

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

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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 obfained.
Attend the Annual Students' Forum	Avoid the Annual Students' Forum
ETC ON THE FOLLOWING SITES naicom.com (I	ENITS, REGULATIONS AND GUIDELINES/MARKET AGREEMENTS NAICOM), nigeriainsurers.og(NIA); ncrib.net(NCRIB); (1); ciinigeria.org (CIIN)
	D LEAD TO STIFF SANCTIONS. DO NOT BE A CULPRIT. AN

INFRACTIONS ON ANY OF THE INSTRUCTIONS COULD LEAD TO STIFF SANCTIONS. DO NOT BE A CULPRIT. AN Y 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 FAILIII START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLYIII



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I01 INSURANCE LAW

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I01 – INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments:

Question 1

This question assessed candidates' understanding of the regulatory requirements under the Insurance Act for obtaining NAICOM's approval for new insurance products. While there was a commendable level of attempt, overall performance was poor. It was evident that many candidates lacked familiarity with the provisions of the Insurance Act. Candidates are strongly encouraged to study the Act thoroughly, as it constitutes the foundation of insurance regulation in Nigeria.

Question 2

The question tested knowledge of the definition and classifications of law. Although many candidates attempted the question, a significant number omitted the sanction element in their definitions. Performance was average. Candidates are advised to ensure comprehensive coverage of the coursebook during their preparation.

Question 3

This question evaluated candidates' practical understanding of the principle of insurable interest. Most candidates defined the principle accurately and were able to apply it to the given scenario. Among those who attempted the question, over 65% passed, reflecting a good grasp of the topic.

Question 4

Candidates were required to demonstrate practical knowledge of the torts of assault and battery. Only 30% of the candidates successfully applied the legal definitions to the scenario provided. It is essential that candidates develop the ability to apply principles of law to practical situations.

Ouestion 5

Approximately 50% of the candidates attempted this question, which focused on the principle of counter-offer and its effects on offer. Performance was below average, largely due to candidates' inability to apply the relevant principles to the factual context. For future examination, candidates are advised to focus on the application of principles of law in real-world scenarios.

Ouestion 6

This question examined the concept of legal personality and the tortious liability of certain categories of persons—namely, the mentally ill, intoxicated individuals, and minors. Candidate attempts were encouraging and overall performance was above average.

Question 7

The question tested knowledge of the sources of insurance law in Nigeria. Both the level of attempt and the performance were good.

Question 8

This question assessed understanding of the principle of impari delicto. Although over 70% attempted the question, less than 1% provided correct responses. Many candidates

misunderstood the principle and failed to relate it to the facts. This topic is clearly explained in the course textbook, which should be carefully reviewed. The question was a coursebook question.

Ouestion 9

This question tested the circumstances under which an insurance agent may be deemed to act on behalf of the insured rather than the insurer. Both attempts and performance levels were commendable.

Question 10

This question focused on the concepts of offer and acceptance within an insurance context. Over 70% attempted the question, with a pass rate exceeding 60%. Candidates are encouraged to read the course material more thoroughly to enhance their performances.

Question 11

The question examined the contractual capacity of a drunkard. Although the level of attempt was good, the performance was below average. As in previous questions, the key issue was the inability to apply principles of law to a hypothetical scenario. Candidates are advised to learn how to link principles of law to a practical situation,

Question 12

This question evaluated candidates' understanding of statutory interpretation and the interpretation of policy terms. Both the attempt and performance were below average. The same issues identified in Question 11 were observed here, and the same recommendation applies.

Question 13

The question assessed the circumstances in which an insurance agent is deemed to act for the insurer in relation to the insured. Performance was above average, with most candidates demonstrating a solid understanding of the subject matter.

Question 14

This question tested the practical application of the tort of defamation. Although candidates made a good attempt, performance was below average due to the difficulty in linking principles of law with a hypothetical scenario. Candidates are advised to become familiar with this practical approach to legal problem-solving.

Question 15

This question addressed the application of the principles of insurable interest in both business and family relationships. While attempts were relatively good, performance remained below average. The issue was a failure to effectively apply principles of law to practical situations.

Question 16

Candidates were assessed on their understanding of material facts and the duty of disclosure. The question required them to apply the principles to a hypothetical scenario. Although many understood the question, a number of them struggled to demonstrate the practical application of the concept.

Question 17

This question evaluated knowledge of negligence in the law of tort, particularly how liability arises in real-life situations. Despite an attempt rate exceeding 80%, performance was poor due to the persistent issue of theory-practice disconnect.

Question 18

This final question tested the practical application of the elements of a valid contract. Performance was below average, again highlighting the challenge many candidates face in translating legal principles into real-world application.

Comments on Overall Performance:

The overall performance is below average. The reason for this could be deduced that the candidates were not able to put into practice the principles of law they know.

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

In the course of preparation, candidates should go beyond just knowing the principles of law, they should endeavour to put those principles into practice.

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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. The Insurance Act of 2003 stated some requirements to accompany an application on request for approval on new products by the National Insurance Commission (NAICOM). Enumerate any eight (8) of these requirements.

Solution

The requirements to accompany an application on request for approval on new products by the National Insurance Commission (NAICOM) are:

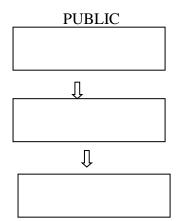
- * specimen copies of proposal forms;
- * specimen copies of policy forms;
- * specimen copies of any riders/endorsements;
- * specimen copies of claims form;
- * actuarial statement (life products);
- * letter of consent from reinsurer;
- * marketing brochure;
- * risk analysis of the product;
- * 5 year business plan;
- * any other additional document

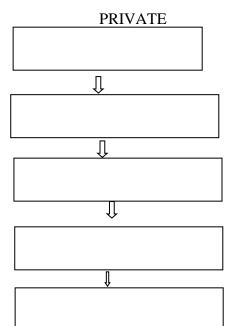
(1½ marks for each correctly stated requirement. Maximum of 8 to be graded. Total: 10 marks)

2. (a) Attempt a description of law

(2 marks)

(b) Supply examples of the branches of law stated below





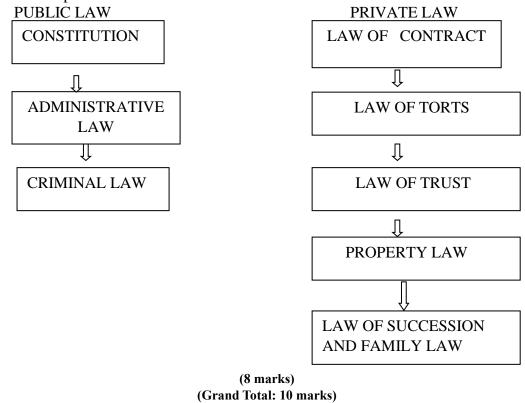
(8 marks)

Solution

(a) Law is the body of general rules which govern and controls the behaviour of people in the country or state in which people live. Such rules are backed up by sanctions if violated. Such rules must however reflect the feelings of the community to be acceptable to the people.

(2 marks)

(b) Some examples of the branches of law stated below:



3. Mrs. Anns is the Sole Executrix of the will of Chief Thomas, deceased. She intends to insure the deceased estate properties. Advise her.

Solution

The legal issue here is whether a duly appointed Executor/Executrix of a Will has insurable interest in the properties of the testator or of the Estate of the testator. Insurable interest is the relationship between the insured and the subject matter of insurance that can be translated into pecuniary advantage. By law, the Executors of a Will are the legal owners of the properties of the testator stated in the Will. Ownership is an incidence of Insurable interest. Therefore, Mrs. Anns has insurable interest in the properties and can therefore insure

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. 5 marks for the last bolded one in italics, which must be compulsorily stated. Total: 10 marks)

- 4. With your knowledge of the law of torts, advise the parties as appropriate in the following circumstances:
 - (a) Bisi pointed a loaded gun at Tola at a send-off party which made Tola to be greatly afraid for her dear life although she was neither shot at nor wounded.

 (3 marks)
 - (b) Without any justification, Yusuf hit Tade with the butt of a gun in their compound in midst of an argument. (3 marks)
 - (c) On the 23rd day of February, 2025 being the "Peace Day" on their Campus, Bimbo held out her a swordfacing Taye and said "*if today were not the Peace Day on this Campus, I would have tested the sword on you*". (4 marks)

(a). The legal issues involved are what is the tort of Assault and what constitutes an assault? Assault is any act which directly causes the claimant to fear an attack on his person. For example, pointing a gun at someone is an Assault. Battery and Assault go together but it is possible to have one without the other. Assault is creation of real threat of violence which is not carried out. The creation of fears that made Tola to be afraid is a real threat of violence which was never carried out by Bisi. The action of Bisi is therefore a tortious wrong which could also be criminal.

(3 marks if "assault" is correctly linked to the circumstance)

(b) The issues here are what is battery and what constitutes battery in law? Battery is the hostile application of force to the person or another without any justification e.g. hitting someone with an object however slight, will be battery. Hitting Tade with the butt of the gun is a tortious wrong of battery.

(3 marks if "battery" is correctly linked to the circumstance)

(c) The issue here is how to mitigate the effect of assault by spoken words. Words spoken can mitigate the effect of a threat that constitutes assault. In *TuberVille v Savage*, the words spoken cancelled out what would have amounted to Assault. In the case, the defendant had put his hand on the sword and said *'if it were not assize, time, I would not take such language from you'* - meaning he would have attacked the claimant if the assizes judges were not around. Giving the foregoing principle of law, Bimbo would not be adjudged liable in the tort of assault. (Creation of fears in her) to Taye owing to the word she spoke which mellowed down the effect of his action.

(4 marks if "assault by spoken words" is correctly linked to the circumstance) (Grand Total: 10 marks)

5. Andrew and John agreed that the latter would buy the former's car at an agreed sum of N3,000,000.00 in Andrew's house. On getting home, Janet, John's girlfriend advised John to offer N2,900,000.00 instead. John communicated this to Andrew. Hearing this, Andrew sold the car to Peter who paid. On hearing of the sale to Peter, John alleges a breach of contract saying he has not told Andrew he did not want to buy the car. Comprehensively, review the case study stating the legal issues involved.

Solution

The legal issues are what can destroy an offer in the law of contract and its effect. An offer is an expression of willingness on the part of the offeror to sell or do something for another called the offeree. Once the offer is made, the offeree must accept and if other things are done by parties, a contract will be established. However, if the offeree makes another offer called Counter offer to the original offer of the offeror, the original offer would be destroyed. In the case in the question, John offered a sum different from the one offered originally, destroyed the offer thereby cancelling the same. The effect of the cancellation is that there was no contract to be breached. Therefore, there was no breach as alleged by John.

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

- 6. Write brief legal opinions on the following:
 - (a) Who a person is under the Nigerian law. (4 marks)
 - (b) Sade, a mental patient at the Psychiatric hospital, Lagos, slapped a passer-by along Fadeyi, Lagos State. (2 marks)
 - (c) Tunde aged 9, was in involved in End-Bad- Governance protest. (2 marks)
 - (d) Ahmad, aged 14, broke into Emely's shop and stole various items from the shop. (2 marks)

- (a) A person in law is any entity upon which the law has deemed it to accord legal personality. A person can therefore be a human being or non-human being. Persons in law can either be natural or non-natural entities. (4 marks)
- (b) The legal questions involved are: what is the liability of people lacking in mental capacity and what is the effect of any tort committed by such people. The law is that such people are liable for their tortious wrong in their lucid period only. Otherwise, a person will not be liable for a tortious wrong when his mental state is not stable. In the question, Sade is not shown to be in her lucid period. She is therefore not liable for the battery committed against the passer by. The passerby has suffered *damnum sine injuria*, injury without remedy or injury without wrongful act. (2 marks)
- (c) The question here is what the criminal liability of minors of different ages is. For purposes of criminal liability, minors are divided into two. Full criminal liability applies to minors over the age of 10. Applying the above principle, Tunde, aged 9, is not criminally liable for his participation in the End Sars protest. (2 marks)
- d). Applying the above principle to a minor who is above the age of 10, Ahmad will be criminal liable. (2 marks)

(Total: 10 marks)

7. As a Student of insurance law, you have been nominated to give the major characteristics of Nigerian Insurance law at a forum intended to sensitize people to the relevance and importance of Insurance. In a highlight form, give (5) five of such characteristics.

Solution

The characteristics of Nigerian Law are as follows:

- * Independence of the Judiciary; * Adversarial System; * Rule of Law. (2 marks for each correctly stated characteristic. Maximum of 5 to be graded. Total: 10 marks)
- 8. (a) What do you understand by the doctrine of 'impari delicto portiorest defendent is' and its exceptions in law? (6 marks)
 - (b) Jaguda and Wobia want to burgle a shop at a popular market in Lagos. Between the two and prior to their expedition, it was agreed that their loot, will be shared on 50 50% basis. After a successful operation, Jaguda tossed 20% of the loot to Wobia, Wobia wants to sue Jaguda for this back-stabbing act of his friend, Jaguda. Assuming you are the judge before whom this matter is assigned, decide this matter.

 (4 marks)

Solution

- (a) It is a latin maxim stating the principle of law meaning that when two parties are in the wrong, the position of the defendant is stronger because the court will not assist anyone of them; he can therefore keep the loot. (2marks). The only excepting circumstances are:
 - when parties are not equal in the wrong e.g. if one party entered into the contract through improper pressure;
 - when one party repents- voluntarily abandons the illegal purpose;
 - when the illegality arises under a statute. (4marks)
- (b) When two parties are in the wrong, the court will not assist any one of them based on the principle of *imparidelicto potiorestdefendentis*. As a result, the position of the defendant is always stronger. Both Jaguda and Wobia were, no doubt, in the wrong. Based on the above

principle, Wobia cannot go to court because the court will not assist him. Jaguda will therefore have his way. (4marks)

(Total: 10 marks)

9. Smith is engaged as an insurance agent by SafeLife Insurance Company for its general business on commission basis. In a particular insurance business, Smith gave a general advice on the type of policy to take and how to formulate his claim, he completed, altered and added to the answers supplied by the proposer on the proposal form to the knowledge of the proposer who decided to collude with Smith to defraud SafeLife Insurance. The business was placed with SafeLife and a claim was lodged. SafeLife repudiated the claim. Advise Smith and the insured.

Solution

The issue thrown up by the question is when will an insurance agent be taken to be acting for his insured or the Insurer? It is the peculiarity of insurance that an agent can act for both the insured and insurer in the same contract. An agent will be taken as acting for the Insured if certain conditions are present and these are:

- where the agent gives general advice to the proposer as to the policy and the market to place the business;
- the insurer pays the commission;
- the agent fills, alters and or adds to the answers supplied in the proposal form and the proposer knows about it;
- agent completes the proposal form for the proposer which form contains the wording that if the agent completes the proposal form m he is the agent of the insured;
- when the agent colludes with the proposer to defraud the insurer;
- when the agent gives the insured advice on how to formulate his claim.

From the facts of the case, it is clear that smith did not act as the Agent of SafeLife Insurance. SafeLife is therefore right to repudiate the claim.

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. 5 marks for the last bolded one in italics, which must be compulsorily stated. Total: 10 marks)

- 10. (a) An offer cannot be accepted by doing nothing and an acceptance must be communicated to the offeror by the offeree. Does this hold true for an insurance contract? (4 marks
 - (b) Idonije is the insured of Highlife Insurance Company limited which insured his Car. He seeks to renew the policy that expired recently. The company sent Idonije a renewal notice containing a temporary certificate and cover note granting fifteen (15) days limited cover, which was sent to Idonije on his motor car policy. Idonije refused to pay his premium balance and he alleged that there is no contract between him and the company as no policy has come into force. Is Idonije correct in his postulation.

(6 marks)

Solution

- (a) The general rule in the law of contract that acceptance must follow an offer by the offeror seems to be true regarding the general contract only. It does not hold true for insurance contract. This is because if the Proposer acts in reliance on an offer made by the insurers, this will be equivalent to an act of acceptance and a valid contract will be formed. (4 marks)
- (b) The legal issue arising from the question is whether a valid insurance contract has been formed in the circumstances in the question. When does the Policy come into force? Has there been an acceptance of the offer and does the Temporary Cover Note constitute an offer? If the

Insured does not receive the renewal Notice, he cannot accept the offer of temporary cover which it contains. If he receives it, it will be deemed that he has accepted the offer if he simply continues to use the car. Idonije having received the offer of the renewal notice, he is deemed to have accepted same and a valid contract has been established and it is binding on him

(1½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. 3 marks for the last bolded one in italics, which must be compulsorily stated. Sub-Total: 6 marks)

(Grand Total: 10 marks)

11. Agbemuyona drank himself into stupor to the extent that he was out of his mind and in that condition offered to sell his Toyota car to Ifayemi for the sum of №11,000.00. Ifayemi was aware that his friend was drunk at the time the offer was made to him. After becoming normal, Agbemuyona seeks to retrieve his car from his friend alleging that, to the knowledge of his friend, he was so seriously drunk that he did not know what he was doing at the time of the offer. Ifayemi is refusing to give up the car which he alleged was already paid for by him. Advise the parties.

Solution

The legal issue is whether or not the contract of a drunken person is binding on him. Generally speaking, a Drunk is bound by his contract. (3 marks). The only way a drunk can avoid a contract binding on him is if he was so drunk at the time of the contract to the extent that he did not know what he was doing and the other party was aware of the fact. (3 marks). In the question, it is established that Agbemuyona was so drunk that he was out of his mind and that fact was known to Ifayemi. The foregoing being the case, no valid sale contract was established between the two. Ifayemi cannot keep the car. (2 marks).

(Grand Total: 10 marks)

12. As a judge presiding in a High Court of a State in Nigeria, lawyers of the parties appearing before you have cited various laws (Acts and Laws) in their final arguments in order to persuade the court to give judgment in favour of their respective client's case. How would you go about the interpretation of Laws cited in the case before you.

Solution

The issue in the question requiring answer is how to interpret statutory provisions. There are two major established principles of interpreting the provisions of law. These are:

- Statutory Aids as contained in the Interpretation Act, Interpretation section of the Act and the Preamble of the Act or law. (4 marks)
- Common law Rules. Literal Rule, Golden, Mischief Rules, Presumptions. (6 marks) As the judge handling the matter, any of these can be employed to decide the matter one way or the other.

(Grand Total: 10 marks)

13. Mr. Sunday was expressly employed in writing by LifeSafe Insurance Incorporated and had authority to receive and handle Proposal Forms as it is done in ordinary course of business. In respect of a particular business placed with LifeSafe Insurance by Mr. Charles, Mr. Sunday completed the Proposal Form, conducted a Survey of the Proposer's Property. As at the time Sunday met the proposer, his authority was temporarily suspended nevertheless, he still placed the business with Life Safe Insurance. Claim has fallen to be settled, Life Save Insurance wants to disown Sunday. Advise Safe life Insurance as appropriate.

The issue to be resolved here is when will an agent be regarded as the agent of the insurer. The circumstances that will determine this are:

- does the agent have express authority from the insurer to receive premium and handle proposal forms;
- does he handle Proposal Form in accordance with the previous course of business with the insurer and implied authority that has arisen;
- is the agent authorised to ask questions and fill answers in the Proposal Forms?
- does he survey and describe the proposer's property;
- has the agent acted without the insurer's authority and the insurer ratified such acts in the past?
- does he have express or implied authority to collect premium?

From the fact of the case, Mr. Sunday will be taken as having acted for Safe Life insurance as all the conditions precedent for so holding are present if the facts presented in the case.

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. 5 marks for the last bolded one in italics, which must be compulsorily stated. Total: 10 marks)

14. Barrister Loco recently published a Book titled "The White Lies of the Prophet". In the book, he has written concerning Prophet Innocent so many untrue stories looking too real to be ignored by members of his church and the community. So disparaging are the stories that the church members have started leaving the church and the community including Fellowship of Pastors to which Prophet Innocent belongs, have stated avoiding him. What is the course of action open to him? What difference would it make if the alleged written lies were spoken or verbal statements?

Solution

The legal issues involved are: what constitutes the tort of defamation and species of defamation. The tort of Defamation protects a person's reputation and frowns at false statements about a person which cause injury to that person's reputation. Defamation is of two sorts: slander (defamation in a transient or non-permanent form e.g. defamatory speech or gesture and libel (defamation in a permanent form e.g. an email, text, posting in social media or in a written publication.

The Book: 'The White Lies of the Prophet' is defamation in a permanent form because it has lowered the Prophet's reputation with his congregants and community. It will be a different matter entirely it the content of the book were spoken or verbal statements because that will be slander because the statements were not in a permanent form.

On the whole, the effect will be the same. Barrister Loco will still be liable to the Prophet.

(2½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. 5 marks for the last bolded one in italics, which must be compulsorily stated. Total: 10 marks)

Part II

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

- 15. (a) Define Insurable Interest in insurance. (2 marks)
 - (b) Mr. Peter John and Mrs. Jane John are husband and wife, while Sola, Bimpe and Tutu are their adult children. Mrs. Jane John proposes to take out a life policy on the life of her husband for her own benefit only. Mr. Peter John has also taken out a life policy on his own life for the benefit of his wife and children. Mrs. Jane John also intends to take out a life policy on her life for the

benefit of her husband and the children. On what legal basis can these intended policies be sustained?

(18 marks

(c) Addison Partnership is owned by three partners – Ade, Isaac and Oni. Isaac wants to take out a policy on the life of Ade and Oni and on possible financial loss of the partnership. On what basis can he do so? (10 marks)

Solution

- (a) Insurable interest is the legal right to insure arising out of financial relationship recognized at law between the insured and the subject matter of insurance. (2 marks)
- (b) The concept of insurable interest is applicable to family relationships e.g. own life and lives of spouses. (2 marks).

Both husband and wife have unlimited insurable interest in the life of each other. (5 marks) Therefore Mr. and Mrs. can insure to benefit themselves on that basis. (3 marks)

Furthermore, The Married Women Property Act, 1882 makes provision for married women to insure her own life or the life of her husband for her own benefit. It further provides that a Policy taken out by a man for the benefit of his wife and children, or by a woman for the benefit of her husband or children, create a statutory trust of the Policy ensuring that the policy money passes to the beneficiaries free if any debts if the insured. (5 marks)

It follows therefore that both Mr. Peter and Mrs. Jane John can insure as they propose to on the basis that that they have unlimited insurable interest in the life of each other and by the provisions of the Married Women Act, 1882. (3 marks)

(Sub-Total: 18 marks)

(c) The concept of Insurable interest is also applicable to business relationship. (2 marks) Examples are credit / Debtor, Employer/ Employee and especially, Partnership as we have in the question.

The principle is that partners have insurable interest in each other's lives up to the amount of any loss or expense that might arise from the death of a partner. (3 marks)

The members of Addison Partnership namely, Ade, Isaac and Oni, have Insurable interest in their respective lives (2 marks)

and also each has the right to take out a Policy against any possible financial loss of the business on the basis of the concept of Insurable interest. (3 marks)

(Grand Total: 30 marks)

16. (a.) What is a material fact?

(5 marks)

(b) Ada is a prospective insured of Addax of Insurance Company. She has approached the company with the intention of taking a Life Policy. The company has given her a proposal Form and told her she is under a positive duty to disclose everything concern her life. Ada was taken aback by this demand saying it violates her privacy and her right under the Data Protection Act, 2023. Proffer the necessary advice on appropriateness of the duty to make disclosure.

(25 marks)

Solution

- (a) Material Fact is defined as "every fact circumstance is material if it would influence the judgment of a prudent insurer in determining whether to take the risk and, if so, on what terms".

 (5 marks)
- (b) Regarding disclosure of material facts, Ada is duty bound to disclose every facts or circumstances of the risk she is proposing to insure again known to her and whether asked for or not by the insurer.

Therefore, she needs to disclose the following: physical and moral hazards- aspects of the risk that relate to her character and behaviour of e.g. age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

(10 marks)

However, she needs not disclose the following: <u>matters of law, facts known by the insurer or fact which he ought to know information that is waived by insurer, facts that are outside the scope of specific questions, facts which an inspection of the risk should have revealed, facts which she does know, and fact of spent conviction. (7 marks)</u>

There is no violation of Ada's right under any law.

(3 marks)

(Grand Total: 30 marks)

17. (a) Define the tort of Negligence.

(2 marks)

- (b) (i) What are the three (3) elements required for an action in negligence to succeed? (6 marks)
 - (ii) What is the 'Neighbour Principle' in the law of negligence? (4 marks)
 - (iii) MD was taken out to a Café on a hang-out date with her friends. She was bought a bottle ginner drink in an opaque bottle manufactured by Pure Drink Limited. After drinking just a little of the drink, she attempted to pour more into her cup when a decomposing snail emerged from the bottle. She had a little of gastroenteritis from the little she drank. She proposes to sue to the Café Manager for breach of contract and the Manufacturer of the Ginger drink, Pure Drink Limited for negligence. Advise her. (8 marks)
- (c) (i) What is the Principle of 'Thin Skull' or "Egg ShellSkull" with respect to

causation and liability in the law of Negligence? (4 marks)

(ii) AB and CB are employees of Mc Vens Limited, a welding company. AB suffers Pre-Malignant cancer of the lip. His condition was activated when a blob of metal molten struck him from the negligence of CB, his colleague at work. He later died from the illness. McVens Limited wants to avoid liability for the death of AB. Advise the company.

(6 marks)

Solution

- (a) Negligence is a failure to take care in circumstances where the law demand that care should be taken giving rise to a claim for damages by the person who suffers harm as a result.

 (2 marks)
- (b) (i) The major elements required for an action in negligence to succeed are:
 - duty of care owed by the defendant to the claimant;
 - a breach of that duty by the defendant (negligence);
 - damage suffers by the claimant as a result of the negligent act. (6 marks)
- (ii) The Neighbour Principle is a principle of reasonable foreseeability. A duty of care is owed to another person if it is reasonable that they will be affected by one's acts or omissions.

 (4 marks)
- (iii) The legal issue to be addressed is who is one's neighbour to whom a duty of care is owed?

To answer the question, one has to understand the concept of neighbour principle i.e. who is one's neighbour in law?

One's neighbour in law are all those ones should have in mind when directing one's mind to the acts or omissions that are called into questions because they are owed a duty of care. For example, the manufacturer of pure water owes everyone who is likely to come across the pure water sachet and drink all over the world.

Given the above, is the Cafe Manager, MD's neighbour regarding the Ginger drink? The Cafe Manager cannot be sued because there was not privity of contract between them. He is also not the manufacturer. She therefore has no cause of action against the Manager

The Manufacturer – Pure Drink Limited. It is caught by the neighbour principle. The company owes everyone likely to come across its drink/products all over the world, a duty of care to be hygienic in its preparation of the drink. See **Donoghue v Stevenson.**

Therefore, MD could sue the Manufacturer of the drink but may not succeed in contract against The Cafe Manager based on what is stated above.

(2 ½ marks for each and every correct and completely stated explanation/advise. Maximum of 4 to be graded. Sub-Total: 10 marks)

(c) (i) This has to do with the concept of Causation. A defendant is not liable for every for every loss which has some connections with his wrongful act. He is not liable for any damage that is too remote. However, this will not exonerate a defendant from liability in respect of a latent or preexisting physical weakness or defect in the claimant which the defendant is unaware of.

This is the principle of *'Thin Skull'* or *"Eggshell Skull"* principle. A defendant cannot plead the latent weakness or defects in the claimant as a defence because; he must take him as he finds him.

(4 marks)

(ii) The issue here is the applicability of the Skin Skull principle. The principle states that a defendant must take his victim as he finds him and not plead the pre-existing bad condition of the claimant that triggered the damage complained about.

AC has to take AB as he found him. It matters little that AB was sick in his body before AC's negligent act triggered the illness that killed AC. McVens Limited will be held vicariously liable for the negligence of AC. (6 marks)

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

- 18. (a) Proffer legal guidance as it relates to law of contract on the following scenarios:
 - (i) Ade is alleging that Tutu has breached the contract for sale of Tutu's car for which Ade has not paid for and in fact, Tutu has admitted to not supplying the car but has boasted that Ade has no remedy the law can afford him. Ade is insisting he had done some work for Tutu in the past for which Tutu did not pay and wants Tutu to take the money she did not pay as the cost of the car.(6 marks)
 - (ii) Tade and Tinu are husband and wife. For Tinu's 40th birthday, Tade promised Tinu, his wife, a 2024 Toyota SUV as a birthday gift. On the D-day, Tade was not forthcoming with the gift which Tinu was expecting eagerly. Tinu is

- seriously aggrieved and told the husband "You will hear from my Solicitors for this breach of contract". (6 marks)
- (iii) Chief Giripa is a renowned politician in his home state. In the build up to a recent gubernatorial election conducted in his State in which contested and lost, he contacted Shege, a notorious thug in the State to maim and kill his opponents one of whom he lost to. Having lost the election, Chief Giripa is alleging a breach of contract and wants to sue Shege for breach of contract. (6 marks)
- (b) Ada, aged 10, has undertaken to enter in the following contracts. Proffer legal advice as it relates to law of contract on the following scenarios also.
 - (i) to buy a bag of rice and two pieces of Sweater from Awwoof Supermarket. (4 marks)
 - (ii) apply for an overdraft facility from O' Free Mobile Bankers and buys food items not reasonably needed by him. (3 marks)
 - (iii) he has taken a lease of a mini flat at Lekki area of Lagos State. (3 marks)
 - (iv) Ada is also thinking of buying a Motorbike from Ade. If Ada buys the motorbike which she does not really need in her present situation in life and fails to pay for it. What remedy does the law provide for the owner of such motorbike?

 (2 marks)

(a) The question to be addressed is what is the effect of a past consideration earlier furnished on the current contract? Can a past consideration support a current contract?

One of the validating elements of a contract is **Consideration-** the stake given by the parties to support the promise exchanged towards themselves.

One of the rules of consideration is that it must not be past. There must be a link between consideration and the promise given from the beginning.

Ade's consideration for the purchase of the car is in the past and cannot be given to support the purchase of the car. There is no contract capable of being enforced by law. (4 marks)

(b) Another element of a valid contract is exhibition by parties of the intention to create a legal relationship by their contract and to be bound by the promise they exchange. Determining the intention of parties is implied in law.

The law is that with respect to commercial activities, it is taken that parties intend to create a legal relationship by their contract and are willing to be bound by their promises and it is so imputed to them by law.

With respect to social and domestic activities, the law takes the view that parties do not intend to be bound or create a legal relationship by the promises they exchange.

Tade and Tinu's affairs fall under the social and domestic agreements which are not binding. Tade has not breached any promise or agreement in law. (4 marks)

- (c) For a contract to be valid and legal, its purpose or object must be legal. The contract formed in order to kill or maim or wound people is illegal and unenforceable in law. Chief Giripa has no cause of action against Shege. (4 marks)
- (d) Contract by minor must be for necessaries –i.e. goods and services reasonably necessary for the child's position in life. Using this principle as a guide,

- (i) This a type of contact which binding on a minor. Ada's contract for rice and sweater (clothing) is a good one because the items may be regarded as *Necessaries*. (4 marks)
- (ii) This is a type of contract not binding on a minor. The contacts may not be valid and binding on Ada as they are not reasonably necessary for her situation in life. They may be binding on the other party though Ada could avoid this contract, it is not binding on her.

 (4 marks)
- (iii) This is an example of a contract binding on a Minor unless repudiated by him. This is because of their continuous nature (a Lease) unless she repudiates it. Ada may choose to repudiate the contract to avoid liability. (4 marks)
- (iv) Where Ada has acquired goods that are not necessaries by a contract that the other party cannot enforce, the law of restitution will come into play. The Minors' Contracts Act 1987 which empowers the court to, if just and equitable to do so, require the minor to transfer to the other party any property acquired by the minor under the contract or any property representing it. Ada can be ordered to return the motorbike or whatever it might have been turned into to the owner. (6 marks)

(10 marks) (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I02 COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION INSURANCES

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I02 – COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question assessed candidates' understanding of compulsory insurance. Approximately 51% of those who attempted it were successful.

Question 2

The question evaluated candidates' knowledge of the causes of sprinkler leakage. Performance was poor, with only 11% achieving a pass.

Question 3

This coursebook-based question tested candidates' understanding of claims payment, with emphasis on the principle of indemnity. The performance was commendable, recording an 84% pass rate.

Question 4

The focus of this question was on business interruption. Only 16% of candidates passed, indicating a poor level of performance.

Ouestion 5

This question examined candidates' knowledge of Estimated Maximum Loss (EML) and Probable Maximum Loss (PML). The performance was below expectations, with a pass rate of just 20%.

Question 6

Candidates were tested on their understanding of a practical survey. The pass rate was 81%, reflecting a strong grasp of the topic.

Ouestion 7

This question assessed knowledge of underwriting criteria. Approximately 82% of candidates performed above average, demonstrating solid understanding.

Question 8

This question tested candidates' knowledge of risk surveys. Around 78% of the candidates achieved above-average scores, showing good comprehension.

Question 9

The focus of this question was on first loss insurance. A pass rate of 56% was recorded, indicating an above-average performance.

Question 10

This question evaluated candidates' knowledge of specified contingencies. Approximately 60% of those who attempted it passed.

Question 11

This question was based on Business All Risks. About 49% of candidates passed, reflecting an average performance.

Question 12

This coursebook question tested candidates' understanding of the differences between accidental failure and public utility failure. The performance was poor, with a pass rate of 26%.

Ouestion 13

This question assessed candidates' understanding of the sprinkler system.

Question 14

The question evaluated candidates' knowledge of pre-loss surveys. The pass rate was approximately 80%, indicating good understanding.

Question 15

This optional question focused on risk surveys for underwriting purposes. Approximately 49% of candidates passed.

Question 16

Candidates were tested on subsidence and ground heave. The pass rate was about 69%, showing satisfactory performance.

Ouestion 17

This coursebook-based question assessed candidates' knowledge of general extensions. About 48% of candidates were successful.

Ouestion 18

The question tested candidates' understanding of the various types of sprinklers. A high pass rate of 82% was recorded, indicating strong comprehension.

Comments on Overall Performance

Overall, candidates are encouraged to engage in more in-depth study to enhance their understanding of commercial property insurance and business interruption topics. The overall pass rate was 45.95%.

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

Candidates are encouraged to prepare more adequately for 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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. Enumerate any four (4) compulsory insurance types in Nigeria and state the effective coverage provided by each.

Solution

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)
- 2. A property was insured with your organisation with sprinkler installation. As the underwriting staff that is reviewing the risk, correctly list any four (4) possible causes of sprinkler leakage that could occur within the premises.

Solution

Some of the possible causes of sprinkler leakage that could occur within the premises are:

- * damage by accidental impact; * accidental sudden release of heat from a heater;
- * accidental and sudden release of heat from a portable plant for applying heat;
- * mechanical defect in the installation;
- * freezing of water in the installation.

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

- 3. (a) A proposer has approached you for the insurance of his property and wants to know how his claim will be handled if one occurs. Briefly, but correctly, explain to him how this claim is will be considered with focus on the principle of indemnity; (4 marks)
 - (b) Enumerate any two (2) alternative basis considered by the Judge in the case of Reynolds and Anderson Phoenix (1978) as related to the scenario in (a) above. (6 marks).

Solution

(a) It should be explained to him that if a claim should occur on his property, he will be put in the same pecuniary position that he was in immediately before the event, subject to the explicitly stated terms and conditions in the policy in line with the universal principle of indemnity.

(2 marks for each correctly stated line of thought. 1 mark for linking the question to the correctly stated solution. 1 mark for linking the principle of indemnity to the correctly stated solution. Sub-Total: 4 marks)

- (b) The alternative basis considered by the Judge in the case of Reynolds and Anderson Phoenix (1978) as related to the scenario in (a) above are to settle the claim based on

 - * The cost of rebuilding in its original form.

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

- 4. (a) What is the risk insured in a business interruption insurance cover if an insured event should occur. (4 marks)
 - (b) What are the two (2) generic groupings of compensation which can be claimed under Business Interruption Insurance? (6 marks)

- (a) The risk insured in a business interruption insurance cover if an insured event should occur is the damage making it impossible for the business to operate at all (or to severely restrict its ability, to operate) as a result of essential part(s) of the activities being no longer available.

 (4 marks)
- (b) The two generic groupings of compensation which can be claimed in Business Interruption Insurance are:
- (i) loss of gross profit (or other insured income resulting from a reduction in turnover in consequence of that inability (or reduced ability to operate); and
- (ii) the additional costs incurred to reproduce these lost activities in some way and avoid or diminish the reduction in turnover.

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

- 5. Explicitly explain the following terms:
 - (a) (i) Estimated Maximum Loss (EML)
 - (ii) Probable Maximum Loss (PML);
 - (iii) Maximum Possible Loss (MPL).

(6 marks)

(b) Show forth any two (2) of the three terms above using an explicitly but simple scenario based illustrated example. (4 marks)

Solution

- (a) (i) **Estimated Maximum Loss (EML):** this is an analysis of the extent of loss that can arise as a result of an insured loss that is likely to occur in the normal conduct of activity, occupancy and usage of the insured building. (2 marks)
- (ii) **Probable Maximum Loss (PML):** this is the estimated maximum extent of loss which is expected to occur if an insured loss occurs in the normal conduct of activity, occupancy and usage of the insured building. (2 mark
- (iii) Maximum Possible Loss (MPL): it is the loss that is likely to occur when the most unfavorable circumstance is more or less exceptionally combined as a result of an insured loss, which is only truncated by impossible obstacles or by lack of loss action supporting substances, that is likely to occur in the normal conduct of activity, occupancy and usage of the insured building. (2 marks)
- (b) Candidates are required to give an explicit but simple scenario based illustrated example and from the example, extract out what is meant by any two of the three terms of their choice.

(2 marks for each correct and completely stated example. 1 mark for each correctly linked term to the scenario. Maximum of 2 linkings to be graded. Sub-Total: 4 marks)

(Grand Total: 10 marks)

- 6. As a Surveyor, you are asked to conduct the survey of a premises /shopping complex:
 - (a) what is the correct explanation to a "multi-tenure" building? (2 marks)
 - (b) enumerate, in your report, any four (4) factors that affect the propagation of fire on the premises/shopping complex. (8 marks)

- (a) A multi-tenure building is one where several firms occupy parts of the same building.
- (b) The factors that affect the propagation of fire on the premises/shopping complex are:
 - * fire resistance of floors, ceiling and walls; * fire resistance of opening;

 - * housekeeping standard; * storage of flammable liquids;
 - * active monitoring of all the above features.

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

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

Solution

As a property /business interruption underwriter, the criteria should inform the acceptance of a risk without a pre-loss survey are:

- * location of risk;
- * claim experience;
- * trade;

- * overall size of the risk;
- * underwriter's own experience of the class of risk;
- * amount of information provided by the proposer intermediary;
- * size of the premium, which the cost is likely to generate.

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

- 8. Your teamlead assigns a newly proposed property risk to you which qualifies to be considered for conduct of a pre-loss survey on the risk. As a prudent underwriter,
 - (a) what three (3) factors should be considered that will enable a prudent decision to
 - me made regarding whether to incur the cost of a survey? (6)
 - (b) what two (2) main objectives could be the reason for the decision in (a), above? (4 marks)

Solution

- (a) The factors which should be considered that will enable a prudent decision to me made regarding whether to incur the cost of a survey are:
 - * risk characteristics such as location, claim expenses, trade or a combination of trade;
 - * size of the premium which the case is likely to generate;
 - * the underwriter's own experience of the class of risk;
 - * amount of information provided by the proposer and/or the intermediary;
 - * overall size of the risk.

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

- (b) The main objectives that could be the reason for the decision in (a) above are:
 - * to provide an assessment of the risk;
 - * to suggest improvement to the commercial features of the risk;
 - * to offer benefits to the parties concerned;
 - * to develop risk management program;

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

(Grand Total: 10 marks)

- 9. You have been invited by students offering insurance as a course of study in a Higher Institution to perform the following. State these in your responses:
 - (a) explain to them the meaning of "First Loss Insurance";

(4 marks)

(b) enumerate three (3) examples of insurance perils where this type of insurance cover is popular. (6 marks)

(a) A "first loss insurance" is where the insured chooses to ask the insurer to provide cover up to an amount significantly less than the total value of property insured (2 marks); on the premise/ground that the total destruction by the perils to be insured is highly unlikely. (2 marks)

(Sub Total: 4 marks)

- (b) Some examples of insurance perils where this type of insurance cover is popular are:
 - * storm; * escape of water; * theft; * flood;
 - * impact; * accidental damage.

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

10. There are various specified contingencies that are covered in commercial property and business interruption insurance policy, list any five (5) of these specified contingencies.

Solution

The specified contingencies in commercial property and interruptions insurance are:

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

11. It is not all types of property that can be covered under a business "all risks" policy in line with standard underwriting practices. List out any five (5) types of property which would normally be covered by a Business "All Risks" Policy.

Solution

The types of property which would normally be covered by a business "All Risks" Policy are:

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

12. What is the difference between the insurance cover provided by "accidental failure of utilities" and "public utilities' extension" contingencies?

Solution

The cover provided by accidental failure will indemnify the insured irrespective of loss resulting from the interruption or interference with the business as a result of accidental failure of supply at their terminal ends of the suppliers feed to the insured premises; (5 marks) while the cover provided by the public utilities extensions is more restricted as it only cover for interruption or interference following at the suppliers own premises. (5 marks)

(Grand Total: 10 marks)

- 13. Sprinkler systems were common features on insured premises some years ago. As a property surveyor of premises for insurance:
 - (a) what is a sprinkler system?

(4 marks)

(b) List any three (3) types of common sprinkler systems. (6 marks)

Solution

(a) A sprinkler system is an installation of water pipes within the premises of a building or Factory when there is fire, an alarm will trigger the sprinkler to operate and attack the fire (4 marks)

- (b) The types of common sprinkler systems are the:
 - (i) wet type; (ii) dry type; (iii) alternate type; (iv) pre-action/drencher type (2 marks for each correctly stated type. Maximum of 3 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)
- 14. A property pre-loss survey was presented to you for a risk that has just been surveyed. What are five (5) information on the survey report that will enable you underwrite the risk as a prudent underwriter?

The information on the surveyor's report for prudent underwriting are:

- * type of risk;
- * risk class;
- * type of trade;

* discount:

- * what proportion can be underwritten?
- * sum insured:
- * what wordings are needed;

(2 marks for each correctly stated information. Maximum of 5 to be graded. Grand Total: 12 10 marks)

Part II

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

15. (a) Explain three (3) objectives of a risk survey.

(9 marks)

(b) A survey report has the same content/heading. State and comment on any seven (7) of the contents/headings of a business interruption survey report.

(21 marks)

Solution

- (a) The objectives of a risk survey are to:
 - provide an assessment of the risk;
 - offer benefits to the parties concerned;
 - suggest improvement to the commercial features of the risk;
 - develop risk management programme.

(Candidates are required to explain any three. 2 marks for correctly stated objective. 1 mark for any correct and completely stated explanation. Sub-Total per objective: 3 marks. Maximum of 3 to be graded.

Grand Sub-Total: 9 marks)

- (b) The content heading of a business interruption survey reports are:
 - * business overview;
- * building;
- * machinery;
- * stock;

- * workforce:
- * sum insured and maximum indemnity period;
- * period in the market;
- * outwork;
- * overtime/night;

- * other premises;
- * buying in;
- * IT reliance.

(2 marks for each correctly stated heading. Candidates are not expected to comment on each correctly stated content. 1 mark for each correct and completely stated explanation. Sub-Total per heading: 3 marks. Maximum of 7 to be graded. Grand Sub-total: 21 marks)

(Grand Total: 30 marks)

- 16. Subsidence and ground heave are other contingencies that are normally grouped with fire in the property damage policy.
 - (a) State by way of their occurrences, the difference between the two contingencies.

(10 marks)

- (b) State any five (5) underwriting considerations for granting such covers by the underwriter. (15 marks)
- (c) Explain the difference between fire and explosion. (5 marks)

Solution

(a) **Subsidence** can be caused by the presence of underground workings or shrinkage of subsoil prominently occur when the removal of water either by a period of drought or by tree roots. If the ground under different part of the foundation shrinks at differing rates, often the building will be subjected to uneven stresses and cracking will result (5 marks). While **Ground Heave** is the opposite of subsidence and this occurs when water returns to the ground after a drought or of a tree is felled (5 marks).

(Sub-Total: 10 marks)

- (b) The underwriting considerations for granting such covers by the underwriter are:
 - type of subsoil present;
- * whether any mining has been done;
- whether other underground activities have previously been done around that area;
- age and construction of the building;
 * condition of drainage;
- any sign of cracking or fracturing in the building; * climatic condition;
- age and proximity of trees and vegetation;
- type and depth of foundation.

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

(c) Fire is defined as the actual ignition of something which ought not to be on fire. It is the presence of smoke and condition of burning. The basic difference between the two terms is the speed of ignition which is higher in explosion than in fire. (5 marks)

(Grand Total: 30 marks)

- 17. Aside from three basic items on property and stock, insurers provide additional covers in the insurance covers provided on such items. Explain the following of such covers:
 - (a) Additional Cost of Reinstatement (8 marks)

(b) Debris Removal Cost

(8 marks)

(c) Professional Fees

(8 marks)

(d) Local Authority Cost

(6 marks)

Solution

(a) **Additional Cost of Reinstatement**: when building and machinery are damaged, or destroyed, there is often the need to engage specialists to help design, replace or arrange planning permission, or remove debris or assist with terms of complying with local authority regulation. These extra costs of reinstatement are insurable and can be termed as miscellaneous cover.

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

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

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

(c) **Professional Fees**: These include fees payable to architects, surveyors, consulting engineers, solicitors, whose services may be required to draw plans, specifications designs and layouts of new premises required to replace those destroyed by the insured perils. The standard clause makes it clear that the sum insured includes such costs.

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

(d) **Local Authority Clause**: The insured advisers should be able to quantify costs to comply with requirements that it is **KNOWN TO BE APPLICABLE**, but not **YET** made

the subject of an order to comply. The relevant sum insured can then be suitably marked up to take care of this. (3 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 6 marks)

(Grand Total: 30 marks)

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

Solution

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

Extinguisher Type	What it can be used on
Water	For use on solid of an organic nature such as wood, paper, and fabrics.
Foam	For use on burning liquid fire as well as solids especially, those that
	turn to liquid when they burnt.
Carbon dioxide (Co2)	For electrical fire and fires involving liquids in their early stages
Dry powder	For burning liquids and electrical fire: may be used on solids to subdue
	for short period.
Wet Chemical	For use and fire involving extremely high temperature such as fire in
	deep fat fryers: may also be used on combustible materials such as
	wood, paper and fabrics.

(Candidates are required to put the above in a table. 2 marks for putting in table format. 2 marks for each correctly stated type.

1 mark for each correct and completely stated use.

Sub-Total per type: 3 marks. Maximum of 4 to be graded. Sub-total per type and use: 12 marks. Grand Sub-Total: 15 marks)

- (b) The categories that fire alarm can be split into are:
 - **Manual Alarm**: These may include a bell or siren and require somebody to activate and maintain their signaling. Problems with these include limited audible range, possible difficulty accessing the alarm if the fire is in proximity and danger to the person activating the alarm.
 - Manual/Electric Alarms: These also require someone to activate the alarm, but the
 advantage over the manual alarms is that once they have been activated, the alarms
 will continue to sound over the whole premises. Activation is by "break glass" call
 points situated at strategic points throughout the building. The alarm is electrically
 powered.
 - Automatic Fire Alarms: These are designed to include the presence of fire in the building the moment an outbreak occurs. Unlike a sprinkler installation, automatic fire alarms perform no function in extinguishing a fire. Therefore, their success is entirely dependent on the speed of the response and efficiency of the fire-fighting equipment available. For this reason, variation of the discount allowed by insurers in respect of automatic fire alarms is related primarily to the probable time of the first attendance by the public fire brigade.

(3 marks for each correctly stated type. 2 marks for each correct and completely stated explanation. Sub-total per type: 5 marks. Grand Total: 15 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I03 INSURANCE BUSINESS AND FINANCE

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

103 – INSURANCE BUSINESS AND FINANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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' knowledge of the return or refund of premiums within the Nigerian insurance context. However, many responses focused on conditions precedent to return of premium rather than detailing provisions within the policy conditions. A few candidates discussed the policy register of underwriting firms. These misinterpretations contributed to a low pass rate of 31.1%.

Question 2

The question focused on *Long Term Business Transacted in Mutual Companies*, but most candidates overlooked the key operative phrase. Instead, they discussed general life assurance products such as term assurance and endowment without addressing the mutual company context. This oversight resulted in a near-average pass rate of 41.8%.

Ouestion 3

Candidates were required to discuss the characteristics of effective internal communication. However, many focused instead on its importance, roles, and functions. Some candidates incorrectly referenced the "SMART" framework and communication lines within organisations. This deviation from the question led to a low pass rate of 27.5%.

Question 4

Despite being straightforward, this question revealed a lack of understanding of Takaful Insurance among most candidates. As a result, the performance was poor, with a 21% pass rate.

Question 5

This question tested candidates' understanding of the responsibilities of the Board of Directors. It was well attempted, and many candidates performed commendably, resulting in a 74% pass rate.

Question 6

Candidates demonstrated a good understanding of the Balanced Scorecard concept as it applies to a going concern. The performance was strong, with a 73% pass rate.

Ouestion 7

The question evaluated decision-making processes in Management. Candidates generally responded well, outlining steps in the decision-making process effectively. A high pass rate of 86% was recorded.

Question 8

This question focused on the Financial Reporting Council (FRC) Guidance on Audit Committees. Candidates showed a significant knowledge gap in this area, with very few able to identify key provisions of the guidance. Consequently, the pass rate was extremely low at 8%.

Ouestion 9

The question tested knowledge of listing rules for public companies. Candidates performed fairly well, with many drawing from practical experience in the stock exchange. A 56% pass rate was achieved.

Question 10

Candidates were required to demonstrate knowledge of the FRC Act. However, understanding of the Act was poor, resulting in a 73% failure rate.

Question 11

This question on mergers and acquisitions was fairly handled. A reasonable number of candidates demonstrated an adequate understanding of the topic, yielding an average pass rate of 65%.

Ouestion 12

This question assessed knowledge of the objectives and requirements of IFRS 17. Most candidates confused the topic with taxation, demonstrating limited familiarity with IFRS 17. Only a few answered correctly, resulting in a 19% pass rate.

Ouestion 13

The question tested candidates' understanding of IBNR (Incurred But Not Reported) claims and claims reserves. Candidates who deviated from the topic performed poorly, while those who remained focused on the subject matter contributed to a 63% pass rate.

Ouestion 14

The question focused on the roles of marketing directorates. However, many candidates wrote about general marketing functions (e.g., the 4Ps) or various types of markets, without addressing the specific roles of the marketing directorate. The performance was below average with a 40% pass rate.

Question 15

This question evaluated the understanding of outsourcing within the Nigerian insurance industry. A majority of candidates demonstrated good knowledge, though a few struggled with identifying the concept and its advantages and disadvantages. A 64% pass rate was recorded.

Question 16

The question examined stakeholder interests and expectations. While many candidates identified relevant parties, others mentioned unrelated entities. Despite this, the overall performance was satisfactory, with a 64% pass rate.

Question 17

The question assessed the concept of benchmarking as a strategic tool for identifying best practices. Most candidates addressed the key components effectively, although a few deviated from the topic. The overall performance was fair.

Ouestion 18

This question tested knowledge of budgeting and forecasting. A significant number of candidates lacked understanding of the topic's breadth and relevance, resulting in a very high failure rate of 85%.

Comments on Overall Performance:

The overall performance was not encouraging, with an overall pass rate of 38.86%. This reflects a need for better preparation and deeper engagement with the syllabus.

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

Candidates are advised to supplement their study materials with industry-related journals and articles, and to stay updated on current trends and developments within the insurance sector. A broader and more practical understanding of the subject matter will improve 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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. 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.

Solution

The ways in which the register shall be presented are:

- * gross premium received with date;
 * commission paid with date;
- * reasons for the return or refund premium.

(11/4 marks for each correctly stated requirement. Maximum of 8 to be graded. Total: 10 marks)

2. ABC Limited, a leading mutual company, is seeking to expand its business operations and increase its market share. The company's management team has recognised the importance of long-term business transactions. State any four (4) examples of long-term business that can be transacted by mutual companies.

Solution

Some examples of long-term business that can be transacted by mutual companies are:

- * endowment savings and insurance contract.

(2½ marks for each correctly stated example, Maximum of 4 to be graded, Total: 10 marks)

3. The CEO of XYZ Corporation has recognised the importance of effective internal communication in driving business success and has tasked the internal communications team with identifying the key characteristics of effective internal communication. As the desk officer, write out, to advise the CEO, five (5) characteristics of effective internal communication.

Solution

The characteristics of effective internal communication are:

- (2 marks for each correctly stated example. Maximum of 5 to be graded. Total: 10 marks)
- 4. Takaful insurance companies operate on the principles of Islamic finance, providing risk management services to individuals and businesses based on mutual cooperation and solidarity.
 - (a) What is takaful insurance? On what principle does it operate? (4 marks)
 - (b) State any three (3) elements of takaful insurance schemes. (6 marks)

Solution

- (a) Takaful insurance is the type of insurance that has its roots in the islamic faith principles financial services industry (2 marks). The model has been developed over a period of time and is based on the rulings of Sharia Law on financial and commercial transactions. It works on the principle that in any transaction risk and profit should be shared between the participants (2 marks). (Sub-Total: 4 marks)
- b. The elements of takaful insurance schemes are:

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

5. Board Directors are to make broad and dimensional policies for the Management to implement. The CEO has requested an independent review of the Board's responsibilities to ensure that the company is being governed effectively and in the best interests of its shareholders. Enumerate any four (4) of the five main responsibilities of a Board.

Solution

The five main responsibilities of a Board are:

- overseeing the executive directors and other senior management in upholding and boards directives;
 * strategy formulation;
- selecting and appraising and reward CEO; * overseeing risk management process;
- Ensuring that the integrity and principles of the organisation are upheld.

 (2½ marks for each correctly stated example. Maximum of 4 to be graded. Total: 10 marks)
- 6. A manufacturer of eco-friendly products, has been experiencing rapid growth and expansion over the past few years. However, the company's management team has realised that its current performance measurement system is not providing a comprehensive view of the organisation's performance. The CEO has decided to implement a Balanced ScoreCard (BSC) to align the company's strategic objectives with its operational performance.
 - (a) What is a balance scorecard of a going concern company? (4 marks)
 - (b) State three (3) of the four perspectives for the Management of activities in a balance score card. (6 marks)

Solution

(a) A balanced scorecard is a strategic planning and management tool that is used to align and/or measure the business activities to vision statement of a going concern company.

(4 marks)

- (b) The four perspectives for the Management of activities in a balance score card are the:

 *internal perspective; * customer perspective; * financial perspective;

 * learning perspective; * growth perspective.
 - (2 marks for each correctly stated perspective. Maximum of 3 to be graded. Sub-Total: 6 marks)
 (Grand Total: 10 marks)
- 7. A Healthcare company, is facing a critical decision that can impact the future of the organisation. The company's CEO has announced plans to expand its services to include a new line of specialised treatments, but the decision has been met with resistance from some members of the Management.
 - (a) What does decision-making mean in Management? (4 marks)
 - (b) Advise the Management on any three (3) of the four main four step of steps of decision-making. (6 marks)

Solution

- (a) Decision making is the process of making choice by identifying a decision gathering information and assessing alternative solutions. (4 marks)
- (b) The four main steps of decision making are:
 - understanding why such decision should and must be taken;
 - prior consideration, reviewing and analysis and discussion of various and available options;
 - taking the most appropriate decisions;
 - review and feedback.

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

(Grand Total: 10 marks)

8. Benjamin Nigeria Plc, a manufacturing company, is committed to maintaining the highest standards of corporate governance and financial reporting. As part of its efforts to enhance the effectiveness of its audit committee, the company's Board of Directors has decided to review and update its audit committee's terms of reference and operating procedures to align with the Financial Reporting Council (FRC) Guidance on Audit Committees. State any four (4) of the areas addressed by the FRC Guidance on Audit Committee.

Solution

The key areas addressed by the FRC guidance by Audit Committee are:

- best practice requires that the board should consider in detail what audit committees are best suited for its particular circumstances (purpose of the audit committee on particular situation and circumstance);
- directors have the duty to act in the interest of the company;
- main function of the committee is to act independently from the executive to ensure that the interests of the shareholders are protected.
- the guidance also contains recommendations about the conduct of the audit committee is relationship with the board, executive management and with internal and external auditors:
- Management is under an obligation to act in good faith in ensuring that audit committees are properly informed.
- Management should supply information freely to audit committee to assist them to make informed decisions for the benefit of all the stakeholders.

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

- 9. A publicly listed company on the Nigeria Stock Exchange, is committed to maintaining the highest standards of corporate governance and regulatory compliance. As part of its efforts to ensure compliance with the "listing rules", the company's Board of Directors has tasked the company's compliance team with reviewing and updating its policies and procedures to ensure that they are aligned with the Nigeria Listing Authority's rules and regulations.
 - (a) What is "listing rules" as related to public listed companies?
 - (b) What do the "listing rules" connotes or dictates?

Solution

- (a) All companies are subject to company law, specifically publicity listed companies have to abide to and by additional regulations. This regulation is called the listing rules which have the back and the force of law. (5 marks)
- (b) The 'listing rules' dictate such matters as contained in the contents of the prospectus of a company seeking a listing for the first time, this is referred to as an Initial public offering on IPO. The listing Rules require quoted companies to produce half yearly financial reports as well as annual.

 (5 marks)

(Grand Total: 10 marks)

10. A pharmaceutical manufacturing company, is committed to maintaining the highest standards of financial reporting and corporate governance. As part of its efforts to comply with the Financial Reporting Council (FRC) Act, the Management has asked its finance department to teach the staff members all that the Act entails. Enumerate any four (4) of the main objectives as defined in the FRC Act.

Solution

The main objectives of FRNC as a Federal Government parastatal or agency are:

• protect investors and other stakeholders' interest;

- give guidance on issues relating to financial reporting and corporate governance;
- ensure good corporate governance in public and private sectors;
- promote highest standard among auditors;
- improve the quality of accountancy and aidit services and operate governance standard;
- to enhance the credibility of financial reporting.

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

11. In the process of merger and acquisition negotiations, each party must provide relevant information for the effectiveness of the deal. The Management of the buyer stated that they have identified several key areas that require careful evaluation before proceeding with the acquisition. Enumerate any five (5) vital information that will be needed by the buyer before taking a decision.

Solution

The vital information that will be needed by the buyer before taking a decision are:

- * access to the record of the target company especially for the buyer; * costs:
- * manpower personnel and staff; * service contracts; * regulatory status.

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

- 12. A Multinational company is preparing to implement IFRS 17, the new international financial reporting standard for insurance contracts. The company's Management has tasked the accounting department with understanding the objective of IFRS 17 and how it will impact the company's financial reporting and operations.
 - (a) What is the objective of IFRS 17.

(2 marks)

(b) Give any four (4) requirements of IFRS 17.

(8 marks)

Solution

- (a) The objective of IFRS 17 is to have an accounting process that can solve the comparison problems created by IFRS 4 that required all insurance contract to be accounted for and in a consistent manner, benefitting both investors and insurance companies. Insurance obligations will now be accounted for using current values instead of historical. (2 marks)
- (b) The requirements of IFRS 17 are:
 - a test for adequacy of recognized insurance liability;
 - an impairment test of reinsurance assets;
 - provision of claim incurred but not yet settled;
 - insurance liabilities must be included in the balance sheet without offsetting them against related reinsurance assets;
 - insurance liabilities must be permanent kept in the company's until they are discharged;
 - full disclosure about the insurance risk by the insurance risk.

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

13. (a) What is IBNR as related to insurance claims?

(2 marks)

(b) The figure to set aside as claims reserved might not be easily ascertained at the planning stage. Enumerate any four (4) factors influencing uncertainty in setting an appropriate level of claims reserves. (8 marks)

Solution

(a) IBNR, as related to insurance claims, stands for *incurred but not reported*. It is a crucial concept in Insurance accounting particularly in the financial of Insurance companies. It is

simply claims that have occurred but not yet reported to Insurance company. These claims are considered incurred because the insured event has already taken place but unreported.

(2 marks)

- (b) The factors influencing uncertainty in setting an appropriate figure or level of claims reserves are:
 - unanticipated changes in claims inflation; * failure to receiver from reinsurance;
 - latent exposures very common in workmen compensation claims;
 - legislative changes in the future that might have retrospective impact on 10 days claim;
 - future claims payment patterns different from historical experiences;
 - outcome of pending litigations.

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

14. Global Insurance Plc is seeking to enhance its marketing efforts to increase brand awareness, drive sales and improve customer engagement. The company's Marketing Directorate plays a critical role in achieving these objectives, but the team is looking to refine its strategy and clarify its roles and responsibilities. You are required to identify and state any five (5) key roles of the Marketing Directorate.

Solution

The key roles of the Marketing Directorate are:

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

Part II

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

- 15. ABC Insurance Company, a leading insurance provider in Nigeria, is considering outsourcing its claims processing and customer service operations to a third-party vendor. The company's Management believes that outsourcing these functions will enable it to focus on its core business, reduce costs and improve efficiency.
 - (a) As the hired consultant, explain the concept of outsourcing in the Nigerian Insurance Industry. (4 marks)
 - (b) List three (3) functions that can be outsourced in an insurance company.

(6 marks)

(c) State five (5) advantages of outsourcing.

- (10 marks)
- (d) State five (5) challenges or demerits or disadvantages of outsourcing. (10 marks)

Solution

- (a) Outsourcing in Nigeria Insurance Industry involves contracting external parties to perform specific functions or services allowing companies to focus on core operations. (4 marks)
- (b) The common outsourced functions are:

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

The advantages of outsourcing are: (c) * enhance expertise; * cost reduction; * improved efficiency; * better risk management: * increased flexibility: * focus on core operations; * access to specialised technology; * new product; *new partnership opportunities. (2 marks for each correctly stated advantage. Maximum of 5 to be graded. Sub-Total: 10 marks) (d) The challenges or demerits or disadvantages of outsourcing are: * data security concerns: * dependence on external parties; * quality control issues; * regulatory compliance risk; * cultural and language barriers to issues; * intellectual property protection; * full understanding of customer behavior and satisfaction could be lost. (2 marks for each correctly stated advantage. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 30 marks) 16. XYZ Inc., a manufacturer of consumer goods, is planning to insure their assets with ABC Insurance Company and is seeking to identify the following. Kindly assist them with accurate responses to their concerns in (a) to (c) below. Who are the stakeholders in any organisation? (a) (4 marks) List eight (8) groups of stakeholders in both organisations. (b) **(16 marks)** State two (2) interests and/or expectations each, of any five (5) of those listed (c) in (b) above. (10 marks) Solution The stakeholders in any organisation are people or groups of people who have interest(s) in the way the organisation is being operated and/or managed. (4 marks) (b) The principal examples of shareholders are listed below: * customers; * shareholders; * the government; * regulators; * employee; * policy holders; * public; * intermediates; * technology providers; * education institution. (2 marks for each correctly stated example. Maximum of 8 to be graded. Sub-Total: 16 marks) (c) The interest and expectation of five stakeholders in a business can be as follow: * **Customers:** * meeting of their needs; * value for money; * exceed expectations; * utmost good faith. * **Shareholders:** * return on investment; * sustenance; * continuity; * increased growth: * increased share value. * **Government:** * tax revenue; * security of individuals and business; * transparency; * job creation; * adoption of new technologies; * ethical standards. * Public: * A secure insurance infrastructure; * Ethical standards. * Employees: * Job satisfaction; * Security of life and job; * **Regulator:** * Compliance issues; * Fit, proper and experienced management; * Prompt payments; * Fair contractual terms; * Suppliers/Creditors: * Long term company solvency. * No Corruption; * Fair competition; * The Law: * Proper understanding and application of Insurance and other regulatory legislation.

interest. Sub-Total per stakeholder: 2 marks. Grand Sub-Total: 10 marks) (Grand Total: 30 marks)

(Candidates are required to state 2 interests under any 5 stakeholders. 1 mark for each correctly stated

- 17. NEX Insurance Company a mix-sized insurance provider in Nigeria, seeking to improve its operational efficiency and customer satisfaction. The company's Management has decided as to adopt benchmarking as a strategy to identify best practices and improve its performance.
 - (a) You are required to explain what benchmarking is. (4 marks)
 - (b) State and explain the three (3) types of benchmarking that are commonly used. (18 marks)
 - (c) State four (4) of the five essential elements in making benchmarking successful. (8 marks)

Solution

(a) Benchmarking in the Nigerian Insurance Industry involves comparing performance metrics, processes and best practices among Insurance companies to identify areas of improvement and optimise operation. This is a process that allows a company to compare its own progress with that of other progressive and similar organisation.

(4 marks)

- (b) The following are the three types of benchmarking that are commonly used:
 - **Internal:** These compare the performances of divisions and department with the same organisation.
 - **External:** These contrast the company is overall performance with competing firms. e.g profitability, return on capital explored, growth and market shape.
 - **Functional:** This cover an assessment of the company's main functions and processes and company then against the same functions and processes in other similar organisation.

(4 marks for reach correctly stated type. 2 marks for each correct and completely stated explanation. Sub-Total per type: 6 marks. Grand Sub-Total: 18 marks)

- (c) The five essential elements in benchmarking are:
 - comprehensive and accurate information is available for effective comparison;
 - benchmarking is based on industry best practice;
 - benchmarks used are flexible and can be altered as the external environment dictates;
 - benchmarks relate to the company's corporate strategies and plans;
 - there are sound internal audit processes in place.

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

(Grand Total: 30 marks)

- 18. Midland Insurance Company, an insurance provider in Africa, is preparing its annual budget and forecasts. The company's Management is seeking to understand the difference between forecasting and budgeting and how these tools can be used to support the business decisions. As the hired financial analyst,
 - (a) clearly explain the difference between budgeting and forecasting. (6 marks)
 - (b) what are the three (3) broad areas of forecasting? (6 marks)

(18 marks)

(c) Explain any three (3) usefulness of budgeting.

Solution

(a) Budgeting is the process of creating a detailed financial plan that outlines projected income and experiences over a specific period of time, typically a year (3 marks). WHILE Forecasting is the process of predicting future financial performances based on historical data, trends and external factors (3 marks).

(Sub-Total: 6 marks)

- (b) The three areas of forecasting are:
 - the levels and types of business that are transacted;
 - the turnover the business produces;
 - income such as investment returns.

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

- (c) The usefulness of budgeting are:
 - **unification of efforts:** budgeting unifies all employees activities within an organisation. individual work hard to achieve and attain their ratable allocation of budget;
 - planning: budgeting encourages planning, he who fails to plan, plans to fail;
 - **financial awareness:** cost and implication of meeting or not meeting the target are known to management and by extension the employees;
 - basis of comparison: budgeting allows and depicts bias for comparison. It gives management an overall and consistent view of the organization as a whole.

(4 marks for reach correctly stated usefulness. 2 marks for each correct and completely stated explanation. Sub-Total per type: 6 marks. Maximum of 3 to be graded. Grand Sub-Total: 18 marks) (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I04 BUSINESS AND ECONOMICS

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

I04 – BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

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

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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 tested candidates' knowledge of the provisions of the Insurance Act 2003, with a focus on the various classes of insurance. Out of 119 candidates who attempted the question, 99 (83%) passed. This is an excellent performance.

Question 2

The question assessed candidates' understanding of the contribution of petroleum to the Nigerian economy. A total of 119 candidates attempted it, and 112 (94%) passed. This result is highly commendable.

Question 3

This question examined candidates' familiarity with the key players in the Nigerian insurance market. Of the 115 candidates who attempted it, 83 (72%) were successful. This represents a good level of performance.

Question 4

The question assessed knowledge of international trade. It was attempted by 106 candidates, with 75 (71%) achieving a pass. The performance is above average.

Question 5

This question evaluated candidates' understanding of cost-push and demand-pull inflation, as well as fundamental microeconomic and macroeconomic concepts. Approximately 95% of the candidates attempted it, and about 78% passed. This reflects a solid grasp of the subject. Candidates are encouraged to maintain this standard in future examinations.

Question 6

Candidates were tested on merit goods and relevant examples. About 92% of candidates attempted the question, with 72% achieving a pass. While the performance is encouraging, further study would improve future outcomes.

Question 7

This question tested candidates' knowledge of the theory of money. It was attempted by 118 candidates, with 71 (60%) passing. This reflects an above-average performance.

Ouestion 8

The question examined candidates' understanding of the Central Bank of Nigeria's monetary policy. Although 80% of the candidates attempted it, only 25% passed. The high failure rate (75%) indicates a weak understanding of macroeconomic principles.

Ouestion 9

This question focused on cost concepts within the theory of the firm. A total of 110 candidates attempted the question, and 75 (68%) passed. The performance is slightly above average.

Question 10

The question assessed candidates' knowledge of Business Continuity Management (BCM) in disaster management. Out of 101 candidates, only 48 (48%) passed. This represents a below-average performance.

Question 11

This question tested understanding of cost structures in the theory of the firm. Of the 85 candidates who attempted it, only 27 passed, resulting in a 32% success rate. Candidates are encouraged to broaden their study efforts in this area.

Ouestion 12

The question examined candidates' knowledge of market structures. It was attempted by 102 candidates, with 52 (51%) passing. The performance is considered average.

Question 13

This question tested knowledge of the theory of national income. Although 114 candidates attempted it, only 36 (32%) passed. This is a poor performance, indicating the need for improved preparation.

Ouestion 14

The question assessed candidates' understanding of investment theory. Out of 113 candidates, only 41 (36%) passed. The performance is considered poor.

Question 15

This question evaluated candidates' understanding of both monetary and fiscal policy. Of the 106 candidates who attempted it, 71% passed. This is a commendable performance.

Ouestion 16

Candidates were assessed on Corporate Governance, Risk Management, and funding concepts. A total of 69 candidates attempted it, with only 29 (42%) passing. This below-average result suggests a need for deeper study in these areas.

Ouestion 17

This optional question assessed knowledge of the features of a capitalist or free-market economy. Only 45% of those who attempted it passed. Candidates are encouraged to better prepare for optional questions to improve overall performance.

Question 18

This question focused on the estimation of price indices and inflation. It was the least attempted question, with only 2 candidates responding. Of these, only 1 passed, resulting in a 50% success rate. The low attempt rate suggests the topic is unpopular or not well understood.

Comments on Overall Performance:

The overall pass rate of 51% reflects an average performance. Candidates are advised to engage in more comprehensive study and preparation in order to achieve better results in future examinations.

Suggestions for Improvement(s) (if any):

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

Candidates are also encouraged to ensure they follow the instructions to start each question on 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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

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

Solution

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

- * marine insurance; * oil and gas; * engineering;
- * bonds, credit guarantee and surety.

 * miscellaneous insurance.

 (2 marks for each correctly stated class. Maximum of 5 to be graded. Total: 10 marks)
- 2. The economic resources of a Nation could sometimes turn out to be counterproductive as well as positively productive. In the light of this, enumerate any five (5) positive contributions of petroleum to the Nigerian economy.

Solution

The positive contributions of petroleum to the Nigerian economy are:

- * establishment of oil related industry; * major source of energy use in the country.

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

3. The Nigerian Insurance industry is a conglomerate of players in various capacities. Some of these players influences the market in varying degrees, list any five (5) indirect players in the Nigerian insurance market.

Solution

The indirect players in the Nigerian insurance market are:

- * facilities management; and * surveyors and risk management entities. (2 marks for each correctly stated player. Maximum of 5 to be graded. Total: 10 marks)
- 4. It could be tantamount to "economic suicide attempt" for a Nation to throw the control of its foreign trade to the winds. Enumerate any four (4) reasons for enacting policies on international trade.

Solution

The reasons for enacting policies on international trade are to:

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

- 5. (a) Inflation is sometimes described by its cause. Briefly differentiate, by way of definition, between cost-push inflation and demand-pull inflation. (6 marks)
 - (b) Also, by way of definition, differentiate between macroeconomics and microeconomics. (4 marks)

Solution

(a) Cost-push inflation is the general rise in prices caused by a general increase in the cost of production or the cost of the factors of production (3 marks) WHILE Demand-pull inflation is the general rise in price levels due to an increase in levels of demand for goods and services (3 marks).

(Sub-Total: 6 marks)

- (b) Microeconomics is the study of the small units or parts of the economy it focuses on individuals, families, single firms or business units (2 marks). WHILE Macroeconomics is the study of the national economy or the economy of the State or the country as a whole. It is the aggregation of the various microeconomics of the country (2 marks). (Sub-Total: 4 marks)
- 6. Goods and services that constitutes the consumption pattern of a country. These goods are sometimes broadly classified into public goods and merit goods.
 - (a) Define what merit goods are.

(2 marks)

(b) Give four (4) examples of (a).

(8 marks)

Solution

- (a) Merit Goods are goods and services provided by private individuals and organizations and can be directly charged to them (2 marks).
- (b) Examples of merit goods are private schools, private health services, private transport services, private gas services, private water services.

(2 marks for each correctly stated example. Maximum of 4 to be graded. Sub-Total: 8 marks)
(Grand Total: 10 marks)

- 7. Citizens' desire or demand for money varies extensively.
 - (a) What is money?

(1 mark)

(b) State and explain the three (3) major motives for holding money. (9 marks)

Solution

(a) Money is a medium of exchange that symbolizes perceived value.

(1 mark)

- (b) The three major motives for holding money are:
- * **transactionary motive:** refers to the holding or demand for money for the purpose of buying goods and services.
- * **speculative motive**: refers to the holding of money to take advantage of uncertainties in the market.
- * **precautionary motive:** refers to holding money for the purpose of unforeseen circumstances (for caution).

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

(Grand Total: 10 marks)

8. One of the weapons of the Federal Government for stabilising the economy of the Country is the Monetary Policy, from which the most important element is the interest rate changes. Highlights any four (4) effects of interest rate changes through the monetary policy of the Federal Government on the insurance industry in any country.

Solution

The effects of interest rate changes through the monetary policy of the Federal Government on the insurance industry in any country are:

- the amount of investment income that an insurance company can earn from premiums;
- consumers' spending habits and their demand for insurance;
- commercial customers' spending habits and demand for insurance;

- levels of competition the higher the interest rates, the more eager insurance companies are to write premium income and gain market share;
- the cost of reinsurance the higher the interest rates, the higher the investment income earned on the cedant's premium before the claims are paid. in turn, this translates into lower reinsurance costs for the cedant.

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

9. Explain both with words and symbols the meaning of marginal cost and average cost.

Solution

Marginal cost (MC) is the change in total cost (TC) caused by a one-unit change in the level of output. (2 marks). Average cost (AC) is the cost of a unit of output and so can be found simply by dividing a firm's total cost (TC) by the level of output (Q). (2 marks).

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

MC= Δ TC/ Δ Q (2 marks); AC=TC/Q (2 marks) where Δ Q represents a (unit) change in output. (2 marks) (Grand Total: 10 marks)

10. Itemise any five (5) requirements of a robust Business Continuity Management (BCM) plan.

Solution

The requirements of a robust Business Continuity Management (BCM) plan are:

* ownership.

(Grand Total: 10 marks)

* continuity;

11. What are the implications of the concept of marginal cost and marginal revenue for profit maximisation in a monopoly market?

Solution

Profit is defined as total revenue minus total cost. To maximize profit, a firm must produce and sell the level of output at which marginal revenue equals marginal cost (MR= MC). This must be true because if MR > MC, the production of an extra unit will add more to total revenue than to total cost and profit will increase. Similarly, if MR < MC, the production of an extra unit will add more to total cost than to total revenue and profit will fall. Thus:

If MR>MC, it is profitable to increase output.

If MR<MC, it is profitable to reduce output.

if MR=MC, profit is maximized.

* awareness:

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

- 12. (a) Monopoly sometimes do have its own merits over the perfect competition.

 State and explain any two (2) of such merits. (4 marks)
 - (b) The perfect competition model is based on four assumptions. State any three (3) of these assumptions. (6 marks)

Solution

- (a) The merits of monopolies are:
 - monopolies are likely to be large firms that can benefit from economies of scale. Cost savings gained might be passed on to the consumer in lower prices;

- the relatively large profits made by monopolies, which can persist into the long run because of barriers to entry, may allow them to invest heavily in research and development which could lead to innovation;
- competition might lead to firms aiming at the lowest common denominator. For example, some people believe that a wider choice of television channels operated by an increasing range of television companies is not improving choice or quality.

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

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

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

(Grand Total: 10 marks)

13. (a) Define the term "national income".

(4 marks)

(b) Enumerate the three (3) techniques or methods for national income estimation.

(6 marks)

(4 marks)

Solution

- (a) National income is the aggregates of all incomes over nationals (home and abroad) of a country for particular period of time usually a year. (4 marks)
- (b) The techniques or methods for national income estimation are:

* income method; * output method; * expenditure method.

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

(Grand Total: 10 marks)

14. (a) Differentiate by way of definition, the differences between investment multiplier

and credit multiplier.

(b) Enumerate any three (3) factors that can influence the supply of a product or service. (6 marks)

Solution

- (a) The 'investment multiplier' refers to the change in national income caused by an autonomous change in investment spending (2 marks). Similar multipliers can be applied to autonomous changes in government spending, consumption and exports. The 'credit multiplier' refers to the ability of banks to increase the volume of credit available in the economy (and therefore the money supply) by increasing their lending in response to an increase in their holdings of liquid assets (2 marks). (Sub-Total: 4 marks)
- (b) The factors that can influence the supply of a product or service are:
 - price of the product or service; * technology improvements in technology.

- prices of substitutes and complements in production;
- input prices any change that affects firms' production costs will affect profitability and therefore firms' supplies; * expectations of the producers.

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

Part II

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

- 15. (a) Enumerate and explain the four (4) objectives of a country's fiscal and monetary
 - policies. (18 marks)
- (b) Enumerate and explain four (4) areas that insurance firms are taxed. (12 marks) Solution
- (a) The objectives of a country's fiscal and monetary policies are:

Low Inflation: maintaining a low rate of inflation is crucial in terms of achieving long-term economic success. The aim here is to achieve stability and predictability in the inflation target. Inflation can be damaging to a country's competitiveness. High, unstable and unpredictable inflation also creates uncertainty and discourages industrial investment. Without modern equipment and technology, firms will find it more difficult to survive. Most economists believe that low inflation is a prerequisite for stable growth, job creation and international competitiveness. It enables better planning, results in lower interest rates and reinforces itself, as businesses and individuals are then driven to seek fewer price and wage increases.

Full Employment: during the recession phase of the business cycle, aggregate demand tends to be low. Lack of spending can cause firms to make redundancies, leading to a rise in unemployment. According to Keynesian economics, this lack of spending could be redressed by an increase in government spending or a cut in taxation (which should lead to an increase in consumer spending). Even when Keynesian ideas were largely replaced by monetarist ideas, governments and central banks could still react to the threat of a recession by increasing government spending or by cutting interest rates. Cutting interest rates can help to reduce the severity of a recession as lower interest rates aim to stimulate both retail spending and industrial investment, both of which boost job creation. Monetarists tend to downplay such economic stimulants for fear of creating inflationary pressure and interfering with free market forces.

Balance of Payments Equilibrium: the balance of payments measures the difference between the country's income and expenditure with regard to foreign trade and investment. Prior to recent years, monetary and fiscal policies were frequently driven by a desire to avoid large balance of payments deficits, particularly during boom periods when the demand for imported goods was high. With a fixed exchange rate, a deficit on the country's balance of payments would imply that the country's foreign exchange reserves were falling. To prevent this, governments could announce cuts in government spending or increases in taxation in the attempt to reduce the demand for imports.

Stable Exchange Rate: an increase in interest rates might also be used in the attempt to reduce spending on foreign-produced consumer and capital goods. Higher interest rates may also encourage overseas investors to shift their funds to the country, and this would also help to reduce the size of the deficit. With a flexible exchange rate, interest rate policy could also be used to influence the exchange rate. Typically, if the government wished to raise the value of currency in the foreign exchange market, it could instruct its central bank to increase interest rates. Conversely, if the Government wished to engineer a depreciation of the currency, it could

instruct the central bank to cut interest rates. The balance of payments and exchange rates are discussed in more detail in the next chapter.

Economic Growth: we defined long-run economic growth as a sustained increase in a country's productive capacity, determined largely by increases in the country's stock of labour and capital and by technological progress. Monetary policy could be used to raise the rate of growth, as an increase in the availability of credit and a fall in interest rates might encourage firms to engage in more capital investment. However, some economists would regard this policy as inflationary (and a higher inflation rate would tend to discourage capital investment). Alternatively, the government could adjust fiscal policy to direct resources into capital projects. For example, an increase in spending in the areas of technology, research and development, education, regional

(2½ marks for each correctly stated objective. 2 marks for each correct and completely stated explanation. Sub-Total per objective: 4½ marks. Maximum of 4 to be graded. Grand Sub-total: 18 marks)

(b) The areas that insurance firms are taxed are:

Underwriting: underwriting profits are taxed. The company's published accounts form the starting point for the tax computation. In its accounts, the insurance company adjusts premiums | written during the year to a 'premiums earned' basis and carries forward a reserve for premiums on business written in the year which will not be earned until a subsequent year. The creation of this reserve or the adjustment to this reserve is generally allowable for tax purposes. **Capital Profits on Investments:** insurance companies are, in most cases, treated as dealers in investments: in other words, it is part of their business to deal in investments and make profits. As a result, both realised and unrealised profits less the losses on investments are treated as trading profits and are taxed. The effect of this is that capital profits on investments are assessable to corporation tax.

Investment Income: the treatment of investment income received is covered under corporation tax. All other investment income often referred to as 'unfranked' is brought into the tax computation, gross. Thus, any tax deducted at source is ignored for the purpose of the calculation and when the amount of corporation tax due has been ascertained, the tax deducted at source is allowed as a set off.

Value Added Tax (VAT): The position of the tax law on insurance premium in Nigeria is that insurance premium is not subject to tax. However, on the value added tax, the premium paid by insureds are not subjected to VAT but the commission payable to intermediaries are subject to VAT.

(2 marks for each correctly stated area. 1 mark for each correct and completely stated explanation. Sub-Total per area: 3 marks. Grand Sub-Total: 12 marks)

(Grand Total: 30 marks)

- 16. Write short notes on the following:
 - (a) Chief Risk Officer; (b) Corporate Governance;
 - (c) Crowd Funding; (d) Syndicated Loans; (e) Mortgage.

Solution

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

• responsibility for developing ERM with adequate policies and processes for managing risks at all levels of the firm;

- an adequate knowledge on the quantitative side of risk management; and
- an understanding of the behavioural aspects of risk.

Challenges that the CRO will have to overcome include:

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

The Board of Directors is, by regulation, responsible for all risks of the firm.

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

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

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

Crowd Funding: Crowd funding involves raising money by asking for contributions from a large number of people, usually via the web. Online platforms have been established that enable businesses to seek funding from individuals and professional investors. Cost and risk reduction are critical factors that influence businesses to select the appropriate source of finance. Risk is reduced by selecting finance to match the duration and currency of the asset it is financing.

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

Syndicated Loans: In order to support large and risky businesses, several banks arrange and administer structured loans through syndicates, often known as syndicated loans. (5 marks)

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

(2½ marks for each correct and completely stated explanation. 2 to be graded. Sub-Total: 5 marks) (Grand Total: 30 5 marks)

- 17. (a) Describe vividly the capitalist economy. (5 marks)
 - (b) State and explain the main five (5) characteristics of a free market economy. (25 marks)

Solution

(a) The Capitalist economy or the "free-market" economy is an economy where the market forces of demand and supply are allowed to operate freely to allocated all the economic resources. Private or Individual ownership of means of production also described this type of economic system. The five main characteristics of a free-market economy are explained below. Based on these, there are no true free market economies in-existence in the world today. However, these characteristics are of great importance and you should ensure

they are well understood. Free market economy is often proposed, even when it is recognised that it would be undesirable for the whole economy to be a free market.

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

- (b) The characteristics of a free market economy are:
 - **Private Ownership:** In a free market system, the resources used to produce goods and services are owned by private individuals rather than by the state. Firms are owned and run by entrepreneurs, who obtain the labour they need to produce goods and services by paying workers' wages. The individual workers decide which firm they wish to work for. Workers then use their wages to buy goods and services from the firms. Individuals are given the freedom to choose in a free market economy. Taxes are usually relatively low and, as a result, the majority of spending in a free market economy is conducted by private 'individuals and firms rather than by the state. The government's role is not to produce goods and services, but to enforce the property rights of the individual and remove any obstacles to free enterprise.
 - **Profit Motive:** Firms produce goods and services for society because they are motivated by the desire to make profit for themselves. In a free market economy, entrepreneurs attempt to find ways of minimising costs while maximising revenue. Therefore, firms have an incentive to find new methods of production that are more efficient. If costs can be reduced, more profit can be made from the same revenue. They also have an incentive to supply the types of goods and services that consumers want to buy. The more popular a product, the higher the price it can be sold for relative to its costs of production.
 - Price Mechanism: Decision-making is decentralised. Individual decisions made by firms and consumers determine the market price levels. These decisions are not usually motivated by the desire to create an outcome that is good for society, but on the basis of what will be the best outcome for the individual consumer or firm. In his book The Wealth of Nations, the Scottish economist Adam Smith wrote 'it is not to the benevolence of the baker, the butcher and the brewer that we owe our meal, but to their regard for their self-interest'. By this, Smith meant that the baker does not produce bread out of an altruistic desire to bake good bread for people to enjoy. Instead, what prompts the decision is the desire to sell bread for a price that will yield a profit. The market system, through changes in price, coordinates decentralised decisions such as this so that, despite the fact that they are motivated by self-interest, the final outcome should be in society's favour.
 - The Importance of Money: Money and credit flowing through financial markets lubricate the engine of the economy. Both rely on trust. (The word 'credit' comes from the Latin 'credere', 'to believe'.) Look at a bank note and you will see that even that is only a 'promise to pay'; and the financial institutions depend on a variety of 'pieces of paper' to enact their business. If their validity cannot be trusted, the whole capitalist system is in danger of collapse, as we discovered in the global credit crisis in the months following the summer of 2007.
 - Competition: Free market economies work best when there is competition. If insurance were sold by only one company, the consumer would almost certainly be exploited. Without an alternative source of supply the company could exploit its monopoly situation by charging high prices. Consumers would have no choice but to pay the prices charged if they wanted insurance. A lack of competition also discourages innovation and new product development.

(3 marks for each correctly stated characteristic. 2 marks for each correct and completely stated explanation. Sub-Total per characteristic: 5 marks. Grand Sub-Total: 25 marks)

(Grand Total: 30 marks)

18. (a) Explain Retail Price Index (RPI) and the Consumer Price Index (CPI) in relation to

measurement of inflation.

(10 marks)

(b) State the formula for the estimation of CPI.

(4 marks)

(c) Outline the steps to be followed in calculating the CPI.

(16 marks)

Solution

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

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

(b) Basically, the CPI can be calculated from the following formula: $\frac{\textit{Cost of the basket of consumer goods in the current year}}{\textit{Cost of the basket of consumer goods in the base year}} \times 100$

(4 marks)

- (c) To calculate the CPI, the following steps have to be followed:
 - A base year has to be chosen at which the index is set equal to 100. The current base year for the CPI is determined by each country as most applicable to their circumstance.
 - The consumer goods and services to be included in the basket and the weights attached to each item have to be determined. This is accomplished from the results of the annual Living Costs and Food Survey in which a sample of about 5,000 households is used to gather details of household spending behaviour.
 - Once the composition of the basket is determined, monthly price quotations are collected from retail outlets all around the country and a weighted average of these prices is calculated, the weights reflecting the relative importance of each item in the average household's spending.
 - The overall average price of the basket is then expressed as an index number, which indicates the average percentage change in prices from the selected base year.

(4 marks for each correct and completely stated step. Sub-Total: 16 marks) (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I05 BUSINESS STATISTICS AND OPERATIONS RESEARCH

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I05 – BUSINESS STATISTICS AND OPERATIONS RESEARCH

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question assessed candidates' understanding of the National Insurance Commission (NAICOM). Although 85% of candidates attempted the question, only 18% scored above average, indicating limited knowledge of the subject.

Question 2

This question tested familiarity with terms commonly used in probability. It was attempted by 96% of candidates, with 44% achieving scores above average, reflecting a moderate level of understanding.

Ouestion 3

The question tested candidates' grasp of basic probability was attempted by 95% of candidates, of whom 45% performed well. The performance was relatively encouraging.

Question 4

This question evaluated candidates' knowledge of time series analysis, including its characteristics and implications. It was attempted by 46% of candidates, and of this number, 54% achieved above-average scores.

Ouestion 5

This question focused on operations research and its application. Overall performance was modest, with only 33% of candidates scoring above average.

Question 6

This question tested candidates' understanding of insurance industry practices and their familiarity with modelling techniques. Although only 40% attempted the question, 51% of those who did performed above average.

Ouestion 7

Despite appearing straightforward, only 20% of candidates who attempted this question passed. Most candidates struggled to arrive at the correct solutions.

Question 8

The question was attempted by 48% of candidates, yet only 9% achieved a pass mark. While many could list relevant points, they were unable to explain them adequately as required.

Question 9

This question was attempted by 36% of candidates, of which 64% passed. Although many candidates demonstrated a reasonable understanding, they lacked the depth required in their explanations.

Question 10

Approximately 40% of the candidates attempted this question. Of those, 55% passed and scored above average, showing a fair level of understanding.

Question 11

Around 77% of candidates attempted the question, but only 45% passed. This performance was below expectation.

Question 12

This question was attempted by 98% of candidates, with 73% performing excellently. The performance here was very encouraging.

Question 13

A total of 51 candidates (98% of the cohort) attempted this question. Of these, 96% passed, which is a highly commendable result.

Question 14

The question assessed candidates' understanding of constructing frequency tables and drawing graphs. It was attempted by 94% of candidates, and 65% scored above average, reflecting a strong grasp of the topic.

Ouestion 15

This question examined knowledge of cumulative frequency. It was attempted by 67% of candidates, and 54% performed above average.

Question 16

This question focused on conditional probability. It was attempted by 63% of candidates, but only 39% performed well. This result is not encouraging.

Question 17

The question tested knowledge of optimization techniques. Surprisingly, only two candidates attempted it—and both passed with scores above average, resulting in a 100% pass rate.

Question 18

This question assessed the application and limitations of statistics. It was attempted by 65% of candidates, with 53% achieving above-average performance.

Comments on Overall Performance

Overall, the performance is not encouraging, with a global pass rate of 40.4%.

Suggestions on Improvement(s) (if any)

Candidates should study very well and attend more tutorials for better performance in future examinations.

Candidates are also encouraged to ensure they follow the instructions to start each question on 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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. 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.

Solution

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. Total: 10 marks)

- 2. Briefly explain the following terms:
 - experiment; (a)
- (b) sample space;
- (c) event;

- (d) mutually exclusive event.
- (v) independent event

Solution

- Experiment: this is a statistical process of generating data in which the outcomes are unpredictable. For example, rolling of a die, sales of products per day e.t.c. is an experiment. (2 marks)
- **Sample Space:** this is the totality of all possible outcomes of an experiment. For example, if a fair die is rolled, the sample space S is given as S = (1,2,3,4,5,6). (2 marks)
- (iii) **Event:** it is a statement about one or more outcomes of an experiment. It is a subset of a sample space. (2 marks)
- Mutually Exclusive Event: two events A and B are said to be mutually exclusive if when event (iv) A occurs, event B cannot occur. Here we say the appearance of event A exclude the appearance of event B, for example, if we toss a coin and head turns up, then we cannot at the same time obtain a tail. P(AnB) = 0(2 marks)
- **Independent Event:** two events A and B are said to be independent if when even A occurs, it (v) does not prevent the occurrence or non-occurrence of event B. (2 marks)

(Grand Total: 10 marks)

3. (a) State the two basic rules of probability

- (6 marks)
- In a certain company, two training workshops are available in a month. An (b) employee has 0.75 probability of been selected to attend the first, 0.35 probability of attending the two workshops. What is the probability that an employee selected will attend the second workshop. (4 marks)

Solution

The following rules the basic rules of probability: (b)

Let event A be in sample space S, then

(i)
$$P(A) \ge 0$$

(ii) $P(S) = \Sigma P(Ai) = 1$

(2 marks)

(ii)
$$P(S) = \Sigma P(Ai) = 1$$

(2 marks)

Then for every event A
$$0 \le P(A) \le 1$$

$$P(A^{I}) = 1 - P(A);$$

(1 mark) (1 mark)

$$P(A^{I}) = 1 - P(A);$$
 where A^{I} means "not in A" (Sub-Total: 6 marks)

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

Let M₂ be the event he attends the second workshop

$$P(M_1) = 0.75, P(M_1 n M_2)$$

$$P(M_1nM_2)$$

$$P(M_2/M_1) = P(M_1)$$
 (2 marks)

$$= 0.35$$
 = 0.467 (2 marks)

(Sub-Total: 4 marks) (Grand Total: 10 marks) 4. List and briefly explain the four (4) components of a time series.

Solution

The four (4) components of a time series are:

- 1. **Secular Trend:** a study of the series of economic and business statistics would reveal that most of them have a natural tendency to increase or decrease over a period of several years. For instance, a scrutiny of agricultural production in Nigeria during the last 30 year would show that the production has been in general on an increase and that the increase has been fairly regular.
- 2. **Cyclical Variations:** cyclical variations as they pursue an oscillating movement which, in general, takes the form of a wave, though the distances from peak to trough of the waves are uneven. Such cycles are generally repeated at intervals ranging from about 3 to 10 years and are caused by a complex combination of forces affecting the equilibrium of demand and supply. Cycles generally exhibit semi-regular periodicity as these are neither as regular as are the seasonal variations, nor as accidental as are the random fluctuations. A business cycle may also be referred to as 'four phase' cycle, composed of prosperity, recession, depression and recovery. This swing from prosperity to recovery and back again to prosperity varies both in time and intensity.
- 3. **Seasonal Variations:** it is a common knowledge that consumption and production of many commodities, interest rates, bank clearings, etc are marked by seasonal swings. Though the direct and main impact of nature is mainly on agriculture yet climatic conditions, including variations in rainfall, humidity, sunshine, heat, wind and snow do produce variations in almost all other types of industries Climate and custom together play an important role in giving rise to seasonal movements to almost all the industries primary, secondary and tertiary.
- 4. **Irregular or Random Fluctuations:** the fourth and last component of time series is obtained after segregating the secular, seasonal and critical variations from the original data of the time series and is variously known as residual, random, irregular or accidental fluctuation. Often these residual values show a substantial rise or fall attributable mostly to numerous non-recurring and irregular circumstances, such as wars, prolonged strikes, revolutions, locust invasions, conflagrations, famines, epidemics droughts, floods earthquakes, severe storms and other acts of God. Seldom any of these specific forces could even crudely be foreseen and as such the question of predictions scarcely arises.

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

5. (a) What is Operations Research?

(2 marks)

(b) State any four (4) conditions which usually make Managers use Operations Research Specialists. (8 marks)

Solution

(a) Operations research is the scientific method, involving the use of carefully constructed models based on some measurable variables which has to do with recognition of risk and uncertainty;

OR

Operations research is a quantitative approach to problem solving for executive management.

(2 marks for any correct definition)

- (b) Managers use operations research specialists in the following conditions; when:
 - the problems are complex;
- * the problem involves many variables;
- there are 'data' which describes the decision environment;
- the goals of the decision maker can be described in quantitative terms;
- workable models are available for problem at hand.

(2 marks for each correctly stated condition. Maximum of 4 to be graded. Sub-Total: 8 marks) (Grand Total: 10 marks)

- 6. (a) Outline any four (4) types of "models" that are used in Insurance. (4 marks)
 - (b) Differentiate between Normative Models and Descriptive Models. (6 marks)

Solution

- (a) The types of models that are used in insurance are:
 - * Resource Allocation Models: * Oueu
 - * Queueing Models; * Inventory Models;
 - * Replacement Models;
- * Competition Models

* Random Number Simulation Models.

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

(b) Normative Models concerned with finding the best optimum or ideal solution to a problem. Many mathematical models fall into this classification (3 marks) While, Descriptive Models describe the behavior of a system without attempting to find the best solution to any problem. Simulation model tends to fall within these categories. (3 marks) (Sub-Total: 6 marks)

(Grand Total: 10 marks)

- 7. (a) State any two (2) limitations to an Operations Research Approach. (4 marks)
 - (b) State any three (3) characteristics of Good Operations Research Solution.

(6 marks)

Solution

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

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

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

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

8. (a) What is Linear Programming?

(2 marks)

(b) State and firefly explain the four (4) basic requirements for the use of a Linear Programming Technique. (8 marks)

Solution

- (a) Linear programming is a mathematical technique for finding the best uses of an organization resources. The term Linear programming refers to the use of certain mathematical technique to get the possible solution to a problem involving limited resources. (2 marks)
- (b) The four basic requirements for the use of a Linear Programming Technique are:
 - **Objective Function:** The linear programming problem must have a quantitatively specified linear objective function or criterion to be optimised. The objective of the problem must first be identified and then translated into mathematical function in order to assess the degree of effectiveness of the system. The aim is to find the optimal value of the objective function.
 - **Decision Variable:** These are the unknown variables to be computed in the models. Decision variables, represent choices that are available to the decision maker and are measured in terms of inputs or outputs. Decision variables can be represented by unit power of alphabets like XI, X2 or X, Y, Z, e.t.c.
 - **Structural Constraints:** Decision problems involving the use of linear programming technique usually require the optimization of limited resources. These limited resources are expressed as constraints in a linear.
 - **Parameters:** A linear programming model has both the mathematical statement of the objectives as well as that of the constraints. These mathematical statements contain symbols representing the decision variables and also numerical values in the form of constants called parameters.

(1 mark for correctly stated requirement. 1 mark for a correct and complete explanation under each requirement. Sub-Total per requirement: 2 marks. Grand Sub-Total: 8 marks)

(Grand Total: 10 marks)

- 9. Define any five (5) of the following term as is use in Simplex Method.
 - (a) Basic Feasible Solution;
- (b) Slack Variable;

(c) Surplus Variable;

(d) Infeasibility;

(e) Unboundedness;

(f) Alternative Optimal;

(g) Degeneracy.

Solution

- (a) **Basic Feasible Solution:** a solution in the form of m variables only corresponding to m linearly independent vectors in A (matrix of all coefficient) is called a *Basic Feasible Solution (BFS)* in n vector where $m \le n$. Basic Feasible Solution are finite variables.
- (b) **Slack Variable:** the variable added to the left-hand side of the constraint to make the inequality \leq to be equality.
- (c) **Surplus Variable:** the variable subtracted from the left-hand side of the constraint to make the inequality \geq to be equality.
- (d) **Infeasibility:** after reaching the final solution of a linear programming problem one or more artificial variables are still positive, then there is no feasible solution i.e the artificial variables appear in the solution indicates that the solution is not feasible.
- (e) **Unboundedness:** if all the entries of a pivot column are either zero or negative, it will be difficult to find the minimum ratio that determines which variable leaves the basis. If this happens, in Linear Programming Problem, then the problem is said to be unbounded.
- (f) **Alternative Optimal:** whenever, a non-basic variable (i.e a variable which is .t in the solution has a zero entry in the Z C row bf an optimal tableau then bringing that variable into the solution will produce a solution which is also optimal). This observation indicates the presence of an *Alternate Optimal Solution*.
- (g) **Degeneracy:** a basic Feasible Solution of a Linear Programming Problem is said to be degenerated, if at least one of the basic variables is zero

(2 marks for each correct and completely stated explanation. Maximum of 1 to be graded under term. Maximum of 5 to be graded. Total: 10 marks)

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

	M	1	M	2	M	3	Sι	ірр	l y
\mathbf{W} 1		4		6			5		0
\mathbf{W} 2		$\stackrel{}{=}$		\vdash		8	1	5	0
W 3	5			1		9	3	0	0
Requirement	5	7	1 (7	3	<u>5</u> L₩	5	0	0

Solution

11. State the four (4) rules of queue discipline or service discipline.

Solution

The four rules of queue discipline or service discipline are:

- * First Come First Served (FCFS);
- * Last Come Last Served (LCLS)
- * Service In Random Order (SIRO);
- * General Discipline (GD).

(2½ marks for each correctly stated rule. With or without acronym. Total: 10 marks)

- 12. (a) What is a "sample"? (2 marks)
 - (b) State the four (4) general functions of "statistics". (4 marks)
 - (c) State the four (4) major branches of statistical inference (4 marks)

Solution

(a) A sample is a fractional part of the population **OR** a sample can be defined as a subset of a population. (2 marks for any correct and completely stated definition)

- (b) The general functions of "statistics" are:

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

- (c) The four major branches of statistical inference are:

(1 mark for each correctly stated branch. Sub-Total: 4 marks)
(Grand Total: 10 marks)

13. (a) Differentiate between non-parametric statistics and sequential analysis.

(4 marks)

(6 marks)

(b) Outline any six (6) areas where statistics can be applied.

Solution

- (a) Non-Parametric Statistics is the branch of statistics that is not based solely on parameterised families of probability distributions. (2 marks) While sequential analysis is statistical analysis where the sample size is not fixed in advance. (2 marks) (Sub-Total: 4 marks)
- (b) The areas where statistics can be applied are:
 - * insurance; * fast-food-industry; * agriculture; * economics;

(1 mark for each correctly stated area. Maximum of 6 to be graded. Sub-Total: 6 marks) (Grand Total: 10 marks)

- 14. (a) State the two (2) main reasons of constructing frequency distribution. (2 marks)
 - (b) State any four (4) significances of "diagrams and graphs". (4 marks)
 - (c) State any four (4) general rules for constructing "diagrams". (4 marks)

Solution

- (a) The main reasons of constructing frequency distribution are to:
 - facilitate the analysis of data;
 - estimate frequencies of the unknown population distribution from the distribution of sample data:
 - facilitate the computation of various statistical measures.

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

- (b) The significances of "diagrams and graphs" are:
 - they are attractive and impressive;
 * they make data simple and intelligible;
 - they make comparison possible; * they save time and labour;
 - they have universal utility; * they give more information;
 - they have a great memorising effect.

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

- (c) The general rules for constructing "diagrams" are:
 - a diagram should be neatly drawn and attractive;
 - the measurements of geometrical figures used in diagram should be accurate and proportional;

- the size of the diagrams should match the size of the paper;
- every diagram must have a suitable but short heading;
- the scale should be mentioned in the diagram;
- diagrams should be neatly as well as accurately drawn with the help of drawing instruments;
- index must be given for identification so that the reader can easily make out the meaning of the diagram;
- footnote must be given at the bottom of the diagram;
- economy in cost and energy should be exercised in drawing diagram.
 - (1 mark for each correct and completely stated rule. Maximum of 4 to be graded. Sub-Total: 4 marks)

(Grand Total: 10 marks)

Part II

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

15. (a) The data below shows the of some clients in an insurance company. Find the median using cumulative frequency curve (OGIVE).

Weight		100 -	110 -	120 -	130 -	140 -	150 -	160 -	170 -	180 -	190 –
		109	119	129	139	149	159	169	179	189	199
Number	of	8	15	21	34	45	26	20	15	10	6
Students											

(20 marks)

(b) Study the data below, then calculate 3rd Deciles

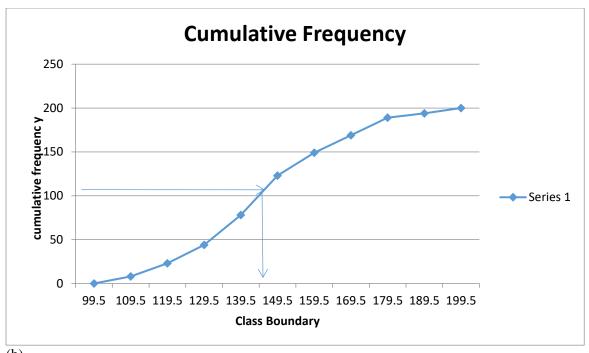
Class	0 - 10	10 - 20	20 – 3	0	30 -	40	40 -	- 50	50 - 60	60 - 70
Frequency	5	7	1	2	1	6	1	0	8	4

(10 marks)

Solution

Class	Number of Students (f)	Class Boundary	Cumulative Frequency
100 - 109	8	99.5 – 109.5	8
110 - 119	15	109.5 – 119.5	23
120 - 129	21	119.5 – 129.5	44
130 - 139	34	129.5 – 139.5	78
140 – 149	45	139.5 – 149.5	123
150 – 159	26	149.5 – 159.5	149
160 – 169	20	159.5 – 169.5	169
170 – 179	15	169.5 – 179.5	184
180 - 189	10	179.5 – 189.5	194
190 - 199	6	189.5 – 199.5	200
		(1 ma marks)	(10 marks)

(1 mark for each correctly stated class boundary and cumulative frequency. Sub-Total: 20 marks)



(b) Class 0 - 1010 - 2020 - 3030 - 4040 - 5050 - 60 60 - 705 7 Frequency 12 16 10 4 12 24 62 Cumulative Frequency 5 40 50 58

(1/2 mark for each correctly stated cumulative frequency. Sub-Total: 31/2)

$$D_{3} = \left(\frac{3N}{10}\right)^{th} item \qquad (1\frac{1}{2} \, \text{mark})$$

$$= \left(\frac{3 \times 62}{10}\right)^{th} item \qquad (1 \, \text{mark})$$

$$= 18.6 \, th \, item. \, this \, lies \, between \, 20 - 30 \qquad (1 \, \text{mark})$$

$$\therefore \, D_{3} = Ld_{3} + \left(\frac{\frac{3N}{10} \, cfd_{3}}{fd_{3}}\right) \times cd_{3} \, (1 \, \text{mark})$$

$$= 20 + \left(\frac{18.6 - 12}{12}\right) \times 10 \quad (1 \, \text{mark})$$

$$= 20 + 5.5 = 25.5 \qquad (1 \, \text{mark})$$
(Grand Sub-total: 10 marks)
(Grand Total: 30 marks)

16. (a) Three companies D_1 , D_2 , and D_3 produce lamp bulbs some of which are defective.

The proportions of defective in each company D_1 , D_2 , D_3 are respectively $\frac{1}{2}$, $\frac{1}{8}$, $\frac{3}{4}$. A company is selected at random and a bulb is drawn from it. If the selected bulb is found to be defective. What is the probability that is from the second company?

(12 marks)

(b) In a certain company, two training workshops are available in a month. An employee has 0.55 probability of been selected to attend the first, 0.45 probability of attending the two workshops. What is the probability that an employee selected will attend the second workshop.

(8 marks)

(c) In a survey of 20 people in a company, 6 of them were found to own a Peugeot car, 9 of them were found to own a Toyota brand car, 3 of them own both

Peugeot and Toyota car, if one person is chosen at random, what is the probability that he owns a Peugeot or a Toyota.

(10 marks)

Solution

$$\begin{split} P(D_1) &= P(D_2) = P(D_3) = {}^1\!/_3. \\ \text{Let } K \text{ be the event that the bulb selected is defective.} \end{split}$$

$$P(K/D_1) = \frac{1}{2} (1 \text{ mark}) \quad P(K/D_2) = \frac{1}{8} (1 \text{ mark}) \quad P(K/D_3) = \frac{3}{4}$$
 (1 mark)

$$P(D_2/B) = P(D_1) \cdot P(K/D_1)$$

$$P(D_1) \bullet P(K/D_1) + P(D_2) \bullet P(K/D_2) + P(D_3) \bullet P(K/D_3)$$
 (2 marks)

$$= \frac{\frac{1}{3} \cdot \frac{1}{8}}{\frac{1}{3} \cdot \frac{1}{2} + \frac{1}{3} \cdot \frac{1}{8} + \frac{1}{3} \cdot \frac{3}{4}}$$
(3 marks)

$$= \frac{1}{11}$$
= 0.09 (0.09 approximately) (1 mark)
(Grand Sub-Total: 12 marks)

(b) Let A₁ be the event he attends the first workshop

Let A₂ be the event he attends the second workshop

(1 mark)

$$P(A_1) = 0.55$$
, (1 mark) $P(A_1nA_2) = ?$

$$\begin{array}{ll} P(A_2/A_1) = & \frac{P(A_1nA_2)}{P(A_1)} \\ = \underbrace{0.45}_{0.55} \\ = 0.82 & (2 \text{ marks}) \end{array}$$

(Grand Sub-Total: 8 marks)

$$P(A) = 0.3$$
 (1 mark) $P(B) = 0.45$ (1 mark) $P(AnB) = 0.15$ (1 mark) $P(A \text{ or } B) = P(A) + P(B) - P(AnB)$ (2 marks) $= 0.3 + 0.45 - 0.15$ (1 mark) $= 0.6$ (2 marks)

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

17. A manager of an insurance company suddenly receive calls from customers A,B,C,D. He has four workers at points W, X, Y and Z, the distance between points and customers is given in the table below. Determine a set of assignments that will minimize the total costs for the manager.

	W	X	Y	Z
A	7	7	5	4
В	6	3	7	5
C	5	3	4	4
D	6	3	7	5

Solution

Subtract least number in every column from all the entries of the column. This can also be done along the rows.

Table 1							
	W	X	Y	Z			
A	2	4	1	0			
В	1	0	3	1			
C	0	0	0	0			
D	1	0	3	1			

(2 marks for each correctly completed row. Sub-Total: 8 marks)

Table 2

	W	X	Y	Z
A	2	4	1	0
В	1	0	3	1
С	0	0	0	0
D	1	0	3	1

(2 marks for each correctly completed row. Sub-Total: 8 marks)

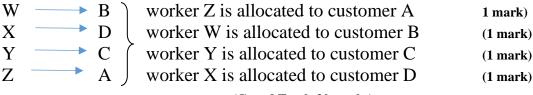
Table 3

	W	X	Y	Z
A	2	4	1	0
В	1	0	3	1
C	0	0	0	0
D	1	0	3	1

We have reach optimality stage according to the rule, that is, the o's covered ones are then marked. (2 marks)

(2 marks for each correctly completed row. Sub-Total: 8 marks)

Conclusion: It means,



(Grand Total: 30 marks)

18. (a) Highlight and explain five (5) applications of statistics in other disciplines.

(20 marks)

(b) State and explain any four (4) limitations of statistics.

(10 marks)

Solution

- (a) The applications of statistics in other disciplines are:
- (i). **Statistics and Insurance:** Statistics are lifeblood of successful insurer as so many multinational insurance companies invaded into our economy in those years, the size and volume of business increases. On one side the stiff competition is increasing whereas on the other side the tastes are changing and new fashions are emerging. In this connection, market survey plays an important role to exhibit those conditions and to forecast the likely changes in future.
- (ii) **Statistics and Industry:** Statistics is widely used in many industries. In industries, control charts are widely used to maintain a certain quality level. In production engineering, to find whether the product is conforming to specifications or not, statistical tools, namely inspection plans, control charts, etc., are of extreme importance. In inspection plans we have to resort to some kind of sampling a very important aspect of statistics.

- (iii) **Statistics and Agriculture:** Analysis of variance (ANOVA) is one of the statistical tools developed by Professor R.A. Fisher, plays a prominent role in agriculture experiments. In tests of significance based on small samples, it can be shown that statistics is adequate to test the significant difference between two sample means. In analysis of variance, we are concerned with the testing of equality of several population means. For example, if five fertilizers are applied to five plots each of maize and the yield of maize on each of the plots are given. In such a situation, we are interested in finding out whether the effect of these fertilizers on the yield is significantly different or not. In other words, whether the samples are drawn from the same normal population or not. The answer to this problem is provided by the technique of ANOVA and it is used to test the homogeneity of several population means.
- (iv) Statistics and Economics: Statistical methods are useful in measuring numerical changes in complex groups and interpreting collective phenomenon. Nowadays the uses of statistics are abundantly made in any economic study. Both in economic theory and practice, statistical methods play an important role. We need to know that statistical data and techniques of statistical tools are immensely useful in solving many economic problems such as wages, prices, production, distribution of income and wealth and so on. Statistical tools like index numbers, time series analysis, estimation theory, testing statistical hypothesis are extensively used in economics.
- (v) **Statistics and Planning:** Statistics is indispensable in planning. In the modern world, which can be termed as the "world of planning", almost every organisation in the government sector and/or private sector are seeking the help of statistics for planning for efficient working, for the formulation of policy decisions and execution of the same. In order to achieve the above goals, the statistical data relating to production, consumption, demand, supply, prices, investments, income expenditure etc are collected and various statistical techniques for processing, analysing and interpreting such complex data are of importance and they make use of.
- (vi) **Statistics and Medicine:** In Medical sciences, statistical tools are widely used. In order to test the efficiency and efficacy of a new drug or medicine, t test is used or to compare the efficiency of two drugs or two medicines, t test for the two samples is used. More and more applications of statistics are at present used in clinical investigation.
- (vii) **Statistics and Modern Applications:** Recent developments in the fields of computer technology and information technology have enabled statistics to integrate their models and thus make statistics a part of decision-making procedures of manI01

y organizations. There are so many software packages available for solving different problems in different field of study. Such as:

- Archeology: Evolution of skull dimensions; * Epidemiology: Tuberculosis;
- Statistics: Theoretical distributions; * Manufacturing: Quality improvement;
- Medical Research: Clinical investigations;
- Geology: Estimation of Uranium reserves from groundwater, e.t.c.

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

- (b) The limitations of statistics are:
 - statistics is not suitable to the study of qualitative phenomenon: Since statistics is basically a science and deals with a set of numerical data, it is applicable to the study of only these subjects of enquiry, which can be expressed interims of quantitative measurements. As a matter of fact, qualitative phenomenon like honesty, poverty, beauty, intelligence etc, cannot be expressed numerically and any statistical analysis cannot be directly applied on these qualitative phenomenon's. Nevertheless, statistical techniques may be applied indirectly by first reducing the qualitative expressions to

- accurate quantitative terms. For example, theintelligence of a group of students can be studied on the basis of their marks in a particular examination or we may just describe it as either (good, bad etc), (agree, not agree, strongly agree e.t.c.).
- **statistics do not study individuals:** statistics does not give any specific importance to the individual items; infact it deals with an aggregate of objects or collections of items or individuals. Individual items, when they are taken individually do not constitute any statistical data and do not serve any purpose for any statistical enquiry.
- **statistical laws are not exact:** it is well known that mathematical and physical sciences are exact. But statistical laws are not exact and statistical laws are only approximations. Statistical conclusions are not universally true. They are true only on an average.
- **statistics table may be misused:** Statistics must be used only by experts; otherwise, statistical methods are the most dangerous tools on the hands of the inexpert. The use of statistical tools by the inexperienced and untraced persons might lead to wrong conclusions. Statistics can be easily misused by quoting wrong figures of data. As King says aptly 'statistics are like clay of which one can make a God or Devil as one pleases'.
- statistics is only, one of the methods of studying a problem: statistical method do not provide complete solution of the problems because problems are to be studied taking the background of the countries culture, philosophy or religion into consideration. Thus the statistical study should be supplemented by other evidences.

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

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I06 OPERATIONAL MANAGEMENT

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I06 – OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question, which tested knowledge on NAICOM Market Conduct and Business Practice Guidelines, recorded an above-average performance of 61%. The question was generally considered straightforward and familiar by candidates.

Question 2

The question aimed to distinguish between shareholders and stakeholders. Candidates appeared to understand the requirement and responded appropriately, resulting in a high pass rate of 83%.

Question 3

Candidates found it somewhat challenging to differentiate between the physical traits of a leader and other types of leadership traits. This contributed to the relatively low pass rate of 43%.

Ouestion 4

The distinction between behavioral and trait leadership styles proved difficult for most candidates, as only 47% of them passed. This affected the overall performance on the question.

Question 5

This question, which focused on the main features of transformational leadership, was well attempted. Most candidates demonstrated a clear understanding of the concept.

Question 6

Candidates performed well in identifying signs of a poorly motivated workforce. This area appeared to be well understood, hence the 79% pass rate.

Question 7

Candidates had difficulty distinguishing the benefits of an effective team from its features. This gap in understanding contributed to the 51% average performance.

Ouestion 8

Many candidates relied on a generic or "resident" approach to answering this question on face-to-face communication. There is a need for improved use of technical language and appropriate professional terminology.

Ouestion 9

The question focused on "Group Briefing" and recorded 42% below-average performance. Candidates demonstrated limited understanding of the concept.

Ouestion 10

This question on planning meetings was generally well received, with a satisfactory performance level.

Question 11

The concept of "Brainstorming" was poorly handled. Most candidates approached the question too casually, missing the technical depth required.24% of the candidates passed this question.

Question 12

Candidates showed a good understanding of the benefits of delegation. Performance was satisfactory.

Question 13

This question, which involved identifying an acronym for managerial responsibilities, was well attempted by most candidates. A pass rate of 81% was recorded.

Ouestion 14

Despite being a compulsory question, only 17% of candidates attempted it, with a pass rate of just 9%. This reflects a significant knowledge gap in the area of meeting procedures and practices.

Question 15

This question, which focused on business components, was widely attempted and well understood. The high pass rate of 84% indicates that candidates found the topic accessible and demonstrated strong performance.

Question 16

Although the question on leadership style was fair, it was attempted by only 7% of the candidates. The low attempt rate suggests insufficient preparation or lack of familiarity with the topic among the majority of candidates.

Question 17

This question focused on communication. Though only a few candidates attempted it, those who did performed fairly well.

Question 18

The question tested candidates' understanding of the decision-making process and its various styles. Performance was commendable.

Comments on Overall Performance:

The average pass rate for this examination is 66%, representing an improvement over previous record.

Suggestions on Improvement(s) (if any):

Candidates are encouraged to dedicate more time to studying. Continuous revision and engagement with coursebooks will help bridge observed knowledge gaps.

Candidates are also encouraged to ensure they follow the instructions to start each question on 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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. National Insurance Commission (NAICOM) under the market conduct and business practice guidelines for insurance institutions requires that an insurance policy document shall contain among others some information which shall form the basis of the insurance contract. List any eight (8) of the information.

Solution

Some information which shall form the basis of the insurance contract are:

- * 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)

2. "I understand who shareholders are". In one sentence, define who stakeholders are to your junior colleagues, showing the difference from shareholders. Give two (2) examples of your definition.

Solution

Stakeholders include those people or organisations that have an interest in the success of the organisation (3 marks), whether or not they actually have a financial shareholding in it

(3 marks).

For example: customers, general public, government. (2 marks for each correctly stated example. Maximum of 2 to be graded. Sub-total: 4 marks). (Grand Total: 10 marks)

3. "Physical Characteristics" and "Personality" are two of the special traits of prominent leaders. State any four (4) examples of what constitute each of these two traits.

Solution

Physical Characteristics Traits:

Energy, Age; Height; Weight and Physical Fitness. Dominance; Aggression; Self-Confidence; Creativity;

Personality Traits: Dominance; Aggression; Self-Con Stress Tolerance and Self-Control

(1¼ for each correctly stated example. Maximum of 4 to be graded under each term. Sub-Total per term: 5 marks. Grand Total: 10 marks)

- 4. (a) The behavioural leadership approach is considered an improvement over the traits leadership approach. State two (2) differences between the two. (6 marks)
 - (b) Identify any four (4) methods that should be used to evaluate the training effectiveness of your junior colleague that just completed a training session.

(4 marks)

Solution

(a) The behavioural leadership approach is observable whereas the traits leadership approach are inferred (3 marks); also, the behavioural leadership approach focuses on what leaders do instead of what leaders are like in the traits leadership approach (3 marks).

(Sub-Total: 6 marks)

- (b) The methods that should be used to evaluate the training effectiveness of your junior colleague that just completed a training session are:
 - training evaluation;
 - asking direct questions of the trainee at the time and also later;
 - spot checking on work done in newly trained areas or activities;

- observing any increased confidence and more use of initiative by the trainee;
- company standards or backlogs or targets before and after the training sessions;
- checking error rates before and afterwards;
- observing if staff turnover and absenteeism improve as a result of training;
- general improvement of relations between staff and their supervisors;
- appraisal.

(1 mark for each correctly stated method. Maximum of 4 to be graded. Sub-Total: 4 marks)
(Grand Total: 10 marks)

5. Whereas transactional leaders try to motivate junior colleagues by rewarding them for their performances, transformational leaders go beyond the use of inducements. State two (2) of the main features of transformational leaders.

Solution

The main features of transformational leaders are that:

- the leader treats each junior colleague on their own merits and seeks to develop followers through delegation of projects and coaching or mentoring.
- the leader encourages free thinking and emphasises reasoning before any action is taken;
- the leader creates an optimistic, clear and attainable vision of the future, thus encouraging others to raise their expectations;
- the leader makes personal sacrifices (e.g. a cut in pay or forfeiting a holiday), takes responsibility for their own actions and shares glory with others.

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

6. There are always signs of a highly motivated and a poorly motivated workforce. Enumerate any five (5) signs of a poorly motivated workforce.

Solution

The signs of a poorly motivated workforce are:

- * fixed ideas and excessive resistance to change;
- * a plethora of petty complaints and grievances with little or no foundation

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

7. There are associated benefits to having an effective team with the right features. Enumerate any four (4) benefits that such a team will likely produce.

Solution

The benefits that such a team will likely produce are:

- * increased commitment.

 $(2\frac{1}{2}$ marks for each correctly stated benefit. Maximum of 4 to be graded. Total: 10 marks)

8. As effective as face-to-face communication is, it has its disadvantages. Enumerate any four (4) disadvantages of face-to-face communication.

Solution

The disadvantages of face-to-face communication are:

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

- 9. (a) Group briefing is an important means of giving information, but largely unused. Define "group briefing" to show its benefits. (4 marks)
 - (b) Apart from group briefings, Managers also communicate with individual staff face-to- face. Recommend any other three (3) methods that Manager can use to communicate with individuals. (6 marks)

Solution

- (a) A systematic and checkable method of communication involving supervisors, which brings people affected together in small groups under their immediate boss, to have the policies that affect them explained, and to be given an opportunity to ask questions. (4 marks)
- (b) The methods that Manager can use to communicate with individuals are:

 * walking the job; * coaching/counselling; * face-to-face; * the open door.

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

 (Grand Total: 10 marks)
- 10. A school of thoughts have the notion that meetings are a waste of time because they are not properly planned. As the Chairman in a meeting, enumerate any four (4) key actions for your proper preparation.

Solution

The key actions for your proper preparation are:

- establishing the objectives of the meeting; * identifying the agenda items;
- determining who should attend;
 * arranging an appropriate venue;
- circulation of agenda prior to the meeting.
 (2½ marks for each correctly stated action. Maximum of 4 to be graded. Total: 10 marks)
- 11. Brainstorming can be a very productive style of decision making when carried out by a group rather than a lone individual. Identify any four (4) stages to effective brainstorming.

Solution

The stages to effective brainstorming are:

- write down the problem; * write down at least 20 ideas and their opposites;
- use lateral thinking (looking at things in different ways);
- evaluation of the ideas should follow later; * prioritise the ideas and choose the best ones.
 - (2½ marks for each correctly stated stage. Maximum of 4 to be graded. Total: 10 marks)
- 12. Delegation has many benefits to all concerned parties. Enumerate any four (4) reasons why a manager will be afraid to delegate.

Solution

The reasons why a Manager will be afraid to delegate could be that:

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

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

- 13. (a) Managers' role and responsibilities consist series of actions, coded POSDCoRBS. Decode the acronym.
 - (b) The changing skills of a manager require him to move away from "Management by command" to "Management by consensus". Briefly separate in meaning these two concepts.

Solution

- (a) Planning, Organizing, Staffing, Directing, Coordinating, Reporting, Budgeting, Supervising (½ mark for each correctly stated acronym. Sub-Total: 4 marks)
- (b) Management by command means where subordinates do as they are instructed without participating in decision-making processes (3 marks). Management by consensus means where staff actively participate in decision-making processes (3 marks).

(Grand Total: 10 marks)

14. Meetings are some of the "time stealers" generated by *others*. State any four (4) ways a person can control one's attendance at meetings.

Solution

The ways a person can control one's attendance at meetings are:

- * If they are your meetings, run them effectively;
- * ensure they start/finish on time; * ensure there are positive outcomes.

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

Part II

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

- 15. (a) The components of a business consist of material resources, financial resources and human resources. The easiest way to explain each of these business components is by giving examples. Give three (3) correct examples under each of these business components. (18 marks)
 - (b) Although the same person can be a leader and a manager, there are remarkable differences. State any three (3) of these differences. (12 marks)

Solution

(a) **Material Resources:** plant, equipment, office space, vehicles, information or communications management systems.

Financial Resources: cash, bank loans, share capital, other financial instruments against which it can raise money.

Human Resources: permanent employees, temporary employees, fulltime or parttime basis employees, the outsourced.

(2 marks for each correctly stated example. Maximum of 3 to be graded under each term. Sub-Total per term: 6 marks. Grand Sub-Total: 18 marks)

- (b) The differences between a manager and a leader are that:
 - a manager performs the *specific functions* of management while leaders' role is more versatile:
 - a manager holds an official title within the organisation whereas a leader does not require the trappings of officialdom;
 - a leader operates through force of personality whereas a manager operates by the authority of his position;
 - the study of leadership is much broader than the study of management because leaders emerge from many different areas of life.

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

16. (a) Leaders make assumptions about individuals. Mcgregor presents three sets of assumptions which he calls Theory X, Theory Y and Theory Z. Highlight any three (3) and two (2) essentials of Theory X and Theory Z respectively.

(10 marks)

(b) Fielder thinks that the style of Leadership to be adopted depends on the situation and identified three major factors influencing the choice of style.

Briefly state the three and explain any two (2). (20 marks)

Solution

- (a) Theory X:
 - The average human being has an inherent dislike of work and will avoid it if possible.
 - Because of dislike of work, most people must be coerced, controlled, directed, threatened with punishment, to get them to put forth adequate effort towards the achievement of organisational objectives.
 - The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition and wants security above all.

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

Theory Z:

- Humans are basically rational beings; open to and controlled by reason.
- Humans are inherently neither good nor evil but are open to both.
- Humans are driven by intellect.
- Humans are basically interdependent with others in interaction.

(2 marks for each correctly stated essential. Maximum of 2 to be graded. Sub-Total: 4 marks)
(Grand Total: 10 marks)

- b. The three major factors influencing the choice of leadership style are:
 - Leader/Member Relations: how much do they trust, like and follow the leader?
 - **Task Structure**: are the tasks involved spelt out in detail, or unspecified and wide ranging?
 - **Position Power**: what power does the leader have over the group, for example hiring and firing?

(4 marks for each correctly stated factor. Sub-Total: 12 marks. (4 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 8 marks)
(Grand Sub-Total: 20 marks)
(Grand Total: 30 marks)

- 17. (a) Hearing is one of the five basic senses but hearing is not listening. The acronym DO LISTEN explains what we can use to listen effectively. Decode the acronym. (16 marks)
 - (b) We cannot overlook poor communication if organisations must achieve their objectives smoothly. State any four (4) ingredients of an effective communication. (14 marks)

Solution

- (a) The meaning of the acronym DO LISTEN is:
 - D Don't Interrupt: let the other person talk, they know what they want.
 - O Open Minded: the other person may say things that annoy, amuse or that you disagree with. Do not let your private thoughts distract you from what is being said.
 - L Look interested: look interested, be interested and sound interested.
 - I Invite Responses by Asking Questions: questioning to clarify what you have already heard is an acceptable interruption. It will elicit additional information and help to focus or guide the conversation.

- S Signs (Verbal): an occasional 'yes, I see', 'uh huh' or 'okay' will encourage the other person to keep talking and show you are listening. Keep eye contact to demonstrate interest.
- T Test Understanding/Check Back always check back your understanding of what has been said.
- E Evaluate Voice Tone tone of voice can provide a clue to hidden meanings or feelings, so listen carefully to the tone.
- N No Distractions/Notes put all other distractions out of your mind, concentrate only on what is being said. If appropriate make notes of key points.

 (2 marks each for correctly stated meaning on each letter. Sub-Total: 16 marks)
- (b) The ingredients of an effective communication are that the communication is:

(3½ marks for each correctly stated ingredient. Maximum of 4 to be graded. Sub-Total: 14 marks) (Grand Total: 30 marks)

- 18. (a) The 5C's of decision-making process has been commended because it concentrates on the actions that the Manager must take and the involvement of the staff members. State and briefly discuss the 5Cs.
 - (b) People differ in the ways they make decision hence T.Y. Aroba identified six decision-making styles. State and briefly explain any five (5) of these styles.

Solution

- (a) The 5 "C"s of decision taking are:
 - **consider**: the preparation stage at which the problem is considered;
 - **consult:** the stage at which initiatives are taken to involve those affected;
 - **crunch**: the need to ensure that something is done;
 - **communicate**: the stage at which what has been decided and why, is explained to staff
 - Check: the need to go back and monitor the results of the decision.

(2 marks each for correctly stated process action. 1 mark for correct explanation under each correctly stated action. Sub-Total per action: 3 marks. Grand Sub-Total: 15 marks)

(Grand Total: 30 marks)

- (b) The decision-making styles as propagated by T.Y. Aroba are:
 - No Thought: the decision is taken on a whim and without reason;
 - **Compliant**: the decision takes others' expectations into account;
 - **Logical:** the decision follows a careful, objective evaluation of the alternatives;
 - **Emotional** the decision is made on the basis of individual wants and likes;
 - **Intuitive**: the decision is made according to 'gut' feelings or intuition;
 - **Hesitant**: the decision is made slowly, without any sense of commitment.

(2 marks each for correctly stated process style. 1 mark for correct explanation under each style. Sub-Total per style: 3 marks. Maximum of 5 to be graded. Grand Sub-Total: 15 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I07 MARINE AND AVIATION INSURANCE

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

107 – MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question assessed candidates' understanding of NAICOM's regulatory roles. Responses revealed a significant gap in knowledge. The performance was extremely poor, likely due to inadequate preparation and a lack of familiarity with the subject matter.

Question 2

This question tested candidates' knowledge of the documentation required for registering an aviation insurance company. Both the attempt and performance levels were poor, reflecting weak understanding and inadequate study.

Question 3

This two-part question examined candidates' grasp of the concept of "overhaul life" in aviation insurance (Part A) and the components considered under overhaul costs (Part B). Responses indicated limited understanding of both parts, leading to overall poor performance.

Question 4

The question tested knowledge of exclusions under the Aviation Hull and Allied Perils Policy. Candidate responses revealed insufficient preparation and lack of subject mastery.

Question 5

This question assessed understanding of the risks covered under Aviation Hull and Allied Perils policies. Performance was very poor, again pointing to inadequate study and poor preparation.

Ouestion 6

The question tested knowledge of liabilities covered under Aircraft Owners' and Operators' Liability Insurance. Candidates demonstrated little understanding, resulting in subpar performance.

Question 7

This question explored the purpose of extortion and hijack expense coverage. None of the candidates who attempted the question passed, indicating a total lack of preparation.

Ouestion 8

Candidates were tested on operational hazards covered under aviation insurance policies. The high failure rate demonstrated clear gaps in preparation and subject comprehension.

Question 9

The question examined the categories of claims covered under the Aviation Hull-All-Risks policy. Responses were poor, suggesting either inadequate study of the coursebook or general lack of understanding.

Question 10

This question focused on exclusions under the War and Terrorism Exclusion Clause. It was poorly attempted and performance was below expectations, likely due to insufficient preparation.

Question 11

Candidates were tested on international aviation regulatory bodies responsible for insurance oversight. Performance was weak, indicating a lack of awareness and understanding.

Ouestion 12

This question focused on the principle of indemnity in marine insurance and methods of indemnification. Attempt and performance were both poor, revealing significant knowledge gaps.

Question 13

This question tested the application of indemnification principles in both marine and aviation insurance. Candidate performance was poor, reflecting weak preparation and poor grasp of core concepts.

Question 14

The question covered international conventions such as the Montreal Convention (1999) and the Hague–Visby Rules with regard to liability coverage. Though 42% of candidates attempted it, none passed. This points to a lack of understanding of the topic and possibly insufficient study of the course material.

Question 15

This question examined types of marine insurance policies. While candidate engagement was high (76% attempt rate), the performance was poor (0% pass rate), indicating preparation deficiencies.

Question 16

Candidates were tested on the relevance of marine and aviation insurance. Although 94% attempted the question, only 36% passed. This suggests poor understanding of the subject and highlights the need for further study or tutorial support.

Question 17

This question focused on liabilities covered under aviation insurance. The attempt rate was very low (24%), with only 12% of candidates passing. This performance is attributed to poor preparation.

Question 18

This question examined the provisions of the Marine Insurance Act 1906 and their impact on modern marine insurance practices. The attempt rate was extremely low (3%) and no candidate passed, reflecting a total lack of understanding.

Comments on Overall Performance:

The overall performance was highly unsatisfactory. The majority of candidates demonstrated inadequate preparation and a poor understanding of core concepts across both marine and aviation insurance topics.

Suggestion on Improvement(s) (if any)

Candidates are strongly encouraged to engage in focused study of the coursebook, participate in structured tutorials and academic support sessions and develop a deeper understanding of practical and theoretical concepts through continuous learning and engagement with industry-relevant materials.

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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. 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.

Solution

The five transformational drives of the current Management of NAICOM, recently released are:

- safeguarding policyholders and restoring public confidence in the sector;
- improving the safety and soundness of the 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 to be graded. Total: 10 marks)

2. List five (5) important documents required for registering an aviation insurance company.

Solution

The important documents required for registering an aviation insurance company are:

- Letter of Intent from the Promoter(s);
- Draft Memorandum and Articles of Association (MemArt);
- Evidence of Financial Soundness of Shareholders;
- Profile of Directors;
- CV of the proposed CEO; and
- Evidence of Regulatory Approval from the Relevant Authority (2 marks for each correctly stated document. Maximum of 5 to be graded. Total: 10 marks)
- 3. (a) Define 'Overhaul Life' in aviation insurance. (4 marks)
 - (b) List three (3) components considered under 'Overhaul Costs'. (6 marks)

Solution

- (a) 'Overhaul Life' refers to the period or operational time after which an aircraft component requires mandatory maintenance or replacement. (4 marks)
- (b) The components considered under 'Overhaul Costs' are:
- labor costs for disassembly;
 * labor costs for reassembly;
- replacement of worn-out parts; * testing expenses; * certification expenses.
 (2 marks for each correctly stated component. Maximum of 3 to be graded. Sub-Total: 6 marks)
 (Grand Total: 10 marks)

4. List any four (4) key exclusions under Aviation Hull War and Allied Perils Policy. Solution

The exclusions under Aviation Hull War and Allied Perils Policy are:

- war between specific major powers (e.g., UK, USA, Russia);
- confiscation or seizure by government authority;
- use of chemical, biological, or biochemical materials;
- financial defaults or court orders;
- repossession due to contractual defaults.

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

5. Enumerate any four (4) risks covered under Aviation Hull War and Allied Perils Policy.

Solution

The risks covered under Aviation Hull War and Allied Perils Policy are:

- acts of war, invasion, and hostilities; * strikes, riots, and civil commotions;
- terrorist acts and sabotage;
 * hijacking or unlawful seizure of the aircraft;
- confiscation under duress during flight operations.

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

6. Enumerate any four (4) liabilities covered under Aircraft Owners' and Operators' Liability Insurance.

Solution

The liabilities covered under Aircraft Owners' and Operators' Liability Insurance are:

- damage to third-party property on the ground;
 * bodily injury to non-passengers;
- passenger injury or death liability; * airport premises liability;
- liability for fueling and maintenance operations.

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

- 7. (a) What is the purpose of Extortion and Hijack Expenses Coverage in aviation insurance? (4 marks)
 - (b) List three (3) situations covered under this policy. (6 marks)

Solution

- (a) The purpose of Extortion and Hijack Expenses Coverage in aviation is that the coverage compensates for expenses incurred due to hijacking, extortion threats, or unlawful control of aircraft.

 (4 marks)
- (b) The situations covered by this policy are:
 - threats against passengers or crew during hijacking;
 - extra expenses due to unlawful seizure;
 - payments related to negotiation for hostage release.

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

8. Enumerate the four (4) operational hazards covered under aviation insurance policies.

Solution

The four operational hazards covered under aviation insurance policies are:

(2½ marks for each correct and completely stated hazard. Grand Total: 10 marks)

9. List any four (4) categories of claims covered under Aviation Hull All-Risks Policy.

Solution

The categories of claims covered under Aviation Hull All-Risks Policy are:

- * damage during loading or unloading operations.

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

10. (a) State the exclusion under "the War and Terrorism Exclusion Clause" in aviation insurance? (4 marks)

(b) State the two (2) conditions that will make the insurer to provide cover to the insured at the occurrence of war and terrorism. for coverage. (6 marks)

Solution

- (a) This clause excludes coverage for damages arising from war, rebellion, or terrorism unless a specific policy is purchased. (4 marks)
- (b) The two conditions that will make the insurer to provide cover to the insured at the occurrence of war and terrorism. for coverage are:
 - if the insured has a separate War Risk Insurance policy;
 - if damage occurs during hijacking covered under the Allied Perils Policy.

 (3 marks for each correct and completely stated conditions. Sub-Total: 6 marks)

 (Grand Total: 10 marks)

11. List the four (4) international aviation regulatory bodies overseeing insurance standards.

Solution

The four (4) international aviation regulatory bodies overseeing insurance are:

- International Civil Aviation Organization (ICAO);
- Federal Aviation Administration (FAA);
- European Union Aviation Safety Agency (EASA);
- International Air Transport Association (IATA).
- Safety Regulation Group (SRG)

(2½ marks for each correctly stated regulatory body, Total: 10 marks)

- 12. (a) Explain the principle of indemnity in marine insurance. (4 marks)
 - (b) List three (3) methods of indemnification.

(6 marks)

Solution

- (a) The principle of indemnity ensures that the insured is compensated for the actual loss suffered without profiting from the claim. The indemnity is 'in manner and to the extent agreed

 (4 marks)
- (b) The methods of indemnification are:

 - * reinstatement of the insured property

(2 marks for each correctly stated principle. Sub-Total: 6 marks) (Grand Total: 10 marks)

13. The underwriting process is essential in marine and aviation insurance. State any four (4) factors that underwriters consider when assessing risks and determining premium rates.

Solution

The factors that underwriters consider when assessing risks and determining premium rates are:

- type of vessel or aircraft;
 * intended route and operational history;
- insured value and sum assured;
 * claims history and risk mitigation;
- companies with frequent claims may face higher premiums;
- operators can reduce risk through security measures and safety compliance.

 (2½ marks for each correct and completely stated factor. Maximum of 4 to be graded. Total: 10 marks)
- 14. International conventions play a crucial role in marine and aviation insurance. Compare and contrast the Montreal Convention 1999 and the Hague-Visby Rules in terms of liability coverage as it relates to:

- (a) the overview of the conventions;
 - liability coverage; (3 marks)

(4 marks)

(c) legal and financial implications. (3 marks)

Solution

(b)

(a) **Overview of the Conventions:**

Montreal Convention 1999: Establishes liability rules for international air travel, covering passenger injury, baggage loss and cargo damage. (2 marks)
Hague-Visby Rules: Governs the liability of carriers for loss or damage to goods transported by sea. (2 marks)

(Sub-Total: 4 marks)

(b) Comparison of Liability Coverage:

Montreal Convention places strict liability on airlines for passenger injury (1½ marks), while Hague-Visby applies limited liability to carriers based on fault. (1½ marks)

OR

Montreal Convention applies compensation caps (1½ marks), while Hague-Visby provides carrier defenses against liability (e.g., perils of the sea). (1½ marks)

(Sub-Total: 3 marks)

(c) Legal and Financial Implications:

Montreal Convention improves passenger rights and compensation (1½ marks), while Hague-Visby balances risks between shipowners and cargo owners. (1½ marks)

(Sub-Total: 3 marks) (Grand Total: 10 marks)

Part II

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

15. List and explain in detail the five (5) different types of marine insurance policies available and discuss the circumstances under which each type would be most applicable.

Solution

The different types of marine insurance policies available and the circumstances under which each type would be most applicable are as below:

- Hull Insurance: covers physical damage to the ship due to perils of the sea. This policy
 is crucial for shipowners who need financial protection against unexpected damage or
 total loss.
- **Cargo Insurance**: protects the goods being transported against risks such as fire, theft, and sinking. It is essential for exporters and importers.
- **Freight Insurance**: ensures that shipping companies receive their freight charges even if goods are lost before reaching their destination. This is especially relevant for chartered vessels.
- **Liability Insurance:** covers the legal liability of shipowners for damages caused to third parties, including passengers, crew, and other ships. It is often required by international regulations.
- Time and Voyage Policies A voyage policy covers a ship for a specific journey, while a time policy covers a ship for a set period, typically one year. Time policies are suitable for regular commercial operations, while voyage policies are ideal for single-use contracts.

(4 marks for each correctly stated type. 2 marks for each correct and completely stated explanation. Sub-Total per type: 6 marks. Grand Total: 30 marks)

- 16. Reinsurance is a significant concept in marine and aviation insurance sector.
 - (a) Explain the concept of reinsurance in this sector. (4 marks)
 - (b) Explain the importance of the concept in this sector. (10 marks)
 - (c) State and explain two (2) types of reinsurance in the sector. (10 marks)
 - (d) State any three (3) benefits of reinsurance in the sector. (6 marks)

Solution

- (a) Reinsurance is a risk management strategy where an insurance company transfers a portion of its risk to another insurer to protect itself from significant losses. (4 marks)
- (b) The importance of reinsurance is that it allows insurance companies to stabilise their financial position, protect against large claims, and expand their underwriting capacity. (10 marks)
- (c) The two types of reinsurance in Marine and Aviation Insurance:

Facultative Reinsurance: covers individual risks agreed upon between the insurer and reinsurer. Used for high-risk marine or aviation policies.

Treaty Reinsurance: covers a portfolio of risks based on pre-agreed terms, providing automatic coverage for all qualifying policies.

(3 marks for each correctly stated type. 2 marks for each correct and completely stated benefit. Sub-Total on each type: 5 marks. Sub-Total: 10 marks)

- (d) The benefits of reinsurance in marine and aviation insurance are:
 - protects insurers from catastrophic losses (e.g., shipwrecks, aviation accidents);
 - allows insurers to take on more policies without fear of insolvency.
 - globally protects the portfolio of insurers.

(The above is not conclusive. 2 marks for each correct and completely stated benefit. Maximum of 3 to be graded. Sub-Total: 6 marks)

(Grand Total: 30 marks)

17. Explain three (3) different liabilities covered under aviation insurance. Discuss how airlines manage these stated risks through insurance policies.

Solution

The different liabilities covered under aviation insurance are:

- **Third-Party Liability**: covers damage to people or property outside the aircraft (e.g., if an aircraft crash into a building).
- Passenger Liability: protects airlines against claims from passengers who suffer injury or loss during a flight. Compensation limits are set under international conventions like the Montreal Convention 1999.
- **Crew Liability**: ensures compensation for pilots and other crew members in case of injury or loss of life.
- **Baggage and Cargo Liability**: covers loss, damage, or theft of passengers' baggage and shipped goods.
- Risk Management Strategies in Aviation Insurance: airlines use risk pooling, loss prevention programs, and high-limit liability coverage to minimise financial exposure.

(5 marks for each correctly stated liability. 5 marks for each correct and completely stated explanation. Grand Sub-Total per liability: 10 marks. Maximum of 3 to be graded. Grand Total: 30 marks)

18. The Marine Insurance Act 1906 remains a fundamental law in marine insurance. Discuss the four (4) key provisions of this Act and explain its impact on modern marine insurance practices.

Solution

The four key provisions of this Act and its impact on modern marine insurance practices are:

- **Utmost Good Faith (Uberrimae Fidei)** both insurer and insured must disclose all material facts:
- **Insurable Interest**: the policyholder must have a financial interest in the insured subject matter at the time of the loss;
- Warranties: the insured must abide by policy warranties to maintain coverage;
- Conditions: the insured must meet policy conditions, such as seaworthiness, to maintain coverage.
- Impact on Modern Marine Insurance:
 - o provides a legal framework for marine insurance policies worldwide.
 - o Sets guidelines for claim settlements
 - o Sets guidelines for liability disputes.

(5 marks for each correctly stated provision. 3 marks for each correct and completely stated explanation under each provision. Sub-total per provision: 24 marks. 6 marks for any correctly stated impact. Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I08 AVIATION AND SPACE INSURANCE

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

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

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

I08 – AVIATION AND SPACE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments Ouestion 1

The question tested candidates' knowledge of the five transformational focus areas recently unveiled by the current management of the National Insurance Commission (NAICOM). Only one candidate attempted the question, and the performance was extremely poor. This can be attributed to inadequate preparation and limited awareness of current developments in the insurance industry. Continuous study and staying informed about industry trends are essential for improved performance.

Ouestion 2

This question examined candidates' understanding of the factors affecting the rating of aircraft hull and liability risks. Although all candidates attempted the question (100%), the performance was poor (33%). Candidates are advised to study the coursebook thoroughly and ensure a deeper comprehension of the concepts.

Ouestion 3

This question focused on the rationale for deductibles in aircraft hull and liability insurance. Only two candidates attempted it (67%), with one achieving a pass (33%). Poor performance was due to inadequate preparation, and some responses contained irrelevant content. Candidates are advised to study purposefully and focus on the requirements of each question.

Ouestion 4

This question tested candidates' knowledge of the principal aims and objectives of the Chicago Convention of 1944. The performance was generally poor, indicating unfamiliarity with the provisions of the Convention. As a follow-up to part (a) of the question, performance remained very weak. Candidates demonstrated limited understanding of aviation insurance overall.

To improve, candidates should prepare adequately and attend tutorial classes for better comprehension of the course material.

Question 5

This question examined the differences between two excluded aviation nuclear risks—AVN38 and AVN71—and their uses. Only one candidate attempted it, and the performance was very poor. The candidate was unable to provide correct responses, suggesting a lack of adequate preparation.

Question 6

Candidates were assessed on the various applications of satellites. The attempt rate was good (67%) and performance was average (50%). Further reading and deeper understanding of the course book are recommended to improve future outcomes.

Ouestion 7

This question focused on the benefits of captive insurers to their owners. Candidates failed to answer effectively, with many providing irrelevant information. Adequate preparation and focused study are necessary for better performance.

Question 8

Candidates were tested on the liability exposures of aircraft repairers regarding customers' aircraft and the relevant insurance coverage. All three candidates attempted the question, but their performance was very poor. Improved understanding of the coursebook and attendance at tutorials are recommended.

Question 9

This question addressed the required information to be reported in the event of an air accident in Nigeria. Candidates failed to provide appropriate responses, reflecting inadequate preparation and poor understanding of the subject.

Ouestion 10

Candidates were tested on the advantages of facultative reinsurance in an aviation portfolio. Despite full participation, the performance was poor. Responses were largely irrelevant, indicating a lack of adequate preparation.

Question 11

This question examined candidates' understanding of Lloyd's Accident Policy. Performance was very poor, and correct answers were not provided. Better study habits and a clearer understanding of the coursebook are recommended.

Question 12

This question dealt with the main applications of satellites. All candidates attempted it, and the overall performance was average (50%). Candidates are advised to study thoroughly for better performance in future assessments.

Question 13

The question tested candidates' knowledge of the main categories of space insurance. While the attempt rate was good (67%), performance remained below expectations. Lack of adequate preparation was evident. Tutorial support is recommended.

Question 14

Candidates were tested on the technical factors to be considered when performing risk assessments for satellites. All candidates attempted the question (100%), but performance was extremely poor (0%). There is a need for improved study and subject comprehension.

Question 15

This question evaluated candidates' understanding of risk advisory roles for insurance brokers in aviation. Only one candidate attempted it (33%), with an average performance (50%). Inadequate preparation was observed.

Question 16

The question covered premium calculations in aircraft hull insurance. The attempt rate was average (67%), but performance was poor (0%). A better understanding of the course book is necessary for success in future examinations.

Question 17

Candidates were tested on aviation liability insurance from an underwriter's perspective. Only one candidate attempted the question (33%) and performance was poor. Preparation was evidently insufficient.

Question 18

This question required candidates to recommend appropriate claims handling approaches as a claims adjuster for an aviation insurer. Candidates could not answer correctly, which points to inadequate preparation. Candidates are advised to study thoroughly in preparation for future examinations.

Comments on Overall Performance:

Overall, the performance was unsatisfactory and woeful. Most candidates failed to demonstrate a solid understanding of the subject matter and many struggled to interpret the questions appropriately.

Suggestion(s) for improvement(s) (if any):

Candidates should be encouraged to prepare more adequately through consistent study. Attendance at tutorial sessions is highly recommended to aid comprehension of key concepts.

Candidates should also stay updated with current trends and practices in the insurance industry for better contextual understanding

Candidates are also encouraged to ensure they follow the instructions to start each question on 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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. 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.

Solution

The five transformational drivers of the current Management of NAICOM, recently released, are:

- safeguarding policyholders and restoring public confidence in the sector;
- improving the safety and soundness of the 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)
- 2. Enumerate any five (5) factors which affect the rating of an aircraft hull and liability risk.

Solution

The factors which affect the rating of an aircraft hull and liability risk are:

- 3. Outline any two (2) reasons for the use of deductibles in aircraft hull and liability insurance.

Solution

Reasons for the use of deductibles in aircraft hull and liability insurance are:

- (i) Deductibles serve to remove the involvement of insurers with those smaller losses that are seen as one of the operating costs of an aircraft. Insurers use deductibles as a way of avoiding the trouble and expense of dealing with minor claims. With some smaller claims, the cost of handling the claim could be higher than the claimed amount without the application of the deductibles.
- (ii) The application of a deductible may also help to improve the risk in that the Insured knows that they stand to share the loss and, it is hoped, will take more care. It could also improve the moral hazard of a risk.
- (iii) Insurers often use deductibles in conjunction with rating as a way of offering a competitive advantage over rivals; for example, by offering a lower rate but a higher deductible or vice versa.

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

- 4. (a) State the principal aim and purpose of the Chicago Convention 1944. (2 marks)
 - (b) State what the Convention in (a) above deals with. (2 marks)
 - (c) List any three (3) of the minimum documentation that must be carried on board of an aircraft engaged in international navigation. (6 marks)

Solution

(a) The principal aim and purpose of the Chicago Convention 1944 was to promote cooperation between nations and develop civil aviation in an orderly manner on the basis of equality of opportunity as between contracting states. (2 marks)

- (b) The Chicago Convention deals with issues such as flight over the territory of contracting states, registration and nationality of aircraft, measures to facilitate air navigation and conditions to be fulfilled with respect to aircraft (including minimum documentation requirements and regulation in respect of crew and aircraft). The Chicago Convention also sets out international standards and recommended practices. (2 marks)
- (c) The convention also lists certain minimum documentation which must be carried on board an aircraft engaged in international navigation:
 - * Aircraft's Certificates of Registration and Airworthiness;
 - * Appropriate Crew Licenses;

* Log Book;

* Radio Station License:

* Passenger and Cargo Manifests.

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

5. Briefly describe the main differences between the two aviation nuclear risks excluded clauses AVN38B and AVN71 and when each might be used.

Solution

AVN38B is usually used on aircraft policies. It also recognises that there are different types and toxicity of nuclear of radioactive materials. In particular, radioactive materials are used in a wide variety of professions and can be carried in special containers aboard aircraft, and losses may be covered in certain circumstances. Rules for the carriage of radioactive materials are laid down in the ICAO "Technical Instructions for the Safe Transport of Dangerous Goods by Air", Losses arising from otherwise excluded nuclear risks may be covered, subject to the materials being handled in compliance with the ICAO rules. (5 marks)

AVN71 is normally used on non-aircraft policies and it is also on the other hand, is an absolute exclusion with no allowances for different types of exposure or radioactive materials. (5 marks) (Total: 10 marks)

6. Identify and briefly describe any four (4) different applications to which satellites may be put to use for.

Solution

The different applications to which satellites may be put to use for are:

- (i) Communication services such as trans-oceanic telephony, the delivery of satellite television and satellite-based mobile phone services for those who travel outside areas served by terrestrial means, as well as the emergency services for times when terrestrial services have failed.
- (ii) Meteorology, which not only provides the general public with the weather forecast each day but which also allows scientists to build a model of the environment to help predict the impact of environmental change.
- (iii) Earth observation whereby images are collected by satellites for popular uses such as Google Earth as well as professional uses such as town planning, disaster monitoring and agriculture where satellite imagery can be used to remotely monitor the health of crops, for example.
- (iv) Navigation systems such as the Global Positioning System (GPS) which have now come into common usage with satellite navigation for cars being the most prominent application. Navigation, both for ships and aircraft, relies on accurate timing signals. New applications of navigation services are constantly being proposed: search and rescue, civil engineering and land-mine clearance being just a few examples, in addition, the accurate timing signals of the navigation systems are increasingly allowing for the time-stamping of financial transactions, improving the security of the financial.

(v) Science, whereby satellites are used to understand the formation of the universe and the planets so that we can gain a better insight into the development of, and future for, the Earth

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

7. Briefly describe any four (4) benefits that a Captive Insurance Company can provide its owner.

Solution

The benefits that a Captive Insurance Company can provide its owner are:

- A captive can provide the financial strength to retain a portion of risk commensurate with the balance sheet of the group of companies to which it belongs, allowing individual operating companies to self-insure at a level more appropriate to their own profit centre.
- The cycles of the insurance market can lead to wide variations in premium prices over time. A captive, underwriting working losses, leaves its parent to purchase catastrophe cover from external insurers or reinsurers, cover that is generally more suitable in price and rated more specifically to the risk in question.
- If an insurer no longer has to fund administration and profit costs at the lower end of the risk spectrum, a captive may reduce net insurance cost. Thus, the total cost of the risk should be stablished and reduced. The presence of a captive in the risk financial programme of a corporation can encourage insurers to rate a risk more competitively in the knowledge that they may otherwise lose premium income to the captive.
- If located in an off-shore environment with low or zero tax, the captive's investment income can build up more quickly than, for example, a self-insurance fund onshore.
- As funds paid out in premiums do not leave the group until paid out in claims, there can be an increase in net cash flow.
- There may be tax advantages in forming a captive for the following reasons:
 - Premium paid to the captive constitutes tax deductible expenses in most parent domiciles, subject to transfer pricing rules (USA is an exception).
 - Profits from the captive can be deferred.

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

8. Explain the liability exposures an aircraft repairer may have in respect of his customers' aircraft whilst in his care, custody and control and what insurance coverage is available in respect of such exposure.

Solution

The following suffices for the required explanation:

- Insurable interest will arise largely through Contract but may arise through possession.
- In addition to the exposure that a repairer will have simply whilst a customer's aircraft is in its possession or its care, custody and control, the repairer's exposure extends to while he is working on the customer's aircraft. In the event of loss or damage to that aircraft arising while the work is being carried out by the repairer or his employees, the repairer is liable. The exact legal situation will vary depending on the wording of any contractual agreement between the repairer and its customer.
- The usual way that an aircraft repairer would insure his liability for a customer's aircraft is using Section 2 of the Airport Owners and Operator's Liability (Ariel) Policy. This section is commonly known as Hangarkeepers Liability and covers the Insured's liability for loss of or damage to non-owned aircraft whilst on the ground and in the care, custody and control of the Insured or while being serviced, handled or maintained

by the Insured or his servants. This section normally excludes loss or damage arising during test flights, although it may be possible to have this coverage reinstated.

- The exclusion under Section 2 of the Ariel policy are:
 - o Loss or damage to clothes, personal effects and merchandise.
 - Loss or damage to aircraft or aircraft equipment hired, leased by or loaned to the Insured.
 - o Loss or damage to any aircraft while in flight (which is defined in the policy).

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

9. State any eight (8) information that must be reported when notifying an air accident to the relevant authority in Nigeria.

Solution

The information that must be reported when notifying an air accident to the relevant authority in Nigeria are:

- (i) The type, model, nationality and registration marks of the aircraft.
- (ii) The name of the owner, operator and hirer (if any) of the aircraft.
- (iii) The person in command.
- (iv) The date and time (UTC or GMT).
- (v) The last point of departure and the next point of intended landing of the aircraft involved.
- (v) The position of the accident in relation to some easily defined geographical location.
- (vi) The number of persons on board and the number killed or seriously injured.
- (vii) The nature of the accident as far as it known.
- (viii) Brief particulars of damage to the aircraft.
- (ix) The person reporting the accident to the AAIP is also required to inform the local police of the accident and the place where it occurred.
- (x) It is the responsibility of the policy to report the accident to the relevant Air Traffic Control Centre.
 - (1½ marks for each correctly stated information. Maximum of 8 to be graded. Total: 10 marks)
- 10. Briefly explain, giving two (2) advantages and two (2) examples, why an Aviation Underwriter would use facultative reinsurance in its aviation portfolio.

Solution

A facultative Reinsurance is generally a one-off specific reinsurance arrangement whereby an underwriter will decide which aspects they wish to reinsure on a case by case basis. Facultative reinsurance is also used when local legislation requires a local insurance company to 'front' the risk.

The advantage of facultative reinsurance is that the original underwriter can accept an otherwise desirable risk and reinsure out the part that they do not like.

The advantage of facultative reinsurance is that placing can be administratively work-intensive and the premiums/commissions can be low for the work involved.

Examples are:

An underwriter may have accepted a high participation on the original risk than they want. The underwriter may then reinsure a percentage of the entire risk.

On an airline risk an underwriter may choose to reinsure out all aircraft with a low hull value or of a type that he does not like.

(2½ marks for each correctly stated advantage. Maximum of 2 advantages to be graded. Sub-Total per advantage: 5 marks. 2½ marks for each correctly stated example. Maximum of 2 examples to be graded. Sub-Total per example: 5 marks. Total: 10 marks)

- 11. (a) Give any six (6) types of injury shown in the schedule of compensation of a Lloyd's Accident policy. (6 marks)
 - (b) State any two (2) timescale for payment of compensation per Proviso 5 of the Lloyd's Accident Policy. (4 marks)

Solution

- (a) The types of injury shown in the schedule of compensation of a Lloyd's Accident policy are:

 - * Total and irrevocable loss of sight of one eye;

 - * Total and irrevocable loss of sight of one eye and loss of one limb;
 - - * Temporary partial disablement.

(6 marks)

- (b) The timescale for payment of compensation per Proviso 5 of the Lloyd's Accident Policy are:
 - * Under item 1, if death occurs within 12 months of the date of the accident;
 - * Under items 2 to 6, if loss occurs within 12 months of the date of the accident;
 - * Under item 7, the Insured Person becomes totally disabled within 12 months of the date of the accident, and such disablement lasts for 12 months. (4 marks) (Total: 10 marks)
- 12. List the five main applications for which satellites are used.

Solution

The five main applications of satellites are:

- * navigation systems; and * science.

(Total: 10 marks)

13. What are the four main categories of space insurance?

Solution

The four main categories of space insurance are:

- * Pre-launch insurance:
 * Launch and in-orbit insurance:
- - (2½ marks for each correctly stated category. Grand Total: 10 marks)
- 14. State and briefly describe any four (4) technical risk factors that must be considered when performing the risk assessment of a satellite.

Solution

The technical risk factors that must be considered when performing the risk assessment of a satellite are:

• **Heritage**: the history of the satellite type, its systems and the components used in each of its units.

- **First Flight Items:** as new components are developed there will be a time when the component is launched on a satellite for the first time. When first flight item are used, the risk assessment activities will usually focus on the design, build and importantly, the testing of the component.
- **Redundancy**: once a satellite has been launched it is not possible to retrieve or repair it. With this in mind, the satellite is built with spare critical components so that if a unit falls during the lifetime of the satellite a spare unit is available to be used.
- Margin: in addition to redundant components, margins will also be specified. As an example, if a satellite is designed to serve a satellite operator for 15 years, it will usually be launched with sufficient propellant to complete at least 16 years in orbit, such that some margin over and above the requirement is available.
- **Anomaly Resolution:** despite satellites, being built and operated under very strict conditions, anomalies do occur. How the satellite manufacturer and operator have been able to resolve previous anomalies will also be a factor in the risk assessment.
- Choice of Launch Vehicle some launch vehicles have better track records than others and this will be reflected in the rating applied.
 - (1½ marks for each correctly stated risk factor. 1 mark for each correct and completely stated explanation. Sub-total per risk factor: 2½ marks. Maximum of 4 to be graded. Grand Total: 10 marks)

Part II

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

- 15. (a) You are an insurance broker. You have been approached by one of your airline clients that operate a fleet of aircraft. The client has acquired a number of spare aircraft engines that are stored in various locations. These engines are used as replacements on their own aircraft and other airlines' aircraft as required. The client has an aircraft hull and liability policy.
 - The client has asked you to explain the extent of insurance cover that may be available for these spare aircraft engines whilst they are in storage and undergoing testing.
 - (i) State the type of cover available for these spare aircraft engines. (5 marks)
 - (ii) Describe the extent of cover, if any, under the type you have identified in (a) above, for when a spare engine is moved out of storage, tested and later fitted to another airline's aircraft. (15 marks)
 - (b) State any four (4) documents that are required to be carried in an aircraft engaged in international navigation by Article 29 of the Chicago Convention 1944?

(10 marks)

Solution

- (a) (i) The cover option for these spare aircraft engines is spares all risks insurance. (5 marks)
- (ii) When a spare engine is moved out of storage, tested and later fitted to another airline's aircraft the cover available under the spares all risks insurance, if any, is as follows:
 - **Moved out of Storage:** the coverage under the spares all risks insurance includes transit to anywhere in the world subject to the geographic limit stated in the policy. (5 marks)

- **Testing:** this is a standard exclusion under the spares all risks insurance. However, the exclusion may be deleted subject to the insurer's agreement and the application of the applicable aircraft deductible. (5 marks)
- **Fitted to another airline's aircraft:** coverage under the spares all risks insurance continues until the commencement of the operation of fitting it to, or placing it on board, the aircraft to which it is destined. The engine would then be covered by the other airline's aircraft hull policy. (5 marks)

(Grand Sub-Total: 15 marks)

- (b) The documents that are required to be carried in an aircraft engaged in international navigation by Article 29 of the Chicago Convention 1944 are:
 - * aircraft's certificates of registration and airworthiness;
- * log book requirements;

* appropriate licenses for crew;

- * cargo manifest;
- * radio station license (if applicable); and
- * passenger manifest.

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

16. You are an insurance broker. One of your clients, FOA pic, operates a fleet of small aircraft. The aircraft hull policy for this client contains an Additions and Deletion clause AVN 17A and an Aircraft laying-up returns clause AVN 26A. The aircraft insurance hull rate is 0.75% of the aircraft value per year. The policy period is 12 months from 1st January.

The client notifies you of the following:

- The addition of an aircraft of identical type and value to those in FOA plc's current fleet with effect from 1st February. The aircraft is valued at \$3million.
- The addition of a larger and more expensive aircraft to those in FOA plc's current fleet with effect from 1st March. The aircraft is valued at \$5million.
- The addition of several larger and more expensive aircraft at various dates later in the policy period. Each of these aircraft will be valued at \$5million.
- The aircraft added from the 1st February will be laid up from 1st October to the end of the policy period.
- Your client's aviation insurer has provided you with a ground risk rate of 0.25%.
- (a) Calculate, showing all your workings, the additional premium for the addition of the aircraft of identical type and value.
- (b) Calculate, showing all your workings, the return premium for the aircraft of identical type and value which is to be laid up.
- (c) Explain how the Additions and Deletions clause would be applied for each of the aircraft types being added to the policy.

Solution

(a) The calculation for the additional aircraft of identical type and value is:

Multiply the aircraft value by the hull rate = the annual premium. (4 marks)

Therefore:

\$3,000,000.00 * 0.75% = \$422,500.00

(2 marks)

As this aircraft is not on risk for the entire annual period, the annual premium is calculated on a pro-rata basis. (1 mark)

Period 1 February to 31 December = 334 days on risk.

(1 mark)

Therefore:

\$22,500 x 334/365

\$20,589.04.

(2 marks)

The additional premium due for the aircraft or identical type and value is \$20,589.04.

(Grand Sub-Total: 10 marks)

(b) Aircraft laying-up return clause AVN 26 allows the aircraft to be laid up for an agreed period at an agreed hull rate lower than the full flight risks hull rate. (2 marks)

The aircraft has been advised as being laid-up from the 1 October to the end of the policy period. Therefore, there is a return premium due to be paid to the client. (1 mark)

The return premium is the pro-rate element of the annual deducted from the ground risk rate. This can be calculated as two separate premiums or combined in a single calculation. (2 marks)

The period 1 October to 31 December is 92 days.

(2 marks)

The return premium is the change in rate multiplied by the pro-rata period multiplied by the aircraft value. (1 mark)

Therefore, (0.75% - 0.25%) * 92/365 * \$3,000

(1 mark)

= \$3,780.82

(1 mark)

The return premium due for the aircraft of identical type and value is \$3,780.82.

(Grand Sub-Total: 10 marks)

(c) Clause AVN 17A is an example of an additions and deletion, which is applicable to hull cover only. The effect of AVN 17A is to allow aircraft of the same type and value to be included automatically during the policy period. This automation allows the operation of the policy, during the policy period, to be straightforward and efficient for both the client and insurer.

In the case of the first additional aircraft, as it is of identical value and type to the aircraft currently on the policy, AVN 17A would apply the existing hull rate to the aircraft. The only action required, would automatically be included. The only action would be for the client to ensure that the insurer is notified in writing of the additional aircraft within 10 days of its addition to the policy. This notification would be undertaken by me, on behalf of the client.

In the case of the second additional aircraft, which is larger and greater in value than the existing aircraft, a new rating would need to be sought and agreed from the insurer. It is likely that there will be a different rating for this additional aircraft, as it is a material change in risk. This would all need to be completed prior to the additional of the second aircraft.

In the subsequent cases of later additional aircraft of the same value and type as the second additional aircraft, AVN 17A will allow for their automatic addition at the appropriate rate. These automatic additions will follow the same procedure as that of the first additional aircraft in the case of the first addition. This is as they are of the same type and value of an aircraft already covered under the policy.

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

17. You are an underwriter for an aviation insurer. You are approached by an aviation insurance broker who is seeking to place the aviation products liability insurance for a prospective client who manufactures a range of aircraft components and ground handling equipment.

These manufactured components and equipment comprise of:

- Hydraulic systems for landing gear.
- Hydraulic systems for wing flaps.
- Aircraft catering equipment.
- Ground-based auxiliary power units.

The aviation insurance broker has provided you with the historic and projected turnovers and the claims experience.

(a) Explain, with four (4) justification, the significance of the historic and projected turnovers to your consideration of the aviation products liability insurance.

(20 marks)

(b) State, two (2) key items of additional information you would need to obtain from the aviation insurance broker, with justification. (10 marks)

Solution

(a) Aviation products liability insurance is generally written on a losses occurring basis. A claim is dealt with by the policy in force at the time the accident occurs and not the policy in force at the date the claim is notified to the policyholder.

Historic and projected turnovers are key in the consideration of aviation products liability insurance, as they are indicators of volume of business transacted for the client over their business lifetime. These turnovers will be split by type of product, to reflect the differing risks that each type of product will contribute to the overall assessment of the insurance proposition.

Additionally, the turnovers by type of product will be divided between military and non-military users alongside division between USA and non-USA activity. The extent of military turnover may justify a lower rate as the risks arising from use of the products us accepted by the customer. Correspondingly, USA turnover can justify a higher rate due to the higher potential frequency and/or cost of claims reflecting the USA's litigious culture.

The breakdown of turnover by type of product assists in understanding the quantity of units in use and, therefore, the aggregate exposure in place.

Finally, the annual changes in historical and projected turnovers are good indicators of the trends in the client's business. These changes are essential material information as the future nature of the business, and its aggregate risk, may be very different to the historical performance. The rating of the business needs to reflect these changes, to ensure it reflects the aggregate exposures.

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

- (b) The key items of additional information are:
 - Whilst **historic turnover** is important, it needs to be considered in light of the number of units in active service. The number of units in active service would be important information to assess the full scope of the risk. Clearly units which are now out of active service present little if no liability risk exposure.
 - The **claims record**, **by type of product**, would allow for comparison with the relevant annual turnovers. This information would allow for both claims frequency and average claim costs as a percentage of turnover to be computed, and provide an indication of future trends in claims.

- Criticality of **the unit in the safe operation of an aircraft** is an important feature. This knowledge is hugely important in assessing the potential consequence of the failure of a product, and therefore the potential cost of a loss to the insurer. For example, the failure of a hydraulic system for landing gear may prevent the safe landing of an aircraft, with potential catastrophic consequences. Correspondingly, failure of a ground-based auxiliary power unit may delay or prevent an aircraft being ready to take-off on time, which is an inconvenience rather than grounds for a catastrophic claim.
- Introduction of different materials, e.g. carbon fibre, into existing types of products or new technology may mean that historic claims experience may not reflect future experience. Understanding the potential effects of new technology and/or new materials will be important in assessing the potential future cost of claims.

(3 marks for each correctly stated item. 2 marks for each correct and completely stated justification. Sub-Total per item: 5 marks. Maximum of 2 to be graded. Sub-Total: 10 marks) (Grand Total: 30 marks)

- 18. You are a claims adjuster for an aviation insurer. You have been notified by an insurance broker that an aircraft operated by one of the aviation insurer's policyholders has crashed on landing resulting in injuries to each of the twelve passengers on board. There were two UK families on board in addition to the crew. The aircraft is UK registered and was operating on a UK domestic flight. You appointed a lawyer to investigate the extent of the insured's liability for the crash.
 - (a) Identify, with justification, the four (4) key considerations which the lawyer is required to include in his preliminary report. (20 marks)
 - (b) Explain, with justification, based on your answer to (a) above, the factors you would expect the lawyer to consider when recommending a liability claims reserve.

(10 marks)

Solution

- (a) The four key considerations which the lawyer is required to include in his preliminary report are:
- (i) The nationality, name, age and address of each of the passengers, and the extent of their relationships both with other passengers and any other family members. This information would allow the lawyer to understand the following:
 - Name provides an identity.
 - Nationality might create a situation where some non-UK nationals might be able to seek higher levels of compensation from a non-UK country, e.g USA where compensation awards can significantly exceed UK levels.
 - Age is an initial indication of whether the individual is a child, working adult or retired person. Whilst subsequent information on careers, dependencies and incomes will likely provide greater clarity, an initial assessment of the insurer's potential exposure will be determined by this information.
- (ii) The extent of the injuries to each passenger.
 - The extent of injuries will allow the insurer to determine the extent of activity it may be able to undertake to mitigate the effects of such injuries. Examples could be, with the injured parties' agreement, referral to specialist medical treatment facilities and the use of rehabilitation services. The appropriate deployment of such medical services could make a significant improvement in the recovery period of an injured person or, at the least, minimise the long-term effects of their injuries if they are of a permanent nature.

(iii) A copy of the aircraft's papers including its navigation log and maintenance records.

- This information would enable the extent to which the aircraft was being used in an appropriate manner, was on a recognized flight and had been maintained in accordance with the manufacturer's recommendations. If the accident is subsequently proved to be due, in part of total, to a maintenance fault, having early confirmation of who undertook the maintenance, and where and when that maintenance took place, would support any subsequent action to hold them responsible.
- Details of the flight crew, including pilots' licenses, ratings, latest medical checks, total hours flown, including the time on this type of aircraft, together with information on duty hours over, say, the last week.
- (iv) An understanding of the experience, capacity, and suitability of the pilots who were involved in the accident might provide indication that there was something less than ideal. Clearly, the starting expectation would be that the crew were blameless for the accident, however, if deficiencies are identified, their relative importance regarding the circumstances of the accident might influence how the claim is handled. For example, if the pilots were at the end of a long duty, at the time of the accident, it might be more difficult to defend the claim than if it was their first flight for several days after a period of rest.

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

(b) The factors one will expect the lawyer to consider when recommending a liability claims reserve are as explained below:

Damages would, in the absence of any non-UK injured passengers' considerations, be calculated under English law. As the flight was domestic, rather than international, the Montreal Convention 1999 would not apply.

It will also be expected that the lawyer should base his calculations of the initial liability claims reserve on the sums awarded by the courts in recent types of injuries. The calculations would include, for each passenger, the following factors to the extent to which they apply to the individual:

- Age
- Loss of future income (where the award reflects potential loss or reduction in future income).
- Dependents.
- Medical costs arising from the accident to date and estimated for the future.
- Pain and suffering.
- Loss of amenities of life.

Where elements of the information are unknown, such as where the recovery period of an individual can only currently be estimated, I would expect the lawyer to make educated assumptions, based on the experiences of previously injured individuals in arriving at a claim cost per passenger and in the aggregate.

This would be a provisional reserve, which would be subject to review as more information subsequently became available.

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

(Grand Sub-Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I09 INSURANCE PRACTICE AND REGULATION

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

109 – INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Ouestion 1

This question assessed candidates' knowledge of insurance organisations/trade associations. It was attempted by 96.53% of the candidates, with an impressive pass rate of 92.82%. Overall, candidates performed well.

Ouestion 2

Candidates were tested on the key components of a standard fire policy. The question was generally well answered, with a pass rate of 73.7%.

Ouestion 3

The question focused on the calculation of premiums in general insurance. While all candidates attempted the question (100%), only 49% passed. This indicates a fair understanding of the topic by some candidates.

Question 4

This question tested candidates' knowledge of the duties of an underwriter. It was attempted by 90% of candidates, with a pass rate of 45%. Many candidates did not provide complete answers, suggesting a lack of thorough preparation.

Ouestion 5

Candidates' understanding of micro-insurance and facultative reinsurance was examined. The attempt rate was 98%, with a commendable pass rate of 90%. Candidates demonstrated a good understanding of the subject matter.

Question 6

The question focused on the criteria for insurability of risks. All candidates attempted the question (100%) and 95% passed, showing excellent understanding.

Ouestion 7

This question tested candidates on various life assurance policies. It recorded a 98% attempt rate and a 95% pass rate, indicating strong familiarity with the topic.

Ouestion 8

Candidates were assessed on the fundamental principles of insurance and the main operational expenses of an insurance company. All candidates attempted the question (100%), and 83% passed, reflecting good comprehension.

Question 9

This question evaluated candidates' knowledge of underwriting processes and influencing factors. Despite a 98% attempt rate, the pass rate was only 10%, indicating poor understanding of the topic.

Question 10

Candidates were required to distinguish between marine hull and marine cargo insurance. The attempt rate was 97%, but the pass rate was only 53%. Many candidates did not fully grasp the differences between the two types of insurance.

Question 11

This question assessed candidates' understanding of the roles of insurance brokers. It was attempted by 96.04% of the candidates, with a pass rate of 53.09%. The failure rate of 46.19% was largely due to candidates' poor understanding of the concept of insurable interest in insurance contracts.

Question 12

The question recorded strong performance. Out of 188 candidates who attempted the question, 161 passed, resulting in an 85% pass rate.

Ouestion 13

This question tested candidates' ability to distinguish between premium composition and underwriting considerations in general insurance. Although 92% attempted the question, only 16% passed, reflecting limited understanding.

Question 14

The focus of this question was on the principles of indemnity and reinstatement. It was attempted by 60% of candidates, with a 30% pass rate. Many responses did not sufficiently address the key elements of the question.

Question 15

Candidates were tested on the core activities of arbitration. The question was well understood, with 82.67% of candidates attempting it and 83.83% passing.

Question 16

An average performance was recorded for this question. Out of 155 candidates who attempted it, 90 passed, resulting in a 58.06% pass rate.

Question 17

This question assessed candidates' knowledge of consumer protection in insurance and the calculation of premium rates in life assurance. It was poorly attempted (60%) with only one candidate passing. The question was clearly not well understood.

Question 18

Candidates were tested on the claims procedure and fidelity guarantee insurance. Despite being relatively straightforward, only 20% attempted the question and just 15% passed. Minimal effort and lack of familiarity affected performance.

Comments on Overall Performance:

The overall performance of the candidates was commendable, with a pass rate of 76%. Candidates are encouraged to maintain and improve upon this standard in subsequent examinations.

Suggestions on Improvement(s) (if any):

Candidates should be encouraged to continue studying, improved preparation and engagement with course materials and tutorials are always encouraged for better 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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. Enumerate any five (5) organisations or trade associations that are involved in promoting ethical standards and professionalism in the Nigerian Insurance Market

Solution

The organisations/ trade associations that are involved in promoting ethical standards and professionalism in Nigerian 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. A maximum of 5 to be graded. Sub-Total: 10 marks)

2. List four (4) key components of a standard fire insurance policy.

Solution

The key components of a standard fire insurance policy are:

- * damage caused by fire;
- * damage caused by lightning;
- * damage caused by explosion from domestic gas; * damage from storm or flood;
- * impact by vehicles.

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

3. Enumerate any four (4) elements/factors that are considered in the calculation of premium in general insurance.

Solution

The elements/ factors that are considered in the calculation of the premium in general insurance are:

- reserves for expected claims;
- reserves for operational expenses such as staff salaries, office expenses, advertising expenses, commissions, e.t.c.;
- profit margin; * general inflation; * interest rates.

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

4. Enumerate any four (4) critical factors that a prudent underwriter will consider before accepting a risk.

Solution

The critical factors that a prudent underwriter will consider before accepting a risk are:

- * nature of the risk;
- * previous loss history;
- * financial stability of the applicant; * current market trends;
- * compliance with legal regulations.

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

5. (a) Define 'micro-insurance' and list any two (2) objectives of the NAICOM guidelines for micro-insurance in Nigeria. (6 marks)

(b) Briefly describe the terms 'facultative reinsurance' and 'treaty reinsurance.' (4 marks)

Solution

(a) Micro-insurance: Insurance targeted at low-income earners or those not typically covered by traditional insurance. (2 marks)

The objectives of the NAICOM guidelines for micro-insurance in Nigeria are to:

- provide minimum standards for micro-insurance;
- ensure consumer protection;
- establish duties of micro-insurance operators;

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

(Grand Sub-Total: 6 marks)

(b) Facultative Reinsurance: Each risk is individually underwritten. (2 marks)
Treaty Reinsurance: A pre-agreed contract covers all risks within specified parameters.

(2 marks)

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

6. List any four (4) criteria that make a risk insurable according to the sound underwriting principles as learnt in this course.

Solution

The criteria that make a risk insurable according to the sound underwriting principles, as learnt in the course are:

- * insurable interest; * large number of similar exposure units.

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

7. State and explain the four (4) main types of life assurance policies (classified according to usage and not regulation) and their key features.

Solution

The four (4) main types of life assurance policies (classified according to usage and not regulation) and their key features are:

- **term assurance:** coverage for a specific period; payout on death within the term.
- whole life assurance: coverage for the insured's entire life; payout on death;
- **endowment assurance:** payout on death or at the end of the policy term;
- investment-linked assurance: payout based on investment performance.

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

- 8. (a) Enumerate four (4) fundamental principles of insurance. (4 marks)
 - (b) State and explain the two (2) main operational expenses of an insurance Company. (6 marks)

Solution

- (a) The fundamental principles of insurance are:

 - * subrogation; * contribution; * proximate cause.

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

- (b) The main operational expenses of an insurance company are:
 - salaries: payments made to employees for their work;

- **commissions:** payments to agents or brokers for bringing in business;
- **benefits payments:** this could be in form of various forms of claims.

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

(Grand Total: 10 marks)

9. Describe the process of underwriting in insurance and state any four (4) key factors that influence underwriting decisions.

Solution

Underwriting involves assessing risks, setting premium rates, and deciding on coverage.

(2 marks)

The key factors that influence underwriting decisions are:

- * historical claims data; * applicant's medical history; * applicant's family history.

(2 marks for each correctly stated factor. Maximum of 4 to be graded. Sub-Total: 8 marks)
(Grand Total: 10 marks)

- 10. Explain the main difference between
 - (a) marine hull insurance and marine cargo insurance. (4 marks)
 - captive insurance and self-insurance.

(6 marks)

Solution

(b)

- (a) Marine Hull Insurance: covers damage to the ship, machinery and equipment (2 marks). WHILE Marine Cargo Insurance: covers goods in transit by sea from the point of departure to the destination (2 marks). (4 marks)
- (b) The main difference between captive insurance and self-insurance is that captive insurance is where an organisation sets up a subsidiary or an affiliate company to insure and provide cover for its risks and assets (3 marks), while self-insurance is a situation where an organisation sets aside funds to mitigate or settle losses that may arise from its operation instead of transferring its risks to a conventional insurer (3 marks).

(6 marks) (Grand Total: 10 marks)

- 11. (i) What are the two (2) main roles of insurance brokers in the industry as learnt in the course? (4 marks)
 - (ii) Enumerate the two (2) importance of insurable interest in a contract of insurance. (6 marks)

Solution

- (a) The two main roles of insurance brokers in the industry as learnt in the course are:
 - risk advisor: helps clients understand their insurance needs; (2 marks)
 - **negotiator:** facilitates the purchase of insurance policies on behalf of clients. (2 marks) (Sub-Total: 4 marks)
- (b) The two (2) importance of insurable interest in a contract of insurance are that:
 - there can be no valid contract of insurance without a legally recognized relationship at common law, which also distinctly differentiates it from gambling
 - no insurance contract can exist without a subject matter of insurance which must also bear a legal relationship with the insured.

(3 marks for each correct and completely stated importance. Sub-Total: 6 marks)
(Grand Total: 10 marks)

12. List any four (4) reasons why there is government regulation/supervision of insurance industry in any country.

Solution

The reasons why there is government regulation/supervision of insurance industry in any country are:

- to maintain adequate solvency margins
- for equity, fairness and reasonableness among operators
- to maintain competence and public confidence in the industry
- to enforce the doctrine of insurable interest and eradicate any element of gambling in any insurance contract
- to maintain and ensure enforcement of certain compulsory insurances e.g. group life, employers' liability, motor third party insurance, e.t.c.

 (2½ marks for each correctly stated reason. Maximum of 4 to be graded. Total: 10 marks)
- 13. Distinctly compare the claim procedures in life assurance practice with those of the general business insurance practice.

Solution

S/No	Procedure	Life Assurance	General Business	
1	Notification	Not necessarily	Must be immediately notified	
		immediate		
2	Loss Details Provision	Provided by	Provided by the insured	
		beneficiaries/other		
		concerned entities		
3	Right of Action	No subrogation rights	Subrogation rights exist	
4	Contribution Condition	No contribution rights	Contribution rights exist	
5	Claim Procedure	Can be solely pursued	Cannot be solely pursued by	
		by others	others	

(2½ marks for each distinct and complete comparison. Maximum of 4 to be graded. Total: 10 marks)

14. A manufacturing company insured a machine for the sum of №5,000,000.00 at inception five years ago. The machine was completely destroyed by fire in the 6th year. If the replacement as at the time of loss is №7,350,000.00. Briefly explain how the claim would be settled on the basis of:

(a) indemnity;

(b) reinstatement.

Solution

(a) With a sum insured of \$5,000,000.00 and a value at time of loss of \$7,350,000.00, to settle on an indemnity basis, the insurer will apply "average clause" to settle the claim since there is under-insurance at play. This implies that the insured will bear a percentage of the loss.

(5 marks)

(b) With a sum insured of \$5,000,000.00 and a value at time of loss of \$7,350,000.00, to settle on reinstatement basis, the insurer will settle the claim based on the "reinstatement memorandum clause"; however, a percentage of depreciation cost will be considered before settling on the value at risk. (5 marks)

(Grand Total: 10 marks)

Part II

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

15. (a) Define arbitration.

(4 marks)

(b) Enumerate any three (3) core activities of an underwriter;

(9 marks)

(c) Enumerate four (4) benefits of direct selling to customers by an insurer.

(12 marks)

(d) Explain briefly the procedures for coinsuring risks with more than one underwriter. (5 marks)

Solution

- (a) **Arbitration:** An alternative dispute resolution mechanism where disputes are settled by an impartial tribunal. (4 marks)
- (b) The core activities of an underwriter are:

* risk assessment; * pricing' * policy formulation; * claims review. (3 marks for each correctly stated activity. Maximum of 3 to be graded. Sub-Total: 9 marks)

- (c) The benefits of direct selling to customers by an insurer are:
 - * no commission costs; * dire
- * direct customer feedback;
 - * enhanced brand loyalty; * streamlined service delivery.

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

(d) The procedures for coinsuring risks with more than one underwriter is what is collectively known as co-insurance. This occurs where the total sum insured on the risk is too large to be accepted by one primary insurer, or where the insured (or its broker) wishes to interest several insurers. In such instances, a collective policy is issued by the leading insurer, and each insurer will sign the proportion allotted to it. Under coinsurance policies, the liability of each insurer is several and not joint. In the vent of failure of one of the insurers to meet its liability, other insurers will not be affected. Also, in coinsurance, the lead insurer is responsible for issuance of all necessary documents and earns a percentage of income as overriding commission for these services

(2½ marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 5 marks) (Grand Total: 30 marks)

- 16. (a) Identify any four (4) types of liability insurance and explain the coverage provided by each. (20 marks)
 - (b) (i) State the two (2) main regulatory considerations for marine insurance in Nigeria. (4 marks)
 - (ii) State any two (2) types of marine policies and briefly explain what such policies cover. (6 marks)

Solution

- (a) The following are types of liability insurances:
 - **employer's liability insurance:** covers claims from employees for work-related injuries;
 - **public liability insurance:** covers claims from third parties for injury or property damage:
 - product liability insurance: covers claims from consumers for defective products;
 - professional indemnity insurance: covers claims against professionals for negligence;
 - **directors' and officers' liability insurance:** covers claims against directors/officers for wrongful acts;
 - **professional indemnity:** covers claims due to error in judgement in the course of a medical doctor's practice.

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

- (b) The two main regulatory considerations for marine insurance in Nigeria are:
 - (i) compliance with the Marine Insurance Act; (2 marks) and
 - (ii) compliance with NAICOM guidelines (2 marks). (Sub-Total: 4 marks)
- (c) Types of marine policies:
 - **Time Policy:** this is a marine policy issued for a fixed period usually not exceeding twelve months
 - **Voyage Policy:** this is a marine policy issued for the period of the voyage. For cargo, the cover is from warehouse to warehouse.
 - **Mixed Policy:** this is a marine policy issued which covers the subject matter for the voyage and a period of time thereafter e.g. while in port.

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

(Grand Total: 30 marks)

- 17. (a) Discuss the importance of consumer protection in the practice of insurance. (5 marks)
 - (b) List and explain three (3) consumer rights under the Nigerian insurance law. (15 marks)
 - (c) Enumerate any five (5) major factors that are necessarily considered in the calculation of rates of premium in Life Assurance contracts. (10 marks)

Solution

(a) The importance of consumer protection in the practice of insurance is that consumer protection ensures fairness, transparency, and trust in the insurance market.

(5 marks)

- (b) Consumer rights under the Nigerian insurance law are:
 - **right to information:** clear details about policy terms.
 - **right to fair treatment:** non-discrimination in service.
 - **right to redress:** mechanism for complaints and compensation.
 - right to privacy: protection of personal data.

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

(c) The major factors that are necessarily considered in the calculation of rates of premium

in Life Assurance contracts are:

• margin for reserves;

- * margin for profits/surplus;
- margins for expected claims i.e. death/maturity;
- * mortality rate;
- margins for operational/overhead expenses;
- * age/medical condition;
- occupational hazards/classification.

(2 marks for each correctly stated point. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 30 marks)

- 18. (a) State and explain any four (4) steps involved in the claims procedure in insurance. (20 marks)
 - (b) (i) Explain the main scope of cover under Fidelity Guarantee Insurance.

(6 marks

(ii) State any two (2) basic exclusions under the fidelity guarantee policy.

(4 marks)

Solution

- (a) The steps involved in the claims procedure in insurance are:
 - **notification:** informing the insurer about the claim;
 - **documentation:** providing necessary documents to support the claim;
 - **investigation:** assessing the validity of the claim;
 - evaluation: calculating the payout amount;
 - **settlement:** payment of the claim or denial with reasons.

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

(b) (i) Fidelity Guarantee policy provides cover against the dishonesty or infidelity of an insured employee which resulted in financial loss or damage to the insured. The policy covers fraudulent acts of the insured's employees and can be issued on the blanket cover basis or a named basis.

(3 marks for any correctly stated point. Maximum of 2 points to be graded. Total: 6 marks)

- (ii) The basic exclusions under the fidelity guarantee policy are:
 - loss or damage as a result of connivance or error or commission
 - loss or damage which are covered under a more specific insurance
 - loss or damage which are specifically excluded from the policy conditions, or loss as a result of a fortuitous event

(2 marks for any correctly stated point. Maximum of 2 points to be graded. Sub-Total: 4 marks)
(Grand Sub-Total: 10 marks)
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA INTERMEDIATE

APRIL 2025 DIET EXAMINATION PAPER

SUBJECT I10 INSURANCE BROKING PRACTICE – II

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I10 - INSURANCE BROKING PRACTICE - II

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments Ouestion 1

This question required candidates to state four out of five transformational focus areas of NAICOM, which are fundamental for all insurance practitioners. Unfortunately, only 5% of candidates passed, with a 60% score threshold. A 95% failure rate highlights a serious lack of preparation and poor study habits. Candidates are advised be knowledgeable about current Industry trends, practices and occurrences.

Ouestion 2

Candidates were expected to demonstrate an understanding of the general law of agency as applicable to brokers. The question was moderately attempted, with a pass rate of 35% at 50% and above. However, inadequate preparation was evident in many responses.

Ouestion 3

This question focused on contingent commission/override and its implications. Only 15% of candidates passed with a score of 50% or more. The low performance suggests many candidates lacked understanding of the topic due to poor preparation.

Question 4

Candidates were asked to identify four potential abuses of position within a brokerage organisation. The pass rate stood at 15%. Responses reflected a lack of understanding, indicating insufficient study and poor knowledge of ethical issues in brokerage operations.

Question 5

This question tested knowledge of the objectives of market conduct and business practice guidelines of the insurance institute. Only 10% passed with a minimum score of 50%. The poor performance points to inadequate preparation and low commitment to study.

Question 6

The question examined key provisions under the elective module on demand. A 10% pass rate was recorded, indicating weak understanding and lack of study on this section of the syllabus.

Question 7

Candidates were asked to state the client's obligations in negotiating services and address key performance indicators (KPIs). A very low pass rate of 5% was recorded, reflecting minimal readiness and poor grasp of broking client service obligations.

Ouestion 8

This question focused on the broker's obligations in cases of underinsurance. The 5% pass rate mirrors the same shortcomings observed in Question 7 – inadequate study and a lack of engagement with the course material.

Question 9

This question required explanations of "line slip" and "professional indemnity insurance." Only 15% passed with a score of 50% and above. Many candidates showed limited understanding, highlighting the need for more focused preparation.

Question 10

Candidates were to explain two methods of information gathering aside from proposal forms. A 35% pass rate was recorded. Some candidates provided irrelevant answers, indicating shallow knowledge and poor interpretation of the question.

Question 11

This question recorded a 100% failure rate. Candidates could not list five important pieces of information needed to summarise cover pending policy issuance. The result reflects inadequate preparation and unfamiliarity with fundamental broking procedures.

Ouestion 12

With only 5% of candidates passing, this question tested understanding of factors influencing a broker's choice of insurer. The performance was below expectation, reiterating the trend of poor preparation noted in earlier questions.

Question 13

Candidates were to explain four measures required to maintain the security of a large brokerage firm via risk committees or security departments. Only 5% passed. The poor result highlights a general lack of preparation.

Question 14

The question required reasons why brokers should deal with multiple markets. A 15% pass rate shows many candidates failed to understand the importance of market diversification due to inadequate reading.

Question 15

This optional question tested candidates on seven regulatory requirements by NAICOM in relation to claims management and eight additional points relating to insurance institutions and practitioners. It recorded a 100% failure rate, with scores below 40%, indicating a poor grasp of regulatory frameworks.

Question 16

The question covered under-subscribed and over-subscribed risks, as well as subjective risks and cover notes. A pass rate of 67% with an average score of 53% was recorded. While performance was better here, there is still a need for improved understanding through better preparation.

Question 17

This question tested the brokers' role in risk management, including required services and risk control techniques. Unfortunately, it recorded a 100% failure rate. Candidates clearly did not understand the expectations of the question, largely due to inadequate study.

Ouestion 18

Only 9% of candidates who attempted this question scored above average in it. The question asked for information considered in professional advice and reasons for staff training in insurance institutions. Responses fell below expectations, reinforcing the overall trend of weak preparation.

Comments on Overall Performance:

This was the first time candidates were sitting for this course, and overall performance was poor. The results reflect a general lack of preparation and seriousness in approaching the course. Candidates exhibited insufficient understanding of key concepts and did not demonstrate adequate study habits.

Suggestions on Improvement(s) (if any):

Future candidates for this course should be strongly encouraged to take their studies more seriously. They should commit to in-depth reading and understanding of the syllabus, attend tutorials, and make use of the available coursebooks and resources. Also, candidates should treat the course as a professional specialisation that requires focused effort and discipline.

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 labelled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

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

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 10 marks.

1. 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.

Solution:

The five transformational drives of the current Management of NAICOM recently released are:

- (i) safeguarding policyholders and restoring public confidence in the sector
- (ii) strengthening supervisory and regulatory capabilities
- (iii) improving the safety and soundness of the insurance industry
- (iv) fostering innovation and sustainability, and increasing accessibility
- (v) penetration of insurance products across the country.

(2½ marks each for each correctly stated drive. Maximum of four to be graded. Total: 10 marks)

2. State any four (4) general laws of agency required of Brokers.

Solution:

The general law of agency requires a broker to:

- perform all their principal's lawful instructions and in a timely fashion;
- exercise reasonable skill and care in the performance of their principal's instructions;
- act at all times in the best interests of their principal, to avoid conflicts of interest and to disclose to their principal fully any circumstances which may give rise to the appearance of a conflict;
- make full disclosure to their principal of their personal interest in any transaction (please note that when placing reinsurance you must offer to disclose your interest, but you do not need to disclose it unless asked); and
- account to their principal for all monies they may have received on their principal's behalf.

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

- 3. (a) What are "contingent commission/ overriders"? (4 marks)
 - (b) State any three (3) implications of receiving such payments. (6 marks)

Solution:

(a) Contingent Commission/ Overriders are payments made to the broker in the form of additional commissions or profit shares that are contingent (i.e. dependent) upon the broker. These payments come from an insurer, but they could also come from a premium financier or, more rarely, loss prevention equipment suppliers or replacement property suppliers and claims management companies.

(4 marks)

- (b) Implications of receiving commissions or overriders are:
 - the broker may allow decisions on where business is to be placed to be directly influenced by their own income, in conflict with their primary duty to place the interest of the client first;
 - The broker may select insurers that are unsuitable for the client, merely because they generate more income;
 - effectively, the broker is being paid by two different parties, which presents a potential conflict as soon as the contract is in force;
 - the totality of the broker's earnings is concealed from the client; and
 - the broker may become more focused on churning an account to generate income than on meeting a client's needs.

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

4, Brokers should be aware of the potential abuses of position in their organisations. Enumerate any four (4) potential abuses of position that could occur in a brokerage organisation.

Solution:

Potential abuses of position can include:

- inappropriately accepting services from or supplying to colleagues, friends or relatives;
- not accounting for all money received premiums, refunds or claims;
- misappropriation of client money or money held under risk transfer agreements;
- falsifying customer details to obtain insurance business that would otherwise be turned down or be more expensive;
- issuing false cover notes or false certificates of insurance;
- accepting inducements to favour one insurer or service provider over another;
- falsifying expense claims or timesheets;
- misusing company assets, property or intellectual property; and
- falsifying company records to conceal wrongdoings.

(2½ marks for each correctly stated potential abuse of position. Maximum of 4 to be graded. Total: 10 marks)

5. The insurance industry in Nigeria is regulated by the National Insurance Commission, NAICOM, through various forms. It is crucial for the broker to understand the objectives of the Market Conduct and Business Practice Guidelines for Insurance Institutions in Nigeria. Enumerate any four (4) objectives of the guidelines.

Solution:

The Objectives are:

- the Guidelines sets out the minimum standards required from Insurance Institutions in their dealings with Clients, Policyholders, Shareholders and other Stakeholders.
- it seeks to promote greater fairness and transparency between policyholders and insurance institutions.
- it establishes strong market conduct among practitioners/stakeholders. Strong market conduct ethics serve to reduce mistrust that may exist between clients and insurers, and enhanced mutual confidence improves market efficiency.

- Conversely, weak market conduct ethics are usually the major reason for the poor development of an insurance market
- it also provides the Board of Directors and Management of insurance institutions with a framework for the establishment of policies and procedures for effective claims management. This is imperative as Insurers stake their reputations and financial stability on the quality and efficiency of their claims operations
- the guidelines provide principles to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under the contract are discharged.
- the guidelines also state the responsibility of the insurance institutions in ensuring that their activities are properly coordinated and carried out in a professional manner.
- the guidelines also set out the general licensing and Authorisation requirements for insurers, intermediaries and other insurance institutions.

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

6. The Insurance Distribution Directives (IDD) is a revision and replacement of the Insurance Mediation Directive. The IDD's aim is to make it easier for firms to trade across borders, strengthen policyholder protection and provide a level playing field. List any four (4) key provisions of the directives.

Solution

- Professionalism
- Commission Disclosure
- Harmonisation
- New Product Governance Requirements
- A new category of insurance settler called Ancillary Insurance Intermediaries.
- New duties applicable to insurance companies that are selling products through companies that are not authorised by the FCA.
- A requirement for all general insurance firms in the retail and small corporate market to provide customers with Insurance Product Information Documents.

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

- 7. (a) Part of the skill in negotiating service standards is in ensuring that the client also has to meet its obligations and that such obligations specified and understood. State any three (3) of client's obligations. (6 marks)
 - (b) Explain "key performance indicators". (4 marks)

Solution

- (a) The Client's Obligations are:
 - allowing access to sites and information;
 - allowing access to senior management as required, for example for the supply of information on and the completion of D&O proposal forms;
 - the delivery of information; and
 - the payment of invoices.

(2 marks for each correctly stated client's obligation. Maximum of 3 to be graded. Sub Total: 6 marks)

(b) Key Performance Indicators (KPIs) naturally flow out of the service standards. Often, they provide a measure of the broker's performance and help ascertain whether to make a fee adjustment (which will hopefully be in a positive direction).

(4 marks for correct explanation) (Grand Total: 10 marks) 8. Under-insurance is one of the main areas in which a broker can be responsible for an error or omission. It is important to understand the broker's obligations with regard to setting sums insured. State any four (4) obligations of a Broker.

Solution:

The broker's obligations are:

- understanding the client's demands and needs, in order to arrange appropriate cover;
- using reasonable care and skill to be satisfied, as far as possible, that clients understand the limitations of their insurance, including the consequences of:
- breaching policy conditions,
- failing to disclose the appropriate information,
- failing to make a fair presentation of the risk, and
- under insurance.

(2½ marks for each correctly stated broker's obligation. Maximum of 4 to be graded. Total: 10 marks)

- 9. Briefly explain the following terms:
 - (a) Lineslip;

(b) Professional Indemnity Insurance

Solution

- (i) Lineslips: A 'lineslip' is the name given to a scheme or facility placed with Lloyd's underwriters. They can be set up with or without delegated authority. The slip consists of contract details, subscription agreement and fiscal and regulatory information. Risks are then bound under the facility, usually by way of off-slips. Where there is no delegated authority, risks are bound by the leader or leading underwriters.
- (ii) Professional Indemnity Insurance: The Professional Indemnity Insurance is fast becoming a compulsory insurance as result of professional negligence and liabilities from various professionals. The rationale of the professional indemnity policy is to care for a professional man against his legal liability towards third parties for injury, loss, or damage, arising from his own professional negligence or that of his employees in the conduct of his business.

(5 marks for each correct explanation. Total: 10 marks)

10. Proposal forms are not the only means by which information can be obtained. For many large and complex risks, proposal forms are often impractical and are replaced with specific methods tailored to the needs of that particular client and risk. State and briefly explain two (2) other means of collating information.

Solution:

- (i) Insurers' Questionnaires
 - An insurer's supplementary questionnaire, for example an additional drivers' form for motor insurance, will often have the same function as the proposal form and the comments we've made on proposal forms also apply.
- (ii) Brokers' Questionnaires
 - Some brokers prepare their own questionnaires as a means of gathering information from a large or multinational risk, where there are many individual sites or subsidiaries involved. These forms will vary from the prosaic, asking for straightforward information such as turnover, payroll, building values, etc., to much more complex forms asking for more detailed information on risk exposures, changes in business activities, e.t.c.
- (iii) Survey Reports
 - The underwriting survey provides the broker with a valuable source of information and is important in obtaining favourable terms. Insurers feel more

confident in providing their best terms when they have the fullest understanding of the risk.

(5 marks for each correctly stated and explained means of collating information. Maximum of 2 to be graded. Total: 10 marks)

11. In the instance that there are delays in the issuance of a policy document, the client may rely on the summary. In summarising the cover, list five (5) important information that are required to be stated in the summary.

Solution:

The summary should include:

- period of cover and insurer;
- any warranties or conditions precedent to liability should be included and should be quoted in full;
- schedules of values and limits of indemnity should be included;
- abbreviations, except for those in common use, should not be used without a full explanation;
- clauses should be described in full, not simply as, e.g., 'subject to NMA 1685';
- any variations to standard policy cover must be repeated in full and not summarised;
- there should be a general and, if necessary, specific statement about claims notification procedures;
- the basis of rating, where relevant should be shown, particularly if the premium is adjustable; and
- credit and special payment terms should be explicit.

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

12. Insurance Brokers need to understand the regulatory issues surrounding choosing an insurer. Explain four (4) factors that should have an impact on how your firm chooses the insurers it will use.

Solution:

The factors are:

- All insurance Companies underwrite direct business from the public and as well accept offer from brokers including agents. There are however specialise companies that undertake reinsurance business in Nigeria.
- It is unlikely that any intermediary even the largest multinational broker will deal with every single insurer. The administrative costs of opening an agency with each insurer and setting up banking facilities do not make this cost-effective, particularly as it may only use an insurer for one or two risks.
- Insurers, in turn, will not deal with every intermediary. They usually only deal with brokers that can provide them with a realistic premium income stream or fit their business methodology.
- Effective insurance broking is built on relationships: not just with clients, but also with insurers. Insurers too, prefer to focus on target brokers, developing and building a relationship, rather than having an agency with every registered intermediary. It is important to build long term relationships in this market.
- Which insurers you can use will undoubtedly have been determined by your employer, based on the client base and the type of business transacted by your firm and other relevant factors.

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

13. The large broking firms maintain their own security departments or risk committees to monitor insurers while the smaller firms will have procedures in place to ensure security. Explain four (4) measures put in place in such instances.

Solution

The following measures should be considered:

- whether the insurer is licensed by the NAICOM;
- setting a standard for the insurers that they will generally deal with for the majority of their business, this might be a combination of the rating given to the insurer by one or more of the specialist agencies together with, say, its head office location and overall size;
- subscribing to the information services provided by the rating agencies and for non-rated insurers products and other credit analysis providers, give broker's risk committees metrics to help them make informed decisions about credit worthiness, using publicly available information:
- comment and information in the financial press and on relevant websites;
- changes in an insurer's underwriting policy, e.g. a move to 'buying in' policies underwriting risks at below cost to obtain cash flow; and
- paying particular attention to the speed at which the insurer settles claims and returns premiums.

(2½ marks for each correctly explained measure. Maximum of 4 to be graded. Total: 10 marks)

14. There are many reasons why a Broker should deal with a wide variety of markets, even where the basis of broking on an individual risk is 'fair analysis'. State any four (4) reasons why the above is so.

Solution:

The reasons are to:

- reduce exposure to a sudden change in underwriting philosophy;
- reduce exposure to the insolvency of an insurer;
- provide the widest knowledge of what is available;
- ensure that competitive terms are obtained;
- ensure the availability of capacity; and
- ensure the ability to deal with unusual risks.

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

Part II

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

- 15. (a) State seven (7) regulatory requirements on insurance institutions by NAICOM as it relates to claims management. (14 marks)
 - (b) State eight (8) regulatory requirements on insurance institutions/practitioners by NAICOM as it relates to claims notification. (16 marks)

Solution

- (a) The regulator, NAICOM, requires that every insurance institution shall:
 - ensure that claims settlement procedures are clearly defined and appropriately communicated to the insured.
 - set out timelines in its policy and procedure manual within which to settle all admitted claims.

- have a fair and transparent claims handling and claims dispute resolution procedures in place.
- maintain written documentation on its claims handling process.
- inform claimants about procedures, formalities and common timeframes for claims settlement
- provide claimants with information about the status of their claims in a timely manner.
- ensure that assessors and adjusters are given independence to operate.
- explain to its clients their obligation to notify claims promptly and to disclose all material facts and advise subsequent developments as soon as possible.
- give prompt advise to the clients on any requirements concerning the claims the insurer shall ensure that the claims settlement process is handled fairly, promptly and efficiently and in accordance with the terms of the insurance contract and company policy. The insurer, broker or agent shall have documented internal policies and procedures for the fair, prompt and efficient handling of claims in accordance with the terms of the insurance contract and company policy. Such policies and procedures shall be approved by the Board of Directors and reviewed and updated periodically. The insurer, broker or agent shall ensure that staff are aware of and adhere to these procedures.
- timely an and accurate information shall be provided to the policyholder or claimant at all times.

(2 marks for each correctly stated regulatory requirement as it relates to claims management. Maximum of 7 to be graded. Sub Total: 14 marks)

- (b) The claim notification shall adhere to the following procedure:
 - notification of the claims may be made in line with the policy conditions, provided that the claimant shall use any fast means of communication to the insurer, designated contact person or department or through the intermediary by direct reporting, telephone call, text message, email, fax, letter, use of social site or website, any other form of technology of wide usage.
 - provided that where the mode of communications used lacks written evidence, the insurer shall inform the claimant of the need to follow up such communications with a letter and/or completion of the appropriate claims form.
 - where claims notification (or an incident that may give rise to claims) is received by an intermediary, such notification shall immediately but not later than 2 working days be transmitted to the insurer.
 - when a policyholder or claimant reports a loss, the insurer, broker or agent shall make available an appropriate claims form for the class of business, with clear instructions as to how the fonn shall be completed. This shall be done within working days of receiving notification of a claim when a loss is reported, the insurer, broker or agent shall advise the policyholder or claimant to co-operate in the investigation by providing the insurer with all relevant information to ensure timely processing of the transaction.
 - if the insurance institution requires specific documents from policyholder or claimant when a claim is filed, such as copies of official documents regarding the loss or any other relevant form of evidence, the insurer, broker or agent shall provide a list of these requirements with the claims form.

- if a broker or agent is the initial contact for the policyholder, the broker or agent shall forward the completed claims form to the insurer within 2 working days from the date of receipt of the completed claims form.
- an insurer shall respond promptly to notification of a claim. The insurer shall acknowledge receipt of the claims form within 2 working days.
- the insurer shall indicate to the policyholder or claimant the relevant department or contact person to whom all information or enquiries must be channeled. The insurer's claims department, the broker or agent shall be easily accessible.
- the insurer shall maintain a checklist for all relevant documents needed. This shall be completed and dated for all claims.
- the insurer shall advise the policyholder of the consequences of submitting a false or incomplete statement (which could include criminal prosecution).
- if a claim involves more than one insurer on the risk, the lead insurer or broker, where applicable, shall contact the other insurer(s) within two working days of the initial notification.
- the insurer shall inform the policyholder or claimant if an independent adjuster will be engaged to conduct a survey and/or an assessment. Where the insurer uses claims adjusters or other intermediaries, the insurer must be satisfied as to their competence and qualifications and shall use only persons who are registered for these purposes. The insurer shall hire the adjuster within 2 working days from the date of receipt of the completed claims form accompanied by all relevant documentation. The 'adjuster shall submit the assessment of damage report within ten (10) working days after receiving the instructions from the insurer. In large and complex special risk losses, a specified extra grace period might be allowed; however, the claimant shall be formally notified of this exception and evidence of concurrence obtained.
- within five (5) working days of receipt of the assessment report, the insurer shall notify the claimant as to its acceptance or rejection of the claims.
- in instances where the insurer does not engage the services of an adjuster, the insurer shall conduct an investigation into the reported loss within five (5) working days of receipt of a Claims Form accompanied by all relevant documentation.
- an Insurance intermediary shall advise the client without delay of the insurer's
 decision or otherwise on a claim; and give all reasonable assistance to the client in
 pursuing his claims provided that, the intermediary shall not take up recovery
 assignment on a policy contract which has not been serviced through him or shall
 not work as a claims consultant for a policy which has not been serviced through
 him.
- an insurer shall not settle an insurance claims in which it did not issue the policy or participate as co-insurer in an attempt to entice a policyholder whose claims was rejected. If an insurer has a genuine reason why such claims shall be paid, it shall be reported to the appropriate authorities.

(2 marks for each correctly stated regulatory requirement as it relates to claims notification. Maximum of 8 to be graded. Total: 16 marks)

(Grand Total: 30 marks)

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(a) (i) Under-Subscribed Risk;

(b) Over-Subscribed Risk;

(iii) Subjectivities;

(d) Cover Notes. (24 marks)

(b) Enumerate any three (3) essentials of an effective diary system in a Brokerage Firm. (6 marks)

Solution:

- (i) Under-Subscribed Risks: If not all the insurance required is subscribed and there is no other placing, the insured is their own insurer for the unpaid balance. It is essential, therefore, that the broker keeps the client informed as to their progress in completing the slip. This is so that the client is kept aware of the implications of full cover not being achieved by inception and can either self-insure or find alternatives for the remaining proportion (perhaps another broker).
- (ii) Over-Subscribed Risks: If support for the risk exceeds the total required, i.e. the risk is over-subscribed, the broker must sign down each underwriter's proportion of the slip to meet the total required. They will then need to inform all the insurers of their final participation/line promptly.
- (iii) **Subjectivities:** Insurers may impose a *subjectivity* on the contract, e.g. 'subject to satisfactory survey', 'subject to receipt of a proposal form' etc. These subjectivities can be a pre-condition of the insurance contract or a condition of continued cover after inception. They can relate to all or part of the cover.

To comply with contract certainty, it is essential that any subjectivity is clear as to:

- who needs to do what, by when and to what standard;
- the terms and/or cover that apply until it is done; and
- the consequences if it is not done.
- (iv) **Cover Notes:** The traditional cover notes for motor and marine insurance are still common in the Nigeria market, however, it is evolving from the handwritten cover note booklet that are usually forwarded to the broking office over the years. Some insurers now have online portals for brokers to issue electronic cover notes. These systems reduce fraud, increase the efficient of broker/insurer communication and provide better quality documentation for clients. The speed of electronic system between broker and insurer also means that permanent policy documentation in real time is more common. Whether this is created by an electronic trading platform or by the underwriter in the insurers' office, it is common to have policy documents within minutes or hours of issuing cover, rather than the days and weeks it took in the past.

(6 marks for each correct explanation. Sub Total: 24 marks)

- (b) Effective diary systems are essential to:
 - alert the broker that a renewal is due;
 - ensure the tasks passed to another party, for example a request for an extension of cover, are acted upon in good time;
 - ensure that premiums are collected from clients and paid to the market within agreed timescales; and
 - ensure that any warranties applied to the contract are handled prior to their requirement date.

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

Grand Total: 30 marks)

- 17. (a) (i) What is the role of the Broker in Risk Management? (2 marks)
 - (ii) Enumerate any ten (10) services required to be offered by a Broker.

(20 marks)

(b) List four (4) risk control techniques.

(8 marks)

Solution:

(a) (i) Traditionally, the main role of the broker was to provide advice on the selection of insurers, execute instructions and provide, in the case of larger firms, a risk survey service. However, in modern times the whole process of managing and transferring risk is more sophisticated.

The role of the broker is to help a client organisation achieve its risk management objectives. Thus, the broker can be involved in one or all of the basic functions of identification, evaluation, control and transfer.

(2 marks)

- (ii) The list of services offered are:
 - * Risk Identification Surveys and Subsequent Discussions;
 - * Loss Analysis and Projection;
- * Security/Fraud;
- * Property Loss Prevention and Control; * Programme Monitoring;
- * Assessments of Maximum Possible and Probable Loss Values;
- * Business Interruption Analysis;
- * Crisis Management;
- * Self-Insured Fund and Captive Management;
- * Employee Safety

- * Motor Fleet Risk Management;
- * Innovative Risk-Transfer Programme Design;
- * Fire Engineering Design and Consultancy Environmental Impairment.

(2 marks for each correctly stated service. Maximum of 10 to be graded. Sub Total: 20 marks)

- (b) The risk control techniques are:
 - * avoidance:
- * reduction;
- * prevention;

- * minimization:
- * transfer.

(2 marks for each correctly stated risk control technique. Maximum of 4 to be graded. Total: 8 marks) (Grand Total:30 marks)

- 18. (a) Enumerate any three (3) information to be considered when an insurer is providing professional advice to a client. (6 marks)
 - (b) Enumerate any eight (8) reasons why an insurance institution should provide training for its staff and agents. (24 marks)

Solution:

- (a) While giving professional, technical and specialist advice an insurer should ensure, (where customers receive advice before concluding an insurance contract) that:
 - Such advice is appropriate; taking into account the customer's disclosed circumstances.
 - Such advice includes recommendations on the appropriateness of a product policy based on the disclosed needs of the customer.
 - Explain and document the basis of the advice.
 - Communicate in a clear and effective manner to the customer any potential conflict of interest.
 - There is a system in place to monitor the quality of advice given by its staff or agents. (2 marks for each correctly stated information. Maximum of 3 to be graded. Sub Total: 6 marks)
- (b) An insurance institution should provide continuous training programs to ensure that its staff and its agents:

- Are abreast of market trends, economic conditions, innovations and modifications made to the products and services;
- Maintain appropriate level of industry knowledge including the characteristics and risks of the products and services;
- Know the applicable legal and regulatory requirements
- Understand the requirements for effective communication of information regarding the products and services;
- Are familiar with the documentation regarding the company's products and services;
- Are competent, suitable and up to date in technical and management issues -as it affects their works:
- Are aware of legal requirements including the law of agency affecting their activities; and only handle classes of business in which they are competent
- Are aware of and adhere to the standards expected of them by this guideline.
- Understand the type of client it is dealing with and the extent of the client's awareness of risk and insurance.
- Give advice only on those matters in which it is knowledgeable and seek or recommend other specialists for advice when necessary
- With particular reference to Brokers, explain why policies are proposed and provide comparisons in terms of price, cover or service.

(3 marks for each correctly stated reason. Maximum of 8 to be graded. Sub Total: 24 marks) (Grand Total: 30 marks)