**

This question assessed knowledge of risk management principles, including their application and understanding of risk-related concepts. Of the 170 candidates who attempted it, 52% passed. This result is considered encouraging.

**Question 11**

A strong performance was recorded in this question, with 84% of candidates passing and many scoring above average. The overall result was excellent.

**Question 12**

67% of the candidates passed this question. However, some lost marks in part (b) due to poor arrangement and sequencing of their responses.

**Question 13**

This question was well understood by most candidates. With a 74% pass rate, performance was commendable and encouraging.

**Question 14**

This question tested knowledge of correlation types and the coefficient of determination. It was attempted by only 9% of the candidates, of whom 32% passed. Many candidates confused correlation with the coefficient of determination, leading to a below-average performance.

**Comments on Overall Performance:**

Overall, the candidates' performance (37.98%) was below average but not particularly impressive. While a few questions recorded high success rates, others showed significant gaps in understanding and application.

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

Candidates are advised to prepare more rigorously for future examinations, improve their understanding of key statistical and risk management concepts and attend tutorials as well as actively engage with the coursebook to enhance their performance.

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. If a fair coin is tossed once? What is the probability of obtaining  
(a) a head; (b) a tail; (c) a head or tail?

### Solution

The probability of:

$$\begin{aligned} \text{(a)} \quad P(\text{Head}) &= \text{number of occurrence of a head / total number of possible outcomes} && \text{(1 mark)} \\ &= \frac{1}{2} && \text{(1/2 mark)} \\ &= 0.5 && \text{(1/2 mark)} \end{aligned}$$

(Sub-Total: 2 marks)

$$\begin{aligned} \text{(b)} \quad P(\text{Tail}) &= \text{number of occurrence of a tail / total number of possible outcomes} && \text{(1 mark)} \\ &= \frac{1}{2} && \text{(1/2 mark)} \\ &= 0.5 && \text{(1/2 mark)} \end{aligned}$$

(Sub-Total: 2 marks)

$$\begin{aligned} \text{(c)} \quad P(\text{Head or Tail}) &= P(H) + P(T) && \text{(1 mark)} \\ &= \frac{1}{2} + \frac{1}{2} && \text{(1/2 mark)} \\ &= 1 && \text{(1/2 mark)} \end{aligned}$$

(Sub-Total: 2 marks) (Grand Total: 6 marks)

2. (a) With focus on insurance, define who the following are:  
(i) risk averse people; (ii) risk seeking people.  
(b) Enumerate any three (3) factors which may influence the decision of an individual person regarding how the individual perceives risk.

### Solution

(a) (i) Risk averse people are people who will always have their properties, legal obligations and lives insured adequately. (1½ marks)

(ii) Risk seeking people are people who may not likely insure their properties and even per chance if they wished to insure their properties, they might under insure. (1½ marks)

(b) The factors which may influence the decision of an individual person regarding how the individual perceives risk are:

- \* familiarity; \* level of control;
- \* personal or societal consequences; \* frequency and severity

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

Grand Total: 6 marks.

3. Life assurance premium has several components. State and briefly explain any three (3) of these components.

### Solution

The components of life assurance premium are:

- \* **mortality:** this is the component that addresses the risk of death on the proposed risk;
- \* **expenses:** this is the component that addresses the risk of costs on the proposed risk;
- \* **investment:** this is the component that addresses the investment portion related to the premium;

\* **contingency:** this is the component that addresses all other risks that are not specifically addressed by the mortality, expenses and investment components on the proposed risk.  
(1 mark for each correctly stated component. 1 mark for each correct explanation. Maximum of 3 to be graded. Sub-Total per component: 2 marks. Grand Total: 6 marks)

4. In analysing data, data can be presented pictorially in different ways and formats.  
State any three (3) methods of pictorial data presentation and explain them.

### Solution

Data can be presented pictorially through:

- \* **tables:** are data representation put in columns and/or rows;
- \* **graphs:** are data representation put in duly labelled applicable axis representation;
- \* **bar charts:** are data representation put in rectangular shapes using applicable axis representation;
- \* **pie chart:** are data representation put in pie shapes using applicable axis representation;
- \* **pictograms:** are data representation put in pictorial shapes using applicable axis representation;
- \* **frequency distribution:** are data representation categorised and represented using the frequencies of occurrences of the data being analysed.

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

5. Outline the lower class boundaries in the data given below:

Class Limits	1-5	6-10	11-15	16-20	21-25	26-30
Frequency	4	6	6	8	12	14

### Solution

Class Limits	Frequency	Lower Class Limits
1 – 5	4	0.5
6 – 10	6	5.5
11 – 15	6	10.5
16 – 20	8	15.5
21 – 25	12	20.5
26 – 30	14	25.5

(1 mark for each correctly stated lower class boundary. Total: 6 marks)

6. (a) Define the priori method of deriving probability. (2 marks)  
 (b) For events A and B, what is the probability of events A and B both occurring:  
 (i) if the events are independent; (ii) if the events are not independent? (4 marks)

### Solution

- (a) A priori method caters for those occasions when all the possible outcomes of an event are known before, or prior to, the event occurring and all of the outcomes are equally likely. (2 marks)  
 (b) i) If A and B are independent,  $P(A \text{ and } B) = P(A) \cdot P(B)$  (2 marks)  
 ii) If A and B are dependent,  $P(A \text{ and } B) = P(A) \cdot P(B/A)$  (2 marks)  
 (Grand Total: 6 marks)

7. Risk management has since moved well beyond the immediate interests of the traditional health, safety, security and insurance functions, and has now become an acknowledged part of the senior management agenda. Its rise in prominence has been due to a variety of inter-related factors. Enumerate any three (3) of these inter-related factors.



### Solution

The inter-related factors that have made risk management to rise in prominence are:

- \* the complexity of modern life, giving rise to many new risks;
- \* an increase in the frequency and severity of both natural and man-made disasters;
- \* a reduction in the willingness of society to accept risk;
- \* when an incident does occur, an increased willingness to seek compensation; and
- \* the Government's readiness to introduce safety legislation and its active encouragement of a risk managed approach to business.

**(2 marks for each correct and completely stated factor (not written verbatim). Maximum of 3 to be graded. Grand Total: 6 marks)**

8. In a data that follows the normal distribution, there are features that must be present in such a distribution. Correctly enumerate any four (4) of the features of the normal distribution.

### Solution

The features of the normal distribution are:

- \* it is a theoretical distribution;
- \* it is symmetrical;
- \* the mean lies at the point under the peak of the curve;
- \* the two tails of the curve theoretically never touch the horizontal axis;
- \* it is used in much of the statistical work concerned with sampling;
- \* specific areas under the curve lie certain standard deviations above and below the mean.

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

## Part II

### Compulsory Question.

**This question carries 50 marks.**

9. (a) According to the provision of the National Insurance Commission (NAICOM), list any four (4) operational manuals that are required to be submitted to the Commission within 90 days of operation. **(10 marks)**
- (b) (i) Outline any three (3) reasons why insurance and reinsurance companies prefer to have financial ratings. **(6 marks)**
- (ii) State and briefly explain any four (4) analytical frameworks commonly used by the rating agencies when rating insurance and reinsurance companies. **(16 marks)**
- (c) A box contains 4 red and 6 green balls, all identical in size and shape, except in colours. If two balls were picked randomly (one after the other without any replacement). Calculate the probability that:
- (i) the first ball picked was green; **(2 marks)**
  - (ii) the second ball picked was red; **(2 marks)**
  - (iii) both balls picked were of the same colour; **(7 marks)**
  - (iv) both balls picked were of different colours. **(7 marks)**
- (PLEASE SHOW ALL STEPS IN THE SOLUTION)**

### Solution

- (a) The operational manuals that are required to be submitted to the Commission within 90 days of operation are:

- \* underwriting policy manual;
- \* procedure manual;
- \* new product development manual;
- \* claims policy manual;
- \* procedure manual;
- \* complaints policy and procedure manual.

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

(b) (i) The reasons why insurance and reinsurance companies prefer to have financial ratings are:

- \* it demonstrates to policyholders that a third party has measured the likelihood of them meeting their financial commitments/obligations;
- \* it allows for financial strength comparisons between different insurance and reinsurance companies;
- \* it should allow an extremely strong insurer/reinsurer (AAA) to charge a higher premium than a good insurer/reinsurer (BBB) as the customer is buying into a stronger rated (and therefore potentially more secure) company;
- \* Brokers and customers can decide on their risk appetite by choosing the financial rating that they prefer for their insurance/reinsurance carriers, e.g. the insurance/reinsurance contract must use companies higher than A-.

**(2 marks for each correct and completely stated reason (not verbatim). Maximum of 3 to be graded. Sub-Total: 6 marks)**

(c) The analytical frameworks commonly used by the rating agencies when rating insurance and reinsurance companies are:

- \* **industry risk:** the environment framework in which insurance/reinsurance companies operate in. Typical points would be to look at the threat of new entrants, the strength of regulatory and accounting frameworks, and so on;
- \* **business review:** the profile of the business mix in terms of the competitive strengths and weaknesses. This is particularly relevant in terms of the insurance company's strategy;
- \* **management and corporate strategy:** this is the quality and credibility of an insurer's senior management team;
- \* **enterprise risk management:** the effectiveness of the risk management process across the whole enterprise;
- \* **operating performance:** simply looking at the performance ratios, loss ratio, expense ratio, combined ratio, return on equity, e.t.c.;
- \* **investments:** this is dependent on the insurer's investment portfolio performance and the extent to which the investment results contribute to the company's total profits;
- \* **capital adequacy:** this looks at the quality and level of capital required to run the business;
- \* **liquidity:** the ability to manage cash flows efficiently and easily borrow money if required;
- \* **financial flexibility:** this looks at the insurer's potential need for additional capital or liquidity in the future.

**(2 marks for each for correctly stated framework. 2 marks for each correct and completely stated explanation. Maximum of 4 frameworks to be graded. Sub-Total per framework: 4 marks. Grand Total: 16 marks)**

(d) Number of Red Balls: 4  
 Number of Green Balls: 6  
 Total Number of Balls: 10

(i)  $P(1^{\text{st}} \text{ Ball Green}) = \frac{6}{10}$  (1 mark)  
 $= 0.6$  (1 mark)

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

(ii)  $P(2^{\text{nd}} \text{ ball Red}) = \frac{4}{9}$  (1 mark)  
 $= 0.44$  (1 mark)

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

- (iii) P(both balls were of the same colour)  
 $= P(1^{\text{st}} \text{ Red and } 2^{\text{nd}} \text{ Red}) \text{ OR } P(1^{\text{st}} \text{ Green and } 2^{\text{nd}} \text{ Green})$  (2 marks)  
 $= (4/10 * 3/9) \text{ OR } (6/10 * 5/9)$  (1 mark)  
 $= (4/10 * 3/9) + (6/10 * 5/9)$  (1 mark)  
 $= (2/5 * 1/3) + (3/5 * 5/9)$  (1 mark)  
 $= (2/15) + (1/3)$  (1/2 mark)  
 $= 0.1333 + 0.3333$  (1/2 mark)  
 $= 0.4666 = 0.467$  (approximately) (1 mark)  
**(Sub-Total: 7 marks)**
- (iv) P(both balls were of different colours)  
 $= P(1^{\text{st}} \text{ Red and } 2^{\text{nd}} \text{ Green}) \text{ OR } P(1^{\text{st}} \text{ Green and } 2^{\text{nd}} \text{ Red})$  (2 marks)  
 $= (4/10 * 6/9) \text{ OR } (6/10 * 4/9)$  (1 mark)  
 $= (4/10 * 6/9) + (6/10 * 4/9)$  (1 mark)  
 $= (2/5 * 2/3) + (3/5 * 4/9)$  (1 mark)  
 $= (4/15) + (4/15)$  (1/2 mark)  
 $= (0.2667) + (0.2667)$  (1/2 mark)  
 $= 0.533$  (1 mark)  
**(Sub-Total: 7 marks)**  
**(Grand Sub-Total: 18 marks)**  
**(Grand Total: 50 marks)**

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Define risk management as learnt in the Course – A01. (3 marks)
- (b) Outline any three (3) generic meaning of risk as also learnt in the Course – A01. (6 marks)
- (c) Enumerate and describe in detail any five (5) of the processes involved in risk management as learnt in the course, A01. (25 marks)

### Solution

- (a) Risk management may simply be defined as a continuous process of identifying, analyzing, evaluating, monitoring and taking best economic control of all those risks which may threaten the assets (human and non-human) of an organization. (5 marks)

**OR**

Risk management may also be described as the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. (5 marks)

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

- (b) The generic meaning of risk as also learnt in the Course – A01 are:

- \* risk as the cause;                      \* risk as the likelihood;
- \* risk as the object;                      \* taking a risk.

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

- (c) The processes of risk management are as follows:

i) **organisation's strategic objectives:** these are long term planned objectives which an organisation is set out to achieve. Risk management generally enhances organisation's strategic objectives through the following:

- by providing a framework in terms of activities in the most sequential & guided ways for the organization;
- effective & efficient allocation and use of the organization's capital as well as other resources;
- by protecting the organization's assets from all those risks that may threaten them;
- by providing enabling environment for the people to work;
- it also aids decision making process through coordinated planning and direction of business activities;
- volatility is reduced, especially in the less important aspects of the business.

ii) **risk assessment:** it is the overall process of risk analysis and evaluation which comprise of two components of risk assessment i.e. risk analysis and risk evaluation. Risk analysis comprises of risk identification, description and estimation as briefly explained below:

- risk identification: This is a systematic way of identifying all the activities that may expose the organization to various risks.
- risk description: This is the explicit description of all the risks identified under the risk identification stage in a way that would be readily understood by all the stakeholders. The risk description stage will contain sub-headings such as the name of the risk, the scope of the risk, the nature of the risk and the stakeholders.
- risk estimation: These are the estimates both in terms of quantitative & qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as H – M – L may be employed in describing the estimate values or attributes.

H – stands for High;

M – stands for Medium or Middle;

L – stands for Low

Risk evaluation is the second and last component of risk assessment whereby opinions (judgments) are formed about the importance (value) and acceptability (appetite) of risk.

iii) **risk reporting (in terms of threats & opportunities):** this reporting both the downside and upside aspects of the risks. In other words, we are reporting on what are the threats and opportunities associated with the risks under consideration.

iv) **decision making:** take informed decisions regarding the importance and acceptability of the risks having considered the threats & opportunities they present to the organisation.

v) **risk treatment:** the process of selecting and implementing measures to modify the risk and this basically include risk avoidance, risk control, risk transfer and risk financing.

vi) **residual risk reporting:** reporting the overall information about all the risks to the appropriate stakeholders as they are all affected separately. The stakeholders are – the board, the CEO, executive management, business units/departments, departmental heads and various individuals.

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

(1 mark for each correctly stated process. 2 marks for each complete and correctly stated point under each process. Maximum of 2 points to be graded under each process. Sub-Total per process: 5 marks.

Maximum of 5 processes to be graded. Grand Sub-Total: 25 marks)

(Grand Total: 34 marks)

11. (a) Enumerate with two (2) distinct characteristics of how fundamental risks differ from particular risks? Give three (3) examples of each type of the risks. (14 marks)
- (b) List and write briefly on the four (4) components which make up life assurance premium pricing. (20 marks)

### Solution

(a)

S/N	Fundamental Risks	Particular Risks
1	They arise from causes outside the control of any individual or a group of individuals.	These risk arise from individual causes and affect individual in their consequences
2	The effect of fundamental risk is felt by a large number of people.	They are more personal in their cause and effect
3	Social change, political intervention, terrorism and war are also example of fundamental risks.	Risk is dynamic concept and particular classification of risk can move to fundamental. An example is unemployment.
4	The examples are: earthquakes, floods, famine, volcanoes and other natural disasters.	Examples are: fire, theft, work related injury and motor accidents.

(Sub-Total: 14 marks)

(2 marks for each correct and completely stated characteristics. Maximum of 2 characteristics to be graded. 1 mark for each correctly stated example under each risk type. Maximum of 3 to be graded under each type. Sub-Total per risk type: 7 marks. Grand Sub-Total: 14 marks)

- (b) The components that make up life assurance pricing include:
- \* **mortality:** is concerned with the risk of death. Actuarial table tell us the expected number of people in a group who will survive for give number of years.
  - \* **expenses:** the life assurer must also cover its expenses. Expenses include: salaries, office cost, provision of IT system and services, advertising and commission. These must be recovered.
  - \* **investments:** an estimate of investment income that will be generated in years to come is a major factor in determining the premium.
  - \* **contingencies:** the final component of the premium is a form of reserve for unexpected contingencies. The contingency factor provides this safety margin.

(3 marks for each correctly stated component. 2 marks for the correct explanation/discussion under each component. Sub-Total per component: 5 marks. Grand Sub-Total: 20 marks)

(Grand Total: 34 marks)

12. (a) Explicitly state any three (3) options available to insurance companies in case of shortfall regarding their regulatory capital. (6 marks)
- (b) Outline the procedures or stages involved in the rating process between an insurance company and a rating agency. (24 marks)
- (c) Enumerate any three (3) correct main features of a risk. (4 marks)

### Solution

(a) The options available to insurance companies in case of shortfall regarding their regulatory capital are:

- issuing new shares in a limited liability company
- borrowing
- switching out of assets

- reducing the volume of business written, particularly in lines which generate a high capital requirement
- purchasing reinsurance

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

(b) The procedures or stages involved in the rating process between the insurance company and rating agency are:

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

**(3 marks for each correct and completely stated stage. Sub-Total: 24 marks)**

(c) The main features of a risk are:

- \* uncertainty;
- \* levels or degrees of risk
- \* the cause of the loss.

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

**(Grand Total: 34 marks)**

13. (a) Correctly describe (i) the term "reinsurance". **(2 marks)**
- (b) Explicitly state any six (6) purposes of reinsurance security to insurance companies. **(12 marks)**
- (c) (i) Define a treaty reinsurance and a facultative reinsurance. **(4 marks)**
- (ii) State two (2) advantages and two (2) disadvantages of both. **(16 marks)**

### **Solution**

- (a) (i) Reinsurance may be defined or described in any of the following ways:
- as a process of insuring all or part of what has already been insured by the direct office/insurance company;
  - insurance of insurance;
  - as a further spread of insurable risks;
  - as the business of insurance across the boundaries of two or more countries; in this case, reinsurance business is regarded as an international business.
- (2 marks for any correctly stated description. Only one description required. Sub-Total: 2 marks)**

(b) The purposes of reinsurance security to insurance companies are:

- further spread of risks for the insurance companies;
- bigger capacity for the insurance companies;
- catastrophe protection;
- stabilization of claims ratio;
- profit sharing arrangement;
- it brings about confidence to the insurance companies;

- product development;
- underwriting and other financial advisory services
- solvency margin protection;
- training and development programmes.

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

(c) (i) A **treaty reinsurance** is a prior arrangement between the insurance company and a reinsurance company to place and accept certain businesses that fall within the agreed terms and conditions. (2 marks)

A **facultative reinsurance** is the placement and acceptance of business on an individual basis depending on its merit. That is, in a facultative reinsurance, there is no obligation on both the direct office and reinsurance company to place or accept the risk being placed. (2 marks)

(ii) The main advantages of a treaty reinsurance are as follows:

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

The main disadvantages of a treaty reinsurance are as follows:

- it may be more expensive for few risks' classification;
- facultative method may be sought once the treaty capacity is exhausted;
- it is not designed for certain risks referred to as hazardous risk.

(2 marks for each correct and completely stated advantage and disadvantage. Maximum of 2 under each. Sub-Total: 8 marks)

The main advantages of a facultative reinsurance are as follows:

- it is the last resort once the treaty capacity is fully exhausted;
- it is specifically designed for hazardous risks;
- it is highly flexible in the sense it could be put in place for any risk;
- no binding obligation on both parties.

The main disadvantages of a facultative reinsurance are as follows:

- it is very cumbersome in administration;
- acceptance is not automatic;
- possibility of leakages in vital information to competitors;
- possibility of loss goodwill.

(2 marks for each correct and completely stated advantage and disadvantage. Maximum of 2 under each. Sub-Total: 8 marks)

(Grand Sub-Total: 16 marks)

(Grand Total: 34 marks)

14. (a) Enumerate and explain any four (4) types of correlation. (16 marks)

b) Given the data below for variables x and y:

x	1	6	3	8	3	10	6	7	4	9
y	8	9	4	6	3	2	10	1	5	7

Calculate the co-efficient of determination, showing all steps. (18 marks)

## Solution

(a) The different types of correlation are:

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

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

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

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

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

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

Total: 4 marks. Maximum of 4 types to be graded. Grand Sub-Total: 16 marks)

(b)

	x	y	xy	x <sup>2</sup>	y <sup>2</sup>
	1	8	8	1	64
	6	9	54	36	81
	3	4	12	9	16
	8	6	48	64	36
	3	3	9	9	9
	10	2	20	100	4
	6	10	60	36	100
	7	1	7	49	1
	4	5	20	16	25
	9	7	63	81	49
<b>Sub-Total:</b>	<b>57</b>	<b>55</b>	<b>301</b>	<b>401</b>	<b>385</b>

$$\text{Co-efficient of determination, } (r^2) = \frac{a\sum y + b\sum xy - ny^2}{\sum y^2 - ny^2} \quad (2 \text{ mark})$$

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

$$b = \frac{10(301) - (57)(55)}{10(401) - (57)^2} \quad (1/2 \text{ mark})$$

$$= \frac{3010 - 3135}{4010 - 3,249} \quad (1/2 \text{ mark})$$

$$= \frac{-125}{761} \quad (1/2 \text{ mark})$$

$$b = -0.1643 \quad (1 \text{ mark})$$

$$\text{where } a = \frac{\sum y}{n} - \frac{b\sum x}{n} \quad (2 \text{ mark})$$

$$= \frac{55}{10} - \frac{(-0.1643)(57)}{10} \quad (1/2 \text{ mark})$$

$$= 5.5 + 0.9365 \quad (1/2 \text{ mark})$$

$$= 6.4365 \quad (1 \text{ mark})$$



$$\text{where } \bar{y} = \frac{\sum y}{n} \quad (2 \text{ mark})$$

$$= \frac{55}{10} \quad (1/2 \text{ mark})$$

$$= 5.5 \quad (1 \text{ mark})$$

$$\text{Co-efficient of determination } (r^2) = \frac{a\sum y + b\sum xy - ny^2}{\sum y^2 - ny^2} \quad (2 \text{ mark})$$

$$= \frac{6.4365(55) + (-0.1643)(301) - 10(5.5)^2}{385 - 10(5.5)^2} \quad (1/2 \text{ mark})$$

$$= \frac{354.01 - 49.45 - 302.5}{385 - 302.5} \quad (1/2 \text{ mark})$$

$$= \frac{2.06}{82.5} \quad (1/2 \text{ mark})$$

$$= 0.02497 \quad (1/2 \text{ mark})$$

$$r^2 = 0.02497 * 100\% = 2.497\% \quad (1 \text{ mark})$$

**(Sub-Total: 18 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A02  
REINSURANCE: PRINCIPLES AND APPLICATION

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A02 – REINSURANCE: PRINCIPLES AND APPLICATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question was well attempted by the majority of the candidates. Approximately 80% scored above average. The question, which focused on three basic functions of retention and the types of risks or losses it covers, was clearly understood.

### **Question 2**

Focused on the retention capacity in treaty reinsurance, this question was attempted by over 95% of the candidates, with a pass rate of 78%. The responses demonstrated a good level of understanding of the subject matter.

### **Question 3**

This question tested candidates' knowledge of reciprocity in reinsurance. A large number of candidates attempted it, with 75% performing excellently and the remaining 25% achieving average performance.

### **Question 4**

Candidates were asked to list global rating organisations and identify certain outward expenses incurred by insurance organisations. The question was well received, and over 80% of candidates passed, indicating a high level of familiarity with the topic.

### **Question 5**

This calculation-based question assessed knowledge of net retention and gross capacity. Around 55% of the candidates answered correctly, while others struggled with the computations. Overall, performance was encouraging, with 60% scoring above average.

### **Question 6**

This question tested the application of statistical methods in estimating Incurred But Not Reported (IBNR) claims and reserve management. Although widely attempted, performance was poor, with only 24% of candidates passing.

### **Question 7**

Part (a) of the question dealt with risk excess of loss and event excess of loss treaties. Of all the candidates who attempted it, 60% performed well, while 40% achieved average scores. Part (b) focused on the interlocking clause. It was widely attempted, but only 45% provided correct answers, while 55% performed below average.

### **Question 8**

This question required candidates to calculate premiums for excess of loss and stop-loss treaties. While over 90% of candidates attempted it, the majority lacked the knowledge to calculate stop-loss premiums correctly, resulting in a poor performance.

### **Question 9**

As a compulsory question, it was attempted by about 99% of the candidates. The pass rate was 55%. The computational part was straightforward and well answered, while the prose section was also fairly well handled.

**Question 10**

This question was poorly attempted, with only 35% of candidates selecting it and fewer than 10% passing. Many candidates struggled to identify and explain the clauses associated with treaties on a risk-attaching basis. However, performance was relatively better in part (b), which asked for the advantages of a surplus treaty over a facultative arrangement.

**Question 11**

This elective question tested the advantages and disadvantages of combining treaty reinsurance. It was attempted by about 85% of the candidates, with a pass rate of 67%, indicating a satisfactory performance.

**Question 12**

Focused on various clauses and warranties in reinsurance policies, this question was attempted by all candidates. Performance was impressive, with 80% scoring well and only 20% performing below average.

**Question 13**

This optional three-part question covered the design of a placement slip for facultative reinsurance and the requirements for claims and recoveries. Candidates who attempted it demonstrated a good grasp of the topic, resulting in a high pass rate.

**Question 14**

This was a less common question, attempted by fewer than 10% of candidates. However, among those who did attempt it, the pass rate was encouraging at 60%.

**Comments on Overall Performance:**

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

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

Candidates are encouraged to prepare thoroughly for examinations. Emphasis should be placed on mastering both theoretical concepts and practical computations to ensure well-rounded performance.

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. (a) Give a simple definition of retention. (4 marks)
- (b) What type of risk or loss does retention cover? (2 marks)

### Solution

(a) The retention of an insurer is the limit of liability (2 marks), usually expressed as a monetary amount (1 mark), which the insurer retains for its own net account after reinsurance is ceded (1 mark).

(4 marks)

- (b) The retention may apply to a single risk or a series of risks or for a single loss or series of losses. (2 marks)

(Grand Total: 6 marks)

2.. A surplus treaty has a maximum retention of ₦5million and 9 lines. The insurance company does not have any other reinsurance protection for this line of business.

- (a) What is the maximum line that can be written by the insurer to stay within the treaty terms? (4 marks)
- (b) What is the maximum monetary exposure of the reinsurer? (2 marks)

### Solution

- (a) The gross capacity = the retention plus the treaty capacity (2 marks)  
= ₦5million + (9 \* ₦5million) (1 mark)  
= ₦50million (1 mark)

(Sub-Total: 4 marks)

- (b) Monetary exposure of the reinsurer = (9 \* ₦5million) (1 mark)  
= ₦45million (1 mark)

(Sub-Total: 2 marks)

(Grand Total: 6 marks)

3. Reciprocity in reinsurance is a significant concept. State the two (2) principal objectives of reciprocity.

### Solution

The two objectives of reciprocity are to:

- replace the premium ceded to a reinsurer by the acceptance of a comparable volume of reinsurance premium from them;
- increase the geographical spread of an insurer's net retained business through the acceptance of business from countries in which it does not write insurance business itself.

(3 marks for each correct and completely stated objective. Total: 6 marks)

4. (a) State any three (3) global rating agencies that are popular in reinsurance industry.
- (b) List three (3) outgo in a profit commission statement.

### Solution

- (a) The global rating agencies that are popular in reinsurance industry are:
  - AM Best Rating Agency; \* Standard & Poor's Rating Services;
  - Fitch IBCA, Duff & Phelps Rating Agency; \* Moody's Investors Service(1 mark for each correctly stated agency. Maximum of 3 to be graded. Sub- Total: 3 marks)

- (b) The outgo in a profit commission statement are:

- claims paid during the current year;
- commissions paid during the current year;
- unearned premium reserve for the current year;
- losses outstanding at the end of current year;
- reinsurer's expenses;
- deficit brought forward from previous year(s).

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

(Grand Total: 6 marks)

5. An insurer has a maximum gross retention of ₦2,000,000.00 and a 9-line surplus treaty.

The gross retention is protected by a 50% quota share. There is no other reinsurance program in place.

- Calculate the insurer's net retention.
- Calculate the insurer's gross capacity.

**Solution**

- The Gross Retention = ₦2,000,000.00

A 50% quota share will cede 50% to QS reinsurer, leaving the reinsured with 50% as net retention.

$$\begin{aligned} \text{Net Retention} &= 50\% * ₦2,000,000.00 && (2 \text{ mark}) \\ &= ₦1,000,000.00 && (1 \text{ mark}) \end{aligned}$$

- $$\begin{aligned} \text{Gross Capacity} &= \text{Maximum Gross Retention} + \text{Maximum Surplus Treaty Capacity} \\ &= ₦2,000,000.00 + (₦2,000,000.00 * 9) && (1 \text{ mark}) \\ &= ₦20,000,000.00 && (2 \text{ marks}) \end{aligned}$$

(Grand Total: 6 marks)

6.
  - State any three (3) statistical methods used to estimate IBNR reserves.
  - State any two (2) reasons why the regulator may require insurers to hold premium reserves on the premium ceded to foreign reinsurers.

**Solution**

- The statistical methods used to estimate IBNR reserves are:

- Chain Ladder Method; \* Expected Loss Ratio;
- Bornhuetter Ferguson (BF) Method \* Average Cost Per Claim method;

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

- The reasons why the regulator may require insurers to hold premium reserves on the premium ceded to foreign reinsurers are to:

- protect domestic insurers from transferring funds to foreign reinsurers;
- assist the monitoring of the solvency of companies under their control for protection of policyholders;
- permit a greater proportion of the reinsured's funds to be used for local investment.

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

(Grand Total: 6 marks)

7.
  - Differentiate between a risk excess of loss and event excess of loss treaty, with at least two (2) distinct features. (4 marks)
  - Describe an interlocking clause. (2 marks)

### Solution

(a) The main difference between a risk and event excess of treaties is the type of loss covered. Also, the risk excess of loss treaty covers losses emanating from single risks, the event excess of loss covers losses emanating from events that affect many risks at the same time. Event excess of loss covers are sometimes referred to catastrophe excess of loss. The event of loss treaty will usually contain a two-risks warranty clause, which the risk event of loss will not usually contain.

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

(b) An interlocking clause included in a non-proportional treaty wording underwritten on a risk attaching basis, to apportion claims arising from the same loss over consecutive treaty periods.

(2 marks)

(Grand Total: 6 marks)

8. You are an outwards reinsurance analyst for Loyalty Insurance Plc, a non-life insurer. Loyalty Insurance Plc has three outward reinsurance non-proportional treaties with their respective premium terms:

- Risk Excess of Loss: 2% of the GWP
- Catastrophe Excess of Loss: 5% of the GWP
- Stop Loss: 5% of the gross net retained premium.

The annual gross written premium (GWP) for the property risks is ₦100,000,000.00.

- (a) Calculate the premium payable on the risk excess of loss treaty.  
(b) Calculate the premium payable on the catastrophe excess of loss treaty.  
(c) Calculate the premium payable on the Stop loss treaty

### Solution

(a)	Risk XL Premium	=	2% * ₦100,000,000.00	(1 mark)
		=	₦2,000,000.00	(1 mark)
			(Sub-Total: 2 marks)	
(b)	Catastrophe XL premium	=	5% * ₦100,000,000.00	(1 mark)
		=	₦5,000,000.00	(1 mark)
			(Sub-Total: 2 marks)	
(c)	Gross Net Premium Income	=	₦(100,000,000 – 2,000,000 – 5,000,000)	(½ mark)
		=	₦93,000,000.00	(½ mark)
	Stop Loss Premium	=	5% * ₦93,000,000.00	(½ mark)
		=	₦4,650,000.00	(½ mark)
			(Sub-Total: 2 marks)	
			(Grand Total: 6 marks)	

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) The current Management of National Insurance Commission (NAICOM) unveiled priorities to transform the insurance industry. The aim is the safety and soundness of the sectors. State any four (4) of these five transformational focus drives. (10 marks)
- (b) State four (4) factors a reinsurer will consider when pricing a non-proportional treaty. (10 marks)



- (c) An XL (Excess of Loss) treaty with an EGNPI (Estimated Gross Net Premium Income) of ₦40m has the following structure:

Layer	Cover	Deductible	To Earn Premium	Reinstatement Condition
1	15m	5m	5m	2 @ 100
2	35m	20m	1.75m	1 @ 100

- (i) Calculate the adjustable rate for each layer and for the programme. (9 marks)
- (ii) Calculate the rate on line for each layer and for the programme. Explain the intuitive meaning of the concept of rate on lines. (8 marks)
- (d) The company negotiated to pay the minimum and deposit premium at 80% of the earned premium. Calculate the Minimum Deposit Premium (MDP) for each layer and for the programme. (6 marks)
- (e) At the close of the year, the actual GNPI recorded was ₦36m. Calculate the additional premium to be paid by the cedant, if any. (7 marks)

### Solution

- (a) The five transformational drive of the current Management of NIACOM recently released are:
- safeguarding policy holder and restoring public confidence in the sector;
  - improving the safety and soundness of insurance industry;
  - strengthening supervisory and regulatory capacities;
  - fostering innovation and sustainability;
  - penetration of insurance products across the country.
- (2½ marks for each correctly stated manual. Maximum of 4 points to be graded. Total: 10 marks)
- (b) The factors that a reinsurer will consider when pricing a non-proportional treaty are:
- exposure in the portfolio to be covered such as the sum insured per risk and aggregate exposure to natural perils;
  - required limits of cover; \* past claims experience;
  - assumptions made regarding IBNE claims; \* reinstatement provisions;
  - reinsurer's expenses including reinsurance brokerage and the cost of retrocession;
  - inflation and clauses designed to mitigate its effect at the reinsurance level.
- (2½ marks for each correct and completely stated factor. Maximum of 4 to be graded. Sub-Total: 10 marks)
- (c) (i) Adjustable Rate = To Earn Premium/EGNPI (3 marks)
- |                 |   |         |          |           |
|-----------------|---|---------|----------|-----------|
| Layer 1         | = | 5/40    | = 12.5%  | (2 marks) |
| Layer 2         | = | 1.75/40 | = 4.38%  | (2 marks) |
| Total Programme | = | 6.75/40 | = 16.88% | (2 marks) |
- (Sub-Total: 9 marks)
- (ii) Rate on Line = To Earn Premium/Cover (3 marks)
- |                 |   |         |          |          |
|-----------------|---|---------|----------|----------|
| Layer 1         | = | 5/15    | = 33.33% | (1 mark) |
| Layer 2         | = | 1.75/35 | = 5.00%  | (1 mark) |
| Total Programme | = | 6.75/50 | = 13.50% | (1 mark) |
- Meaning of Rate on Line:** The rate on line provides information on the return period of the layer. It provides an estimate of the frequency of losses expected in the layer. For example, layer 1 with rate on line of 33.33% suggests a frequency of 33.33% or a return period of 1-in-3 years. (2 marks)

(Sub-Total: 8 marks)

- (d) To calculate the Minimum Deposit Premium (MDP)  
The MDP is at 80%
- |                 |   |                                |                           |           |
|-----------------|---|--------------------------------|---------------------------|-----------|
| Layer 1         | = | 80% * <del>N</del> 5million    | = <del>N</del> 4million   | (2 marks) |
| Layer 2         | = | 80% * <del>N</del> 1.75million | = <del>N</del> 1.4million | (2 marks) |
| Total Programme | = | 80% * <del>N</del> 6.75million | = <del>N</del> 5.4million | (2 marks) |
- (Sub-Total: 6 marks)
- (e) Premium Adjustment = Final Premium is the Adjustable Rate \* Actual Premium (2 marks)
- |         |   |                                |                             |          |
|---------|---|--------------------------------|-----------------------------|----------|
| Layer 1 | = | 12.5% * <del>N</del> 36million | = <del>N</del> 4.5million   | (1 mark) |
| Layer 2 | = | 4.38% * <del>N</del> 36million | = <del>N</del> 1.575million | (1 mark) |
| Total   | = | <del>N</del> (4.5 + 1.575)     | = <del>N</del> 6.075million | (1 mark) |
- This is higher than the M&DP, hence additional premium is required (1 mark)
- Additional Premium = ~~N~~(6.075 – 5.4) = ~~N~~0.675million. (1 mark)
- (Sub-Total: 7 marks)  
(Grand Sub-Total: 30 marks)  
(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. You are the reinsurance manager in Triumph Insurance Company (Triumph). The reinsurance protection had always been largely facultative with excess of loss treaty protecting the net account. A Board member has suggested that a surplus treaty written on risk attaching basis will better suit the company than the facultative arrangements.
- (a) State and describe five (5) clauses you will find on treaty written on risk-attaching basis. (20 marks)
- (b) Explain any four (4) factors that will support having a surplus treaty instead of facultative arrangements for a reinsurance arrangement by a ceding company. (14 marks)

### Solution

- (a) The clauses that should be found on any treaty written on risk-attaching basis are:
- portfolio transfer; \* cession limit; \* event limit;
  - basis of the treaty; \* treaty capacity; \* financial issues;
  - legal issues.
- (Candidates are required to also describe the clauses. 2 marks for each correctly stated clause. 2 marks for each correct and completely stated explanation. Sub-Total per clause: 4 marks. Sub-Total: 20 marks)
- (b) The factors that will support having a surplus treaty instead of facultative arrangements for a reinsurance arrangement by a ceding company are:
- where long-term relationship is of importance, it is better to reinsure using treaty rather than facultative;
  - where there is a large number of risk in the portfolio with similar size, treaty offers better administration than facultative;
  - treaty offers automatic acceptance but with facultative, we are not sure of obtaining reinsurance cover;
  - the cost of administration of a treaty is cheaper than the cost of administering facultative reinsurance especially where a large number of risks is involved;
  - with treaty reinsurance, continuity of cover and in deed, the relationship, is possible;

- treaty allow for other long-term commission such as profit commission which is a way of sharing in the profit ceded to the reinsurers.

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

**(Grand Total: 34 marks)**

11. (a) Your company currently maintains different reinsurance treaty programmes for marine separate from aviation. The reinsurance broker has suggested combining the two classes together under one reinsurance treaty. Explain three (3) advantages and three (3) disadvantages of combining the two classes.  
**(24 marks)**
- (b) Explain any four (4) factors that should be considered in selecting a reinsurance broker.  
**(10 marks)**

### **Solution**

- (a) Advantages of combining the two classes together under one reinsurance treaty are:
- reinsurance requirements are similar across classes;
  - ease of administration;
  - allows small companies to include classes considered too small to have their separate treaties within their main treaty;
  - the insurer maintains flexibility by purchasing different limits under excess of loss treaties for different classes.

Disadvantages of combining the two classes together under one reinsurance treaty are:

- the insurer is unable to split reinsurance costs accurately between departments;
- a common retention level applies to all classes for excess of loss cover;
- it is more difficult for the reinsurer to exercise underwriting judgement since the results of different classes are obscured;
- different classes of business may end up subsidizing one another.

**(4 marks for each correct and completely stated advantage/disadvantage. Maximum of 3 to be graded under each. Sub-Total: 24 marks)**

- (b) The factors that should be considered in selecting a reinsurance broker are:
- what the insurer requires from the broker; \* expertise of the broker;
  - financial stability and probity of the broker; \* reputation;
  - ability of the broker to offer value-added security vetting of reinsurers.

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

**(Grand Total: 34 marks)**

12. Describe the following clauses that could be found in a reinsurance treaty:
- |  |   |
|--|---|
| (a) hours clause <b>(7 marks);</b>       | (b) two risk warranty <b>(7 marks);</b>     |
| (c) event limit <b>(7 marks);</b>        | (d) applicable law clause <b>(7 marks);</b> |
| (e) claims cooperation <b>(6 marks).</b> |   |

### **Solution**

- (a) **Hours Clause:** catastrophe treaties are intended to protect the reinsured against the risk of an accumulation of claims arising out of specific unexpected sudden and external events which can be located in time and place. Sometimes, it can be difficult to separate the circumstances which together constitute the catastrophe. The clause enables the treaty to cover all damage arising out of the same insured event within a specified number of hours, even though in reality there may be interludes when there is no activity.

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

(b) **Two Risk Warranty:** Catastrophe treaties are not expected to cover the loss arising out of a large single risk nor underestimation of the EML for one risk. Usually, the catastrophe deductible would be a multiple the reinsured's per risk retention. Alternatively, the reinsurer would require that more than one risk has to be damaged by the insured peril before the catastrophe treaty will operate.

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

(c) **Event Limit:** the limit on the treaty is the extent of the reinsurer's liability. However, there I often an event limit written into a per risk treaty whereby the reinsurer's liability is restricted to a specific sum, say the equivalent of five total losses under the treaty, arising out of a particular event such as earthquake.

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

(d) **Applicable Law Clause:** This has been included in many wordings in recent years. The clause specifies the law of a country that would apply in case of a dispute. It is a fallout of the treaty of Rome decision which indicated that if there was no clear jurisdiction indication in the contract, the jurisdiction was to be the place most suitable for the contract.

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

(e) **Co-insurance Clause:** to encourage prudent underwriting and acceptance policy on the part of the reinsured, catastrophe reinsurance contracts often contain a co-insurance clause, whereby the reinsured has to bear a fixed percentage of all losses.

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

(Grand Total: 34 marks)

13. You are designing an ICT system to capture the necessary information required to administer a proportional facultative placement.

(a) State ten (10) items to help with the policy administration. (20 marks)

(b) State four (4) items to help with the claims administration. (14 marks)

#### **Solution**

(a) The items to help with the policy administration of a proportional facultative placement policy are:

- unique reference produced by the reinsured, intermediary or reinsurer;
- intermediary identifier; \* name of the original insured;
- location of the risk; \* period of original insurance and reinsurance;
- perils covered; \* original currency of the limit and premium;
- reinsured's retention, usually expressed as a percentage;
- reinsurance placement, usually expressed as a percentage;
- order involved – whole or part; \* original gross rate;
- original commission; \* original taxes and other charges;
- any other deductions applicable \* reinsurer's written line;
- reinsurance brokerage including any specific override; \* reinsurer's signed line.

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

(b) The items to help with the claim administration of a proportional facultative placement policy are:

- unique claims reference; \* date of loss; \* cause of the loss;

- details of the circumstances of the loss, usually in form of a report;
  - estimate of the original incurred loss for 100% amount;
  - summary of settled amounts and corresponding changes to outstanding reserve amounts
- (2½ marks for each correct and completely stated factor. Maximum of 4 to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

14. (a) Goodness insurance company has the following annual excess of loss reinsurance treaty with inception date of 1 January 2024. It is on a loss occurring basis with the following details.

Layer	Limit	xs	Deductible	Number of Reinstatement
1	500,000	xs	500,000	3
2	1,000,000	xs	1,000,000	2
3	1,000,000	xs	2,000,000	1

Goodness recorded the following losses in Year 2024:

- 15 March 2024: Flood affecting multiple property in Lagos with a value of ₦3,500,000.00
- 30 June 2024: Confirm Flourmills = ₦2,500,000.00
- 15 Dec 2024: Fire at Conko Breweries = ₦2,750,000.00.

Calculate the recovery to be made from each loss. (24 marks)

- (b) Describe the components of premium (i.e. how the final premium charged is built up from claims to expenses, profit and deviations from the expected).

(10 marks)

### Solution

- (a) The first loss on 15 March 2024: event loss with a value of ₦3,500,000.00. Deductible = ₦500,000.00 leaving a total of ₦3,000,000.00 as exceeding the deductible. (2 marks)

The recovery will be allocated as follows:

Layer 1: ₦500,000.00 (1 mark)

Layer 2: ₦1,000,000.00 (1 mark)

Layer 3: ₦1,000,000.00 (1 mark)

Total Recovery: ₦2,500,000.00 (1 mark)

Loss Exceeding the Programme =

$$₦(3,500,000.00 - 500,000.00 - 3,000,000.00) = ₦500,000.00$$

(2 marks)

The second loss of ₦2,500,000.00

(2 marks)

Layer 1 to 3 have been reinstated after the first loss and its now available for the second loss. (1 mark)

Deductible is ₦500,000.00 (1 mark)

Layer 1: ₦500,000.00 (1 mark)

Layer 2: ₦1,000,000.00 (1 mark)

Layer 3: ₦500,000.00 (1 mark)

Third loss of ₦2,750,000.00 (2 marks)

Layer 1 and 2 have been reinstated while layer 3 has unused ₦500,000.00 (2 marks)

Deductible is ₦500,000.00 (1 mark)

Layer 1: ₦500,000.00 (1 mark)

Layer 2: ₦1,000,000.00 (1 mark)

Layer 3: ₦500,000.00 (only the unused can be recovered and the layer cannot reinstated again) (2 marks)

(Sub-Total: 24 marks)

(b) The components of premium (i.e. how the final premium charged is built up from claims to expenses, profit and deviations from the expected) are:

- **risk premium:** this is the level of premium that must be charged to cover the present value of the future cost of claims. present value of claims because the reinsurer has the benefit of investing the premium while claims are paid in the future;
- **contingency loading:** this covers the unexpected claims that may arise in the future. the loading provides a buffer for the reinsurer to ensure it remains solvent. the amount will increase with the level of riskiness of the business;
- **expense loading:** this is the amount that is charged to cover the reinsurer's administrative expenses;
- **profit loading:** this loading enables the reinsurer to allow for its profit expectation in the price charged. the profit will cover shareholders' dividends or return on capital.

(1½ marks for each correctly stated component. 1 mark for each correct and completely stated explanation. Sub-Total per component: 2½ marks. Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A03

FINANCE AND ACCOUNTING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A03 – FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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



## **Chief Examiner's Comments**

### **Question 1**

This compulsory short-answer question assessed candidates' understanding of the classification of ledger accounts. It was attempted by nearly all the candidates, with 52% achieving a pass mark. The attempt rate was excellent, but overall performance indicates room for improvement.

### **Question 2**

This question tested the distinction between underwriters and insurance results. It was attempted by all candidates; however, only 42% passed. The low pass rate suggests that candidates need a better grasp of these fundamental concepts.

### **Question 3**

The question evaluated candidates' knowledge of stakeholders in financial statements. It was universally attempted, with an impressive 91% achieving a pass mark. This indicates a strong understanding of the topic, and candidates are encouraged to maintain this level of preparation.

### **Question 4**

This question examined candidates' understanding of the regulations guiding the distribution of profits by public liability companies. Although 88% attempted it, only 23% passed. This area of the syllabus appears to be poorly understood and should be given more attention.

### **Question 5**

Candidates were tested on the regulator's approach to supervisory functions. All candidates attempted this question, and 59% passed. While this is a common topic, the performance was average, possibly due to inadequate preparation.

### **Question 6**

The question focused on operational expenses incurred by insurance companies. It was attempted by 98% of the candidates, and 87% passed. This encouraging performance may reflect increased attention to the course content by candidates.

### **Question 7**

This question tested candidates' knowledge of the differences between an associated company, a subsidiary, and a joint venture. It was attempted by 96% of the candidates, with an 81% pass rate, indicating strong understanding and good preparation.

### **Question 8**

This question assessed candidates' knowledge of the provisions of the Companies Act relating to the inclusion of accounts in consolidation. It was attempted by 85% of candidates, with a 65% pass rate. While performance was above average, candidates are advised to deepen their understanding of this aspect of the syllabus.

### **Question 9**

As the main compulsory question carrying 50 marks, it was attempted by all candidates. However, only 21% passed. The question focused on the interpretation of final accounts of insurance companies, and the low performance suggests that candidates need to strengthen their analytical skills in this area.

**Question 10**

This question examined investment appraisal techniques (Net Present Value, Payback Period, and Accounting Rate of Return). It was poorly attempted, with only 27% of candidates attempting it. However, among those who did, 66% passed. Candidates are encouraged to engage more confidently with the quantitative aspects of the syllabus.

**Question 11**

The question assessed knowledge of standard costing and types of costing. It was attempted by 85% of candidates, with 80% achieving a pass mark. Performance was commendable, and candidates are advised to maintain this momentum in future examinations.

**Question 12**

This question combined the concept of cash flow statements with the rules governing profit distribution in quoted companies. Unfortunately, only 25% of candidates attempted it, and performance was very poor, with just 7% passing. This indicates a major gap in understanding that should be urgently addressed.

**Question 13**

The question required candidates to use diagrams to explain the stages of the effective planning process and to describe types of budgeting along with their advantages and disadvantages. It was attempted by 78% of candidates, but only 48% passed. This basic course content should be better mastered through improved study efforts.

**Question 14**

Candidates were tested on the differences between brokers and agents, as well as the functions of intermediary trade associations. The question was well received, with 84% of candidates attempting it and a remarkable 97% pass rate. This reflects a strong familiarity with the topic.

**Comments on Overall Performance:**

The overall pass rate stood at 59%. This reflects an improvement compared to previous examinations. However, there is still room for better performance across several key areas.

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

Candidates are strongly encouraged to intensify their study efforts and engage more comprehensively with the coursebook. Greater focus should be placed on understanding regulatory concepts, financial analysis, and quantitative techniques. Continuous revision and practice are key to achieving excellence in future examinations.

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Enumerate any three (3) main classifications of accounts and their subdivisions.

### Solution

The main classification of accounts and their sub-division are:

- Real Accounts – Lasting or real things such as cash, land, e.t.c.
- Nominal Account – this could be
- Personal – accounts for people such as debtor and creditor
- Impersonal – account for all other e.g. wages, sales.

(1 mark for correctly stated classification. 1 mark for correctly stated sub-division. Sub-Total per classification. Maximum of 3 to be graded. Grand Sub-Total: 6 marks)

2. (a) Differentiate between underwriting result and insurance result as it relates to finance/accounts. (4 marks)
- (b) Define the term “solvency margin”. (2 marks)

### Solution

(a) **Underwriting Result:** for the majority of companies at present is the profit or loss which is transferred to the profit and loss account (2 marks); while **Insurance Result** represents the profit or loss on Insurance business before investment income is attributed (2 marks). (Sub-Total: 4 marks)

(b) **Solvency margin** is the excess of the value of (an insurer’s) assets over the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulation. (2 marks)

(Grand Total: 6 marks)

3. Enumerate any six (6) interested parties in Financial Statements (Annual Reports and Audited Accounts) of an insurance company.

### Solution

Interested parties in Financial Statements (Annual Reports and Audited Accounts) of an insurance company are:

- \* shareholders;                      \* policyholders;                      \* investment analyst and commentators;
- \* reinsurance security advisor;                      \* other insurers;
- \* internal management;                      \* staff or employees                      \* regulator.

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

4. What two (2) rules guide the distribution of profits by a public liability company and what additional restriction is on such public liability company as it relates to unrealised profits?

### Solution

The two rules that guide the distribution of profits by a public liability company are that:

- a company shall not make a distribution except out of profit available for the purpose; and
- a company’s profits available for distribution are its accumulated realised profits.

The additional restriction on such public liability company as it relates to unrealised profits are that a company shall not apply an unrealised profit in paying up debentures.

(2 marks for each correctly stated rule. 2 marks for the correct and completely stated restriction. Total: 6 marks)

5. Enumerate any four (4) ways by which the insurance regulator may approach the issue of supervision or regulation of insurance industry practitioners.

**Solution**

The various ways by which the insurance regulators may approach the issue of supervision or regulation of industry practitioners are to:

- \* set up requirements for compulsory insurance;
- \* control of managers;
- \* limitation of expense charges;
- \* financial requirement – deposits, minimum capital, solvency;
- \* power of direction and other intervention;
- \* authorisation of insurers;
- \* regulation of policy conditions;
- \* controls on advertising and marketing

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

6. (a) In accounting, a debit balance represents a/an..., ... or .... A credit balance represents a/an ..., ... or ... .
- (b) There are operating expenses incurred by insurance companies in the carrying out of their duties. Enumerate any three (3) of the components of such “net operating expenses”.

**Solution**

(a) **Debit Balance:** An asset/ Expense/ Loss

**Credit Balance:** Liability/Income/Profit

(1½ mark for each correctly stated representation. Sub-Total: 3 marks)

- (b) The components of such “net operating expenses” are:
- \* acquisition costs;
  - \* administrative expenses;
  - \* reinsurance profit participation.
  - \* change in deferred acquisition cost;
  - \* reinsurance commissions;

(1 mark for each correctly stated component. Maximum of 3 to be graded. Sub-Total: 3 marks)  
(Grand Total: 6 marks)

7. By way of definitions, differentiate between an associated company, a subsidiary company and a joint venture.

**Solution**

**An Associated Company:** is an undertaking in which (a company) included in the consolidation has a participating interest and over whose operating and financial policy it exercises a significant influence and which is not a subsidiary or joint venture.

**A Subsidiary Company:** this is a company that is owned or controlled by another company, which is called the parent company or holding company.

**A Joint Venture:** this is a commercial enterprise undertaken jointly by two or more parties which otherwise retain their distinct identities.

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

8. The Company Act requires that all subsidiaries should be included in a consolidation except for certain reasons. Outline any three (3) of such reasons.

**Solution**

Some of the reasons that makes it not required for the inclusion of subsidiaries in a consolidation are if:

- inclusion is not material for giving a true and fair view;
- severe long-term restrictions substantially hinder the parent company’s rights over assets or managements of the subsidiary;

- necessary information cannot be obtained without disproportional expense or undue delay;
- the interest of the parent company is held exclusively for resale and the subsidiary has not previously been consolidated;
- the activity of the subsidiary is so different from those of other group undertakings as to make inclusion incompatible with the true and fair view

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

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) It is a requirement by the National insurance Commission that insurance company shall keep and maintain a register of return or refund premiums in hard copy where transactions are to be entered on the day they are made. List eight (8) items that should be stated in the register. (10 marks)
- (b) The following are the financial statements of Main Season Global Resources Limited for the year ended 31st December 20X2

#### Income Statement for the Year Ended 31st December, 20X2

	N'000	N'000
Sales (Revenue)		99,500
Cost of Sales:		
Opening Inventory	15,000	
Materials	25,500	
Labour	16,000	
Factory Overheads	20,500	
Depreciation	4,500	
Closing Inventory	(15,500)	
		66,000
Gross Profit		33,500
Expenses:		
Selling and Administration	12,400	
Finance Cost (Interest)	3,500	
		15,900
Profit before Taxation		17,600
Taxation		(6500)
Profit after Tax		11,100

#### Statement of Financial Position as at 31st December 20X3

	N'000	N'000
Non Current Assets:		
Property, Plant and Equipment		76,500
Current Assets:		
Inventory	15,000	
Trade Receivables	17,000	
Bank	5,000	
		37,500
Total Assets		114,000
Equities:		
Ordinary Share Capital	45,000	

Retained Profit	10,500	
		55,500
Non Current Liabilities :		
Loan		22,000
Current Liabilities:		
Trade Payables	23,500	
Others	13,000	
		36,500
Total Liabilities		58,500
Total Equity and Liabilities		114,000

You are required to calculate the following (showing all workings):

- |                                  |  |
|----------------------------------|--|
| (a) Gross Profit Percentage;     | (b) Net Profit as Percentage of Sales; |
| (c) Current Ratio;               | (d) Acid Test or Quick Asset Ratio;    |
| (e) Shareholders Equity Ratio;   | (f) Return on Assets                   |
| (g) Return on Equity;            | (h) Total Assets Turnover;             |
| (i) Non Current Assets Turnover; | (j) Gearing Ratio. (40 marks)          |

### Solution

- (a) The ways in which the register shall be presented are:

- \* date of transaction;                      \* policy number;                      \* policy period;
- \* name of client;                              \* name of insurer/broker/agent;
- \* gross premium received with date;                      \* commission paid with date;
- \* net premium;                              \* excess premium returned/refunded;
- \* reasons for the return or refund premium.

(1¼ marks for each correctly stated requirement. Maximum of 8 to be graded. Total: 10 marks)

- (b) (i) Gross Profit Percentage =  $\frac{33,500,000}{99,500,000} \times 100\%$  (2 marks)
- = 33.7% (2 marks)
- (ii) Net Profit Percentage of Sales =  $\frac{17,600,000}{99,500,000} \times 100\%$  (2 marks)
- = 17.7% (2 marks)
- (iii) Current Ratio = Current Assets: Current Liabilities (2 marks)
- = 37,500,000 : 36,500,000
- = 1.03:1 (2 marks)
- (iv) Acid Test Ratio = Current Assets - Inventory: Current Liabilities (2 marks)
- = (37,500,000 - 15,500,000): 36,500,000
- = 0.6:1 (2 marks)
- (v) Shareholders Equity Ratio =  $\frac{\text{Owners' Equity}}{\text{Total Assets}} \times 100\%$  (2 marks)
- =  $\frac{55,500,000}{114,000,000} \times 100\%$
- = 48.7% (2 marks)

(vi)	Return on Assets	=	$\frac{\text{Profit Before Interest and Tax}}{\text{Total Assets}} \times 100\%$	(2 marks)
		=	$\frac{21,100,000}{114,000,000} \times 100\%$	
		=	18.5%	(2 marks)
(vii)	Return on Equity	=	$\frac{\text{Profit after Interest and Tax}}{\text{Owners' Equity}} \times 100\%$	(2 marks)
		=	$\frac{11,100,000}{55,500,000} \times 100\%$	
		=	20%	(2 marks)
(viii)	Total Assets Turnover	=	$\frac{\text{Sales}}{\text{Total Assets}} \times 100\%$	(2 marks)
		=	$\frac{99,500,000}{114,000,000} \times 100\%$	
		=	87.3%	(2 marks)
(ix)	Non-Current Assets Turnover	=	$\frac{\text{Sales}}{\text{Non Current Assets}} \times 100\%$	(2 marks)
		=	$\frac{99,500,000}{76,500,000} \times 100\%$	
		=	1.30%	(2 marks)
(x)	Gearing Ratio	=	$\frac{\text{Long Term Debt}}{\text{Equity}}$	(2 marks)
		=	$\frac{22,500,000}{55,500,000}$	
		=	0.4 : 1	(2 marks)
			(Grand Sub-Total: 40 marks)	
			(Grand Total: 50 marks)	

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. Suleiman Nigeria Limited is considering a capital investment proposal, where two alternatives involving different degrees of mechanisation are being considered.

	Machine 1(₦)	Machine 2(₦)
Cost	2,180,000	8,050,000
Residual Value	280,000	1,500,000
Annual Cashflows	1,000,000	2,500,000

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

You are required to calculate for each alternative:

- (a) Net Present Value; (5 marks) (b) Payback Period; (5 marks)  
(c) Accounting Rate of Return (18 marks)  
(d) Advise the company based on each of the investment appraisal techniques; showing the completed solution table and all calculation steps. (6 marks)

## Solution

- (a) Calculation of Net Present Value

	Year	Items	Cash Flow (N)	Discount Factor (15%)	Present Value (N)
Machine 1	0	Cost	(2,780,000)	1	(2,780,000)
	1-5	Inflow	1,000,000	3.3522	3,352,200
	5	Residual Value	280,000	0.4972	139,216

711,416

	Year	Items	Cash Flow (N)	Discount Factor (15%)	Present Value (N)
Machine 2	0	Cost	(8,050,000)	1	(8,050,000)
	1-5	Inflow	2,500,000	3.3522	3,352,200
	5	Residual Value	1,500,000	0.4972	745,800

1,076,300

(¼ mark for each correctly stated figure in coloured ink. Sub-Total : 5 marks)

- (b) Calculation of Payback Period

$$\text{Payback Period} = \frac{\text{Initial Outlay}}{\text{Annual Cash Inflows}} \quad (1 \text{ mark})$$

Machine 1 $\frac{2,780,000}{1,000,000} \quad (1 \text{ mark})$ = 2 years, 9 months (1 mark)	Machine 2 $\frac{8,050,000}{2,500,000} \quad (1 \text{ mark})$ = 3 years, 3 months (1 mark)
---	---

(Sub-Total: 5 marks)

- (c) Calculation of Accounting Rate of Return

$$\text{APR} = \frac{\text{Average Annual Profit}}{\text{Average Investment}} \times \frac{100}{1} \quad (2 \text{ marks})$$

<b>Machine 1</b> Annual Depreciation = $\frac{2,780,000 - 280,000}{5} \quad (1 \text{ mark})$ = ₦500,000 (1 mark)	<b>Machine 2</b> Annual Depreciation = $\frac{8,050,000 - 1,500,000}{5} \quad (1 \text{ mark})$ = ₦1,310,000 (1 mark)
---	---

Annual Profit = Profit – Depreciation $1,000,000 - 500,000 \quad (1 \text{ mark})$ = ₦500,000 (1 mark)	$2,500,000 - 1,310,000 \quad (1 \text{ mark})$ = ₦1,190,000 (1 mark)
--	---

Average Investment = $\frac{\text{Cost} + \text{Residual} + \text{Value}}{2}$ = $\frac{2,780,000 - 280,000}{2} \quad (1 \text{ mark})$ = ₦1,530,000 (1 mark)	$\frac{8,050,000 - 1,500,000}{2} \quad (1 \text{ mark})$ = ₦4,775,000 (1 mark)
--	---

APR = $\frac{500,000}{1,530,000} \times \frac{100}{1} \quad (1 \text{ mark})$ = 33% (1 mark)	$\frac{1,190,000}{4,775,000} \times \frac{100}{1} \quad (1 \text{ mark})$ = 25% (1 mark)
---	---

(Sub-Total: 18 marks)

- (d) (i) Based on Net Present Value Technique: Suleiman Nigeria Limited should select machine 2 because it has a higher Net Present Value. (2 marks)



- (ii) Based on Payback Technique: Suleiman Nigeria Limited should select Machine 1 because it has a shorter payback period (2 marks)
- (iii) Based on the Accounting Rate of Return (APR) Investment Appraisal Technique: Suleiman Nigeria Limited should select Machine 1 because it has a higher Accounting Rate of Return. (2 marks)

(Sub-Total : 6 marks)

(Grand Total:34 marks)

11. (a) (i) Define the phrase "standard costing". (1 marks)
- (ii) List and explain its three (3) classifications. (9 marks)
- (b) Write short notes on any six (6) of the following cost classifications, and explain also with the aid of a diagram (where applicable):
- (i) variable cost; (ii) fixed cost; (iii) step costs;
- (iv) incremental/marginal cost; (v) relevant cost; (vi) sunk cost;
- (vii) opportunity cost. (24 marks)

### Solution

(a) (i) **Standard Costings** are pre-determined costs/target costs that should be incurred under efficient operating conditions. Unlike budgets which relate to total activity, they provide a target level of the unit cost. (1 mark)

(ii) The three classifications of standard costings are:

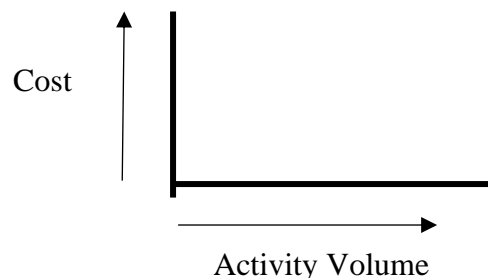
- **basic cost standards:** are constant and left unchanged over long periods of time. They are seldom used as they do not reflect changes in methods of operation. It has the advantage of consistency of comparison over long periods.
- **idea standards:** represent perfect performance and are the minimum costs which are possible under the most efficient operating conditions. They are rarely used unless they are perceived to have a motivational impact. They represent an unachievable target.
- **currently attainable standards:** represent those costs which should be incurred under efficient operating conditions. They are difficult but not impossible to achieve.

(1 mark for each correctly stated classification. 2 marks for correct and completely stated explanation.

Sub-Total per classification: 3 marks. Grand Sub-Total: 9 marks)

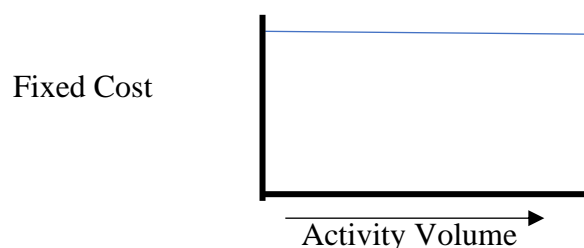
(Grand Sub-Total: 10 marks)

(b) (i) **Variable Cost:** vary in direct and linear relationship to activity e.g. if the commission rate is 15% of premium, then every 100,000 premium handled will pay 15,000.00 to the intermediary.



(4 marks)

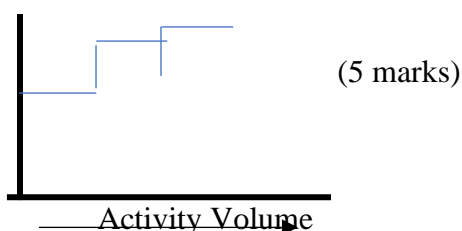
(ii) **Fixed Cost:** remains constant for a specified period of time regardless of the level of activity. They are sometimes called period fixed costs because in the long-term, all costs vary.



(4 marks)

(iii) **Step Costs:** are fixed for a given level of activity but eventually increase at some critical points e.g. when greater activity involves extra staff or machines or premises.

step cost



(4 marks)

(iv) **Incremental/Marginal Cost:** basically, this establishes the additional costs or revenues resulting from a decision. (4 marks)

(v) **Relevant Costs:** costs and revenues can be classified as to whether they are relevant to a particular decision e.g. if you are deciding whether to go by car or a motorcycle, then the car insurance cost is irrelevant as it stays the same whether the car is used or not, the relevant cost is the petrol cost. (4 marks)

(vi) **Sunk Cost:** are those already incurred and which will be totally unaffected by the proposed alternatives. They are irrelevant for decision making. (4 marks)

(vii) **Opportunity Costs:** are those which measure the sacrifice of choosing one alternative course of action which requires another alternative to be discarded. (4 marks)

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

(Grand Total: 34 marks)

12. (a) (i) What is a cash flow statement? (2 marks)
- (ii) Explicitly enumerate three (3) reasons why cash flow statements are considered useful to users of a non-life insurance company. (9 marks)
- (b) (i) What profits may a company distribute? (4 marks)
- (ii) Explicitly enumerate any four (4) ways by which such distributions in (i) above be made to its members. (12 marks)
- (iii) In relation to a publicly quoted company, state the two (2) additional restrictions that are placed such a company as it relates to the allowable financial position of the company before it can proceed to distribute profits. (7 marks)

### Solution

(a) (i) A cashflow statement is a financial document that gives the transparent account of the movement of cash into and out of a company organisation. (2 marks)

(ii) Cash flow statements are considered useful to users of a non-life insurance company because:

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

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

Grand Sub-Total: 11 marks)

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

(ii) Distribution of profits made can be made:

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

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

(iii) In relation to profit distribution, the two additional restrictions that are placed on a publicly quoted company are that a public company may only make a distribution at any time if:

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

**(3½ marks for each correct and completely stated point. Sub-Total: 7 marks)**

**(Grand Sub-Total: 23 marks)**

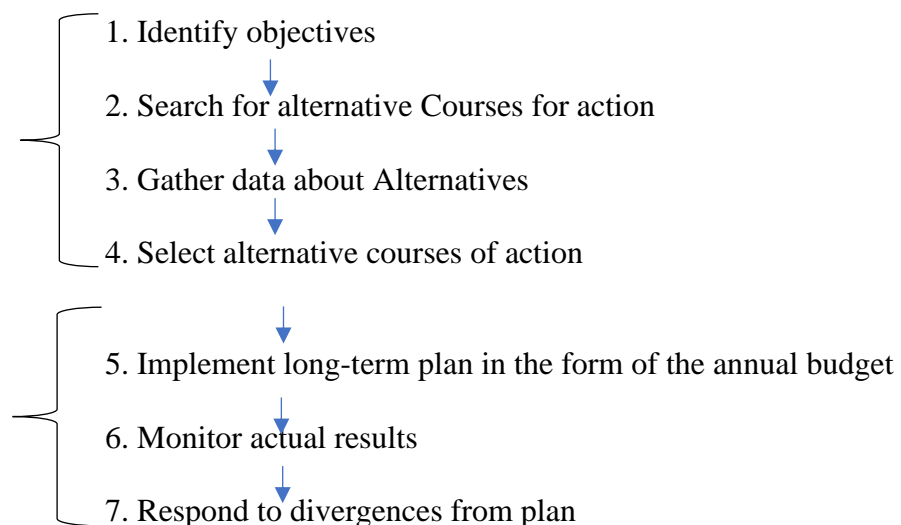
**(Grand Total: 34 marks)**

13. (a) By the aid of diagram, outline the seven (7) stages of the effective planning process. **(14 marks)**

- (b) (i) State the four (4) types of budgeting. **(4 marks)**
- (ii) For any four (4) stated types of budgeting in (i) above, state an advantage and a disadvantage on each. **(8 marks)**
- (iii) Enumerate four (4) importance why budget review session important in an organisation? **(8 marks)**

### **Solution**

(a)



**( 2 marks each for correctly stated and labelled step. Sub-Total: 14 marks)**

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

Type of Budget	Advantages
Fixed Budgeting	<ul style="list-style-type: none"> <li>* It is simple.</li> <li>* It is appropriate in industry with high cost.</li> </ul>
Incremental Budgeting	<ul style="list-style-type: none"> <li>* It is simple.</li> <li>* It is easy to understand.</li> <li>* It is quick to put together.</li> </ul>
Flexible Budgeting	* Unlike fixed budgets (which are developed assuming a specific level of activity in certain conditions) flexible budgets are able to reflect the increased costs likely to be associated with increased activity. Flexible budgets are more realistic than fixed budgets, particularly in those industries where activity is relatively volatile.
Zero Based Budgeting	<ul style="list-style-type: none"> <li>* It can maximise the use of resources and give optimum value for money.</li> <li>* It reduces work duplication.</li> <li>* It reduces costs whilst increasing motivation.</li> <li>* It makes all expenditure to be justified and not just the increases.</li> </ul>

(2 marks for any correct and completely stated advantage under each type. Maximum of 1 to be graded under each term. Sub-Total per term: 2 marks. Grand Sub-Total: 8 marks)

- (iii) Budget review session is important in an organisation because:
- it enables Management to identify items that are not proceeding according to plan;
  - it enables Management to take corrective action;
  - Management by exception may be exercised;
  - it helps to evaluate actual performance and re-appraise future plan;
  - it may give rise to a revised budget.

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

14. (a) Though both a Broker and an agent are insurance intermediaries, they are not the same. State for each of the terms, five differences on each. (20 marks)
- (b) State and briefly explain any four (4) main roles of “Intermediaries’ Trade Associations” (10 marks)
- (c) Distinguish between a “cash” and a “credit” agent as it relates to collection of premiums in an insurance transaction. (4 marks)

## Solution

(a)

S/N	Insurance Brokers	Insurance Agents
1	They are all licensed professional members	They may not be professional members
2	They are all licensed by the regulator	They may not be necessarily licensed by the regulator
3	They can transact businesses with all insurers	They can only transact business with names insurers
4	Their activities are well / heavily regulated	Their activities are not heavily regulated
5	They are remunerated with higher rate of commission	Their remuneration are lower than that of Brokers
6	They require a minimum paid up capital before they can transact business	They do not require any paid-up capital before they can transact business.
7	They are required by practice to have an effective Professional Indemnity cover for key employees	They are not required to have any Professional Indemnity cover.

(2 marks for each correctly stated difference. Maximum of 5 under each term. Sub-Total: 20 marks)

(b) The main roles of "Intermediaries Trade Associations" are:

- **representation:** regular contacts at office level with members to enable joint representation on matters of common concerns;
- **support for members:** designed to enhance service to clients e.g. newsletters, compliance manuals and aids;
- **members' promotion:** advertising, public relations, public enquiry and similar services on behalf of members;
- **training and recruitment:** there is growing education and training programme for members;
- **dealing with complaints:** from public on an advisory basis, in addition to general advice on technical matters.

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

(c) A **cash agent** is an intermediary that merely introduce business to his/her principal but do not collect premiums (2 marks); while a **credit agent** is an intermediary who collects premiums on behalf of his/her principal and usually remits the collected premiums monthly or quarterly - on account (2 marks).

(Sub-Total: 4 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A04  
PRINCIPLES OF PROPERTY AND PECUNIARY

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A04 – PRINCIPLES OF PROPERTY AND PECUNICARY INSURANCES

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question was attempted by over 95% of the candidates. A majority correctly defined the Theft Act of 1968, resulting in a pass rate of over 75%. Part (b), which tested the definition of robbery, also recorded a 75% pass rate. Overall, the performance was commendable.

### **Question 2**

This question, which tested knowledge of the standard fire policy cover, was poorly answered. Less than 20% of the candidates who attempted it passed. The low performance suggests a lack of adequate preparation in this area.

### **Question 3**

50% of the candidates attempted this question on national perils, and 75% of those scored above average. This is a fair outcome, indicating moderate familiarity with the topic among candidates.

### **Question 4**

Attempted by 90% of the candidates, this question assessed knowledge of indemnity under rent insurance and glass insurance. However, only about 30% achieved a pass mark, reflecting limited understanding of the subject matter.

### **Question 5**

Over 80% of the candidates attempted this question, which focused on (a) subsidence or ground settlement and (b) impact by road vehicles. Only 40% passed, indicating a need for better clarity on these common risk types.

### **Question 6**

This question tested the principle of contribution and the concept of buy-back. Out of 61 candidates who attempted it, 48% passed while 52% failed. The results indicate poor preparation and understanding of the topic.

### **Question 7**

Over 70% of the candidates attempted this question, but most performed poorly. The question focused on exclusions under all risks policies, an area where many candidates showed inadequate knowledge.

### **Question 8**

Fewer than 25% of candidates attempted this question, and performance was also below 25%. The question, which covered the dual wage system of insurance, was not well understood by most candidates.

### **Question 9**

This was a compulsory question testing the calculation of classes under business interruption insurance and abnormal class settlement following property fire damage. About 90% of the candidates performed poorly, which is particularly concerning given the question's compulsory nature.

### **Question 10**

Part (a) of this question tested knowledge of the "fire being subject to the condition of average" and recorded a below-average performance with only 20% passing. Part (b), on warranties, saw



better performance with a 55% pass rate. The results indicate partial understanding of the key concepts.

#### **Question 11**

This question, focused on the definition of an “employee” under employer’s liability insurance and various accounting systems, was attempted by fewer than 30% of candidates. The majority struggled to define key terms, resulting in a very poor performance. Candidates are strongly advised to study their course materials more thoroughly.

#### **Question 12**

This question assessed (a) tenant’s insurable interest in property and (b) the provisions of the Factory Act of 1968. It was attempted by 75% of candidates, with 45% achieving a pass mark. The performance was moderate but could be improved.

#### **Question 13**

Of the 62 candidates, 33 attempted this question, which tested knowledge of the main headings in a standard fire policy. However, 88% of them failed, while only 12% passed. This reflects a significant knowledge gap in a core area of the syllabus.

#### **Question 14**

This question was well answered by those who attempted it. It covered the meaning of specific policy conditions and the two types of all-risk policies. Performance was encouraging and suggests that candidates were more comfortable with this topic.

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

The overall performance was below expectations. This indicates that core topics are not being adequately mastered by many candidates.

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

Candidates are strongly advised to improve their study habits and adopt a more comprehensive approach to syllabus coverage. More focus should be given to compulsory topics and core insurance principles during preparation.

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

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

**Answer ALL questions in Part I.**

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

1. (a) How does the Theft Act of 1968 define theft?  
(b) How does the Theft Act 1968 define 'Robbery'?

### **Solution**

- (a) The Theft Act of 1968 defines theft as:

A person is guilty of theft if he dishonestly appropriate property belonging to another with the intention of permanently depriving the other of it, and "thief and steal" shall be construed material accordingly. it is immaterial whether the appropriation is made for the thief's own benefit.

- (b) A person is guilty of robbery, if he steals and immediately before or at the time of doing so, and in order to do so, he uses force on any person or puts or seeks to put any person in fear of being then and there subjected to force.

**(3 marks for each correct and completely stated definition. Total: 6 marks)**

2. The standard fire policy covers fire, lightening and limited or domestic explosion. Before there can be claim, there are three processes that must have taken place. Enumerate these three (3) processes.

### **Solution**

The three processes that must have taken place are that:

- there must be actual ignition;
- there must be something on fire which should not have been on fire;
- there must be no connection between the insured and the fire in other words the fire must be fortuitous in origin so far as the insured is concerned. The policy will respond if the insured were negligent in allowing the fire to start but riot, of cause, if the insured willfully set fire to the insured property

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

3. Natural perils can be helpful to be studied in two stages. State and briefly discuss these two (2) stating the perils attached to each stage.

### **Solution**

The two stages attached to the study of natural perils are:

- (i) 'above ground perils': which comprise of the risks of
  - \* storm;                      \* storm and flood;
- (ii) 'below ground perils': which comprise of the risks of
  - \* earthquake and subterranean fire;   \* subsidence, ground heave and landslip.

**(Candidates are required to explain each stage. 1 mark for correctly stated stage. 1 mark for correct explanation of the stage. 1 mark for any correctly stated peril attached to each stage. Sub-Total per stage: 3 marks. Grand Total: 6 marks)**

4. (a) At what point is indemnity provided for under rent insurance? **(2 marks)**  
(b) In glass insurance policy, there are perils or events and property specifically excluded. List any four (4) of these perils. **(4 marks)**

### **Solution**

- (a) Indemnity is only provided for the period during which the premises are uninhabitable as a result of the operation of an insured peril. **(2 marks)**

- (b) The perils or events and property specifically excluded in glass insurance policy are:  
\* scratching;   \* chipping;   \* damage to lettering (the glass not being affected);  
\* glass already scratched;   \* fire;   \* lightning;   \* explosion.  
\* damage in unoccupied premises.

**(1 mark for each correctly stated peril/event/property. Maximum of 4 to be graded. Sub-Total: 4 marks)  
(Grand Total: 6 marks)**

5. (a) Subsidence is said to be the settlement of the ground on which the premises stand. Identify any two (2) causes of these settlements of the ground. **(4 marks)**
- (b) Under the impact by road vehicle and animal, there are two sources of loss which have been identified by the market as having different levels of risk and these depend on who controls the vehicle or animal. Explain any of these two sources. **(2 marks)**

### **Solution**

- (a) The causes of these settlements of the ground are:
- uneven settlement of ‘made up’ ground;
  - movements, falls or changes in underground workings;
  - movement of foundation made on dissimilar types of ground which have been affected by change in the moisture content (sand and clay react differently to such changes, for instance);
  - other changes in moisture content (for instance because of drought).
- (2 marks for each correct and completely stated cause. Maximum of 2 to be graded. Sub-Total: 4 marks)**
- (b) The two sources of loss which have been identified by the market as having different levels of risk and these depend on who controls the vehicle or animal are:
- if the source is the insured or the tenant or their employees, there is a heavy risk;
  - if the source is third parties passing or visiting the premises, there is a light risk.
- (2 marks for each correct and completely stated source. Maximum of 1 to be graded. Sub-Total: 2 marks)**  
**(6 marks)**

6. (a) List any three (3) criteria that will make insurers to call for contributions under property insurance?
- (b) In “buying back”, there are ways in which insurer usually deal with ‘buy backs’. List any three (3) ways in which insurers deal with ‘buy back’.

### **Solution**

- (a) The criteria that will make insurers to call for contributions under property insurance are:
- insure the same property which was damaged;
  - cover the peril which caused the damage;
  - protect the same insured interest;
  - have been in force at the time of damage;
  - be contracts of indemnity.
- (1 mark for each correct and completely stated criteria. Maximum of 3 to be graded. Sub-Total: 3 marks)**
- (b) The ways in which insurers deal with ‘buy back’ are through:
- |                            |                    |                    |                     |
|----------------------------|--------------------|--------------------|---------------------|
| * money/negotiables;       | * crops and trees; | * theft;           | * goods-in-transit; |
| * glass and sanitary ware; | * subsidence;      | * fraud/dishonesty |                     |
- (1 mark for each correct and completely stated way. Maximum of 3 to be graded. Sub-Total: 3 marks)**  
**(Grand Total: 6 marks)**

7. The standard “all-risks” policy exclusions fall into four main categories. Briefly discuss any three (3) of these categories.

### **Solution**

The four categories are:

- causes which insurer will not insure in a property policy;
- causes which insurer may insure but only after careful attention to underwriting;

- causes which insurers will usually allow to be added as 'buy backs';
- causes or property more properly insured on a separate, specially designed policy.

(Candidates are required to discuss these categories. 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. Grand Total: 6 marks)

8. There are four parameters under the 'dual basis' wages system of insurance. State and briefly explain any three (3) of these parameters.

**Solution**

The parameters under the 'dual basis' wages system of insurance are:

- \* indemnity period;
- \* sum insured;
- \* initial period at 100% cover;
- \* final percentage cover

(Candidates are required to discuss these parameters. 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. Grand Total: 6 marks)

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) List any five (5) classes of general insurance business as classified in the Insurance Act 2003. (10 marks)

(b)

Item	Description	Sum Insured (NGN)	Basis of Cover
1	Building	11,250,000.00 (declared value)	Reinstatement Day One (15%)
2	Machinery, Plant, Fixtures & Fittings	5,625,000.00 (declared value)	Reinstatement Day One (15%)
3	Stocks and Materials in Trade	4,500,000.00	Indemnity

The above table shows the sum insured stated on the insurance policy schedule, ₦10,000.00 excess applies to the policy. There was a claim and the insurer admits liability under the policy terms although it was discovered during the processing of the claim that some of the items on the policy schedule are under-insured.

The under-insured items are as follows:

- Machinery, Plant, Fixtures and Fittings ₦6,000,000.00
- Stock and Material in Trade ₦6,750,000.00

The insured submitted a claim with the following values:

- Building-Repairs ₦2,625,000.00
- Machinery, Plants, Fixtures & Fittings ₦375,000.00
- Stock and Material in Trade ₦1,800,000.00

Outline what you would expect the adjusted loss estimate to be under the standard policy terms and conditions. (15 marks)

(c) Based upon the figures below, calculate the loss payable, showing all your calculations. What loss settlement would you propose?

- Cover is written on sum insured basis and a 12-month indemnity period
- Sum Insured ₦ 680,000.00
- Additional Increase in Cost of Working Item ₦200,000.00
- Turnover in Last Financial Year prior to Loss ₦160,000.00
- Gross Profit in the Last Financial Year prior to Loss ₦95,000.00
- Standard Turnover ₦1,680,000.00
- Turnover Achieved during the Indemnity Period ₦1,200,000.00
- Additional Costs Incurred during the Indemnity Period which avails a ~~₦400,000.00~~ reduction in turnover ~~₦200,000.00~~
- Savings made during the Indemnity Period ₦40,000.00.

(25 marks)

### Solution

(a) The classes of General Insurance business as classified in the Insurance Act 2003 are:

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

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

### (b) Adjusted Loss Estimate

#### Given:

- Policy Excess: ₦10,000.00
- Day One Uplift (15%) applies to Building and Machinery.
- Stock is insured on an Indemnity Basis (no uplift).

#### Sums Insured (after uplift):

- Building:  $\text{₦}11,250,000.00 \times 1.15 = \text{₦}12,937,500.00$
- Machinery, Plant, Fixtures & Fittings:  $\text{₦}5,625,000.00 \times 1.15 = \text{₦}6,468,750.00$
- Stocks and Materials in Trade: ~~₦4,500,000.00~~ (No uplift) (2 marks)

#### Underinsurance Check:

- Machinery: Actual Value = ~~₦6,000,000.00~~, Insured = ~~₦6,468,750.00~~ → No underinsurance.
- Stock: Actual Value = ~~₦6,750,000.00~~, Insured = ~~₦4,500,000.00~~ → Underinsurance applies. (2 marks)

#### Building Claim:

- Claimed: ~~₦2,625,000.00~~
- No underinsurance (2 marks)

#### Machinery Claim:

- Claimed: ~~₦375,000.00~~
- No underinsurance (2 marks)

#### Stock Claim:

- Claimed: ~~₦1,800,000.00~~
- Average Clause:

Adjusted Claim =  $1,800,000.00 \times (4,500,000.00 / 6,750,000.00) = 1,200,000.00$

(2 marks)

**Summary of Adjusted Loss Payable:**

Item	Amount (₦)
Building Repairs	2,625,000.00 (1 mark)
Machinery, Plant, Fixtures & Fittings	375,000.00 (1 mark)
Stocks and Materials in Trade	1,200,000.00 (1 mark)
Less Excess	10,000.00 (1 mark)
<b>Total Payable =</b>	<b>₦4,190,000.00 (1 mark)</b>

**(c) Loss Payable and Settlement Proposal****Given:**

- Sum Insured: ₦680,000.00
- Additional Increase in Cost of Working (AICOW): ₦200,000.00
- Last Financial Year Turnover: ₦1,600,000.00
- Gross Profit: ₦95,000.00
- Standard Turnover: ₦1,680,000.00
- Turnover during Indemnity Period: ₦1,200,000.00
- Additional Costs Incurred: ₦200,000.00 (saving ₦400,000.00 turnover)
- Savings made during Indemnity Period: ₦40,000.00

**BUSINESS INTERRUPTION CLAIM:**

			₦
1. Loss of Gross Profit:			
i.e. Rate of Gross Profit x Reduction in Turnover			
5.9375% x <del>₦</del> 480,000.00	(1 mark)		28,500.00
2. Add whichever is less			
a. Increase in cost of working	₦200,000.00 (1 mark)		
b. Rate of Gross Profit x Turnover Loss Avoided			
i.e. 5.94% x N400,000	₦23,760.00 (1 mark)		23,760.00
3. Savings	(1 mark)		<u>(40,000.00)</u>
Loss	(1 mark)		<u><b>12,260.00</b></u>

**Total (5 marks)****Test for adequacy of the Gross Profit Sum Insured:**

Compare the Gross Profit Sum Insured with the result of Rate of Gross Profit x Annual Turnover

$$5.9375\% \times \text{₦}1,600,000.00 \text{ (1 mark)}$$

$$= \text{₦}95,000.00 \text{ (1 mark)}$$

Since the Gross Profit Sum Insured i.e. ₦680,000.00 (1 mark) is higher than Rate of Gross Profit x Annual Turnover i.e. ₦95,000.00 (1 mark), Average does not apply (1 mark).

**Total (5 marks)****Summary of the adjustment:**

1. Adjusted Loss - ₦12,260.00 (1 mark)
2. The uneconomic limit of ICOW (Increase in cost of workings) i.e. AICOW (Additional increase in cost of workings) - The economic limit of ICOW

AICOW was given as ₦200,000.00 (1 mark) while the economic limit of ICOW was ₦23,760.00 (1 mark) (see the calculation above). Therefore, the uneconomic limit of ICOW is ₦200,000.00 – ₦23,760.00 which equals ₦176,240.00 (1 mark).

$$\begin{aligned}\text{Amount Payable} &= \text{₦12,260.00} + \text{₦176,240.00} \\ &= \text{₦188,500.00} \quad (1 \text{ mark}) \\ \text{Total} &\quad (5 \text{ marks})\end{aligned}$$

### Workings

1. ROG i.e. Rate of Gross Profit  $= \frac{\text{₦95,000.00}}{\text{₦1,600,000.00}} \times 100$   
 $= \underline{\underline{5.9375\%}} \quad (2\frac{1}{2} \text{ marks})$
2. Reduction in Turnover  $= \text{₦1,680,000.00} - \text{₦1,200,000.00}$   
 $= \underline{\underline{\text{₦480,000.00}}} \quad (2\frac{1}{2} \text{ marks})$
3. Test for adequacy of the Gross Profit Sum Insured:  
 Compare the Gross Profit Sum Insured with the result of Rate of Gross Profit x Annual Turnover  
 $5.94\% \times \text{₦1,600,000.00}$   
 $= \text{₦95,040.00} \quad (2\frac{1}{2} \text{ marks})$

Since the Gross Profit Sum Insured i.e. ₦680,000.00 is higher than Rate of Gross Profit x Annual Turnover i.e. ₦95,040.00, Average does not apply. (2½ marks)

(Total:25 marks)

(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) It is a universal practice by insurers in which all fire insurances would be made subject to the pro-rata condition of average. However, there are exceptions to this agreement. Discuss any four (4) of these exceptions. (20 marks)
- (b) Warranties are required in policies because so often, it is the accumulation of waste which accelerates a fire. Discuss the warranties that the insurers will apply to the following trading professions
  - (i) power wood working; (5 marks)
  - (ii) printing; (5 marks)
  - (iii) clothing factory. (4 marks)
 (14 marks)

### Solution

- (a) The exceptions to the universal practice by insurers in which all fire insurances would be made subject to the pro-rata condition of average are:
  - a building occupied solely for private residential purposes and household goods and personal effects therein, or privately owned and insured in the name of the owner in a building occupied for trade purposes;
  - a building and its contents used wholly or mainly for public religious worship not being a private chapel or forming part of a school, college, hospital or community (although this exception does not apply to a central hall, training college or similar establishment);
  - a hall or Sunday school (not used as a day school) and its contents used primarily for activities associated with a building as defined above and administered in conjunction

therewith. Prorate average will continue to apply where there is plurality of risk except that the buildings or the contents of the following may be insured in one sum without average

- a single private dwelling house or block of flats in either case with domestic outbuildings on the same premises and used in connection therewith and the walls, gates and fences around and pertaining thereto;
- a single building as described in the last 2 sub points above and any outbuilding on the same premises with a limited value, on the same premises and used in connection therewith and walls, gates, fences around and pertaining thereto

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

(b) (i) **Power Wood Worker:** All sawdust, shavings and other trade refuse be swept up and bagged at the end of each working day and removed from the premises at least once a week.

(ii) **Printer:** All greasy or oily waste be placed in metal lidded bins and all trade waste bagged at the close of each working day and removed from the premises.

(iii) **Clothing Factory:** All cuttings, chippings and other trade refuse be swept up and bagged daily and removed from the workrooms at least once a week

**(5 marks for the first 2 correctly stated answer. 4 marks for the third. Sub-Total: 14 marks)**  
**(Grand Total: 34 marks)**

11. (a) There are definitions of an 'employee' in the employers' liability policy. State and briefly explain Examine any five (5) of these definitions. **(25 marks)**

(b) There are various accounting systems in which record per class of insured properties are recorded in the financials of the insurance company. Analyse any three (3) of these accounting systems. **(9 marks)**

### **Solution**

(a) The definitions of an 'employee' in the employers' liability policy are:

- employee being a person under a contract of service, or apprenticeship with the policyholder;
- labour master, and persons supplied by a labour master;
- person employed by labour only sub-contractors;
- self-employed person;
- person hired to or borrowed by the policyholder;
- person undertaking study or work experience;
- person supplied under any youth training or similar government scheme while working under the control of the policyholder in connection with the business described in the schedule.

**(Candidates are required to briefly explain these definitions. 3 marks for correctly stated definition. 2 marks for each correct and completely stated explanation. Sub-Total for each definition. Maximum of 5 to be graded. Sub-Total: 25 marks)**

(b) The various accounting systems in which record per class of insured properties are recorded in the financials of the insurance company are:

- \* premium received or receivable;
- \* claims paid and reserved;
- \* commission to intermediary;
- \* administration costs
- \* profit or loss for the claims.

**(Candidates are required to briefly analyse these systems. 2 marks for correctly stated system. 1 mark for each correct and completely stated explanation. Sub-Total for each system: 3 marks. Maximum of 3 to be graded. Sub-Total: 9 marks)**

**(Grand Total: 34 marks)**



12. (a) In property insurance there are some property in which “tenants” can have an insurable interest. Enumerate any five (5) of these properties. **(25 marks)**
- (b) The Factory Act 1961, made examination of some pressure plants compulsory. Identify the three (3) pressure plants that the act made compulsory for examination **(9 marks)**

### **Solution**

- (a) Some of the properties that tenants can have insurance interest are:
- decorations for which the insured is responsible to maintain (as tenant);
  - improvements such as better-quality fixtures and fittings (e.g. lights, doors, windows, e.t.c. put in by the tenant);
  - machinery and plant ‘hired in’ to or on loan to or on approval from potential suppliers of the tenant;
  - machinery and plant on ‘hire purchase’ by the tenant (which is owned by the finance company during the purchase period);
  - property of employees brought on to the employer’s premises e.g bicycle change of clothing, e.t.c. (if has been the custom in most trades for the employer to take responsibility for such property which the employer can legitimately insure);
  - plans, drawings, moulds and other aids to manufacture goods;
  - business books and documents;
  - computer system recoveries;
  - stamps.

**(5 marks for each correctly stated property group. Maximum of 5 to be graded. Sub-Total: 25 marks]**

- (b) The factory Act 1961, made examination of some pressure plants compulsory and these three pressure plants that the act made compulsory for examination are:

\* steam boilers;                      \* steam/air receivers;                      and                      \* water sealed gas holders.

**(3 marks for each correctly stated plant. Sub-Total: 9 marks)**

**(Grand Total: 34 marks)**

13. (a) The standard fire policy has three (3) main headings in which property may be insured which are building, machinery and stock. When considering ‘building’ of a factory or warehouse, what are the three (3) groupings that the ‘building’ will comprise of? Briefly explain them. **(15 marks)**
- (b) Insurer will on request, consider including in the buildings-sum-insured the main building and all the other minor buildings around it and used with it. As an underwriter, enumerate any two (2) of these minor outbuildings around the building that the insurer will consider. **(7 marks)**
- (c) For a factory, there are ways we can describe stocks and materials in trade; and there are elements that can be used to describe stock. Correctly enumerate any four (4) elements that can be used to qualify stock in a typical factory setting. **(12 marks)**

### **Solution**

- (a) When considering ‘building’ of a factory or warehouse, the three (3) groupings that the ‘building’ will comprise of are:

- **WALL**, may be bricks, stone or other materials such as sheets or corrugated metal or asbestos or a frame of metal or concrete or timber. They will contain wiring and pipes for electricity, computer, signals, gas, water and perhaps compressed air with sockets, switches, taps and so on;

- **ROOFS**, will be made of slates, concrete sheeting and the like on a concrete, metal or Wood frame. It will contain overhead wiring and perhaps an overhead travelling crane;
  - **FLOORS**, will be made of wood, metal or concrete, for example, again, they may contain services, pipes and wires for power, light, water and gas heating system
- (3 marks of reach correctly stated group. 2 marks for any correct and completely stated explanation. Sub-Total per grouping: 5 marks. Sub-Total: 15 marks)

- (b) The minor outbuildings around the building that the insurer will consider are:
- \* walls, gates and fences;
  - \* notice boards;
  - \* supply cables, pipes and gantries supporting them.
- (3½ marks for each correct and completely stated outbuilding. Maximum of 2 to be graded. Sub-Total: 7 marks)

- (c) The elements that can be used to qualify stock in a typical factory setting are:
- raw materials to be worked upon;
  - partly manufactured goods or ‘work in progress’;
  - ‘bought in’ components (from other manufacturers);
  - specialist packaging to protect finished goods in transit to customers;
  - the finished goods.
- (3 marks for each correct and completely stated element. Maximum of 4 to be graded. Sub-Total: 12 marks)  
(Grand Total: 34 marks)

14. (a) Write the meaning and when the following property insurance policy conditions are applicable during the policy cycle:
- (i) policy voidable;
  - (ii) alteration;
  - (iii) warranties;
  - (iv) reasonable precaution. (24 marks)
- (b) There are two types of “all-risks” policy available. They serve two separate and distinct purposes. Identify the two (2) and explain the separate and distinct purposes that they both serve.  
(10 marks)

### Solution

(a) (i) **Policy Voidable:** this applies at inception and at each renewal, each period is a separate contract. Note that it is the insurers option to void.

(ii) **Alteration:** insurers accept a risk with all its relevant factors as at the date of proposal. Risks, premises, values, processes e.t.c., change over a period of time. Insurers have to be kept up to dates, that they can monitor the level of risk being run and adjust premium acceptance terms accordingly. This condition sets out what insurers need to know and the penalty for failure to tell them. It is applicable all through the tenure of the policy.

(iii) **Warranties:** these are applied to factors which insurers do not wish to see changed for instance frequency and destination of waste removal, control of quantities and types of storage vessels for flammables. If the factor is not maintained as warranted and the insurer is able to establish a consequent increase in risk, it may void the policy in that area of increase in risk during the current period of the policy. Should the insured comply just before renewal and continue to do so during the next period, cover is restored in the affected area for that subsequent period.

Note that older policies were stricter. The affected cover was voidable for breach of warranty without the need to demonstrate an increase in risk. It is applicable all through the tenure of the policy.

(iv) **Reasonable Precaution:** the need to act as if uninsured has always been implied. The insertion of the clause follows the new commercial all risks policy. It is applicable all through the tenure of the policy.

**(3 marks of each correctly stated meaning. 3 marks for each correctly and completely stated applicable period. Sub-Total per term: 6 marks. Sub-Total: 24 marks)**

(b) (i) **the ‘standard all risks’ policy** is designed for the insurance of all buildings, machinery and stock on a premise and, in effect, can provide insurance for all purposes and on all the perils which are insurable on a standard fire and special perils policy plus accidental damages.

(ii) **the commercial ‘all risks’ policy** is designed for the ‘all risks’ insurance of such things as one specific machine or a group of similar machines.

**(3 marks of each correctly stated type. 2 marks for each correctly and completely stated applicable usage.**

**Sub-Total per type: 5 marks. Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A05

LIFE ASSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A05 – LIFE ASSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question focused on the contents and symbols of a mortality table. It was attempted by over 90% of candidates. However, performance was generally average, indicating a need for deeper understanding of this foundational concept.

### **Question 2**

This question tested the application of computer systems in life offices. While it was not attempted by all candidates, both the rate of attempt and the quality of responses were commendable.

### **Question 3**

This question required short explanatory notes on terms such as proposer and life assured. It was attempted by nearly all candidates, with approximately 95% providing correct responses—an impressive outcome.

### **Question 4**

The question examined the meaning of a life insurance contract. Although it was attempted by all candidates, about 98% gave incorrect responses to part (a), while the remaining parts were generally well answered.

### **Question 5**

This question addressed premium loading. It was attempted by approximately 95% of candidates, with most performing well. However, part (b) was frequently answered incorrectly.

### **Question 6**

This question on types of cover was attempted by about 90% of the candidates, with around 80% demonstrating a good understanding of the topic.

### **Question 7**

The question on quota share was attempted by 98% of the candidates. However, the pass rate was moderate at around 55%, suggesting room for improvement in grasping reinsurance arrangements.

### **Question 8**

This question covered joint life second death and trust arrangements. It was well attempted, with a pass rate of approximately 68%, reflecting a reasonable level of understanding.

### **Question 9**

This question dealt with annuities and compulsory insurance. It was attempted by all candidates, with particularly strong performance observed among candidates outside Lagos.

### **Question 10**

Focused on the concept of trust, this question was attempted by about 70% of candidates. The performance was average, indicating a fair understanding of the topic.

**Question 11**

This question on industrial life assurance was widely attempted. However, many candidates struggled to articulate the uses of life assurance policies, resulting in a subpar performance.

**Question 12**

Centered on trust, this question had a low attempt rate. Nonetheless, those who attempted it performed well, showing a good grasp of the concept.

**Question 13**

This question tested candidates' understanding of actuarial valuation. Over 65% of those who attempted it gave correct answers, especially to part (a), indicating solid comprehension of the subject.

**Question 14**

This question focused on actuarial reserves. It was attempted by about 50% of the candidates, with less than 25% achieving a pass mark. The low performance suggests that this area requires more attention during preparation.

**Comments on Overall Performance:**

Approximately 64% of the candidates scored above the minimum pass mark, with an average score exceeding 61%. This reflects a generally satisfactory performance, although there is room for improvement in specific areas.

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

Candidates are encouraged to continue to dedicate more time to studying, with particular emphasis on life insurance concepts. Strengthening understanding in areas such as actuarial reserves, insurance contracts, and policy applications will further enhance overall performance.

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. In the context of Mortality Table, write out the meaning of the following symbols:  
(a)  $l_x$  (b)  $d_x$  (c)  $l_{x+1}$

### Solution

- (a)  $l_x$ : represents that the number of persons living at age  $x$   
(b)  $d_x$ : represents that the number of persons dying at age  $x$   
(c)  $l_{x+1}$ : represents that the number of persons living at age  $x + 1$   
(2 marks for each correct and completely stated meaning. Total: 6 marks)

2. Outline any six (6) regulatory requirements which computer systems of life insurance companies can be used to perform.

### Solution

The regulatory requirements which computer systems of life insurance companies can be used to perform are:

- produce and issue key features documents, particularly those parts setting out client specific details; \* produce and issue reason why letters;
- produce and issue execution only confirmations;
- produce and issue cancellation notices;
- produce and issue post sale information;
- maintain a register of company representatives and appointed representatives;
- maintain training and competence records for the company representatives;
- store fact-findings electronically; \* calculate projections of future benefits;
- produce complains statistics for the company;
- prepare valuations and returns required by the regulator for the company;
- produce accounts required under the relevant Insurance Acts.

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

3. Write short notes on the following, as it relates to life assurance:  
(a) Life Assured; (b) Assured;  
(c) Proposer; (d) Sum Assured.

### Solution

- (a) **Life Assured:** the person on whose life the policy depends.  
(b) **Assured:** The original owner of the policy, who will receive the benefits of it.  
(c) **Proposer:** The person who applies for a life policy.  
(d) **Sum Assured:** The amount payable on a claim, whether by death or maturity.  
(1½ marks for each correct and completely stated meaning. Total: 6 marks)

4. What does the following mean in a life assurance contract?  
(a) constructive notice in life assurance; (b) a proposer;  
(c) premium; (d) underwriting.

### Solution

- (a) **A constructive notice in life assurance** applies whenever an assurer might have reason to suspect that an assignment has taken place, even though no express or implied notice has been received.  
(b) **Proposer:** A person who applies for a life policy.



(c) **Premium:** The sum paid to purchase the policy and keep it going. This may be a single sum or a regular series of sums.

(d) **Underwriting:** The process of deciding whether or not to accept a life risk and what premium to charge.

(1½ marks for each correct and completely stated meaning. Total: 6 marks)

5. (a) Premium loading occurs in all premium calculations in life assurance practice. How does an actuary arrive at the calculation of the actual premium chargeable with consideration on mortality and interest factors? (2 marks)

(b) Usually, the major loading is to cover the expenses of the life office. State any four (4) examples of such expenses. (4 marks)

### **Solution**

(a) The premium calculated from mortality and interest factors is a net premium and adjustments or loadings will have to be made to arrive at the actual premium chargeable. (2 marks)

(b) The major loading is to cover the expenses of the life office. Examples of such expenses are:

- \* salaries of employees;
- \* costs of office buildings used;
- \* medical fees during underwriting.
- \* commission paid to the sellers of policies;
- \* computer, administration and regulatory costs;

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

(Grand Total: 6 marks)

6. List any four (4) types of cover or benefit usually provided under life policies.

### **Solution**

The types of cover or benefit usually provided under life policies are:

- \* Death Benefit;
- \* Disability Benefit;
- \* Income in old age (Annuities).
- \* Terminal Illness Benefit;
- \* Income Protection Insurance (Accident or Illness);

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

7. (a) What is Quota Share Reassurance? (4 marks)

(b) State how (a) works as it relates to the sharing of premium and sum assured. (2 marks)

### **Solution**

(a) A Quota Share Reassurance is a type of treaty reassurance whereby the principal office reassures a fixed percentage of every policy in a particular class of business. (4 marks)

(b) Thus, for every policy covered by the Quota Share Reassurance arrangement, the reinsurer will get a fixed percentage of the premium and be responsible for that percentage of the sum assured. (2 marks)

(Grand Total: 6 marks)

8. (a) Write a short note on Joint Life Second Death Policy. (4 marks)

(b) Give a legal definition of a trust. (2 marks)

### **Solution**

(a) A joint life second death policy pays out on the death of the second life assured to die. A joint life second death policy may equally be referred to as – Joint Life Last Survivor Policy. It is less expensive when compared to a joint life first death policy.

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

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

(Grand Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) Enumerate any four (4) compulsory insurance types in Nigeria and state the effective coverage provided by each. (10 marks)
- (b) (i) With two (2) clear explanations, explain the term “an annuity”. (5 marks)  
(ii) Enumerate any four (4) uses of annuity products. (10 marks)
- (c) Explain the following types of annuity:  
(i) Annuity Certain; (ii) Guaranteed Annuity;  
(iii) Deferred Annuity; (iv) Temporary Annuity;  
(v) Joint Life and Survivor Annuity. (25 marks)

### Solution

a)

The compulsory insurance types in Nigeria and their effective coverages are:

- **Third Party Motor Insurance:** protects third parties;
  - **Builders Liability Insurance:** protects against construction-related risks;
  - **Occupiers Liability Insurance:** covers liabilities from property occupancy;
  - **Employers Liability Insurance:** covers employer liabilities for employee injuries;
  - **Health Care Professional Indemnity Insurance:** protects healthcare providers against malpractice claims;
- (2½ marks for each correctly stated manual. Maximum of 4 points to be graded. Total: 10 marks)

(b) (i) An annuity may also be defined as a periodical payment made by the life office to the annuitant in exchange for a purchase money earlier paid by the annuitant for the remainder of the life time of a named life or for specified period of time, without depending on the duration of human life. Each periodical payment of the annuity consists of two components – the interest and capital components, with the only interest component subject to tax. Annuities are mostly favourable at the times of high interest rates and are meant for standard lives, otherwise referred to as the first class lives. The amount of annuity a person may purchase with a certain sum of premium depends basically upon the person’s sex and age at the time of purchase. Generally, annuities are paid half-yearly, but may often be paid regularly at monthly, quarterly intervals and may equally be delayed for twelve-monthly interval.

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

(ii) The uses of annuity products are:

- \* for children’s education; \* for investment purposes;
- \* for life protection by the breadwinner for guaranteed annuities;
- \* it may also be used to augment pension; \* provision for one’s personal pension.

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

(c) (i) **Annuities Certain:** Annuities certain are annuities that do not depend upon survival of the annuitant. Under the annuities certain, the annuity payment is made to the annuitant at regular interval of time only for a specified number of years, without depending

on human duration of life of the annuitant. That is, the annuity payments would only be made available for a fixed number of years, irrespective of the duration of life of the annuitant and thereafter the payment ceases.

(ii) **Guaranteed Annuities:** Guaranteed annuities are annuities which have been designed to overcome some of the objections usually put forward by prospective annuitants that their initial capital (i.e. the purchase money) would permanently be lost to the life office in the event of their premature death. Therefore, these types of annuities have been designed to serve as a death protection indirectly for the annuitant and thus, it ensures that in the event of the premature death of the annuitant either before annuity payment commences or shortly after it commences, the entire purchase money or balance of it shall be made available to the annuitant's estate. Some of the examples of the various ways in which guaranteed annuities may be:

- the annuity payments could be guaranteed to be paid for a fixed period of time and thereafter nothing more;
- the annuity payments could be guaranteed for a specific number of years and thereafter until the death of the annuitant.

(iii) **Deferred Annuities:** Deferred annuities are annuity contracts in respect of which the annuity payments are postponed to start at a certain later date in the future and thereafter until death occurs. It is possible to effect this type of annuity with the option that the purchase money be refunded if the annuitant dies prior to the commencement of the annuity payment. Deferred annuities may be effected by the self-employed persons to cater for their post retirement needs and those in the private sector (who already have pension provision by their employers) to augment their employment benefit.

(iv) **Temporary Annuities:** The annuity payment is made to the annuitant for fixed number of years, if the annuitant survives that period of time. The annuity payment ceases if the annuitant dies within that period.

(v) **Joint Life and Survivor Annuities:** Joint Life and Survivor Annuities make provision for the payment of the annuity as long as one of the joint annuitants lives. The annuity payment will only cease upon the death of the last surviving annuitant. It is similar to the joint life annuity in that there are equally two or more lives as annuitants, but it differs in the sense that the annuity payment would not cease upon the first death of the annuitants. Therefore, in a joint life and survivor annuity, the annuity payment will only cease when the last surviving annuitant dies. Furthermore, this type of annuity contract is also very common among husbands and wives.

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded under each term. Sub-Total per term: 5 marks. Grand Sub-Total: 25 marks)  
(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) State and describe any five (5) types of trust. (30 marks)  
(b) What is a trust corporation? (4 marks)

#### Solution

(a) **Express Trusts:** An express trust is a trust intentionally and expressly created, usually by some written method such as a deed or a will. It is called 'express' because the trust is

expressly set out. A trust of personal property can be made by an express oral declaration. A trust of a life policy is normally made by a declaration in writing, or a deed.

(b) **Implied Trusts:** An implied trust is one which is not created expressly but is implied from the actions or circumstances of the parties. An example of an implied trust would be where a partnership purchases property and arranges for the conveyance to be to one of the partners only, who will then hold the property on trust for all the partners even if there is no formal written document setting this out.

(c) **Resulting Trusts:** A resulting trust arises where there is a failure of the trust on which the property is held. As the purpose of the trust can no longer be fulfilled, there is said to be a resulting trust for the creator of the trust, and ownership of the property reverts to that person.

(d) **Bare Trusts:** A bare trust is where the trustee's sole duty is to transfer the trust property to the appropriate beneficiary. An example of this would be a claim under a Married Women's Property Act policy for a single adult beneficiary, 'on trust for X absolutely'. The trustees receive the policy moneys from the office and their sole duty is to transfer it to the beneficiary, often the wife.

(e) **Successive Trusts:** A successive trust is where property is held in trust for a succession of interests taking effect one after the other. For example, a marriage settlement might provide for property to be on trust for a husband for his life, thereafter for his wife for her life, and on her death for the children of the marriage in equal shares. The final interest in a successive trust is called the **ultimate trust**.

(f) **Settlements:** Many trusts are called settlements, and the term is often used as an alternative to the word trust. Strictly speaking however settlement is a trust where there are successive interests – such as 'to my wife for life and thereafter our children in equal shares'.

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

(b) A trust corporation is defined as the Treasury Solicitor, the Official Solicitor, other officials prescribed by the Lord Chancellor, or a corporation either appointed by the court in any particular case to be a trustee or entitled by rules made under the **Public Trustee Act 1906**, s.4(3) to act as custodian trustee. (4 marks)

11. (a) Define Industrial Life Assurance as stated under the Industrial Assurance Act 1923. (3 marks)

(b) Outline any three (3) principal features of industrial life assurance. (9 marks)

(c) Explain the scope of cover under a group life assurance. (4 marks)

(d) Enumerate any six (6) uses of life assurance policies. (18 marks)

### **Solution**

(a) **Industrial Life Assurance** is the business of effecting assurance upon human life, premiums in respect of which are received by means of collectors, and are payable at interval not exceeding two months. (3 marks)

(b) The principal features of industrial life assurance are:

- sums assured and premiums are small so that life assurance is brought within the reach of everyone;

- it is a statutory requirement that premiums are payable at intervals not exceeding two months and are received by means of collectors;
- claims are usually paid by the collector to the claimant in their own home;
- only simple types of policy are issued which are mainly endowment assurances and whole life assurances.

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

(c) A group life assurance makes provision for the payment of a certain sum known as the death benefit or sum assured to the named beneficiary of employees who may die within period of the group life cover while still in the services of his employer. The concept involved in a group life is that of a term assurance and as such it may also be referred to as a – **Group Term Assurance**.

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

(d) The uses of life assurance policies are:

- for life protection purposes;                      \* for investment purposes;
- for tax relief;    \* for educational purposes;
- as a collateral security;                              \* to pay capital transfer tax
- for pension provision;                              \* to augment pension.

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

**(Grand Total: 34 marks)**

12. (a) Enumerate five (5) provisions expected of a trust deed where a trust includes a life assurance policy. **(10 marks)**
- (b) (i) Enumerate three (3) market players under “buyers” in the reinsurance market place. **(9 marks)**
- (ii) Enumerate two (2) market players under “intermediaries” in the reinsurance market place. **(6 marks)**
- (iii) Enumerate any three (3) market players under “sellers” in the reinsurance market place. **(9 marks)**

### **Solution**

(a) If a trust includes a life policy, the trust deed will often include some or all of the following provisions:

- a covenant by the settlor to pay premiums;
- a covenant by the settlor to restore the policy if it becomes void;
- a covenant by the settlor to revive, or effect, a new policy if the original policy lapses;
- a power for the trustees to pay premiums out of the trust property;
- a power for the trustees to borrow to pay premiums;
- powers for the trustees to surrender the policy, to convert it, or to exercise any option in it;
- a wide power for the trustees to deal with the policy in any manner they think fit.

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

- (b) (i) The market players under “buyers” in the reinsurance market place are:  
\* direct insurers;              \* captive insurers;              \* Lloyd’s syndicates; \* reinsurers;

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

- (ii) The market players under “intermediaries” in the reinsurance market place are:  
\* reinsurance brokers;              \* management companies

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

- (iii) The market players under “sellers” in the reinsurance market place are:  
 \* reinsurers;                      \* direct insurers;                      \* Lloyd’s syndicates;                      \* pools.  
**(3 marks for each correctly stated player. Maximum of 3 to be graded. Sub-Total: 9 marks)**  
**(Grand Total: 34 marks)**

13. (a) Describe in detail actuarial valuation in relation to life business. **(10 marks)**  
 (b) List and explain any six (6) purposes of Actuarial Valuation. **(24 marks)**

**Solution**

(a) This is a technical actuarial process of assessing the life fund in the light of mortality and interest rates as well as the benefits the life office has guaranteed to pay in the future. The benefits which the life office has guaranteed to pay the policyholders or their named beneficiaries consist of the various sums assured under its life portfolio. These benefits may also be properly referred to as the future liabilities of the life office. When put in another form, an actuarial valuation is an assessment of the long term solvency of a life office in respect of its various life policies under its portfolio. It evaluates the sufficiency of the life fund or assets (which comprises of the premium, investment income on the portion of the premium invested and other liquid as well as physical assets of the life office) over the life office net liabilities as at the valuation date. The main purpose of the actuarial valuation is to determine whether or not a life office is solvent. Though, the requirement of the law is that it must be carried out once in three years, but it is desirable for the life office to make actuarial valuation as part of their annual exercise. For all practical purposes, the actuarial valuation means the same as the **actuarial investigation** and/or **life valuation**.

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

- (b) The purposes of actuarial valuation are:
- it may be required at the time of mergers and acquisitions between two or more life offices. the objective to be achieved from this purpose is to determine the net worth of a life office at the time of mergers and acquisitions;
  - actuarial valuation is carried out to test future funding or current solvency of the life office portfolio;
  - to comply with the legal requirement;
  - to determine the winding-up position of a life office;
  - to know the pace of the life portfolio;
  - to revalue the investment position of the life office;
  - to determine whether or not a life office is in a state of solvency or deficiency;
  - to determine the degree of surplus available and what will be paid to the with- profit policy holders.

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

14. Given the table below of reinsurance risk premium for a life office ABC International Life.
- (a) Complete the columns for the actuarial reserve and reinsurance premium. **(30 marks)**
- (b) Distinguish between original terms and risk premium reinsurance. **(4 marks)**

Policy Year	Age Next Birthday	Actuarial reserve	Amount at risk	Risk premium rate per mille	Reassurance Premium
1	45		1,000	5.5	
2	46		958	5.99	
3	47		916	6.50	
4	48		872	7.07	
5	49		828	7.70	
6	50		782	8.38	
7	51		736	9.14	
8	52		688	9.97	
9	53		640	10.89	
10	54		590	11.88	
11	55		539	12.97	
12	56		486	14.16	
13	57		433	15.47	
14	58		377	16.90	
15	59		320	18.47	
16	60		261	20.18	
17	61		200	22.07	
18	62		136	24.14	
19	63		70	26.42	
20	64		0		

### Solution

(a)

Policy Year	Age Next Birthday	Actuarial reserve	Amount at risk	Risk premium rate per mille	Reassurance Premium
1	45	—	1,000	5.5	5.55
2	46	42	958	5.99	5.74
3	47	84	916	6.50	5.95
4	48	128	872	7.07	6.17
5	49	172	828	7.70	6.38
6	50	218	782	8.38	6.55
7	51	264	736	9.14	6.73
8	52	312	688	9.97	6.86
9	53	360	640	10.89	6.97
10	54	410	590	11.88	7.01
11	55	461	539	12.97	6.99
12	56	514	486	14.16	6.88
13	57	567	433	15.47	6.70
14	58	623	377	16.90	6.37
15	59	680	320	18.47	5.91
16	60	739	261	20.18	5.27
17	61	800	200	22.07	4.41
18	62	864	136	24.14	3.28
19	63	930	70	26.42	1.85
20	64	1,000	0		—

(¾ marks for each correctly stated number in the table above (in coloured ink). Sub-Total: 30 marks)

(b) **Original Term Reassurance:** The reassurance of a proportion of the original sum assured can be accepted on whatever terms are agreed by the offices concerned. However, it is usual for the reassurance to be effected at the same rate of premium and subject to the same policy conditions as those of the principal office, hence the expression 'original terms' reassurance. Most original terms reassurance is term assurance. The reinsurer is liable for a proportion of the original policy throughout its duration and pays its due share of any claim or surrender value.

**Risk Premium Reassurance:** Under a risk premium reassurance, it is the death strain which is reassured and not a fixed proportion of the original sum assured. The cover provided by a risk premium reassurance thus decreases each year as the death strain reduces by the building up of the reserve. When a death claim arises under the original policy, the reinsurer's liability is restricted to the difference between the reserve and the nominal sum reassured. The reinsurer has no liability for surrenders or maturity claims, as these are paid out of the principal office's reserve under the policy.

(2 marks for each correct and completely stated explanation. Maximum of 1 explanation under each term should be graded. Sub-Total per term: 2 marks. Grand Sub-Total: 4 marks)  
(Grand Total: 34 marks)





CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A06

MOTOR INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A06 – MOTOR INSURANCE

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question covered motor insurance as a compulsory class of insurance in relation to other classes. It was widely attempted with an average success rate exceeding 70%.

### **Question 2**

Focused on the components of insurance premiums, this question had a moderate attempt rate, with a pass rate between 35% and 40%. Candidates need to improve their understanding of premium computation.

### **Question 3**

This tested knowledge of the different types of motor insurance cover. The question was well-attempted, with over 60% of candidates providing correct answers.

### **Question 4**

This question assessed candidates' understanding of claims settlement, particularly in total loss situations. Performance was impressive, with over 70% success, reflecting a strong grasp of the topic.

### **Question 5**

The question tested the candidates' understanding on motor policy exceptions, candidates demonstrated good understanding, with a pass rate above 60%.

### **Question 6**

This addressed motorcycle insurance underwriting and personal accident/personal effects extensions. Most candidates attempted it, with more than 50% passing.

### **Question 7**

Candidates were tested on the roles of the claims department. It was well-attempted and well-answered, with a pass rate above 60%.

### **Question 8**

This question tested knowledge of motor trade policies and private car rating with security devices. Candidates generally understood the question, though performance varied across chapters, resulting in an average pass rate.

### **Question 9**

This compulsory question covered insurance trade associations, policy conditions, litigation, arbitration, and changes in cover. Candidates showed good comprehension, with a 70% pass rate.

### **Question 10**

This question examined the new car benefit scheme cover demands. Candidate performance was below average due to a poor understanding of the question.

**Question 11**

This question involved motor trade policies and towing/storage charges. Performance was average, with about 40% pass rate.

**Question 12**

Short notes on various topics. Candidates displayed excellent understanding, with a very high pass rate.

**Question 13**

Focused on rebates in motor insurance, this question was mostly avoided. The pass rate was below average, indicating a need for further study.

**Question 14**

Required short notes on specific insurance terms. Many attempted it, but the performance was below average. Candidates should invest more time in studying key terms.

**Comments on Overall Performance:**

The overall performance was excellent, with a pass rate of 74%. This represents one of the best results in recent examinations. However, specific areas where candidates underperformed have earlier been noted above for improvement.

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

Candidates should pay more attention to areas where their performance was below average. Focused reading, better preparation, and tutorial support will help improve future outcomes.

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

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. There are several classes of Insurance other than Motor that are just transacted by the citizenry and not made compulsory and the Government has never been bothered whether members of the public take them up or not. An argument came up at a public forum where some participants concluded that Government was partial for not making other classes of insurance compulsory. Do you think that this kind of argument is valid, and if so, why was Motor Insurance made compulsory?

### Solution

Motor insurance was made compulsory because most people would have found it difficult to compensate the victims of Road Traffic Accidents out of their own resources. It would therefore be wise for them to cover their liabilities to others by taking out insurance. Unfortunately, experience has shown that “it will never happen to me” syndrome will lead to the majority of motorists not taking out adequate Insurance cover or security mandatory.

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

**Total: 6 marks)**

2. Premium is the consideration for the cover granted by insurers. However, a school of thought is that insurers just charge frivolous premiums which cannot be justified. Another school of thoughts believe that the insurance premium on motor insurance is right as it covers a wide spectrum of risks and items. Enumerate any four (4) components of a motor premium to justify the second school of thought stated above.

### Solution

The components of a motor premium to justify the second school of thought stated in the question above are:

\*estimated claim cost;                      \* contribution to major losses;                      \* commission;  
\* expenses;                                      and                      \* profit.

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

3. Mr. Nwachukwu was recently elevated by his employers, thus qualifying him for a car loan. To this effect, he obtained a car loan of ₦6,000,000.00 and bought a Nissan Jeep from M/S Okafor Motors Limited. Whilst discussing with his wife and relations, different suggestions were made as to the type of insurance cover open to him in the insurance industry to adequately protect his newly purchased Jeep. Please advise Mr. Nwachukwu various types of cover available for his vehicle.

### Solution

The Motor Insurance Department offers one of four main types of Policy Cover as follows:

- Road Traffic Act                      (1½ marks)                      \* Third Party Only                      (1½ marks)
- Third Party Fire and Theft                      (1½ marks)                      \* Comprehensive                      (1½ marks)

**(Grand Total: 6 marks)**

4. In the context of Motor Insurance Claims Administration, explicitly but briefly explain what are meant by “Total Loss Claims”.

### Solution

The standard motor policy states that the most the Insurer will pay is the market value of the vehicle at the time of loss or damage. This figure then becomes a ceiling and if the cost of repairs equals or exceeds that amount then the vehicle is declared an insurance write-off.

Various terms are used for this situation but they amount to much the same ‘write-off’, ‘beyond economical repair’, ‘total loss’.

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

5. Motor Policy Document is a complete set of documents that contain all the terms, exceptions and conditions of the policy. It also contains many other parts. Some people, however, wonder why exceptions should also be included.

- (a) What does “exception” stand for? **(2 marks)**  
(b) State the standard sample wording of a Motor Policy Exception. **(4 marks)**

**Solution**

(a) Exception (also known as exclusion) is situations or circumstances under which the Motor Policy will not cover certain risks. Examples are driving under the influence of alcoholic, depreciation, wear and tear and driving without a valid license. The intention of exclusion is to the effect that such risk are excluded or excepted from the Motor Policy and losses or claims arriving from such risks will not be covered by the policy.

**(2 marks for any correct and completely stated explanation of the term. Sub-Total: 2 marks)**

(b) A standard sample wording of a Motor Policy Exception is “This Policy Does Not Apply when any vehicle covered by it is being... **(2 marks)**

... driven by or is in the charge of any person not permitted to do so by your certificate of Motor Insurance. OR

... used other than for the purpose specified in your certificate of motor insurance. **(2 marks)**

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

**(Grand Total: 6 marks)**

6. Dr. Omotara is the Chief Medical Officer of Reeler Medical Home. She is seeking Personal Accident and Personal Effects Cover for the Company’s newly acquired Suzuki Motor-Cycle. However, her colleague, Mr. Omosola, is of the view that such request is frivolous and can never be granted by the Insurers. As the Underwriting Manager of Reality Insurance Company Limited, please give the correct professional opinion, with reason, on the feasibility of this request.

**Solution**

As the Underwriting Manager of Reality Insurance Company Limited, the correct professional opinion, with reason, on the feasibility of this request is that Dr. Omotara will be advised that enhanced benefits such as personal effects and personal accident benefit are not provided under a motor cycle policy. Consequently, her request will be turned down. This is because such losses cannot be termed fortuitous under the motorcycle policy.

**(3 marks for correctly stated opinion. 3 marks for correctly stated reason. Total: 6 marks)**

7. The Claims Department has been described as the shop window of an insurance company. Enumerate any four (4) roles of the claims department.

**Solution**

The role of the claims department is to:

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

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

8. (a) Some risks are specifically excluded under an internal risks Third Party and Damage Motor Trade Policy. Enumerate any two (2) of those risks. (2 marks)
- (b) State two (2) explicit roles that security devices play in private car rating? (4 marks)

### **Solution**

(a) The risks that are specifically excluded under an internal risks Third Party and Damage Motor Trade Policy are:

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

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

(b) With the ever-increasing risk of theft, insurers are willing to grant premium discount for security devices. Some may, in fact, insist upon certain levels of security before granting theft cover or indeed any cover at all. Mechanical immobilizers considerably reduce the risk of theft in the first place. However, a determined and professional thief will not be deterred by such a device and therefore the insurance risk from that point onwards depends upon the likelihood of the vehicle being recovered. For this reason, insurers are willing to give further premium reductions if an approved electronic tracking device is fitted and working. This type of device can be used to track the vehicle wherever it goes and can lead the police to it and, hopefully, to the thief.

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

(Grand Total: 6 marks)

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

9. (a) Enumerate any five (5) organisations or trade associations that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market. (10 marks)
- (b) Alhaji Taofeek insured his Toyota Saloon Car with M/S Accurate Insurance Company Limited for a value of ₦5,000,000.00 on comprehensive basis. Whilst driving along Sango-Ota-Abeokuta Expressway, to attend a wedding ceremony, the vehicle was involved in a road accident. The vehicle was taken to Isiaka Mechanical Workshop by the Insured and he directed that the repairs should be effected immediately.
- When repairs were completed about 6 weeks thereafter, he notified the Insurers. He wanted to claim the sum of ₦1.5m representing the cost of repairs. However, the Insurers repudiated the claim for Breach of Notification Condition of the Policy.
- (i) Are the insurers not wrong for their failure to meet Alhaji Taofeek's Accidental Damage claim? (5 marks)
- (ii) What is the relevance of Notification Condition in a Motor Policy? (5 marks)
- (iii) Briefly summarise the contents of an ideal notification condition. (5 marks)
- (c) Alhaji Kameel whilst driving his Nissan saloon Car from Ilorin, Kwara State to Kabba, in Kogi State he was involved in a lone accident resulting in extensive damage to his car. The car was insured with M/S Express Insurance Company Limited on comprehensive basis for ₦3,000,000.00. A repair estimate of ₦2,500,000.00 was presented to the Insurers. After examination of the accidented vehicle by the Engineer, it was declared a Constructive Total Loss

and a sum of ₦2,000,000.00 was offered by the Insurers to the Insured but the offer was rejected by him. He turned down all entreaties by the Insurers and decided to resort to litigation. Differentiate between litigation and arbitration.

**(10 Marks)**

- (d) Alfa Ayobami bought a Nissan Saloon Car from Maxwell Motors Limited, which he had been insuring with Clarity Insurance Company Limited for the past three (3) years on comprehensive basis, and had always paid his premium without any problems.

Recently, he received a Renewal Notice from his Insurers to renew the insured car, once again. He wondered why he should be paying premium over the years for no just cause. He therefore approached his friend, Alhaji Arowolo, who advised him to reduce cover to Third Party Only (TPO) in order to drastically reduce the premium. This he did by renewing his policy on Third Party Only Basis and paying relevant premium applicable on 13<sup>th</sup> October, 2024. Relevant Endorsement and Certificate of Insurance was issued to him.

On 11<sup>th</sup> December, 2024, the car was stolen at the National Theater, Iganmu, Lagos by unknown persons. He immediately notified the Insurers claiming the sum of ₦4,000,000.00 for the theft of his car. He also notified the Police.

As the Claims Manager, how will you handle this claim and what effect does the Police Report have on this claim?

**(15 marks)**

### **Solution**

- (a) The Organisations/ trade associations that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:

- Nigerian Insurers Association (NIA)
- Nigerian Council of Registered Insurance Brokers (NCRIB)
- Institute of Loss Adjusters of Nigeria (ILAN)
- National Insurance Commission (NAICOM)
- Chartered Insurance Institute of Nigeria (CIIN)
- Professional Reinsurance Association of Nigeria (PRAN)
- Association of Registered Insurance Agents of Nigeria (ARIAN)

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

- (b) (i) The insurers are justified (i.e. not wrong) for refusing to meet the Insured's claim for his failure to notify the Insurers of the accident before embarking on repairs of the vehicle, thus depriving the Insurers the opportunity of inspecting the accidented vehicle and vetting its repairs. By so doing, Alhaji Taofeek has breached the Notification Condition of the Policy. (5 Marks)

**(2½ marks for stating whether wrong or not. 2½ marks for correctly stated reason for the response. Sub-Total: 5 marks)**

- (ii) The essence of the Notification Condition is to enable Insurers to have knowledge of all aspects of all claims at the earliest opportunity and in particular, to enable Insurers process the claim. The Notification Condition states that full details must be provided in writing, as soon as possible of any occurrence that could lead to a claim. All correspondences from third parties must be sent to the Insurers unanswered. Details of any impending prosecution or other court procedure must be provided. Please note that early notification allows Insurers to control the cost of claims, specifically through directly insured vehicles to recommended or approved



repairs, making contracts with third parties for recovery and controlling the vehicle rented policy of third party claims.

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

(iii) The contents of an ideal notification condition are:

“You – or your legal personal representatives must provide to us in writing as soon as possible full details of any occurrence which could lead to a claim under this policy. You must also forward immediately to us any unanswered correspondence another document you receive in connection with such an occurrence. If you know of any impending prosecutions in quest or a fatal accident inquiry in connection with any such occurrence, you must inform us immediately in writing.

**(Candidates are NOT required to quote this. They are simply to state two items contained in the clause.**

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

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

(c) **Litigation:** is strictly court action. It is a situation where an aggrieved insured shelves (or had exhausted) all other dispute resolution mechanism and goes to court to seek redress. While **Arbitration:** is a policy that calls for any dispute over the quantum of a claim (NOT liability), i.e, the amount of the claim, to be referred to an arbitrator before any legal action can be taken against the Insurer. In private motor policies, the arbitration is seldom invoked, bearing in mind that most disputes are resolved and it is necessary the ombudsman can be involved.

**(5 marks for each correct and completely stated difference. Sub-Total: 10 marks)**

(d) The Insured, Alhaji Ayobami has no valid claim, having reduced cover on his vehicle from Comprehensive to Third Party Only (TPO) on the Insured's car **(5 marks)**. Consequently, the claim should be repudiated abinitio. **(5 marks)** The fact that the theft was reported at the Police Station does not change the position as it was just for mere information that the vehicle was stolen. **(5 marks)**

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

**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. (a) Mallam Musa brought a brand-new Lexus 330 Jeep from M/S Tony Motors Limited and insured it on comprehensive basis with M/S Transparency Insurance Company Limited for ₦6,000,000.00 whilst driving from Gusau to Sokoto, the vehicle was snatched by armed robbers, and this loss was appropriately notified to the Insurers. Meanwhile, his cousin, Professor Adamu, advised him to meet his Insurers for the purpose of giving him a replacement car of the same make and model, in order to ease his transportation problems.

Under a Private Car Motor Insurance Policy, enumerate the scheme (or Clause) under which such replacement car can be given to Mallam Musa by his Insurers and enumerate the attendant conditions to meet or satisfy. **(14 marks)**

(b) At a Motor Insurance Workshop, a participant remarked that Motor Insurance Premium should, indeed be lesser because underwriters work with less papers and documents. This generated a lot of arguments, with some of them standing for, while some are against this thought being propounded.

As a student of Insurance, enumerate eight (8) relevant documents applicable in Motor Insurance, which are necessary for underwriting purposes by Insurers. (20 marks)

**Solution**

(a) It is the new Car Benefit Scheme (or clause) which can only be operational if within six (6) months of the date of first registration as new (4 marks) in the Insured's name (3 marks), the car is stolen and not recovered or is damaged (3 marks) and the cost involved in the repair will exceed 60% of the manufacturer's list price (including car tax and value added tax) (2 marks) at the time of loss or damage (2 marks). (14 marks)

(b) The relevant documents applicable in Motor Insurance, which are necessary for underwriting purposes by Insurers are:

- \* Proposal Forms;                      \*Cover Notes;                      \* Certificates of Motor Insurance;
- \* Policy Forms;                      \* No Claim Discount; \* Policy Forms Conditions;
- \* Payment of Premium; \* Renewal Procedure;                      \* Policy Excess;

(2½ marks for each correctly stated document. Maximum of 8 to be graded. Sub-Total: 20 marks)

(Grand Total: 34 marks)

11. (a) What are the general features of Motor Trade Policies? (10 marks)
- (b) State and explain the three (3) types of Motor Trade Policies that are available? (12 marks)
- (c) In motor claim administration, what is the attitude of Insurers to "towing and storage charges? (12 marks)

**Solution**

(a) The general features of Motor Trade Policies are linked to the fact that there is, for various reasons, a certain moral hazard linked with the motor trade. Whilst there are clearly a considerable number of reputable dealers, repairer, e.t.c. the trade does, on occasion, attract the more doubtful kind of character. Generally speaking, insurance cover for the motor trade is not limited to specified vehicles or specified drivers.

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

(b) The three (3) types of Motor Trade Policies that are available are:

- **Road Risks:** for vehicles in custody or control whilst on a road.
- **Internal or Premises Risks:** for risks associated with the premises.
- **Comprehensive Road and Garage Risks:** both road risks and internal plus a range of extra benefits.

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

(c) Under the terms of the standard motor policy, Insurer will pay for the reasonable cost of removing the vehicle from the scene of an accident to the nearest competent repairer. They will pay for the cost of safeguarding the vehicle and then returning it, after repair, to the policyholder's permanent address in the country where the insurance was enacted. Initial towing charges can be quite onerous, especially if the vehicle is towed from a motorway under police instructions. It is quite difficult for Insurers to control this aspect of the cost but if they can arrange for an approved repairer to undertake the removal then very favourable, and possibly free, rates can be achieved.

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

(Grand Total: 34 marks)

12. (a) Write short notes on the following terms:
- (i) reinsurance;                      (ii) coinsurance;

- (iii) reasonable care; (iv) indemnity. (20 marks)
- (b) "Geographical Area of Use" is given a considerable importance and action by Underwriters particularly in the area of "private car rating and assessment". State any four (4) relevance of "Geographical Area of use and/or Garaging" in Private Car Insurance rating. (14 marks)

### Solution

- (a) (i) **Reinsurance:** this is a means by which motor insurers risks that are originally insured with them. This could be done by way of facultative or treaty arrangement. This is to ensure that the risk is spread and in the event of a loss, the reinsurers also indemnify the insurer.
- (ii) **Co-insurance:** this a situation where more than one insurer jointly insures a risk. Each co-insurer is responsible for its own share (percentage) whilst the co-insurers are led by a leader who probably has a controlling percentage and handles the insurance of policy and relevant documents which are to be signed by each participant (co-insurer). The leader charge over-riding commission for each leadership and administrative expenses incurred.
- (iii) **Reasonable Care:** a term/condition of the motor policy will call for the policyholder to take all reasonable steps to protect the vehicle from loss or damage and to keep it in roadworthy condition. The law relating to reasonable care clauses continues to change and with particular reference to motor insurance, the ombudsman has recently had a number of things to say. The common features seem to be that insurers would have to prove a high level of 'reckless disregard' for the safety of the property before they can apply policy condition in order to repudiate a claim.
- (iv) **Indemnity:** motor policies are essentially. In other word, subject to policy limits exclusions and any applicable excesses, the policyholder should be placed in the same position after a loss as they enjoyed immediately prior to the loss. The principle of indemnity is usually mentioned in the operative clause of the policy and in addition may be the subject of a definition. The one exception to indemnity usually found in a major policy is that relating to personal accident benefits where fixed sums are paid to policyholders.

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded under each term. Sub-Total per term: 5 marks. Grand Sub-Total: 20 marks)

- (b) The relevance of geographical area of use/garaging in private car insurance rating is the fact that the area in which the vehicle is used makes a lot of difference to the risk. In heavily populated areas, there is more chance of collision even where the policyholder is not at fault (e.g hit whilst parked by a hit and run driver). On other hand, there is less chance of collision where there are fewer cars on the road. The theft risk also differs from one location to another, with larger cities being top of the list. The area of use of the vehicle is one indicator of the theft risk but perhaps more important is the place where the vehicle is kept overnight. The theft risk can be reduced if the vehicle is kept in a locked garage and reduction in premium can be obtained.

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

13. (a) State any four (4) rebates normally available under Motor Insurance Policy. (20 marks)
- (b) Discuss the concept of "exaggeration" in insurance contract by an insured in a legitimate insurance contract. (14 marks)

### Solution

- (a) The rebates normally available under Motor Insurance Policy are:
- \* voluntary excess;                      \* driving restricted to insured only;
  - \* driving restricted to insured and spouse;    \* more than one (1) car insured;
  - \* cover restricted to social, domestic and pleasure use only;

\* mature drivers discount.

(5 marks for each correctly stated rebate. Maximum of 4 to be graded. Grand Sub-Total: 20 marks)

(b) This perhaps is one of the most difficult questions to answer Hoffman. J in Orakpo stated:

In cases where nothing is misrepresented or concealed, and the loss adjusters is in as good a position to form a view of the validity value of the claim as the Insured, it will be a legitimate reason that the Insured was merely putting forward a starting figure for negotiation. Gross exaggeration has been held to be strong evidence of fraud where it is out of all proportion to the true extent of the loss – Goodman v. Harvey (1836). On the other hand, mere exaggeration does not always constitute fraud and, in fact, it may be intended to be a starting figure for negotiation. The degree of the exaggeration cannot be the sole test here; it is always possible that a small exaggeration in comparison with the size of the loss may be fraudulent; if it is proved that there was an intention on the part of the policyholder to obtain a benefit to which they were not entitled.

Unfortunately, little guidance is given by the case law. Where an Insurer believes at least part of the claim is exaggeration (and may therefore be fraudulent), then any payment in respect of the claim could be a waiver of their rights, as was the situation in Diggins v. Sun Alliance.

(3½ marks for each correct and completely stated explanation. Maximum of 4 to be graded under each

term. Sub-Total: 14 marks)

(Grand Total: 34 marks)

14. Write notes on the following terms used in connection with motor insurance:

- (a) agreed value; (8 marks) (b) laying up rebate; (8 marks)  
(c) contract of carriage; (8 marks) (d) knock-for-knock agreement. (10 marks).

### **Solution**

(a) **Agreed Value:** the comprehensive policy will indemnify the Insured in the event that his car is lost or totally destroyed by fire, theft or accidental damage. Insurers base their payment in these circumstances on the market value of the vehicle at the time of the loss. The market value basis may not be acceptable to an Insured who feels that his own particular car is so out of the ordinary or so little used, or so well maintained, or so well equipped with accessories that it has a value far in excess of the market value of other cars of the same model or basic type. This may be particularly true where the vehicle is of a special or vintage type. In such cases, Insurers may be prepared to grant cover on an agreed value basis so that in the event of a total loss the Insurers will pay a stipulated sum. This sum has to be agreed between the Insurers and the Insured at each renewal date of the policy and will usually be somewhat higher than the prevailing market value of other vehicles of the same make and year (the insured is unlikely to accept a lower figure). By the end of the year of insurance the agreed value may be substantially more than the corresponding market value. It has been held that the granting of agreed value policies does not contravene the principle of indemnity since in effect all that happens is that the measure of indemnity is agreed between the Insurers and the Insured at the inception of renewal date of the policy rather than at the time of loss. It is customary only for Class A policies to be issued on an agreed value basis and the agreed value comes into effect only when the vehicle becomes a total loss; it does not apply in the event of a partial damage claim.

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

(b) **Laying Up Rebate:** when a vehicle is to be laid up for a period not less than eight consecutive weeks, previous notice shall be given to the company in writing. The existing cover, e.g. Comprehensive or Third Party, Fire and Theft Policies may be suspended. But the risks of fire and theft must be maintained on the laid-up vehicle. A vehicle is regarded as laid-up when it is parked (i.e. in a stationary position) and would not be made to be used on the road.

This can apply to private cars, commercial vehicles and motorcycle. Since the risks covered when a vehicle is laid up are fire & theft a rebate is usually granted the Insured from the normal premium. The rebate would depend on the existing cover – Comprehensive, Third Party, Fire and Theft or Third Party Only and of course, whether it is new business that is introduced. Practice varies from company to company on what rebate is applicable – between 30% - 50% of Comprehensive premium. However, the Nigeria Motor Tariff stipulates thus:

*“A refund may be allowed from the following renewal premium of not more than 75% of the pro rate premium for the suspended period (Endorsement No. NMT 4 must be used)”*

The policy may be extended without additional premium for a period of not more than 75% of the suspended period (Endorsement No. NMT 5 must be used) period of suspension must not be less than 30 days and relevant Certificate of Insurance must be returned.

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

(c) **Contract of Carriage:** Agreement between carrier and owner of goods to be carried with contract specifies basic elements and may include Escort Warranty. The agreement states the vehicle details, names and addresses of both parties, nature of goods, destination and point to take off; date and period of journey, responsibilities of both parties to the agreement e.t.c. There also has to be consideration, limitation and movement, known value of goods. In addition, both parties are required to endorse and sign the agreement. In the event of any loss or damage to the goods, carrier had accepted responsibilities to pay such damage to the owner of the goods.

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

(d) **Knock-for-Knock Agreement:** Knock for knock Agreement is agreement between two Insurers under which each agrees to pay for damage to its own Insured's vehicle if such damage is Insured, irrespective of responsibility for the accident. Insurers undertake not to seek to recover outlay from Insurers of motorist responsible. In practice, the agreements involve insurance companies writing off recoveries which they normally pursue against one another. Agreements operate on the “swings and roundabouts” principle so that in the long run no one Insurer gains or losses from the agreements as the amount of recoveries not pursued against them. The student should give an example of the operation of agreement in a typical case e.g. case involving collision between two vehicles. Agreement can operate unfavourable to Insurers who have largely comprehensive portfolios where other Insurers involved have mainly third-party portfolio – explain how this can arise in practice and the effect of the partial indemnity clause. Introduced from 1980. Objects of such agreement are to reduce litigation between Insurers thus reducing expenses, which in turn results in lower premiums payable by insured. Agreement also promote friendly relations between Insurer. Claims coming within scope of latest agreements are those which result from:

- \* collision or attempt to avoid collision;      \* loading or unloading;
- \* anything falling from vehicles or anything thrown up by wheels of vehicles.

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A07

LIABILITY INSURANCES

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A07 – LIABILITY INSURANCES

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question assessed candidates' understanding of the case *Blyth v. Birmingham Waterworks Co.* (1856). The attempt rate was 80%, with a pass rate of 75%. Candidates demonstrated a commendable grasp of the subject matter.

### **Question 2**

The question evaluated knowledge of tort of negligence. With an 80% attempt rate and a 75% pass rate, the performance was notably impressive.

### **Question 3**

Candidates were tested on the case *Donoghue v. Stevenson* (1932). Attempt and success rates were high, at 90% and 85%, respectively. The responses reflect strong comprehension of the legal principle involved.

### **Question 4**

This question focused on nominal and punitive damages. With 70% of candidates attempting the question and a 65% pass rate, performance was commendable.

### **Question 5**

This question assessed understanding of prohibited conditions in employers' liability insurance. The attempt rate was 90%, and the pass rate was a solid 65%, indicating above-average performance.

### **Question 6**

The question was designed to test the candidates' knowledge of product liability insurance exclusions. This question was well attempted (91%) with a strong pass rate of 84%.

### **Question 7**

This question focused on the rating basis for public liability insurance. It had a high attempt rate of 97%, with a pass rate of 71%, reflecting good overall performance.

### **Question 8**

Candidates were assessed on the differences between reinsurance and coinsurance. The question was attempted by all candidates (100%), and all passed (100% pass rate), showing excellent understanding.

### **Question 9**

A compulsory comprehensive question on multiple areas of liability insurance. The attempt rate was 95%, with a pass rate of 69%, demonstrating an above-average grasp of the subject.

### **Question 10**

This question covered employers' liability insurance. The attempt rate was low (40%), and the pass rate was also low at 30%, indicating insufficient understanding among many candidates.

### **Question 11**

An elective question that assessed various aspects of liability insurance recorded an attempt and pass rate of 90% and 80%, respectively.



**Question 12**

The question, which examined the candidates' knowledge of employers' liability insurance, notification of claims in liability insurance and civil laws, was attempted by 97% of candidates and had an outstanding pass rate of 94.52%, reflecting excellent comprehension.

**Question 13**

This elective question saw a moderate attempt rate of 52.06%, with a below-average pass rate of 49.32%. Performance suggests the topic may require clearer understanding or more emphasis during preparation.

**Question 14**

The question tested candidates on professional indemnity and employers' liability insurance. Attempt rate stood at 40%, with a pass rate of 50%. Performance indicates a need for deeper understanding and more rigorous preparation.

**Comments on Overall Performance:**

The overall performance was very good. Out of 73 candidates, 62 passed, yielding a pass rate of approximately 85%. This indicates a solid understanding of the subject by most candidates.

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

Approximately 90% of the examination questions were drawn directly from the coursebook. Candidates are therefore encouraged to study thoroughly and consistently ahead of each examination diet. Also, they are to attend tutorials to deepen their understanding. Avoid selective reading, and aim to cover the full breadth of the syllabus to ensure holistic preparation.

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. (a) What is the significance of Blyth V. Birmingham Waterworks Co. 1856. (2 marks)
- (b) Define the core concept that hold sway in the case in (a) above. (4 marks)

### Solution

(a) The significance of Blyth V. Birmingham Waterworks Co. 1856 is that it upheld and gave backbone to the concept of “negligence” in liability insurances. (2 marks)

(b) The definition of the core concept that hold sway in the case in (a) is that “Negligence is the omission to do something which a reasonable man, guided upon those consideration which normally regulate the conduct of human affairs, would do, or doing something which a prudent and reasonable man would not do”. (4 marks)

(Grand Total: 6 marks)

2. An action in negligence is not automatic; therefore, for a plaintiff to succeed in an action in negligence, (s)he must prove four actions. Enumerate any three (3) of these actions.

### Solution

An action in negligence is not automatic; therefore, for a plaintiff to succeed in an action in negligence, (s)he must prove the following:

- that the defendant owes a duty of care to the plaintiff;
- the defendant is in breach of that duty;
- that breach has caused damage or loss to the plaintiff;
- that the damage caused was foreseeable.

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

3. In product liability, the leading case is “Donoghue v. Stevenson (1932)”. Briefly explain the facts of the case as it relates to liability insurance.

### Solution

Mrs. Donoghue suffered as a result of a defect in a product (ginger beer) bought by a friend. It contained the remains of a decomposing snail. As the law stood then, Mrs. Donoghue could not sue the vendor as there was no contractual relationship between them. Her only recourse was to sue the manufacturer on the ground that the manufacturer owes a duty of care to subsequent users. This she was able to do and from the case, “negligence” was strengthened.

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

4. Distinguish between “nominal damages” and “punitive damages”.

### Solution

Nominal damages are not intended to compensate and are usually small. They are a recognition that a tort has been committed against the plaintiff although no real loss flows. Nominal damages are awarded as a token of the plaintiff although no real loss flows. Nominal damages are awarded as a token of the plaintiff legal right. **WHILE** Punitive damages are awarded in addition to real damages to express the court’s view that the defendants conduct is deplorable or outrageous. These damages are punitive not compensatory and they are rarely awarded by the court.

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

5. With reference to employer’s liability insurance, list three (3):
  - (a) prohibited conditions;
  - (b) sources of an employer’s liability to its employees.

### **Solution**

- (a) The prohibited conditions, with reference to employer's liability insurance, are:
- any breach of the policy terms and conditions by the employer;
  - any lack of reasonable care by the employer to protect employees against risk of bodily injury or disease;
  - any breach of any enactment by the employer concerning the protection of employees;
  - failure by the employer to keep record.
- (1 mark for any correctly stated condition. Maximum of 3 to be graded. Sub-Total: 3 marks)

- (b) The sources of an employer's liability to its employees, with reference to employer's liability insurance, are:
- \* personal negligence;                      \* failure to select competent employees;
  - \* failure to provide or maintain safe place of work;
  - \* failure to provide safe suitable plant;    \* failure to provide safe system of work;
  - \* vicious liability for the negligence of fellow employees;    \* breach of statutory duty.
- (1 mark for any correctly stated source. Maximum of 3 to be graded. Sub-Total: 3 marks)  
(Grand Total: 6 marks)

6. Product liability policy excludes damages to the product manufactured, distributed or supplied by the insured. Briefly discuss.

### **Solution**

It is true that product liability policy excludes damages to the product itself where such damage is caused by a defect in or unsuitability of such product. The exclusion would be covered by a product guarantee policy which would provide cover for the cost of removal, recall, repair or replacement of the product.

(3 marks for any correctly stated discussion. Maximum of 2 to be graded. Total: 6 marks)

7. List and explain any three (3) rating basis of public liability policy.

### **Solution**

**Turnover:** This is the most common base of rating. Turnover is the total amount of sales on their products or services. A rate is applied on turnover to produce the premium.

**Wage Roll:** This is the total salaries and wages paid for a year and can be used as a basis for the premium calculation.

**Number of Pupils:** This will be relevant to schools and colleges for higher education.

**Number of Beds:** This will be relevant for hospitals, nursing homes and hotel.

**Seating Capacity:** This is relevant in sporting arena where number of seats may be used as a base for premium calculation.

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

8. Distinguish between reinsurance and coinsurance.

### **Solution**

**Reinsurance** is the system whereby one insurer shares (reinsure) with another part of the risk accepted. The company which reinsure (is called the ceding company) this reduces its possible liability. Reinsurance is essential tool of risk spreading and it offers a means of sharing risks to lessening the result of catastrophes (3 marks). **While Coinsurance** on the other hand is a process whereby two or more insurers share risks on a percentages basis. The lead underwriter will issue the policy document and each insurer will sign against their proportion of the risk

(3 marks).

(Grand Total: 6 marks)

## Part II

### Compulsory Question.

This question carries 50 marks.

9. (a) Enumerate any five (5) organisations or trade associations that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market. (10 marks)
- (b) Explain the legal decisions in the following decided case laws:  
(i) Stone v. Bolton (1951); (ii) Hayness v. Hardwood (1935) (16 marks)
- (c) (i) Who is a "Bailee". Give three (3) examples. (5 marks)  
(ii) State and explain the two (2) forms of bailee and how their liabilities may arise. (12 marks)
- (d) Briefly discuss the significance of the "Law Reform (Contributing Negligence)" Act 1945. (7 marks)

### Solution

- (a) The Organisations/ trade associations that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:

- Nigerian Insurers Association (NIA)
- Nigerian Council of Registered Insurance Brokers (NCRIB)
- Institute of Loss Adjusters of Nigeria (ILAN)
- National Insurance Commission (NAICOM)
- Chartered Insurance Institute of Nigeria (CIIN)
- Professional Reinsurance Association of Nigeria (PRAN)
- Association of Registered Insurance Agents of Nigeria (ARIAN)

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

- (b) (i) **Stone V. Bolton (1951):** This case is very important in explaining the tort of nuisance that for it to be actionable, it must connote something continuing. (4 marks). In other words, the act that constitutes interference to the plaintiff must have existed continuously. There must be a frequency in the act of the plaintiff to constitute a state of nuisance. In Stone V. Bolton 1951, a ball was hit from a cricket ground struck the plaintiff who was walking along the nearby road. Evidence was adduced to show that six (6) balls had left the cricket pitch and landed on the road over a period there was no continuous state in the nuisance from the cricket pitch, hence the case failed (4 marks).

(4 marks for the type of tort being covered. 4 marks for full explanation of the case. Sub-Total: 8 marks)

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

(4 marks for the type of tort being covered. 4 marks for full explanation of the case. Sub-Total: 8 marks)

(Grand Total: 16 marks)

- (c) (i) **Bailee:** A bailee is a person who has custody of the property of another on the understanding that it is to be eventually returned to that person. Examples of bailees are pawnbrokers, drycleaners, motor mechanics (motor garage proprietor), watch repairers, e.t.c.

(2 marks for correct and completely stated definition. 1 mark for each correctly stated example.

Maximum of 3 examples to be graded. Grand Total: 5 marks)

(ii) The two forms of bailee and how their liabilities may arise are as stated below:

**Bailee for Reward:** This is a person to whom goods are entrusted for a particular purpose and who is paid for his service. Bailee for reward must exercise reasonable care for the loss or damage to the property in their possession.

**Gratuitous Bailee:** Goods or properties are entrusted to gratuitous bailee but they are not paid for the service rendered. The liability of gratuitous bailee for reward may be less than that of a bailee for reward. At common law, the onus is always on the bailee whether he is a bailee for reward or a gratuitous bailee and also to prove that the loss or damage of a good bailed to him was not caused by his negligence.

(3 marks for each correctly stated form. 3 marks for the correct and completely stated explanation. Sub-Total per form: 6 marks. Grand Sub-Total: 12 marks)

(d) **Law Reform (Contributory Negligence) Act 1945**

This is one of the defenses to an action in negligence case. Before 1945, it was a full defense i.e. if it could be shown that the plaintiff was partly to blame for the accident, they would recover nothing. This was amended by the Law Reform (Contributory Negligent) Act 1945 which stipulates that damages will be reduced to such an extent as the court thinks equitable. In other words, where a person suffers injury or damage as a result partly of his own fault, his claim will not be defeated but his damages will be reduced to such an extent as the court thinks equitable having regard to their share in the responsibility of the damage.

(3½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 7 marks)  
(Grand Total: 50 marks)

**Part III**

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

**Each question carries 34 marks.**

10. (a) The Employers' Liability (Compulsory Insurance) Act 1969 required all employers of labor to insure the legal liability to their employees against occupational hazard(s). Discuss the following in relation to the above Act:
- (i) safe place of work; (ii) safe and suitable plant;
  - (iii) safe system of work. (15 marks)
- (b) Explain the following as it relates to liability insurance:
- (i) vis-major; (3 marks) (ii) volent in fit injuria; (4 marks)
- (c) With reference to the underwriting factors of a public liability insurance, briefly explain the following factors as it relates to liability insurances:
- (i) occupation of the insured; (ii) passer-by;
  - (iii) custody or control of property. (12 marks)

**Solution**

(a) (i) **Safe Place of Work:** there is a duty on employers to take reasonable care for the safety of the premises where employees are asked to work. The duty also extends to access to and egress from the employees' place of work. The liability cannot be discharged by delegation to a competent contractor.

(ii) **Safe and Suitable Plant:** there is a duty in employers to take reasonable care is:

- providing their employees with the necessary plant and equipment with which to do their job; \* providing them with sufficient plant;
- ensuring plant is fit for the purpose and not defective;
- maintaining plant and other equipment. the definition of plant is wide and effective including anything which an employee may use to carry out their job.

- (iii) **Safe System of work:** there is a duty on employers to establish and enforce safe systems of work. This covers for example the following:
- planning and coordination of the work of men or departments
  - layout of machinery
  - provision of protective clothing
  - provision of instruction, training and supervision.

(b) (i) **Vis-Major:** vis-major, also known as Act of God, is one of the defenses available to an action in tort. It has been defined as an event due to natural causes, directly and exclusively with human intervention and which could not have been prevented by any amount of foresight and pains and care reasonably to have been expected. Examples are storms or tornadoes, heavy rain, floods, e.t.c.

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

(ii) **Volenti Non-Fit Injuria:** Volenti non-fit injuria is one of the defenses available to action in tort. The maxim can be translated “no injury is done to a willing person”. Thus, it is a defense to show that the plaintiff either expressly or impliedly consented to the risk of injury or damage. The consent must, however, be real and not obtained by duress. For example, sportsmen and women voluntarily accept the risk associated with their sports.

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

(c) (i) **Occupation of the Insured:** This is very important to determine the level of their risk exposure. The insured occupation shows how hazardous their business i.e. whether the business involves higher moderate or low risk. The occupation of the insured is a good factor in rating to determine the premium payable.

(ii) **Custody or Control of Property:** The insured may have property belonging to a third party in his/her custody and control. The nature of such property should be considered as this may increase the potential liability to third parties.

(iii) **Passer-by:** It is important to consider the potential liability for bodily injury to passers-by. This is important in a construction site. Besides, where loading and unloading take place close to the public pavement, falling loads can cause injury to pedestrians.

(2 marks for each correct and completely stated explanation. Maximum of 2 to be graded under each phrase/term. Sub-Total per phrase/term: 4 marks. Grand Sub-Total: 12 marks)  
(Grand Total: 34 marks)

11. (a) Write short notes on each of the following:
- (i) excess of loss reinsurance; (ii) punitive damages
  - (iii) accord and satisfaction; (iv) limitation of action. (20 marks)
- (b) In relation to the Employers’ Liability (Compulsory Insurance) Act 1969, explain the term “premium adjustment”. (8 marks)
- (c) List any three (3) exclusions under Directors’ and Officers’ Liability Insurance. (6 marks)

### Solution

(a) (i) **Excess of Loss Reinsurance:** This is a form of reinsurance that is most suitable for liability insurance. It is a non-proportional form of reinsurance. The ceding company issues a level of loss and losses within the agreed level of loss are paid by the ceding company while the excess is reinsured with another reinsurance company.

(ii) **Punitive Damages:** These are damages awarded in addition to real damages to express the court's view that the defendant's conduct is deplorable or outrageous. Punitive damage is intended as punishment and not compensatory.

(iii) **Accord and Satisfaction:** This is related to liability claims that are settled out of court before the commencement of the proceedings. The settlement of these claims forms a binding contract between the parties and the defendant is released from any further liability.

(iv) **Limitation of Action:** Limitation of action imposes a time limit within a plaintiff must bring his action and this is to avoid the court having to deal with state claims where the parties' memories of the events is vague and witness are reliable. It is also to safeguards the defendant from the problem associated with defending a claim based on an incident which occurred a long time ago.

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded under each phrase. Sub-Total per phrase: 5 marks. Grand Sub-Total: 20 marks)

(b) **Premium Adjustment on Employers' Liability Insurance:** The employers' liability insurance has a premium adjustment clause. The premium charge on the policy at inception is based on the estimated salaries and wages of employees which produce a provisional or deposit premium. At the end of the period, the insured is required to declare the actual salaries paid and the premium will then be adjusted by the insurer. The premium adjustment may require the insured to pay additional premiums or the insurer may be required to make a refund, subject to the minimum premium chargeable for the risk.

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

(c) The exclusions on under Directors' and Officers' Liability Insurance are:

- improper personal gain of the director;
- fraud and dishonesty of the director;
- prior and pending litigation of the director;
- circumstances which existed prior to the inception of the policy;
- claim made by one party to the policy against another to the policy;
- the liability of directors for any environmental pollution;
- bodily injury or damage to tangible property.

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

(Grand Total: 34 marks)

12. (a) Explain how the premium on Employers' Liability insurance is determined. (10 marks)
- (b) List any four (4) importance of early notification of claim in liability insurance. (10 marks)
- (c) Civil law has its roots in three (3) main sources. State and explain the three (3) Sources. (9 marks)
- (d) List five (5) claims supporting document for a third-party bodily injury. (5 marks)

### Solution

(a) **Premium on Employer Liability Insurance:** The premium charged on Employer's liability insurance is based on the total estimated annual earnings of all employer engaged in the business and the types of business or trade involved. A rate (based on the insured occupation) is applied on the estimated annual earnings of all the employees to produce the initial premium known as deposit premium. The deposit premium is subject to declaration and adjustment.

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

(b) The importance of early notification of claims in liability insurance are:

- it complies with the notification condition of the policy. All liability policies contain a condition which requires a claimant to notify the insurer within a stipulated time;

- it assists the insurer to conduct investigation when the matter is fresh and when eye witness account will be readily available;
- it helps the insurer to reserve adequately for the claim;
- it helps the insurer to notify their reinsurer or co-insurers accordingly;
- it enables quick processing and settlement of the claim.

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

(c) The three main sources of civil law namely:

- **Custom:** custom of the people and custom pertaining to a particular trade. It has been used to settle or resolving mercantile disputes among business people. Custom law has little relevance today;
- **Common Law:** This is the most prolific source of civil law. It is based on the doctrine of binding precedent in which the decisions of the past court bind present courts
- **Legislation:** This refer to the parliament which is another important source of civil law. It is the highest source of law and overrides the other two when there is conflict. Legislation is the most direct and efficient way of amending the law

(2 marks for each correctly stated source. 1 mark for each correct and completely stated explanation. Sub-total per source: 3 marks. Grand Sub-Total: 9 marks)

(d) The claim supporting documents for a third-party bodily injury are:

- |                          |                               |
|--------------------------|-------------------------------|
| * completed claim form;  | * medical examination report; |
| * medical bill;          | * excuse duty certificate;    |
| * discharge certificate; | * employee pay slip.          |

(1 mark for each correctly stated document. Maximum of 5 to be graded. Sub-Total: 10 marks)  
(Grand Total: 34 marks)

13. (a) Explain the following in relation to Employers' Liability insurance:

- |  |                          |
|--|--------------------------|
| (i) selection of competent employees;  | (ii) territorial limit;  |
| (iii) reasonable precaution condition; | (iv) protection of eyes. |

(20 marks)

(b) Explain the operative clause of the following liability policies:

- |                       |                         |
|-----------------------|-------------------------|
| (i) public liability; | (ii) product liability. |
|-----------------------|-------------------------|

(10 marks)

(c) What does the term "accord and satisfaction" mean in relation to liability insurances?

(4 marks)

### Solution

(a) (i) **Selection of Competent Employees:** There is a duty on employers to employ competent employees. However, their competence only relates to any possible injury they may cause. An incompetent employee may be a potential risk to the other employees. The employer will be vicariously liable for the liability for negligent fellow employees.

(ii) **Territorial Limit:** All liability policies are subject to territorial limit. It is usual to stipulate that the bodily injury, death, illness or disease must be sustain within the territorial limit of the policy. (Geographical limit). All liability policies issued in Nigeria will operates within the territorial limit of the policy i.e. within the Federal Republic of Nigeria

(iii) **Reasonable Precaution Condition:** The employer's liability (compulsory insurance) Act 1969 prohibit reasonable precaution condition. The absence of reasonable precaution indicates negligence on the part of the employer (the insured). The rigid application of this condition of this contract will defeat the purpose of the Act which is intended to provide employees with compensation for bodily injury, illness or death arising in the course of their employment. In other words, the failure of the insured to take reasonable precaution is not enough ground to repudiate an employer's liability claim. However, the policy contains a condition by which the insured would be required to repay to the insurer all sum paid by the



insurer which they would not have been liable to pay but for the Regulation 2 which prohibit certain conditions.

(iv) **Protection of Eyes:** Protection of Eyes Regulation 1974 provide that for certain specified operations, eye protectors must be provide. Depending on the type of process, the requirements as to type of protectors differ. Eye protector may include goggles, fixed shields, hand-held shields or helmets. Protectors must be normally issued on an individual basis and be suitable for the person for whom they are provided.

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub -Total per term: 5 marks. Grand Sub-Total: 20 marks)

(b) (i) **Public Liability:** this policy is designed to protect corporate organizations for their legal liability to any member of the public (third party). Legal liability of a corporate organization to third party which may arise from the negligence of their employees in the course of their operation. Public liability insurance provides indemnity to the insured for their legal liability for death, bodily injury or damage to property of third party arising from their business operation within their premises or elsewhere (work away) during the period of insurance and occurring within territorial (geographical) limit of the policy.

(ii) **Product Liability:** this insurance is very suitable for manufacturers of products. The policy covers a wide range of products i.e. if the product is defective and result in bodily injury or death of the ultimate consumer of the product. The indemnity provided by product liability policy covers the insured legal liability to third party as result of:

- \* defect in the product;
- \* defective container of the product;
- \* incorrect labelling of the product.

The legal liability may arise during the period of insurance and occurring within the territorial (geographical) limit of the policy.

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

(c) **Accord and Satisfaction:** when liability claim is settled out of court, then there is accord and satisfaction among the parties. The settlement of claims forms a binding contract between the parties. The accord and satisfaction release the defendant from any further liability and if proceeding is commenced, it can be used as a defense.

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

(Grand Total: 34 marks)

14. (a) Imagine that you are the underwriting manager of your company and you have just received a proposal for professional indemnity insurance from a multinational company through a Broker. You are requested to quote for the premium payable and to enable you quote appropriately, you need to write to the Broker. List and explain five (5) underwriting factors that you will require to enable give your quotation for the annual premium payable. (15 marks)

(b) Explain your understanding of the following liability insurance terms:

- (i) disclaimer; (ii) damnum sine injuria. (10 marks)

(c) In Employers' Liability Insurance:

- (i) State the name (with Year of enactment) of the "Act" that established this type of insurance policy.
- (ii) What is the standard limit of liability on any one occurrence?
- (iii) What does the term "approved policy" imply in this type of insurance?

(9 marks)

## Solution

(a) The underwriting factors that you will require to enable give your quotation for the annual premium payable are:

- **business of proposal:** this should be described accurately and comprehensively. the insurer will want to know exactly the field in which the proposer operates and where their experience lies;
- **the date when the business was established:** this is a very important underwriting factor. a well-established firm has generally more attractive risks than a new and unproven form;
- **the professional experience of each of the individual partners** is very important factor in rating;
- **professional qualifications of partners** are one of great importance and may mean the difference between acceptance and declinature. profession qualification of partners is a pointer to their competence in the chosen field;
- **period of practice as a partner:** this information helps the underwriter to access the proposer's experience;
- **total number of other staff:** this information may be necessary for rating purposes since the premium can be based in part at least on the total number of staff;
- **proposer's previous claims experience:** this insured should disclose this important information.
- **limit of indemnity required:** this will enable the underwriter to determine their liability and also arrange adequate re-insurance if necessary;
- **number of branches:** this information helps the insurer to ascertain its total exposures. the partners' supervision of risk and control of their branches may be a rating factor;
- **exclusion required:** this will help the underwriter to determine the premium for the risk present.

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

(b) (i) **Disclaimer:** a contract is an agreement between two or more persons which contains terms and conditions to be fulfilled by the parties. Disclaimer in contract deals with those terms of the contract which attempt to limit the performance of the contract or limit the liability flowing from the contract.

(ii) **Damnum Sine Injuria:** this means harm done without the commission of a legal wrong. Tort is the breach of duty which a person owes to his fellow men in general. In tort, not all action (or failures to take action) which cause injury or damage is actionable i.e., failure to take action in certain circumstances may not give right to a claim. For example, there is no duty to save a person drowning even if one can swim very well.

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

(c) (i) The name of the ACT that established the insurance is "Employers' Liability(Compulsory Insurance) Act 1969". (3 marks)

(ii) The limit of liability in any one occurrence must be £2 million and it was increased to £5 million for any one occurrence following the Employers' Liability (Compulsory Insurance) Regulation 1988. (3 marks)

(iii) Approved policy means a policy means a policy of insurance not subject to any condition or exceptions prohibited for the purposes by regulations. (3 marks)

(Grand Sub-Total: 9 marks)  
(Grant Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA  
ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A08

RISK MANAGEMENT

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A08 – RISK MANAGEMENT

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

(a) A majority of the candidates attempted this question, and over 75% achieved a pass mark. The question tested knowledge of Acts of Parliament.

(b) The second part of the question focused on the six key headings in report writing. It was attempted by over 95% of candidates, with an 80% pass rate. Overall, performance was commendable.

### **Question 2**

This question, which focused on the consequences of individual damage and the severity of failures, was attempted by most candidates. More than 80% of them passed, indicating a good understanding of the topic.

### **Question 3**

Part (a), which was on modelling, had an 85% attempt rate with a very good 80% pass rate.

Part (b), which further tested knowledge of models, was also well attempted (over 75%), but performance was poor with a pass rate below 30%. Candidates need to brace up and improve their understanding of this area.

### **Question 4**

The question tested candidates on killer risks. It was attempted by over 80% of candidates, but only about 40% passed, indicating that further study is required in this topic area.

### **Question 5**

This question explored how an organisation may be damaged through asset loss or misuse. It was attempted by 99% of the candidates. However, only 43% passed, 54% failed, and 1% did not attempt the question. Performance was below average.

### **Question 6**

This question tested candidates' understanding of the two dimensions of likelihood. It was well attempted by the majority, and the performance was generally good.

### **Question 7**

Part (a), which focused on the consequences of failure to deliver, recorded a 52% pass rate.

Part (b), based on the continuity plan, was attempted by over 90% of the candidates, with an 80% pass rate. Overall performance was satisfactory.

### **Question 8**

This question addressed the first duty of a newly appointed risk manager. It had an attempt rate above 75%, while the performance was average, with a 50% pass rate.

### **Question 9**

The question tested candidates on multiple areas: (a) NAICOM requirements for new products, (b) risk analysis, (c) recovery plan, and (d) contingency planning.

Out of all candidates who sat for the paper, 45% passed, while 55% did not perform well. The general performance was average.

**Question 10**

The question focused on stakeholders and the planning of business trips. Less than average passed, indicating the need for more in-depth reading, particularly of insurance journals and other relevant materials.

**Question 11**

This question focused on the Data Protection Act 1988 and the rights of individuals. Performance was good, showing that many candidates had a clear understanding of the subject.

**Question 12**

This question tested knowledge on opportunity risks available to an organisation. Both the attempt and pass rates were low – less than 25% attempted it, and fewer than 15% passed. This indicates a significant gap in understanding.

**Question 13**

About 75% of the candidates attempted this question, which focused on the destruction of brand reputation and loss of talent. Only 30% passed, indicating the need for improved preparation on these topics.

**Question 14**

This question tested knowledge of the media tree approach to problem-solving and major media attack risks. Only 16 out of 96 candidates attempted it. Of those, 61% failed, while 39% passed. This shows a lack of familiarity with the topic among most candidates.

**Comments on Overall Performance:**

The overall performance was fair at 32% pass rate. While there were strong performances in some areas, others revealed significant knowledge gaps..

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

Candidates must devote more effort and attention to their studies. Most of the examination questions were drawn directly from the coursebook, and thorough preparation would have led to better results.

Early and consistent study, combined with wider reading, especially from the recommended coursebook and real-world case studies, is essential for improved future performance.

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

**Answer ALL questions in Part I.**

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

1. (a) Acts of Parliament can mean that an activity may become illegal and thus cause that activity to be subject to fines, criminal law and criminal penalties, which are part of the responsibilities of an organisation. List any two (2) groups that the organisation is responsible for. **(2 marks)**
- (b) Enumerate any four (4) headings you will expect to see in the report as a risk manager going through a typical physical risk survey report. **(4 marks)**

### Solution

- (a) The groups that the organisation is responsible for are:  
\* employer; \* other people;  
\* the wider environment within which the organisation operates.  
**(1 mark for each correctly stated group. Maximum of 2 to be graded. Sub-Total: 4 marks)**
- (b) The headings expected to be seen in the report as a risk manager going through a typical physical risk survey report are:
- location surveyed/risk address; \* date of survey;
  - when resurvey is recommended or due; \* name of surveyor;
  - person interviewed/conducted surveyor round risk location
  - action required and agreed;
  - risk improvement recommended date compliance expected;
  - compliance with minimum safety or group risk standard;
  - additional comment.
- (1 mark for each correctly stated heading. Maximum of 4 to be graded. Sub-Total: 4 marks)**  
**(Grand Total: 6 marks)**

2. The consequences of individual damage and failures can be severe. This logically leads to consideration of the values and the responsibilities that such an organisation needs to keep safe from damage and loss. Explicitly enumerate three (3) crucial issues that should be considered to prevent damage to the organisation.

### Solution

The crucial issues that should be considered to prevent damage to the organisation are:

- the safety of the people;
- the assets owned by the organisation and those assets belonging to others for which it carries responsibilities;
- confidence in the business and thus the value of the brand name;
- the avoidance of litigation costs;
- the operational ability to continue to manage the organization effectively and deliver on promises and contracts.

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

3. (a) What is risk modelling? **(2 marks)**
- (b) Usually, risk managers are likely to develop risk models that best meet what is wished to be achieved. Enumerate any two (2) circumstances of how this is usually done. **(4 marks)**

### Solution

- (a) Risk modelling is a way of creating a picture of the risk in a way that helps the organisation to prioritise risks for attention. **(2 marks)**
- (b) The circumstances of how risk managers are likely to develop risk models that best meet what is wished to be achieved are:

- having the knowledge that there are many unpredictable (in terms of occurrence, nature and cost);
- knowing that the impact of an incident can vary by time of day;
- by having knowledge of different points of time (example in the production cycle or periods when most renewal falls for insurance companies and brokers);
- by having knowledge of different times of the year (example, Christmas period, Easter session or school resumption time).

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

**(Grand Total: 6 marks)**

4. Organisations may add their own killer risks to the list, and of course, it would never be acceptable to take unreasonable risk with the safety of human beings. These risks bring their own challenges to the risk manager, as they are most likely to have their own demands. Enumerate any three (3) of these special demands.

#### **Solution**

The special demands in this instance are:

- clarity of management information;
- currency of management information;
- risk avoidance wherever practical;
- contingency planning to ensure that the 'killer' needs are at least maintained.

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

5. An organisation may be damaged through its assets. List and explain any three (3) main headings in which an asset can be classified.

#### **Solution**

The main headings in which an asset can be classified are:

\* balance sheet assets; \* off balance sheet assets; \* revenue flow; \* cash flows.

**(Candidates are required to explain each asset classification group. 1 mark for correctly stated heading. 1 mark for each correct and completely stated explanation. Sub-Total per asset group: 2 marks. Grand Sub-Total: 6 marks)**

6. (a) There are two dimensions to likelihood when discussing "risks". What are these two (2) dimensions? **(4 marks)**
- (b) Explicitly state two (2) advantages of physical inspection. **(2 marks)**

#### **Solution**

- (a) The two dimensions to likelihood when discussing "risks" are:

- (i) could it possibly happen? (ii) how frequently could it happen?

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

- (b) There is, of course, a clear advantage when the risk environment and its people are visited often by someone who has the specialized knowledge to take a professional view of what is seen. The survey report will almost certainly conclude with recommendations to improve the risk or reduce the impact. The survey therefore fulfils the dual role of identifying the risks and also begins the job of managing them.

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

**(6 marks)**

7. (a) Under the consequences of failing to deliver, one of the needs to be considered is the safety of the people. Enumerate any two (2) general needs of the people in an organisation. **(2 marks)**
- (b) Outline four (4) benefits a risk manager would achieve when establishing a continuity plan. **(4 marks)**



### **Solution**

- (a) The general needs of the people in an organisation are:
- a safe environment that protects employees and visitors from accidents and crime - crime that may be perpetrated by third parties and also by colleagues;
  - a safe environment that protects employees and visitors from illness, for example, passive smoking, stress, bullying, repetitive strain injury, and others;
  - skilled human resources to continue to be available whether in individuals or teams.
- (1 mark for each correct and completely stated need. Maximum of 2 to be graded. Sub-Total: 2 marks)**
- (b) The benefits a risk manager would achieve when establishing a continuity plan are:
- a fast, authorised and visible control of the incident and its aftermath
  - damage containment as far as it is possible
  - security and safety is reinstated
  - damage assessments are received with confidence and acted upon
  - financial and operational control remain in place
  - the brand value is protected
  - immediate responsibilities are met
  - the return to “business as usual” is accelerated.
- (1 mark for each correct and completely stated benefit. Maximum of 4 to be graded. Sub-Total: 4 marks)**  
**(Grand Total: 6 marks)**

8. Usually, when a risk manager resumes at a new company, quality time is expended on touring the organisation. Enumerate any six (6) reasons why a risk manager in a new job (company) can spend time usefully touring the organisation.

### **Solution**

The reasons why a risk manager in a new job (company) can spend time usefully touring the organisation are to:

- conduct interviews with the key operational and possibly facility managers;
- know what each unit does;
- know how each unit does what they do to know areas of risk exposures;
- allow for the provision of organization charts and possibly flow charts where none existed or the one in existence needs review;
- appreciate or begin to understand any interdependencies across these individual operational units;
- enable risk manager to take or have a helicopter view;
- be able to identify department or personnel whose inaction or error can result in the organisation losing the approval of regulator(s);
- help bring out organization through recommendations that will save such from death or killer risk.

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

## **Part II**

### **Compulsory Question.**

**This question carries 50 marks.**

9. (a) The Insurance Act of 2003 stated some requirements to accompany an application on request for the approval of new products by the National Insurance Commission (NAICOM). Enumerate any eight (8) of these requirements. **(10 marks)**

- (b) The underlying objectives of risk analysis are, simply stated, to identify and quantify the threats that may bring damage or loss to an organisation, its responsibilities, and its objectives. Discuss any five (5) actions that can be done to continually keep the broad objectives in mind. **(25 marks)**
- (c) After a crisis has occurred in an organisation, there is usually a recovery plan. Under this “recovery plan”, a structured response fulfilment is designed in order to meet some needs. Enumerate any three (3) critical success factors of a good recovery plan. **(9 marks)**
- (d) Contingency plans do not only deal with physical crises such as fire or bomb damage. They can be designed to cover all types of incidents that the organisation itself decides would be disastrous and in need of a structured and coordinated response. Identify any three (3) concise plans that could be prepared for/against in this instance as it relates to contingency plans. **(6 marks)**

### **Solution**

- (a) The requirements to accompany an application on request for approval on new products by the National Insurance Commission (NAICOM) are:
- \* specimen copies of proposal forms;
  - \* specimen copies of any riders/endorsements;
  - \* specimen copies of claims form;
  - \* letter of consent from reinsurer;
  - \* risk analysis of the product;
  - \* any other additional document
  - \* specimen copies of policy forms;
  - \* actuarial statement (life products);
  - \* marketing brochure;
  - \* 5-year business plan;
- (1¼ marks for each correctly stated requirement. Maximum of 8 to be graded. Total: 10 marks)**
- (b) The actions that can be done to continually keep the broad objectives in mind are:
- identify risk;
  - measure risks carried against the risk levels that are acceptable to the organisation;
  - assist in presenting risk concepts clearly and in a consistent style;
  - support decision making about spending and other actions that may be needed to reduce the risk to the acceptable level;
  - assess both the operational and the cost effectiveness of any existing risk management measures that are in place;
  - encourage good decisions about any contingency planning that may be needed;
  - raise management awareness and the depth of understanding of the exposures that are being carried. this is both to assist managers in routine good management of the organisation and also to enable managers to illustrate to stakeholders that they are in control.
- (5 marks for each correct and completely stated action. Maximum of 5 to be graded. Sub-Total: 25 marks)**
- (c) The critical success factors of a good recovery plan are:
- a crisis manager who makes important early decisions about the need and level of response;
  - an agreed crisis management structure that is understood and accepted by all affected;
  - immediate access to trusted resources who can give damage assessments, limit the damage and reinstate security and safety;
  - a known meeting point, a crisis meeting room with pre-notified address telephone, fax and other communication information. This would be used if usual meeting areas, say, the boardroom, were destroyed and not available.
- (3 marks for each correct and completely stated action. Maximum of 3 to be graded. Sub-Total: 9 marks)**

(d) The concise plans that could be prepared for/against in this instance as it relates to contingency plans:

- recall possibly unsafe products urgently from shops and distributors;
- to respond to actual or threats of kidnap, ransom, industrial disputes, e.t.c.
- respond to an attack from the media;
- deal with pollution damage.

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

**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. (a) Apart from people, there are other stakeholders in an organisation, including quoted shareholders. As a risk manager, explain four (4) ways in which the quoted shareholders are involved in the stakes of an organisation. **(20 marks)**
- (b) Dealing with risks is an everyday human activity and this can be done consciously and sub-consciously. It is something we do every day of our lives. An example is one of planning for a business trip. The journey entails travel by car to the airport for a flight to an overseas country. The traveler cannot remove all of these exposures, but may be able to reduce the risk to an acceptable level. Analyse four (4) ways that risks can be reduced to an acceptable level in this kind of scenario. **(14 marks)**

### **Solution**

(a) The ways in which the quoted shareholders are involved in the stakes of an organisation are:

- usually, the investor has many choices beyond the subject organization and can switch funds away rapidly;
- stock market sentiment, however, has many other influences (beyond the success of the individual quoted organisation) and thus its behaviour becomes a risk in itself;
- falling stock values can also increase the cost of borrowing capital. if lenders perceive that the relationship between total borrowings and the value of the company is narrowing they can demand higher interest rates and security;
- single points of influence can affect shares widely. these influences include credit rating agencies such as standard and poor's, and investment analysts employed by the bigger brokers and merchant banks.

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

- (b) The ways that risks can be reduced to an acceptable level in this kind of scenario are:
- having two alarm clocks-one set 15 minutes after the other;
  - ensuring the car is serviced by a quality garage and to the manufacturer's specifications;
  - having adequate fuel; \* choosing a route that avoids the risk of bottlenecks;
  - having a plan B contingency plan with a breakdown service that will assist in completing the journey;
  - leaving in sufficient time to allow for delays that are beyond personal control;
  - increasing the number of options to change routes in time by having the radio on a traffic programme and knowing the numbers of the traffic information services that are on the mobile phone;
  - pre-booking parking.

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

11. (a) An organisation needs to keep records in such a way that it can respond properly to the right that individuals have to see the information held on them, understand why the information is being held, and to understand who has access. As the risk manager, enumerate any five (5) rights given to the individuals under the Data Protection Act, 1988. **(30 marks)**
- (b) List two (2) things that will guide risk managers while analysing a risk concern. **(4 marks)**

### **Solution**

- (a) The rights given to the individuals under the Data Protection Act, 1988 are:
- the right of access to the information held, why it is held and who has access to that information;
  - the right to serve a written notice preventing any processing that can cause “substantial damage or distress”. Closing a process line whilst this is being resolved can have wide-ranging impact and damage the organisation well beyond the individual person involved;
  - the right where there is automated decision making, to prevent such decisions being made solely in an automated way (a refusal to provide insurance decided by software alone, could be one example);
  - the right to compensation where the data controller is unable to prove that every reasonable care has been taken to comply with the terms of the Act;
  - the right to apply to a court for an order requiring data controllers to rectify, block, erase or destroy any inaccurate data [this could include incomplete data if, by its lack of completeness, it is misleading and therefore inaccurate];
  - the person may also ask data protection commission to access whether data that falls with the terms of the act are being processed.
- (6 marks for each correct and completely stated right. Maximum of 5 to be graded. Sub-Total: 30 marks)**
- (b) Things that will guide Risk Managers while analysing a risk concern are that they need to:
- understand what all input criteria are;
  - check the input criteria in terms of qualities;
  - take precise view on their value in relation to the actual objective in mind.
- (2 marks for each correct and completely stated thing. Maximum of 2 to be graded. Sub-Total: 4 marks)**  
**(Grand Total: 34 marks)**

12. (a) Organisations have become more complex, larger and much more global; thus the opportunities created by size, computerisation, communication and by other modern business tools have significantly changed the way that organisations function and thereby their risk profiles. Therefore, larger organisations have found that the historical approach to risk financing does not meet their needs. As a risk manager, enumerate any five (5) of these needs and opportunities that an organisation has as risk profiles. **(20 marks)**
- (b) As a risk manager, under the risk financing options, there are exposures that need to be considered when setting out the financing options. Enumerate any three (3) of such exposure scenarios. **(14 marks)**

### **Solution**

- (a) The needs and opportunities that an organisation has as risk profiles are:
- to ensure that the strengths of the organisation are fully used for the benefit of the shareholders;
  - to provide increasingly for single operational risks that can destroy;

- to look at the needs of organisational risk from the top down rather than from the detail upwards (sometimes referred to as holistic risk management or total risk management);
- to cope with insurable risks, difficult to insure risks and uninsurable risks as one broad management task;
- to reflect the reality that risk is a multi-year, multi-function and multi-exposure phenomenon;
- to make best use of other risk financing opportunities that the new style organisation may now have gained.

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

(b) The risk financing options i.e. the exposures that need to be considered when setting out the financing options are:

- evaluate the potential costs that may be faced within a defined time period;
- clarify whether they are maximum probable losses or maximum possible losses;
- evaluate total possible cost of risk and separately,
- evaluate the maximum potential cost of one single loss;
- consider when such losses would need to be funded.

**(5 marks each for the first two correct and completely stated option. 4 marks for the third one. Sub-Total: 14 marks)**

**(Grand Total: 34 marks)**

13. (a) Destruction of the brand name can ruin an organisation. This should be avoided as much as humanly possible, even if there are difficulties being encountered in the organisation. These difficulties might be related to physical and/or communication difficulties. As the risk Manager, enumerate any four (4) areas or scenarios of the communication difficulties. **(20 marks)**

(b) It is important that an organisation understands clearly the full extent of the losses that may be faced. It is with this full understanding that the organisation can begin to make realistic decisions. Enumerate any four (4) of such realistic decisions that can be made. **(14 marks)**

### **Solution**

(a) The areas or scenarios of the communication difficulties are:

- the speed needed to respond. Many media monitor the radios of emergency services and can get to the site as quickly, if not sometimes quicker
- stopping misinformation (especially from the organisation's own staff who may not be aware of the whole or latest picture)
- getting consistent information out to what is sometimes just a scrum of reporters
- ensuring that the spokesperson has the latest, trusted information from within a fast-developing situation.
- providing a base of information that may be consistently valuable to a whole range of different audiences (and by necessity, stakeholders)
- protecting sensitive information from a resourceful profession (for example, the names of the dead prior to relatives being notified)

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

(b) Such realistic decisions that can be made by an organisation:

- whether to retain a risk internally;
- whether to establish funding for risk incidents,
- state the quantum of such a fund;

- the decision to insure (and the limits of indemnity to be negotiated within those insurance contracts);
- arrangement of an effective balance between funding instruments.

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

**(Grand Total: 34 marks)**

14. (a) A risk manager understands and usually apply the fault tree approach in solving challenges. Enumerate any four (4) merits of the fault tree approach. **(20 marks)**
- (b) What four (4) challenges can a risk manager face when trying to protect the good name of the organisation in the face of a major media attack? **(14 marks)**

#### **Solution**

- (a) The merits of the fault tree approach are:

- the concept of a documented fault tree enables the risk manager to consider, from the particular angle of risk, the chain that makes up the process of delivery of goods or services, and then consider the risks to each link in that chain
- the concept is valid for a simplistic presentation or the dependencies that lie within the whole chain of events that lead through to that delivery. It is valid, quite separately for a more focused look at one process alone or even one particular piece of machinery.
- the fault tree can, in one statement, bring together the whole host of quite different threats to delivery, some scientific, some human, some political, some geographic and many others.
- the fault tree can highlight individual exposures for further research and attention. It can enable the risk manager to prioritise attention to those risk incidents most likely to occur or those risk incidents that would have the most significant impact.
- accordingly, the fault tree approach can be used quite differently, by mathematicians, engineers and scientists through to health and safety and continuity managers. Fault tree can be long or short, simplistic or highly technical and computerized, as is needed for a particular understanding.

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

- (b) The challenges that a risk manager can face when trying to protect the good name of the organisation in the face of a major media attack are:

- the speed needed to respond;
- stopping misinformation (especially from own staff who may not be aware of the whole or the latest picture);
- getting consistent information out to what is sometimes just a scrum of reporters;
- ensuring that the spokesperson has the latest, trusted information from within a fast-developing situation;
- providing a base of information that may be consistently valuable to a whole range of different audiences (and by necessity, stakeholders);
- protecting sensitive information from a resourceful profession.

**(3½ marks for each correctly stated and justified challenge. Maximum of 4 to be graded. Total: 14 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A09

MARKETING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2025  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A09 – MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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



## **Chief Examiner's Comments**

### **Question 1**

This question focused on internal and modern marketing. A total of 81 candidates attempted it, and an impressive 95% passed. The performance indicates that candidates had a solid understanding of the topic.

### **Question 2**

Out of the total candidates, 69 attempted this question, and 60 passed, reflecting a strong grasp of the subject matter.

### **Question 3**

The question assessed what an insurer must do to initiate a product exchange. It was a compulsory question, but performance was poor—only 38% passed, while 62% failed. This indicates a lack of clarity in understanding this practical concept.

### **Question 4**

This compulsory question tested knowledge of the four groups of business classification. It was attempted by 67% of candidates, with a pass rate of 55%, indicating an average level of understanding.

### **Question 5**

This question examined candidates' understanding of services and the tangible clues that indicate the quality and security of insurance. It was attempted by 78 candidates, but only 41% passed, pointing to room for improvement.

### **Question 6**

Focused on insurance industry dynamics and competitive strategies, this question was attempted by 80 out of 112 candidates. Only 17 candidates passed, resulting in a low pass rate of 21%, suggesting a gap in understanding the strategic aspects of the industry.

### **Question 7**

This question aimed to assess candidates' knowledge of marketing principles, product development, and market changes. Out of 80 candidates who attempted it, only 25% passed. This indicates a need for deeper engagement with the subject.

### **Question 8**

A compulsory question, it tested candidates' knowledge of marketing principles, strategic thinking, and practical application. Of the 106 candidates who attempted it, 79 passed, resulting in a commendable 74% pass rate.

### **Question 9**

This question assessed knowledge of insurance policy documentation, competitive analysis, and product development. Though all candidates attempted it, only 16 passed. The low success rate suggests the practical nature of the question was not well understood.

### **Question 10**

The question recorded a high attempt rate (97%) and a pass rate of 72%, with 70 candidates succeeding. This reflects a fairly strong grasp of the subject.

**Question 11**

This question tested candidates' understanding of the reasons for inaccuracies in primary market data and the demographic features of market segmentation. It was attempted by 62 candidates and recorded a 76% pass rate, indicating good performance.

**Question 12**

Attempted by 62 candidates, this question had an impressive 89% pass rate, reflecting a strong understanding of the topic.

**Question 13**

As an optional question, it was attempted by 36 candidates, of which 36% passed—translating to a 72% pass rate. Most candidates were able to accurately define indirect distribution, although some incorrectly stated that brokers could delay premium remittance for 60 days instead of the correct 30 days.

**Question 14**

This question tested knowledge of insurance pricing methods. It was attempted by 84 candidates, with a notable pass rate of 92%, indicating strong comprehension.

**Comments on Overall Performance**

The overall performance was encouraging, with a pass rate of 65.1%, showing that candidates had a reasonable level of understanding across most topics.

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

Candidates can significantly improve their performance by attending tutorials regularly, and engaging in thorough preparation using course materials. These will enhance their grasp of practical and theoretical aspects of the subject.

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.



- (b) Some tangible clues to the quality and security of insurance are:
- \* premises;                      \* brochures;                      \* catalogues and annual reports;
  - \* advertising;                      \* promotional items;                      \* furnishings;
  - \* uniforms;                      \* point of sale materials.

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

6. Enumerate any six (6) ways that insurers differentiate themselves from one another.

**Solution**

The ways that insurers differentiate themselves from one another are:

- \* variations in premium;                      \* variations in the scope of the cover offered;
- \* varying commission rate to intermediaries;
- \* variation in the policyholder's participation in the risk;
- \* no claim discounts and other incentives;                      \* the speed of claims handling;
- \* discretionary payment of claims that fall outside strict policy conditions.

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

7. (a) What is a 'market audit'? (2 marks)  
(b) Enumerate any three (3) ways in which an insurance product offering can change. (4 mark)

**Solution**

(a) A 'market audit' is a systemic, crucial and unbiased review and appraisal of an organisation's marketing operations. (2 marks)

(b) The ways in which an insurance product offering can change are:

- \* developing new products for the existing market;
- \* product line extension;                      \* product improvement;                      \* style changes.

(1½ marks for the first two correctly stated way. 1 mark for the third one. Sub-Total: 4 marks)  
(Grand Total: 6 marks)

8. (a) What is a marketing objective? (2 marks)  
(b) A Nigerian based insurance company just received a license to operate in The Banjul, Gambia. State any four (4) aspects of each market environment that the organisation is required to likely consider. (4 marks)

**Solution**

(a) A marketing objective is a precise statement that outlines what is to be accomplished by the organisation's marketing activities. (2 marks)

(b) The aspects of each market environment that the organisation is required to likely consider are the:

- \* physical and geographical environment;                      \* legal environment;
- \* political environment;                      \* cultural environment;
- \* competitive environment;                      \* local infrastructure.

(1 mark for each stated point. Maximum of 4 points to be graded. Sub-Total: 4 marks)  
(Grand Total: 6 marks)

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) National Insurance Commission (NAICOM) under the market conduct and business practice guidelines for insurance institutions requires that an insurance policy document shall contain, among others, some information which shall form the basis of the insurance contract. List any eight (8) of information. (10 marks)

- (b) (i) Write a concise but short note, with at least three (3) complete and correctly stated point on “reverse engineering”? (6 marks)
- (ii) State what/how the term in “a” above impacts on insurance practice. (4 marks)
- (c) The Board of Directors of Ekiti State Insurance Ltd has just employed you as the marketing manager. You are required to send a write up, in a tabular form, to the Board stating the advantages, disadvantages, cost per contact and scope of the ‘promotion’ element of the following variables under marketing mix (advertisement, personal selling, sales promotion, public relations, and direct marketing). (20 marks)
- (d) You have just been recruited as head of marketing department of a relatively new insurance company in Nigeria that was at the point of drawing a marketing plan. State and explain any five (5) objectives that should be included in such marketing plan. (10 marks)

### Solution

- (a) Some information which shall form the basis of the insurance contract are:
- \* details of the company (i.e. name of the company, principal place of business, relevant contact details, e.t.c.);
  - \* benefit (main and supplementary);
  - \* characteristics of the product and or scope of cover;
  - \* premium/price;
  - \* commencement and duration of the policy;
  - \* excess and deductibles;
  - \* terms, conditions, exclusions and or limitations;
  - \* waiting period;
  - \* differed payment period;
  - \* claims procedures;
  - \* cancellation;
  - \* complain procedure.
- (1¼ marks for each correctly stated requirement. Maximum of 8 to be graded. Total: 10 marks)
- (b) (i) “Reverse Engineering” was a term that was originally used by the manufacturers of hard goods, reverse engineering involves taking a part a competitor’s product in order to learn everything about it. (2 marks for each underlined phrase. Candidates need not state these verbatim but they need to infer it or imply it. Sub-Total: 6 marks)
- (ii) For insurance product, the impact of the term would mean examining the insurance cover itself as evidenced by the policy wording and a sample policy, together with some attempt to estimate the loss ratio and reinsurance arrangement that support the policy. (2 marks for each correctly stated impact. Maximum of 2 of such to be graded. Sub-Total: 4 marks)

(c)

	Scope	Cost per contact	Advantages	Disadvantages
Advertisement	Mass	Inexpensive	Control over the message	Hard to measure result
Personal selling	Personal	Expensive	Flexible presentation and immediate result	Very expensive
Sales promotion	Mass	Can be expensive	Gains attention with immediate effect	Easily copied
Public relations	Mass	Inexpensive	Very believable	Lack of control
Direct marketing	Mass/ Personal	Moderately expensive	Consistent	Lack of control

(1 mark for each correctly stated point in the table above. Sub-Total: 20 marks)

- (d) The objectives that should be included in such marketing plan are:
- the strategy for achieving those objectives;
  - the specific activities which will be undertaken;
  - allocation of specific responsibility for carrying out each activity;
  - the dates of starting and finishing each activity;
  - the specific estimated resources requirement for the period of implementation;
  - the expected cost of the activities;
  - the expected result on the completion of the activity.
- (2 marks for each correct and completely stated objective. Maximum 5 to be graded. Grand Sub-Total: 10 marks)  
(Grand Total: 50 mark)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) State any four (4) brand elements that can normally be trademarked. (10 marks)  
(b) Enumerate any six (6) ways in which organisations can make use of market Research. (24 marks)

#### Solution

- (a) The brand elements that can normally be trademarked are:
- \* logos ;                      \* symbols ;                      \* slogans ;
  - \* packaging ;                      \* signage.
- (2½ marks for each correctly stated element. Maximum of 4 to be graded. Sub-Total: 10 marks)
- (b) The ways in which organisations can make use of market research are:
- to identify target markets;                      \* to define target markets;
  - to identify market opportunities;                      \* to define market opportunities;
  - to identify marketing problems;                      \* to define marketing problems;
  - to generate well-founded marketing objectives;
  - to assist in the formulation of marketing strategies;
  - to measure and evaluate the success of marketing strategies.
- (4 marks for each correctly stated way. Maximum of 6 to be graded. Sub-Total: 24 marks)  
(Grand Total: 34 marks)
11. (a) Enumerate any three (3) justifications why primary data collection of market data be inaccurate. (9 marks)  
(b) Enumerate any four (4) demographic features of a market segment. (10 marks)  
(c) (i) What is a 'focus group'? (3 marks)  
(ii) As studied in the course, enumerate any three (3) of the four (4) ways in which marketing has affected modern business practice. (6 marks)  
(d) With one example on each, enumerate any three (3) approaches that can be taken by public relations practitioners to develop a public relations communication programme, (6 marks)

#### Solution

- (a) The justifications why primary data collection of market data be inaccurate are:
- interviewees who do not respond at all;
  - interviewees who do not respond accurately, or respond dishonestly;
  - interviewers who ask questions incorrectly or inaccurately;
  - interviewers who record answers incorrectly or inaccurately.
- (3 marks for each correct and completely stated justification. Maximum of 3 to be graded. Sub-Total: 9 marks)

- (b) The demographic features of a market segment are:  
 \* age; \* gender; \* education; \* occupation;  
 \* income; \* social/ economic status.  
**(2½ marks for each correctly stated feature. Maximum of 4 points to be graded. Sub-Total: 10 marks)**
- (c) (i) A focus group is a group of hand-picked customers brought together formally to discuss a topic related to a given product or service.  
**(3 marks)**
- (ii) The four ways in which marketing has affected modern business practice are:
- compressed channel of distribution;
  - more marketing channels;
  - the emergence of more market-led organisations;
  - the development of truly international marketing.
- (2 marks for each correct and completely stated way. Maximum of 3 to be graded. Sub-Total: 6 marks)**
- (d) The approaches that can be taken by public relations practitioners to develop a public relations communication programme are:
- **publications** e.g. press releases, annual reports, posters, articles;
  - **events** e.g. press conferences, seminars;
  - **media stories** e.g. about new customers, product and services development;
  - **exhibitions and displays**
  - **sponsorship** of charitable causes, art or sports events
- (1 mark for each correctly stated approach. 1 mark for any correctly stated example under each approach. Sub-Total per approach: 2 marks. Maximum of 3 to be graded. Grand Sub-Total: 6 marks)**  
**(Grand Total: 34 marks)**

12. (a) What are the four (4) main marketing objectives? **(14 marks)**  
 (b) What four (4) distinct distribution features does internet present? **(20 marks)**

**Solution**

- (a) The four main marketing objectives are:
- to continue to sell existing offerings into existing markets;
  - to sell existing offerings into new market;
  - to develop new offerings for existing process;
  - to develop new services for a new market.
- (3½ marks for each correct and completely stated objective. Maximum of 4 to be graded. Sub-Total:14 marks)**
- (b) The distinct distribution features that internet does present are:
- a direct link between customers and businesses to complete transactions or swap information more easily;
  - technology that lets company by pass traditional distributors;
  - a way for organisations to develop and deliver new products and services for new customers;
  - a way for organisations to use the internet to become a dominant player in the electronic channel of a specific industry or segment, controlling access to customers and setting new business rules;
  - a faster way of engagement.
- (5 marks for each correct and completely stated feature. Maximum of 4 to be graded. Sub-Total:20 marks)**  
**(Grand Total: 34 marks)**

13. (a) What is indirect distribution? (4 marks)
- (b) What are the two (2) main advantages of direct distribution over indirect distribution? (8 marks)
- (c) (i) Why do indirect distribution systems sometimes result in the delay of cash payments to the principal organisation? (6 marks)
- (ii) How does (i) above happen? (4 marks)
- (iii) Give an insurance transaction related scenario example of (i) above. (8 marks)
- (d) Enumerate any two (2) ways in which marketing has affected modern business practice. (4 marks)

### **Solution**

(a) Indirect distribution is a business model where a company uses intermediaries such as wholesalers, distributors, retailers, brokers. It may allow companies to focus on their core business while outsourcing distribution to an expert. (4 marks)

(b) The two main advantages of direct distribution over indirect distribution are that:

- direct distribution gives companies more control over the process;
- direct distribution allows opportunity for good relationship between producer and customer.

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

(c) (i) Indirect distribution systems sometimes result in the delay of cash payments to the principal organisation because it could happen that parties in the distribution chain take commission-or margin-based payments from the amount that the consumer pays for the product or service. (6 marks)

(ii) (i) above could happen where there is usually an extended period of credit between the principal and the various intermediaries which will result in less immediate payment from the principal than they would have received if dealing directly with the ultimate consumer. (4 marks)

(iii) For instance, it is usual to pay commission after receipt of the full premium via an intermediary; there should therefore be no delay in the payment of the premium to the insurance company after 30 days of receipt of premium from the customer. (8 marks)

(d) The ways in which marketing has affected modern business practice are:

- compressed channel of distribution;
- more marketing channels;
- the emergence of more market-led organisations;
- the development of truly international marketing.

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

(Grand Total: 34 marks)

14. (a) State and explain any three (3) of the four different ways of pricing insurance as studied in this course. (15 marks)
- (b) Enumerate any five (5) conditions that must be met before it can be said that an exchange has taken place as studied in this course. (15 marks)
- (c) What distinguishes personal selling from other selling methods? (4 marks)



## **Solution**

- (a) The four different ways of pricing insurance as studied in this course are:
- **survival:** when an insurance company reduces its price because of competition;
  - **profit maximisation:** when price is set to produce the biggest possible profit;
  - **sales maximisation:** when price is set to increase the volume of sales;
  - **prestige pricing:** when high price is charged for an elastic image.
- (3 marks for each correctly stated way. 2 marks for each correct and completely stated explanation.  
Sub-Total per way: 5 marks. Grand Sub-Total: 15 marks)
- (b) The conditions that must be met before it can be said that an exchange has taken place as studied in this course are that:
- there must be at least two parties;
  - both parties must offer something of value;
  - both parties must be aware of each other existence;
  - both parties must be capable of communication and delivery;
  - both parties must be free to accept or reject the other's offer;
  - both parties must be willing and able to negotiate terms of exchange.
- (3 marks for each correct and completely stated condition. Maximum of 5 to be graded. Sub-Total: 15 marks)
- (c) What distinguishes personal selling from other selling methods is that personal selling occurs face-to-face with the potential customers (2 marks) while other selling methods do not necessarily have to occur face-to-face (2 marks).
- (Sub-Total: 4 marks)  
(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT A10

INSURANCE BROKING PRACTICE - III

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# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A10 – INSURANCE BROKING PRACTICE - III

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Part I	8 Compulsory Questions	48 marks
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A formula sheet will be issued for use with this paper.

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

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

## **Chief Examiner's Comments**

### **Question 1**

There was a 100% failure rate, with candidates scoring 16% or below of the total mark. The performance was poor, as candidates failed to enumerate three consequences of the 9/11 attack on the insurance industry, primarily due to a lack of preparation.

### **Question 2**

Out of the two candidates who attempted this question, one passed with 100%, resulting in a 50% pass rate. The question required candidates to explain the market cycle using a diagram. The other candidate narrowly missed the mark. More focused study is recommended.

### **Question 3**

This question was attempted by three candidates, with one scoring full marks, resulting in a pass rate of 33%. The question addressed the items through which propositions could be defined. The poor overall performance highlights the need for better preparation.

### **Question 4**

The question recorded a 66% pass rate, with candidates scoring 50% and above. Part (a) on distribution was well answered. However, part (b), which required candidates to enumerate two factors influencing distribution method selection, was less successfully handled. Candidates are encouraged to study these areas more thoroughly.

### **Question 5**

This question had a 100% pass rate, with scores of 50% and above. Candidates performed well in enumerating five elements included in the insurer's distribution cost, reflecting a good understanding. Continued effort and reading are encouraged.

### **Question 6**

Only one out of three candidates passed, giving a 33% pass rate. The question dealt with the explanation of fair market analysis and the management challenges brokers face. Poor performance by the remaining candidates signals the need for better exam preparation.

### **Question 7**

A 100% pass rate was recorded, with candidates scoring 50% and above. The explanation of the tripartite relationship in insurance broking was well articulated. Nonetheless, more study time is advised to reinforce understanding.

### **Question 8**

This question recorded a 100% failure rate, with candidates scoring below 33%. Candidates struggled to list six components of the sales process for clients seeking coverage in competence, liability, and property insurance. Adequate preparation and familiarity with course material are needed.

### **Question 9**

All candidates failed, with scores of 42% or below. The question required (a) listing eight pieces of information found in a policy document, (b) enumerating five regulations guiding conduct between clients and insurers, among others. Candidates often confused subparts, gave lengthy or vague answers, and failed to follow the marking guide. Performance was poor, clearly linked to inadequate preparation.

**Question 10**

A 100% failure rate was recorded, with a maximum score of 47%. Only one candidate attempted this question, which involved defining (a) terms such as offshoring, outsourcing, global business, excess, and franchise, and (b) explaining client buying behavior. Responses lacked precision and alignment with expected answers.

**Question 11**

Again, a 100% failure rate, with candidates scoring 44% and below. Part (a) on managing the sales pipeline was only partially answered, and part (b), covering Business Process Reengineering (BPR) and a scenario-based application, revealed a lack of depth and understanding.

**Question 12**

With a score of only 11%, this question had a 100% failure rate. The only candidate who attempted it failed to properly enumerate the 17 minimum standard requirements set by NAICOM for insurance institutions during claims notification. This area clearly requires focused study.

**Question 13**

Candidates recorded 26% scores or below, resulting in 100% failure. Part (a) asked for five features of the policy annual review process, while part (b) addressed reasons broking firms retain their own security functions, and (c) focused on challenges of those functions. Answers lacked structure and clarity.

**Question 14**

All candidates failed, with scores below 53%. Only two attempted the question, which involved (a) enumerating five reasons for brokers working with a limited or wide range of insurers, and (b) group costs incurred in insurance service distribution. Answers lacked detail and proper enumeration.

**Comments on Overall Performance**

Overall, the performance was unsatisfactory, with a high failure rate. This can largely be attributed to insufficient preparation, poor study habits, and a lack of familiarity with the coursebook. It is possible that many candidates were taking the course for the first time and underestimated the depth of knowledge required.

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

To significantly improve performance, candidates are strongly advised to devote more time to reading and understanding the coursebook, attend lectures regularly, and treat every exam with the seriousness it deserves

*To whom much is given, much is expected—especially for those aspiring to become professional and competent insurance brokers.*

In addition, 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.

Furthermore, candidates should not write their names on the answer booklet. Doing this is a breach of Council approved guidelines for the examination.

## Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. The 9/11 terrorist attacks on the United States in Year 2001 significantly impacted the global insurance and reinsurance sectors, reshaping underwriting practices and the overall risk management landscape. Enumerate three (3) consequences of the 9/11 attack on the insurance industry.

### Solution

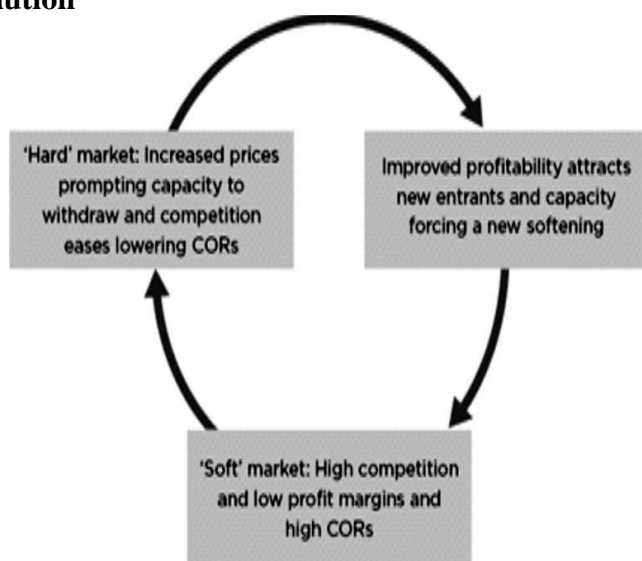
The consequences of the 9/11 attack on the insurance industry are:

- The closure of US airspace for several days after the incident caused added global disruption.
- Marsh and Aon lost a large number of employees.
- Damage caused to major telecommunications 'switch' resulting in severe disruption far beyond lower Manhattan.
- Virtually every class of insurance was hit
- Insurers and reinsurers had no specific protection to deal with this type of clash event

(2 marks each for each correctly stated consequences. Maximum of three to be graded. Total: 6 marks)

2. Explain the "market cycle" using a diagram.

### Solution



(6 marks)

3. Both insurers and brokers are concerned about responding to the needs and wants of their clients, especially as it relates to insuring the properties of the clients. In such an instance, the client usually will express a challenge and the Broker will offer a proposition as the solution. List four (4) terms through which the propositions could be defined.

### Solution

Proposition can be defined through the following terms:

- The demographics of the client marketplace
- The location of clients
- The specific needs and wants that reflect their individual characteristics
- How the products and services offered respond to these needs and wants or how they need to be adapted or tailed to do so

- How it will be delivered and where from
  - The cost of providing the proposition
- (1½ marks for each correctly stated term. Maximum of four to be graded. Total: 6 marks)**

4. (a) What is distribution? **(2 marks)**  
 (b) Enumerate any two (2) of the factors that influence the decision for selecting distribution methods. **(4 marks)**

**Solution**

(a) Distribution can be defined as the movement of products or services from the point of origination to the end-user or customer. **(2 marks)**

(b) The factors that influence decision are:

\* Cost; \* Effectiveness \* Image \* Resources.

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

**(Grand Total: 6marks)**

5. Distribution costs refer to the expenses incurred in moving goods or services from the point of production to the end user. Enumerate five (5) elements included in the distribution cost.

**Solution**

Distribution costs include:

- Commission/brokerage and other incentives paid to brokers/other intermediaries.
- Frontline underwriting.
- The branch network.
- Field staff managing the relationship with brokers.
- Staff managing the relationship with large customers, e.g. banks, supermarkets etc.
- Staff managing relationships with key individual large customers.
- Call centres supporting sales and customer service.
- Advertising and marketing.
- Website development and maintenance costs.

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

6. (a) Explain fair market analysis. **(2 marks)**  
 (b) Enumerate any three (3) management challenges or brokers in carrying out market analysis. **(4 marks)**

**Solution:**

(a) Insurance Conduct of Business Sourcebook (ICOBS) states that fair market analysis requires a sufficiently large number of insurance contracts available in the market to enable it to make a recommendation, in accordance with professional criteria

**(2 marks for correct explanation)**

(b) The management challenges are:

- What is a 'sufficiently large number of insurers'?
- What are 'professional criteria'?
- How is the process of fair market analysis managed and evidenced?
- How do staff maintain knowledge of the market?

**(1.3 marks for each correctly stated factor. Maximum of three to be graded. Sub Total: 4 marks)**

**(Grand Total: 6 marks)**

7. XYZ Manufacturing Limited, a mid-sized industrial firm, sought insurance coverage for its machinery and plant operations. Given the complexity of its insurance needs, the company decided to engage ABC Insurance Brokers Limited to secure the most



suitable coverage. This situation exemplifies the tripartite relationship in insurance broking practice. Briefly explain the tripartite relationship.

**Solution**

Traditionally, brokers would try to keep insurers at a distance from the insured. Occasionally, in the SME sector this is reflected in disputes over who owns the client, especially when insurers cancel agencies (for good or bad reasons) and attempt to transfer the clients to another broker or deal with them direct. Admittedly, this only happens in the SME sector.

The larger brokers certainly recognise that the client having a good relationship with insurers is just as important as the client having a good relationship with the broker, or the broker having a good relationship with the insurer. On large corporate risks it helps to provide a good long-term risk management strategy, and even solidifies client loyalty.

**(6 marks for correct explanation)**

8. Alda Insurance Brokers Limited, a growing broking firm, was approached by GreenTech Solutions, a renewable energy company seeking comprehensive liability and property insurance coverage. The interaction between the broker and the client highlighted the structured components of a successful sales process. List any six (6) components of the sales process.

**Solution**

The components of the sales process are:

- \* The New Business Target;
- \* The Sales Pipeline;
- \* Managing the Pipeline;
- \* Prospect Generation;
- \* Managing the First Meeting
- \* Cold Calling;
- \* Developing the Relationship;
- \* Structured Selling;
- \* Managing the New Business Review and Closing the Deal

**(1 mark for each correctly stated sales process. Maximum of six to be graded. Total: 6 marks)**

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) National Insurance Commission (NAICOM) under the market conduct and business practice guidelines for insurance institutions requires that an insurance policy document shall contain among others some information which shall form the basis of the insurance contract. List any eight (8) of the information. **(10 marks)**
- (b) Insurance broking firms play a crucial role in the Nigerian insurance industry by acting as intermediaries between clients and insurers. These firms are regulated by National Insurance Commission and registered with the Nigerian Council of Registered Insurance Brokers (NCRIB), subject to some specific regulations. Enumerate any five (5) of these regulations. **(15 marks)**
- (c) Chartered Brokers Status is a powerful way for a broking firm to sharpen its competitive edge. It is intended to raise standards within the profession and to achieve recognition from the public and businesses for these much higher standards. Enumerate any four (4) benefits of the status. **(8 marks)**
- (d) The success of an Insurance Broker is hinged on the competence and integrity of Directors and the Board Members. Explicitly state any four (4) factors that should be considered when selecting a director and/or a Board member. **(12 marks)**
- (e) State any two (2) impacts of public opinion on insurance services. **(5 marks)**

## **Solution**

(a) The information that an insurance policy document must contain, as required by NAICOM under the Market Conduct and Business Practice Guidelines, includes the following:

1. The Name and Address of the Insurer
2. The Name and Address of the Insured
3. The Unique Policy Number
4. The Nature and Scope of the Insurance Cover
5. The Policy Term (Commencement and Expiry Dates)
6. The Sum Insured or Limit of Liability
7. The Premium Payable and Payment Terms
8. The Conditions and Warranties of the Contract
9. The Obligations of Both Parties (Insurer and Insured)
10. The Procedure for Claims Notification and Settlement
11. The Applicable Law and Jurisdiction
12. The Policy Exclusions
13. The Signatures of Authorised Representatives of the Insurer

**(10 marks)**

(b) The regulations are:

- No person shall transact business in Nigeria as an Insurance broker unless he is registered under the Insurance Act 2003. Section 36(1), Section 36 of this Act states explicitly the requirements for a legitimate Insurance Broker in Nigeria.
- consolidators that have built large businesses from the acquisition of many small firms;
- firms that concentrate on niche sectors, such as media risks, care homes, alarm companies, equine risks and so on;
- brokers that act as 'wholesalers' for other brokers;
- pure reinsurance brokers;
- brokers that compete with direct marketers by exploiting call centres, the internet and full-cycle electronic processing; and
- brokers operating a totally online presence, both direct to private and commercial customers and other brokers.

**(3 marks for each correctly stated regulation. Maximum of five to be graded. Sub Total: 15 marks)**

(c) The benefits of the Chartered Brokers Status are:

- i. Directors and the Boards
- ii. Enhances business performance
- iii. Promotes and supports regulatory compliance
- iv. Provides tangible evidence of professional status
- v. Helps attract and retain talent

**(2 marks for each correctly stated benefit. Maximum of four to be graded. Sub Total: 8 marks)**

(d) The factors to be considered in selecting a director are:

- relevance of the candidate's experience and knowledge in the insurance industry. A minimum of one of the firm's board members must personally hold the Associate, Council of Registered Insurance Brokers (ACIB)
- record of diligence, integrity, willingness and ability to be independent and objective as well as to serve actively as a director. One of the firm's board (who must personally hold the Associate, Council of Registered Insurance Brokers (ACIB) title), must take on the role of Responsible Member. This person is the principal point of contact on

Chartered status with the responsibility for the application, renewal and for any related issues at any stage

- the entire board, together with a minimum of 90% of customer-facing staff, must be have knowledge of relevant special issues related to insurance business as well as environmental factors.
- a track record of success in business with familiarity and experience in performing the role of a board Member in consonance with CIIN Code of Ethics and NAICOM's Code of Good Corporate Governance for the Insurance Industry in Nigeria.
- relevant training of the Board Members on issues pertaining to their oversight functions shall be put in place and implemented. The Commission shall arrange relevant training on insurance principles and practice, Director's responsibilities and liabilities, and update on insurance market at periodic intervals to which attendance by members of the Board shall be mandatory.

**(3 marks for each correctly stated factor. Maximum of four to be graded. Sub Total: 12 marks)**

- (e) Insurances services are generally perceived to be unreliable. The onus of changing the public perception is on the entire insurance industry through prompt claim settlement when all necessary documentation is done and when all requirements are fulfilled appropriately and adequately. Public perception of insurance services will go a long way to improve our market share and penetration rate as a sector.

**(2½ marks for each correctly stated impact. Sub Total: 5 marks)**

**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. Explain the following terms, using two (2) correct statements on each:

- (a) (i) Offshoring; (ii) Outsourcing; (iii) Global Business;  
(iv) Excess; (v) Franchise. **(30 marks)**
- (b) Explain the phrase “client buying behavior” as it relates to insurance broking practice. **(4 marks)**

#### **Solution**

(a) (i) **Offshoring** is where a selected function, such as payment and accounts, is performed in an overseas and presumably lower cost location, where the relevant skills are available.

(ii) **Outsourcing** is the contracting out of a service or function that was previously performed by in-house employees. Traditionally, many businesses and public sector organisations have outsourced functions such as office cleaning, security and catering. Now, many large companies outsource so called 'non-core functions' such as call centre services, IT support, accounting and so-called 'back office' functions like payroll.

(iii) **Global Business:** Globalisation appears to have eliminated business comfort zones by bringing international competition to everyone's doorsteps. The pace of change within the worldwide insurance industry is likely to speed up in the next few years. The result will be further steps towards globalization and consolidation within the industry. The forces of globalization may compel insurance service providers to rethink their business models in several areas. They should identify and build from that area of value chain where they are weak. As globalization has progressed, living conditions (particularly when measured by broader indicators of well-being) have improved significantly in virtually all Countries.

(iv) **Excess:** Excess is term used in Nigeria and the UK, by both the insurance industry and the insuring public, to describe the amount of a claim that the insured has to pay. The effect is that the total policy limit is inclusive of the excess.

(v) **Franchise:** Franchise is a term that is sometimes used as an alternative to an excess or deductible. The basic difference is that with an excess or deductible the amount is to be borne by the insured, with the insurer dealing with the remainder of the claim. A franchise acts like an excess for claims up to the level of the franchise, but if the total claim exceeds the franchise, then the insurer will deal with the claim in its entirety, without contribution from the insured.

**(6 marks for each correct explanation. Sub Total: 30 marks)**

(b) Client Buying Behaviour - Attitudes to buying insurance vary. For some businesses, insurance is a distress purchase, only bought because it is required by law or because their bank, shareholders or customers require them to buy it. But most businesses see risk management and insurance as important to their business and will be interested in building relationships with their broker and their insurers. Some clients want the lowest price all the time. Others are willing to take a longer view, are more appreciative of value, will respond to good service and do not necessarily want to expend effort in making frequent changes of broker or insurer.

Obviously, a large percentage of the personal lines sector is drawn by the advertising tidal wave promoting the wares of price comparison websites (aggregators) and direct insurers. Selling on price alone (or as the main driver) will hardly encourage loyalty and leads to relatively high churn. However, one-third of consumers choose to use a broker because their needs are too complicated for a direct/internet offer, they are not as sensitive to price or they prefer a more personal service.

Both the commercial lines and personal markets have different client buying behaviours. Of course, the world does not neatly divide up into price only buyers, value buyers and shades in between. Some are capable of exhibiting a variety of behaviours, especially during the course of a competitive tender or broker review. Brokers need to understand these different attitudes to ensure their success.

**(4 marks)**

**(Grand Total: 34 marks)**

11. (a) State and explain any five (5) variety of techniques that can be used to manage the sales pipeline in a new business development drive. **(25 marks)**
- (b) (i) What is Business Process Re-Engineering (BPR)? **(5 marks)**
- (ii) Give a scenario-based example of (i) above. **(4 marks)**

### **Solution**

- (a) The variety of techniques used to manage the pipeline variety of techniques are:
- **Systems:** the pipeline data can be held on a spreadsheet but it is now more common to use specifically designed databases. These can vary from software which runs on a laptop through to networked global sales management tools; the ideal is to integrate the pipeline with a customer relationship management (CRM) system; the approach chosen will be a function of size, the number of people requiring access, geographic scope and what can be afforded.
  - **Status:** all purpose-designed systems include a ranking system that categorises each prospect by the closeness of the relationship, ranging from no contact having been made through to regular and friendly dialogue; some firms use as many as seven categories, however, four, 'cold, warm, hot and reporting' work for most.

- **Alignment with Broker Skills:** each prospect should be assessed against the skills and resources of the broker to ensure that the broker has a good 'fit', thereby increasing the chances of success.
- **Sectors:** prospects should be classified by their trade segments – this facilitates campaigns described below.
- **Reporting Weighting:** once a prospect has moved to the stage where the firm has been invited to review, it is appropriate to weight the chances of success; this might vary from 33% or whatever the normal hit rate for the firm is, to a much higher percentage if there are clear 'buying signs' from the prospect. Typical signs are: positive feedback, regular discussions, requests for information not connected with the review, and so on. The weighting then feeds into the pipeline total so that the firm has a clear picture of progress towards the ultimate target.
- **Outcome Analysis:** so as to improve future performance, it is good practice to analyse why accounts are won and not won.

(5 marks for each correctly explained technique. Maximum of five to be graded. Sub Total: 25 marks)

(b) (i) Business Process Re-Engineering (BPR): This is the theory was to redesign business processes to make them more efficient; often BPR involved the reduction in the number of hierarchical layers of management to create so called 'flatter' management structures. (5 marks)

(ii) Scenario-based example for (i):

Take a new business target of ₦600,000.00. A profession standard 'hit rate', that is, the ratio of cases won to cases reported on, is around 33%. Some firms aim much higher. 33% means that, in our example, the firm needs to report on prospective clients with an aggregate value of ₦1,800,000.00 remember, these are active reviews, those cases where the clients have decided to conduct a competitive exercise. (4 marks)

(Sub Total: 9 marks)

(Grand Total: 34 marks)

12. Explain seventeen (17) minimum standard requirements set by NAICOM for insurance institutions to adhere to when handling claims.

#### **Solution:**

The minimum standard requirements set by NAICOM for insurance institutions to adhere to when handling claims are:

- On receipt of a claim, the insurer shall establish a claims file which at a minimum shall contain the following information:
  - \* Policy number;
  - \* Name of policyholder or claimant;
  - \* Information on claimants;
  - \* Description of the loss;
  - \* Claim file number;
  - \* Claim form;
  - \* Checklist of all relevant documents;
  - \* Progress report schedule;
  - \* Date of loss or accident;
  - \* Opening date of the file;
  - \* Initial value of the claim reserve and any subsequent changes;
  - \* Reporting date;
  - \* Request for an adjuster or investigator;
  - \* Date on which the adjuster's report is received;
- Electronic and/or paper copy of the adjusters' and/or investigators' reports where applicable;
  - Dates and amounts of payments;
  - Date of denial, if applicable;
  - Reasons for denial or reduced settlement;

- Name of broker or agent, if applicable;
  - Documents recording contacts with the policyholder;
  - Documented evidence of agreements or settlements;
  - Claims discharge form and/or acceptance form;
  - Date of file closure;
  - A record of all communications whether formal or informal; and
  - Any other information pertinent to the claim.
- The insurer shall update the claims file and document all actions taken as part of the claims management process in order to be able to address questions that may arise concerning the handling and settlement of the claims.
  - If it is determined that the claims are not covered by the insurance policy or denied, the insurer shall notify the policyholder or claimant in writing stating the policy provisions, conditions or exclusions on which the claim is being denied. This shall be done within a reasonable time/as quickly as possible.
  - The insurer shall not dissuade policyholders or claimants from obtaining the services of a solicitor or adjuster given that the established claims processes have been followed but processes or decision not satisfactory.
  - The insurer shall not deny a claims without reasonable and comprehensive investigation.
  - The insurer shall keep the policyholder or claimant informed of the status of the claims and shall provide explanations for any delays.
  - The insurer shall inform the policyholder or claimant when it decides to
  - appoint an independent expert (for example, loss adjusters, solicitors, surveyors) and explain the reasons and role of these persons in the settlement of the claims.
  - The insurer shall implement a management reporting system to track the timeliness of claims settlement and other pertinent information.

**(2 marks for each correctly stated standard requirement. Maximum of seventeen to be graded.**

**Total: 34 marks)**

13. (a) Most general insurance policies are issued for a twelve-month period. Even when a long-term agreement applies, there is normally some form of annual review option for the insurer and occasionally, the client. Enumerate any five (5) features of the process. **(15 marks)**
- (b) Enumerate five (5) reasons why larger broking firms choose to maintain their own security functions. **(15 marks)**
- (c) List two (2) challenges for the security functions. **(4 marks)**

**Solution:**

- (a) The features of the process are:
- Diary system for renewal prompts;      \* Reminders;
  - Annual service plan;                              \* Open items list or work in progress;
  - Stewardship reports;                              \* Registers;
  - Renewal reports.

**(3 marks for each correctly stated process. Maximum of five to be graded. Sub Total: 15 marks)**

- (b) The larger broking firms choose to maintain their own security function for a number of reasons:
- Client demand – a frequent request in tender exercises for larger risks is indicative of the broker's approach to insurer security.

- Large broking firms place business in many jurisdictions around the world – the quality of regulation varies considerably from country to country and many insurers are not rated or only have public information ratings. For reasons of corporate governance, these firms prefer to adopt a consistent approach around the world based upon standards and procedures developed by a central security function.
- Many of the insurers that have failed anywhere in the world did so whilst allowed to underwrite by the competent authorities, so the broker needs its own method of assessment.
- A perception among large firms that they have a greater duty of care imposed upon them because of their size, influence and access to confidential data.
- The professional security function can gain access to more detailed information from insurers.
- To undertake the necessary analysis requires financial expertise, and it is more cost effective to do this as part of a focused central team.

**(3 marks for each correctly stated reason. Maximum of five to be graded. Sub Total: 15 marks)**

(c) The challenges faced on the security functions are:

- |   |                              |
|---|------------------------------|
| (i) Logistical and resource challenges in obtaining and managing quality, up-to-date information; | (ii) uncertainty;            |
| (iii) Cultural difference;  | (iv) Advice given to Client. |

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

**(Grand Total: 34 marks)**

14. (a) Brokers usually have justifications for working with the set of insurers that they choose to work with. Enumerate any five (5) reasons why they consider:
- |   |                   |
|---|-------------------|
| (i) working with a more limited number of insurers; | <b>(10 marks)</b> |
| (ii) working with a wide range of insurers;         | <b>(10 marks)</b> |
- (b) Enumerate seven (7) “grouped” costs to be incurred by an insurance broker in the distribution of service. **(14 marks)**

**Solution:**

(a) (i) The reasons are:

- Many insurers will not deal with every broker and even the insurers that do offer varying levels of service.
- Even large brokers cannot maintain the same degree of relationship with every possible insurer. There are as many insurers competing for commercial business, but most brokers will, by normal market forces, place a large proportion of their account with a much lower number.
- By using a restricted panel of insurers for a certain type of business, the broker can gain benefits for clients in terms of cover, service, and competitive premiums and additional remuneration. Broker-agreed wordings speed up the issue of policies by minimising the need to negotiate over cover.
- Many brokers use single-insurer facilities for business, such as travel/personal accident or excess liability, to further enhance the benefits described above.
- It can be more cost-effective to deal with fewer insurers for certain types of business. Many insurers have built products that are integrated into the broking IT systems used by many brokers. These can give additional efficiency gains.
- Concentration and aggregation of business with fewer insurers may give the broker greater influence and the ability to negotiate generally better terms overall for clients.

**(2 marks for each correctly stated reason. Maximum of five to be graded. Sub Total: 10 marks)**

- (ii) The reasons are:
- |                          |                                    |
|--------------------------|------------------------------------|
| * Fair Market Analysis;  | * Client Expectations;             |
| * Mergers and Takeovers; | * Change In Underwriting Strategy; |
| * Unusual Risks;         | * Capacity;                        |
| * Competitive Terms;     | * Competition From Other Brokers;  |
| * New Entrants .         |                                    |

**(2 marks for each correctly stated reason. Maximum of five to be graded. Sub Total: 10 marks)**

- (b) The costs are:
- |  |                                    |
|--|------------------------------------|
| * New business staff;                        | * Client staff;                    |
| * Contact management expenses;               | * Travel & entertainment expenses; |
| * Marketing – promotional materials;         | * Research and development;        |
| * Website development and maintenance costs; |                                    |
| * Incentives for retention and new business  |                                    |
| * Management of/payments to ARs              | * Branch operations.               |

**(2 marks for each correctly stated cost. Maximum of seven to be graded. Sub Total: 14 marks)**

**(Grand Total: 34 marks)**