



Chartered Insurance

Institute of Nigeria

Chief Examiners' Report

October 2025

Associateship

(A01- A10)

GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

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



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A01

RISK, REGULATION AND CAPITAL ADEQUACY

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A01 – RISK, REGULATION AND CAPITAL ADEQUACY

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

All candidates attempted this question. While 47.5% of them scored above average, the majority did not understand the question.

Question 2

All candidates attempted this question, but it was found that a few of them understood it. The majority struggled with part (a), which focused on capital modeling. Only 30.8% were able to pass this question.

Question 3

This question aimed to evaluate the candidates' understanding of corporate governance concepts. Out of 240 candidates, 119 performed well, while 121 failed, indicating a failure rate of 50.4%. There is a need for improvement in the candidates' learning.

Question 4

This question aimed to assess the candidates' understanding of mathematical concepts. Of the 240 candidates who attempted it, only 76 passed, resulting in a pass rate of 31.7%.

Question 5

This question evaluated the candidates' knowledge of the concept of risk. Out of 240 candidates, 121 passed, representing 50.42%. This indicates that the candidates have difficulty applying the concept of risk to real-world situations.

Question 6

This question was straightforward; however, the examiner observed that candidates misinterpreted it. The question focused on the factors or reasons why most organisations adopt risk management, but many misunderstood it. Only 37.5% of the candidates passed, while 62.5% failed.

Question 7

The candidates performed very well on this question, with nearly all of them attempting it. A remarkable 92.5% passed, while only 7.5% failed. This question was straightforward.

Question 8

The examiner observed that the question was quite standard and candidates exceeded average marks. A total of 92.5% passed, while 7.5% failed.

Question 9

This is a compulsory question, and all the candidates attempted it, with 67.1% achieving excellent marks. The candidates understood parts (a), (b), and (c) very well; however, most struggled with part (d) of the question.

Question 10

This question was about regression analysis. The examiner observed that only 104 out of 240 candidates attempted it, and 81.5% scored above average.

Question 11

Out of 240 candidates, 63 attempted this question. The pass rate was 17.5%, while a significant majority of 82.5% failed. The candidates did not understand part (b) of this question.

Question 12

Out of the 206 candidates who attempted this question, only 6 failed. This indicates that 97.1% of the candidates scored above the average mark.

Question 13

This question aimed to assess the candidates' knowledge regarding their ability to analyse and quantify risk, as well as their critical thinking skills. A total of 213 candidates attempted the question, out of which 167 (78.4%) scored above the average mark.

Question 14

A total of 240 candidates attempted this question, but only 131 candidates engaged with it. Of those, 52% passed. A significant number of candidates demonstrated a lack of understanding of the question, despite its straightforward nature.

Comments on Overall Performance:

Overall performance was good, with the pass rate exceeding the average level of performance.

Suggestions on Improvement(s) (if any):

Candidates are encouraged to prepare thoroughly ahead of the examination.

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

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. (a) What is IBNR? (2 marks)
 (b) Explain what takes place under an “excess of loss” reinsurance cover. (4 marks)

Solution

- (a) IBNR is a reserve for Incurred But Not Reported Claims. (2 marks)
 (b) Under the excess of loss reinsurance cover, the agreement would be that the primary insurer pays the first ~~N~~x of losses arising from an event (2 marks) after considering any deductible payable by the insured (1 mark), and the reinsurer pays ~~N~~y in excess of ~~N~~x (1 mark).
 (Sub-Total: 4 marks) (Grand Total: 6 marks)

2. (a) Define “risk-based capital modelling”. (2 marks)
 (b) What are the two (2) actions that an insurance company can do in the case of a shortfall in its capital base? (4 marks)

Solution

- (a) Risk-Based Capital Modelling is the name given to a number of mathematical modelling techniques used for calculating the capital that an insurer should allocate to each of its component businesses or product lines. (2 marks)
 (b) The two basic actions that an insurance company does in the case of a shortfall in its capital base are:
 (i) to raise more regulatory capital;
 (ii) to divest assets
 (iii) to reduce expenses
 (2 marks for each correct and completely stated action. Grand Sub-Total: 4 marks)
 (Grand Total: 6 marks)

3. (a) Define Corporate Governance. (2 marks)
 (b) State four (4) the importance (or uses) of a corporate governance policy (4 marks)

Solution

- (a) Corporate governance is the set of processes and organisational structures through which the Board and senior executives manage a company at the highest level. (2 marks)
 (b) The importance (or uses) of a corporate governance policy to an organisation and utilising/adopting the policy are:
 • it fosters a culture of integrity that covers professional performance of the organisation by ensuring that the organisation operates according to a set of policies, processes and rules;
 • it enables an organisation to position itself as a force to be trusted within the market;
 • it aligns the interests of the management of an organisation with those of key stakeholders, shareholders and its board of directors;
 • it sets apart an organisation that practices it from competitors;
 • it provides assurance to the market that an organisation is well managed and has a clear understanding and plan for its business strategy;
 • it clarifies the various roles/duties of all stakeholders – within and without of the organisation;
 • it makes organisations to be more accountable and transparent to investors;
 • it gives organisations tools to respond to legitimate stakeholder concerns such as sustainable environmental and social development;

- it contributes to development and increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities;
- a lack of corporate governance can lead to profit loss, corruption and a tarnished image, not only to the organisation, but to the society, or even worse will influence global as a whole;
- it recognises the shareholders and ensures that all shareholders have a say in the inner workings of a company;
- poor corporate governance can:
 - a. create potential conflicts of interests, expropriation and unfair of minority shareholders; and
 - b. it can greatly erode public confidence and tarnished society, or worldwide as a whole.

(1 mark for each correct and correctly stated importance/use. Maximum of 4 to be graded. Sub-Total: 4 marks) (Grand Total: 6 marks)

4. (a) Given that $P(A) = 0.2$ and $P(B) = 0.8$ Calculate $P(A \text{ and } B)$. Show all steps clearly. (2 marks)

- (b) Distinguish between a simple pie chart and an enhanced pie chart. (4 marks)

Solution

$$\begin{aligned}
 \text{(a)} \quad P(A \text{ and } B) &= P(A) * P(B) && (1 \text{ mark}) \\
 &= 0.2 * 0.8 && (\frac{1}{2} \text{ mark}) \\
 &= 0.16 && (\frac{1}{2} \text{ mark})
 \end{aligned}$$

(Sub-Total: 2 marks)

- (b) A simple pie chart is the representation of data into different segments or sectors in a circle (2 marks); and an enhanced pie chart is the critical analysis of each segment or sector under the simple pie chart (2 marks). (Sub-Total: 4 marks)

(Grand Total: 6 marks)

5. (a) State any two (2) definitions of a risk. (2 marks)

- (b) Distinguish between actual and perceived risks. (4 marks)

Solution

- (a) Risk may be defined in any of the following ways:

- it is an uncertainty of loss;
- it is a possibility of loss;
- it is a combination of the probability of occurrence of an undesired outcome (loss) and its consequences.

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

- (b) **Actual risks** are those risks we can directly observe most especially through physical counting of the current or past events relating to them **OR Actual risks** may equally be described as risks measured through any mathematical or scientific ways (2 marks); while **perceived risks** are risks as being perceived by individual persons (2 marks). (Sub-Total: 4 marks)

(Grand Total: 6 marks)

6. State any four (4) reasons or factors why most organisations are now adopting risk management culture.

Solution

The reasons or factors why most organisations are now adopting risk management culture are:

- corporate governance issues;
- financial services reforms;
- discoveries of new risks;

- nonchalant attitude of the society as a whole to accept risk;
- an increase in both the frequency & severity in man-made and natural disasters such as terrorisms and hurricane;
- more awareness for financial compensation by the aggrieved parties;
- government intervention on business regulations and legislations.

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

7. Outline any four (4) ways in which a proposal may be made by the insured to an insurance company.

Solution

The ways in which a proposal may be made by the insured to an insurance company are:

- * through completion of the hard copy of the proposal form;
- * through telephone calls;
- * through a broker slip (lloyd's market);
- * through a broker;
- * through the internet.

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

8. (a) If the empirical relationship between the mean, median and mode is represented as below: $P - Q = 3(P - R)$. What does P, Q and R stand for?
- (b) State three (3) features of the mean.

Solution

- (a) $P = \text{Mean}$; $Q = \text{Mode}$; and $R = \text{Median}$.

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

- (b) The features of the mean are:
- * it makes use of all the variables given in the data;
 - * it is the best known of all the averages;
 - * it can be used for further mathematical processes;
 - * it may be affected by extreme values;
 - * it is very easy to compute.

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

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) There are various types of compulsory insurances types in Nigeria. Enumerate any four (4) of these and state the effective coverage provided by each. (10 marks)
- (b) Distinguish between "correlation" and "correlation co-efficient". (5 marks)
- (c) The data below was for Magboro Life Insurance Company for the company's five best agents:

Premium (x) (in million)	10	30	50	70	100
Commission (y) (in million)	2	4	4	6	7

- (d) Calculate the co-efficient of correlation using Karl Pearson method. (25 marks)
- Irawo Insurance Company Limited has arranged an excess of loss reinsurance programme with Osupa Reinsurance Plc to protect its General and Accident Insurance Portfolio in three layers as below:
- 1st Layer: ₦2,000,000 XS ₦1,000,000
- 2nd Layer: ₦2,000,000 XS ₦3,000,000
- 3rd layer: ₦2,500,000 XS ₦5,000,000

As the Reinsurance Principal Manager of Irawo Insurance Company, you are required to apportion the following different losses between your company and Osupa Reinsurance Plc taking into consideration the appropriate layers responsible for each of the losses:

- | | | |
|--------------------|--------------------|---------------------|
| (i) ₦1,800,000.00 | (ii) ₦950,000.00 | (iii) ₦4,800,000.00 |
| (iv) ₦7,500,000.00 | (v) ₦10,000,000.00 | (10 marks) |

Solution

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

- **Third Party Motor Insurance:** protects third parties;
- **Builders Liability Insurance:** protects against construction-related risks;
- **Occupiers Liability Insurance:** covers liabilities from property occupancy;
- **Employers Liability Insurance:** covers employer liabilities for employee injuries;
- **Health Care Professional Indemnity Insurance:** protects healthcare providers against malpractice claims;
- **Group Life Assurance:** It makes provision for the payment of the death benefit to the named beneficiary(ies) in case of death of any of the members (employees) covered within the period of cover and provided the employee who passes on was still in the employment of the employer.

(1½ marks for each correctly stated type. 1 mark for each correct coverage provided. Sub-Total per coverage type: 2½ marks. Maximum of 4 to be graded. Total: 10 marks)

(b) (i) **Correlation** may be defined as the level or degree of relationship which exists between two variables. It may equally be described as the strength of association between two variables (2½ marks) while, **Correlation Co-efficient** is a statistical measure which determines the level of linear relationship between two variables. It is usually represented by the symbol 'r' or 'R'. Furthermore, it ranges from – 1 to +1 (2½ marks).

(Sub-Total: 5 marks).

(c)

X	y	xy	x ²	y ²
10	2	20	100	4
30	4	120	900	16
50	4	200	2,500	16
70	6	420	4,900	36
100	7	700	10,000	49
Σ = 260	Σ = 23	Σ = 1,460	Σ = 18,400	Σ = 121

(½ mark for each of the correctly worked xy, x², y² and summations (Sub-Total: 10 marks)

$$\begin{aligned}
 r &= \frac{n\sum xy - \sum x \sum y}{\sqrt{(n\sum x^2 - (\sum x)^2)(n\sum y^2 - (\sum y)^2)}} && (2 \text{ marks}) \\
 &= \frac{5(1,460) - (260)(23)}{\sqrt{(5(18,400) - (260)^2)((5(121) - (23)^2))}} && (2 \text{ marks}) \\
 &= \frac{7,300 - 5,980}{\sqrt{(92,000 - 67,600)(605 - 529)}} && (1 \text{ mark}) \\
 &= \frac{1,320}{\sqrt{(24,400)(76)}} && (1 \text{ mark}) \\
 &= \frac{1,320}{\sqrt{1,854,400}} && (1 \text{ mark}) \\
 &= \frac{1,320}{1,361.76} && (1 \text{ mark}) \\
 &= 0.9693 && (1 \text{ mark})
 \end{aligned}$$

(Sub-Total: 15 marks)

(Grand Total: 25 marks)

- (d) (i) **₦1,800,000.00:** Irawo Insurance Company bears ₦1,000,000.00 and the first layer bears ₦800,000.00. (2 marks)
- (ii) **₦950,000.00:** Irawo Insurance Company bears the whole loss amount. (2 marks)
- (iii) **₦4,800,000.00:** Irawo Insurance Company bears ₦1,000,000, the first layer bears ₦2,000,000.00, the second layer bears ₦1,800,000.00. (2 marks)
- (iv) **₦7,500,000.00** – Irawo Insurance Company bears ₦1,000,000, the first layer bears ₦2,000,000, the second layer bears ₦2,000,000.00 and the third layer bears ₦2,500,000.00. (2 marks)
- (v) **₦10,000,000** – Irawo Insurance Company bears ₦3,500,000, the first layer bears ₦2,000,000.00, the second layer bears ₦2,000,000.00 and the third layer bears ₦2,500,000.00. (2 marks)
- (Grand Sub-Total: 10 marks)**
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) What is Regression? (3 marks)
- (b) Explicitly outline four (4) uses of regression. (8 marks)
- (c) The table below shows the marks obtained by candidates in the Continuous Assessment in the first and second semesters of financial accounting during the 100 level at Purposeful University.

First Semester (x)	1	6	3	8	3	10	6	7	4	9	1	6
Second Semester (y)	8	9	4	6	3	2	10	1	5	7	8	9

Find the regression line of y on x; showing all the workings/steps. (23 marks)

Solution

(a) Regression may be defined as the relationship which exists between two or more variables. This relationship may have to do with a change or changes that may occur to one of these variables as a result of a change or changes in the other variables. It can also be defined as a mathematical expression of the relationship between independent and non-independent variables.

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

b) The uses of regression are:

- to determine the relationship which may exist between two or more variables.
- to describe the kind of relationship which may exist in (i) above
- to improve our knowledge on the variable of interest (i.e. the dependent variable)
- for estimation
- for forecasting i.e. used as a predictor of value.

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

(c)

	x	Y	xy	x ²	y ²
	1	8	8	1	64
	6	9	54	36	81
	3	4	12	9	16
	8	6	48	64	36
	3	3	9	9	9
	10	2	20	100	4

	6	10	60	36	100
	7	1	7	49	1
	4	5	20	16	25
	9	7	63	81	49
Sub-Total:	57	55	301	401	385

¼ mark for each of the values in blue ink above. Sub-Total: 7½ marks. 1 mark for each summed total in the table above. Sub-Total: 5 marks. Grand Sub-Total: 12½ marks)

Let the regression line of y on x be represented by:

$$Y = a + bx \quad (2 \text{ marks})$$

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

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

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

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

$$B = -0.1643 \quad (1/2 \text{ mark})$$

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

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

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

$$= 6.4365 \quad (1/2 \text{ mark})$$

$$Y = 6.4365 - 0.1643x \quad (1 \text{ marks})$$

(Sub-Total: 10½ marks)

(Grand Sub-Total: 23 marks)

(Grand Total: 34 marks)

11. (a) What is money laundering? (5 marks)
- (b) Describe Alternative Risk Transfer (ART) in detail and state two (2) examples of the Alternative Risk Transfer products. (16 marks)
- (c) Outline any three (3) options available under the risk financing. (9 marks)
- (d) Write out the full meaning of the following acronyms in relation to Risk-Based Approach to Capital Requirements: (4 marks)
- (i) ECR; (ii) CRR; (iii) ICA; (iv) ICG.

Solution

(a) **Money laundering** is the process whereby criminals attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities (2 marks), thereby avoiding prosecution (1 mark), conviction (1 mark) and confiscation of the criminal funds (1 mark). (5 marks)

(b) **Alternative Risk Transfer (ART)** is the name given to a range of instruments that enable an organisation to transfer financial risk to a professional risk carrier (3 marks) other than by way of a conventional insurance contract (3 marks). The professional risk carriers in this case are the capital markets (2 marks), rather than the insurance (1 mark) and reinsurance markets (1 mark). (10 marks)

The two examples of the “alternative risk transfer” products are:

* finite reinsurance; * sidecars; * derivatives; and * catastrophe bonds.
(3 marks for each correctly stated product. Maximum of 2 to be graded. Sub-Total: 6 marks)
(Grand Sub-Total: 16 marks)

- (c) The options available under the risk financing are:
- | | |
|-------------------------|------------------------------|
| * handle as an expense; | * loans; |
| * contingency fund; | * captive insurance company. |
- (3 marks for each correctly stated option. Maximum of 3 to be graded. Sub-Total: 9 marks)**
- (d)
- | | | |
|-------|------------------------------------|-----------------|
| (i) | ECR: Enhanced Capital Requirement | (1 mark) |
| (ii) | CRR: Capital Resources Requirement | (1 mark) |
| (iii) | ICA: Individual Capital Adequacy | (1 mark) |
| (iv) | ICG: Individual Capital Guidance | (1 mark) |
- (Sub-Total: 4 marks)**
- (Grand Total: 34 marks)**
- 12.
- | | | |
|-----|--|-------------------|
| (a) | Give any three (3) correct definitions of underwriting. | (9 marks) |
| (b) | Discuss a “proposal form”, with four (4) unique features. | (8 marks) |
| (c) | Outline any five (5) means through which a proposal form can be completed by a proposer. | (10 marks) |
| (d) | Differentiate between “binding authority” and “underwriting authority”. (7 marks) | |

Solution

- (a) The definitions of underwriting are:
- it is a process of determining whether or not the risk proposed for insurance should be accepted, and if it is to be accepted at what premium rates, terms and conditions;
 - it is a risk appraisal technique;
 - it is a risk selection process;
 - it is an equitable system of assessing all those who transfer their risks to a common pool;
 - it may equally be described as a risk management technique or process.
- (3 marks for each correct and completely stated definition. Maximum of 3 to be graded. Sub-Total: 9 marks)**

- (b) A proposal form may be defined as a pre-designed form which is used to elicit all vital information relating to the proposed risks for insurance. This vital information is referred to as the material fact. Though, in practice the contents and wordings of the proposal form vary from an insurance company to the other, but the main objective is the same, and which is to elicit all the information supplied by the proposer with a view to determining whether or not to accept the risk proposed for insurance and if it would be accepted, at what premium rate, terms and conditions. A proposal form is an offer made by the prospecting clients.

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

- (c) The means through which a proposal form can be completed by a proposer are:
- | | |
|--|----------------------------|
| * through physical completion of the form; | * through telephone calls; |
| * through a Broker; | * through the internet; |
| * through a broker slip (Lloyd's market) | * through an agent; |
| * through the social media platforms of the insurer. | |
- (2 marks for each correctly stated mean. Maximum of 5 to be graded. Sub-Total: 10 marks)**

- (d) **Underwriting Authority:** this is the level of authority granted by an insurance company within certain predefined limits to the insurance intermediaries (such as the insurance brokers). It may equally be granted by the reinsurer to the insurance company and reinsurance broking firms. However, a higher commission than the normal commission may be allowed to compensate the brokers for their involvement efforts in the underwriting process.

Binding Authority: a binding authority gives the direct brokers and reinsurance brokers the authority to accept risks on behalf of the insurer/reinsurer and place the risks accepted with them. Please note that the risks accepted within this authority limits give a valid cover, and therefore binds the insurer/reinsurer towards meeting their claims obligations to the client.

(3½ marks for any correct and completely stated description. Maximum of one description to be graded under each term. Sub-Total per term: 3½ marks. Grand Sub-Total: 7 marks)
(Grand Total: 34 marks)

13. (a) If Mr. Oluwainsure tosses a single fair die once, calculate the probability that:
 (i) the die shows a 5; (ii) the die shows an even number;
 (iii) the die shows an odd number; (iv) the die shows either a 4 or a 5. (16 marks)
 (b) If a Generator is worth ₦5,000,000.00 with a given probability of total loss of 20%. Kindly calculate the expected loss value? (8 marks)
 (c) Outline any 4 (four) benefits/advantages of risks. (10 marks)

Solution

- (a) (i) $P(\text{the die shows } 5) = 1/6$ (6 marks)
 (ii) $P(\text{the die shows an even number}) = 3/6 = 1/2 = 0.5$ (4 marks)
 (iii) $P(\text{the die shows an odd number}) = 3/6 = 1/2 = 0.5$ (4 marks)
 (iv) $P(\text{the die shows either 4 or 5}) = 1/6 + 1/6 = 2/6 = 1/3$ (4 marks)
 (Sub-Total: 15 marks)

(b) The value of the Generator is = ₦5,000,000.00
 The probability of total loss = 20% = 20/100 = 0.20. (2 marks)

The expected total loss value = ₦5,000,000 * 0.20 (4 marks)
 = ₦1,000,000.00 (2 marks)

- (c) The benefits/advantages of risks are:
 • it allows us to achieve some positive results if we accept it in our everyday life;
 • it imbibes a safety consciousness in us;
 • it also enables us to improve our knowledge on variables of interest;
 • it creates endless opportunities in the business world, which eventually leads to positive rewards for the investors;
 • it creates an avenue to make choices in life.

(2½ marks for each complete and correctly stated benefit/advantage. Maximum of 4 to be graded. Sub-Total: 10 marks)

(Grand Total: 34 marks)

14. Write comprehensively on the following measures of central tendency, explicitly taking into consideration three (3) of their individual features; the definition and the formulas for both grouped and ungrouped data:

- (a) Arithmetic Mean (12 marks) (b) Median (12 marks)
 (c) Mode (10 marks)

Solution

(a) **Arithmetic Mean:** this is the sum of the variables in the data given divided by the total number of occurrence or frequency (4 marks). The mathematical formula is $\sum fX / \sum f$ or $\sum fX / N$ (for grouped data) (2 marks) and $\sum X / n$ (for ungrouped data) (2 marks).

The features of the arithmetic mean are as follows:

- it is very easy to compute and understand for both grouped and ungrouped data;
- it makes use of all the variables;

- it is the most known of all the averages;
- it can be used for further mathematical processes;
- it may likely be affected by extreme values.

(2 marks for each correctly stated feature. Maximum of 2 to be graded. Sub-Total: 4 marks) (Grand Sum Total: 12 marks)

(b) **Median:** this is the middle variable or the mean of two middle variables after the variables have been arranged either in ascending or descending order (4 marks).

The mathematical formula of median for group data is:

$$L_1 + \frac{C(N/2 - Ef_{b4})}{f_m} \quad \text{OR} \quad L_1 + \frac{(N/2 - Ef_{b4})C}{f_m}$$

(2 marks) and

For ungrouped data, median is the middle variable or number or mean of the two middle numbers after arranging the variables in ascending or descending order. (2 marks).

The features of the median are as follows:

- it is the second most known of all the averages;
- for ungrouped data, it is very easy to compute and understand;
- it has limited practical applications;
- it is not mostly affected by extreme values.

(2 marks for each correctly stated feature. Maximum of 2 to be graded. Sub-Total: 4 marks) (Grand Sum Total: 12 marks)

(c) **Mode:** this is the variable which has the highest number of occurrence in the data given. (2 marks).

The mathematical formula of Mode for group data is: $L_1 + \frac{(D_1)}{(D_1 + D_2)}$

(2 marks) and

for ungrouped data, the mode is the variable which occurs the most (2 marks).

The features of the mode are as follows:

- it may not necessarily be affected by extreme values;
- for both grouped and ungrouped data, it is very easy to compute and understand;
- it has limited practical applications;
- it is not mostly affected by extreme values;
- for a given data, the mode may not be unique.

(2 marks for each correctly stated feature. Maximum of 2 to be graded. Sub-Total: 4 marks) (Grand Sum Total: 10 marks)
(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A02

REINSURANCE: PRINCIPLES AND APPLICATION

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A02 – REINSURANCE: PRINCIPLES AND APPLICATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was well attempted by the candidates.

Question 2

The question was well attempted by the candidates, demonstrating a good understanding of the topic. Approximately 90% of those who attempted the question achieved a pass mark, indicating a strong overall performance.

Question 3

The candidates' performance on this question was average, with less than 40% attaining a pass mark.

Question 4

Overall performance was moderate, with 52% of the candidates passing the question, indicating room for improved understanding and preparation.

Question 5

The candidates' performance was average, showing a fair understanding of the topic but indicating a need for better preparation.

Question 6

The question was well attempted by the candidates, with 51% of those who answered it achieving a pass mark. This indicated a fair level of understanding of the topic, though there is still room for improvement among the remaining candidates.

Question 7

The candidates demonstrated an average performance on the question, with 54% of them achieving a pass mark. This indicated a fair understanding of the topic; however, better preparation is recommended for improved performance in future examinations.

Question 8

A total of 55% of the candidates obtained a pass mark, showing that just over half demonstrated a reasonable grasp of the topic. However, 45% did not meet the pass mark. Improved efforts and preparation are needed to enhance overall performance.

Question 9

The question was compulsory, only 35.8% of the candidates were able to achieve a pass mark. It was observed that approximately 20% of the candidates did not attempt parts (a) and (c) of the question, which significantly affected their overall performance. This suggested that some candidates may have had difficulty understanding the question.

Question 10

The question evaluated the candidates' understanding of the topic and the performance was poor, with only 24% of the candidates achieving a pass mark. This indicated that a significant number of candidates had difficulty understanding the topics tested, suggesting inadequate preparation or a limited understanding of the topics assessed.

Question 11

53% of the candidates who attempted this question passed, indicating a fairly average performance. This suggested that while over half of the candidates demonstrated a reasonable understanding of the topic, there is still room for improvement among the remaining candidates.

Question 12

The performance was very poor, with only 8.7% of the candidates achieving a pass mark. This indicated that the majority of the candidates lacked adequate understanding of the topic and may require more focused study and preparation in this area.

Question 13

Only 10% of the candidates passed the question, reflecting a very low performance. Considering that it was a direct question, a much better outcome was expected. It is suggested that many candidates may not have fully understood the topic or adequately prepared for this aspect of the syllabus.

Question 14

Only 12.87% of the candidates who attempted the question passed, indicating a poor level of performance and a limited understanding of the topic by the majority of the candidates.

Comments on Overall Performance:

The overall performance, with a pass rate of 38%, was below average, indicating that most candidates struggled with the question and demonstrated limited understanding of the topics.

Suggestions on Improvement(s) (if any):

Candidates are advised to take the course more seriously and put in greater effort to improve their performance in future examinations.

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

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. An excess of loss layer is ~~₦~~10million excess ~~₦~~5million with two reinstatements.
- (a) What is the deductible? (2 marks)
- (b) What is the maximum recoverable any one loss? (4 marks)

Solution

- (a) The deductible is ~~₦~~2million. (2 marks)
- (b) Reinstatement allows for multiple on the cover in a year but the maximum recovery on a single loss is still ~~₦~~10million (2 marks). The maximum recoverable in a year is ~~₦~~30million (2 marks)

(Grand Sub-Total: 4 marks)**(Grand Total: 6 marks)**

2. List correctly any three (3)
- (a) forms of alternative dispute resolution.
- (b) alternative risk transfer methods.

Solution (a) The following are the forms of forms of alternative dispute resolution (ADR) are:

- * negotiation; * mediation; * arbitration;
- * conciliation; * expert evaluation.

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

- (b) Alternative risk transfer methods (ART) methods are:
- * self-insurance; * captives; * finite risk contracts;
 - * insurance-linked securities * securitisation; * derivatives.
- (1 mark for each correctly stated method. Maximum of 3 to be graded. Sub-Total: 3 marks)**
- (Grand Total: 6 marks)**

3. A proportional treaty includes a sliding scale commission provision as shown below.

If the loss ratio is	The adjusted Commission shall be
45% or less	37.5%
Greater than 45% but less than or equal to 55%	30%
Greater than 55% but less than or equal to 65%	22.5%
Greater than 65%	10%

At the end of the treaty period, the incurred losses totaled ~~₦~~243,000,000.00 while the premium after all adjustments was ~~₦~~375,000,000.00.

- (a) Calculate the loss ratio. (2 marks)
- (b) Determine the applicable commission ratio and the commission amount. (4 marks)

Solution

- (a) The Loss Ratio = $\frac{\text{₦}243,000,000}{\text{₦}375,000,000}$ (1 mark)
- = 64.8%. (1 mark)
- (Sub-Total: 2 marks)**

- (b) The loss ratio of 64.8% lies in the band 55% to 65%, hence applicable commission ratio is 22.5%. (2 marks)

- Applicable Commission = $22.5\% \times \text{₦}375,000,000.00$ (1 mark)
- = ~~₦~~(84,375,000.00) (1 mark)
- (Sub-Total: 4 marks)**
- (Grand Total: 6 marks)**

4. (a) Describe a sanction clause. (2 marks)
 (b) State and briefly explain any two (2) ways that Brokers can assist to avoid disputes in treaty contract wordings. (4 marks)

Solution

(a) A Sanction Clause is an exclusion that prevents a reinsurer from providing coverage or paying claims in the event of a government prohibiting trade with an individual or country. (2 marks)

- (b) Brokers can assist to avoid disputes in treaty contract wordings in the following ways:
- **risk placement:** The broker will usually be involved during the placement of the business, when the contract terms are being agreed;
 - **pre-selection and ranking of reinsurers:** based on a large number of factors such as financial strength, since the insurer is relying on the reinsurer's ability to pay in the event of a qualifying claim;
 - **claims support:** Brokers also assist to prepare and collect claims.
- (1 mark for each correctly stated way. 1 mark for correct explanation. Sub-Total per way: 2 marks.
 Maximum of 2 to be graded. Grand Sub-Total: 4 marks)
 (Grand Total: 6 marks)

5. (a) State any two (2) objectives that a reinsurer wishes to achieve when buying retrocession. (2 marks)
 (b) The ratings awarded by a rating agency are usually specified using three criteria. Explicitly state any two (2) of these criteria. (4 marks)

Solution

- (a) The objectives that a reinsurer wishes to achieve when buying retrocession are:
- increase acceptance capacity; * limit exposure to losses;
 - give greater stability to the results.
- (1 mark for each correctly stated objective. Maximum of 2 to be graded. Sub-Total: 2 marks)
- (b) The criteria used by a rating agency are usually specified using:
- alphabetic indicators with A series being the strongest while D or E being the lowest;
 - the alphabets are sometimes combined with signs such as -, +, * or repeated (such as BB⁺⁺, AA⁻)
 - outlook showing the rating agency's view about the future direction of a company's rating.
- (2 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 4 marks)
 (Grand Total: 6 marks)

6. Correctly but briefly describe how a treaty written on an underwriting year basis is operated.

Solution

Under this basis, the year of origin of the ceded risk is of importance in that irrespective of when a claim occurs or reported (2 marks), the claim would be recoverable from the reinsurance program that was in force when the business inception (2 marks). The inception date (1 mark) rather than the date of loss is therefore the basis of allocating the claim to reinsurer (1 mark).
 (Grand Total: 6 marks)

7. (a) State any two (2) deductions considered in estimating the gross net premium income under an excess of loss reinsurance arrangement.
 (b) List any two (2) types of commission that can be granted in a proportional treaty.

Solution

- (a) The following items are taken into the calculation of gross net premium income:

- cancellations of original policies; * premium for inuring reinsurance;
 - return premium on the underlying business.
- (1½ marks for each correctly stated type. Maximum of 2 to be graded. Sub-Total: 3 marks)

- (b) The types of commission that can be granted in a proportional treaty are:
- flat rate commission; * sliding scale commission;
 - profit commission.
- (1½ marks for each correctly stated type. Maximum of 2 to be graded. Sub-Total: 3 marks)
(Grand Total: 6 marks)

8. (a) Describe “two risks warranty” usually incorporated in a catastrophe treaty
Stating when and why it is usually incorporated. (4 marks)
- (b) List any two (2) reserve items that are to be found on a treaty written on a clean-cut basis. (2 marks)

Solution

- (a) This is usually included in a catastrophe treaty, especially where the catastrophe deductible is not a large multiple of the reinsured’s per risk retention (2 marks). Catastrophe treaties are not intended to cover the loss arising out of a large single risk, so the clause will ensure that more than one risk has to be damaged by the insured peril before the catastrophe treaty will operate (2 marks)
(Sub-Total: 4 marks)
- (b) The reserve items that are to be found on a treaty written on a clean-cut basis are:
- premium reserve; * loss reserve;
 - interest on reserve; * tax on interest.
- (1 mark for each correctly stated type. Maximum of 2 to be graded. Sub-Total: 2 marks)
(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) (i) State two (2) ways through which the directives in the circular on exhaustion/utilisation of local content capacity prior to any offshore/overseas insurance/reinsurance placement impact the competitive landscape of the insurance industry? (4 marks)
- (ii) In what three (3) ways does the circular reflect the Commission's commitment to regulatory compliance? (6 marks)
- (b) Compact insurance has a maximum property retention of ₦5,000,000.00 sum insured per risk and has a 12-line surplus treaty in place. The (surplus) retention is further protected by an excess of loss treaty for ₦4,000,000.00 excess ₦1,000,000.00. Compact underwrites a risk with a sum insured of ₦80,000,000.00, retains ₦4,000,000.00 and buys additional proportional facultative for the portion of the risk that exceeds the treaty capacity.
- (i) With detailed calculations, show how the liability will be allocated between the retention, surplus treaty and facultative reinsurance. (8 marks)
- (ii) Show the allocation of the loss among the surplus treaty, facultative and excess of loss reinsurers from a sustained loss of ₦40,000,000.00. (12 marks)
- (c) As the reinsurance manager of ABC Insurance, you have been asked to design a reinsurance programme to protect a growing book of business. State and briefly describe any four (4) objectives that should be considered for achievement through the reinsurance programme. (20 marks)

Solution

(a) (i) The directives might have the following implications:

- Provides a competitive edge to local firms that comply with the regulations over foreign insurers.
- Potentially limits market entry for foreign reinsurers, allowing domestic insurers to capture more market share.
- Encourages local companies to innovate and improve service offerings to compete effectively.
- May create a more resilient market as insurers develop local expertise and resources.
- Could lead to consolidation in the industry, with stronger firms acquiring weaker ones that struggle to comply.
- Alters pricing dynamics, as local insurers may have more control over their pricing strategies. Enhances market stability by fostering a competitive environment rooted in regulatory adherence.

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

(ii) Commission's commitment to reflect compliance reflects the following:

- Sets clear directives for insurance companies, outlining expectations for compliance. States specific repercussions for non-compliance, illustrating the seriousness of adherence.
- Actively monitors adherence to regulations through regular inspections and audits.
- Provides a framework for compliance that companies must follow to maintain their licenses. Fosters a culture of accountability within the insurance industry.
- Enhances consumer protection by ensuring that only compliant firms can operate.
- Inform stakeholders that the Commission prioritizes a stable and trustworthy insurance environment.

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

(Grand Total: 10 marks)

(b) (i) Allocation of Liability

Retention on the risk	=	₦4 million	or	$4/80 = 5\%$ of the risk	(2 marks)
Surplus Treaty	=	12 lines			(2 marks)
Cession to Surplus Treaty	=	12 * ₦4 million	=	₦48 million or 48/80	
	=	60% of the risk			(2 marks)
Facultative Reinsurance	=	₦(80 - 4 - 48)	=	₦28 million or 28/80	
	=	35% of the risk			(2 marks)
(Sub-Total: 8 marks)					

(ii) Allocation of the ~~₦40~~million loss

We will use the share of the risk stated/derived in (i) above

Total Loss	=	₦40 million			
Surplus Retention	=	5% * ₦40 million	=	₦2 million	(2 marks)
Surplus Treaty	=	60% * ₦40 million	=	₦24 million	(2 marks)
Proportional Facultative	=	35% * ₦40 million	=	₦14 million	(2 marks)
Excess of Loss Treaty:					
The Deductible	=	₦1 million			(2 marks)
Share of excess of loss treaty	=	Surplus Retention – Deductible			(2 marks)
	=	₦2 million – ₦1 million = 1million			(2 marks)

(Sub-Total: 12 marks)

(Grand Sub-Total: 20 marks)

(c) The following objectives should be considered for achievement through the reinsurance programme:

- **Automatic Reinsurance Cover:** This is best achieved by having a treaty in place as it ensures that all risks within the parameter of the treaty must be ceded by the reinsured and accepted by the reinsurer. There would be no need to seek prior authorization of the reinsurer.
- **Adequate Capacity:** An insurer will usually seek to have gross capacity which is sufficiently large to enable it to accept most of the business offered without needing to seek prior agreement of the reinsurer. The capacity will usually be influenced by the size of the insurer and the size and nature of risks the insurer writes. The insurer will also consider the possibility of accumulation of risks exposed in a particular area to natural perils such as flood, earthquake etc.
- **Sufficient Scope:** the treaty should cover the business currently written by the reinsured. This should be considered in terms of:
 - The classes of business covered by the treaty
 - Exclusions proposed by the reinsurers
 - Territorial scope of the treaty
 - Business written in other currencies
 - Inforce business
- **Economic Advantage:** the reinsurance programme should provide the reinsured with economic advantage. This can be in the form of reinsurance commission offered or reduction of variability in the results of the reinsured or providing greater capacity to operate.
- **Security and Continuity:** Good security is achieved by reinsuring with reinsurers of the top category that are financially strong to withstand the impact of a large market or catastrophe loss. Continuity is achieved by reinsuring with reinsurers who place a premium on relationships.

(3 marks for correctly stated objective. 2 marks for any correct and complete explanation. Sub-Total per objective: 5 marks. Maximum of 4 to be graded. Grand Sub-Total: 20 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) Reinsurance can be bought from a number of entity groups. Provide any two (2) types of entities that provide reinsurance. (4 marks)
- (b) Your company is about to make decision on the appropriate treaty(ies) for next year. Describe any ten (10) factors to be considered in making this choice. (30 marks)

Solution

- (a) The types of entities that provide reinsurance are:
- **professional reinsurers:** they transact only reinsurance business;
 - **insurance companies:** some insurance companies operate active reinsurance departments and write an inward reinsurance account;
 - **Lloyds:** Lloyds has always written a large amount of international reinsurance business. (2 marks for each correctly stated type. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) The following factors will be considered in choosing the right treaty for the following year:
- does the portfolio consist of individual risks with varying sums insured which can be allocated separately to a surplus treaty or does it consist of risks with varying limits of indemnity where the allocation is more difficult?
 - is the portfolio exposed to the accumulation of losses from many losses arising out one occurrence?

- does the portfolio consist of policies with unlimited liability such as third-party bodily injury under motor policy?
- does the insurer seek reinsurance as a means of providing growth or capacity? QS or surplus would be suitable
- how much premium will be ceded? Surplus is suitable if the aim is to maximize retained premium compared to quota share.
- how are claims to be shared? Does the insurer want a contribution towards each claim or is it content to pay a fixed amount for each?
- is the portfolio mixed reasonably evenly between property and casualty or is it dominated by one of them?
- how quickly will claims be settled? Proportional treaty claims are settled through the quarterly statement but the cash loss provision will result in quicker settlement while in non-proportional treaty, claims are settled when the insurer has finally settled the original insured.
- to what extent can the cover be reinstated? Proportional treaties usually cover all risks reinsured in respect of each and every claim during the original policy period. This is similar to having unlimited reinstatement on a proportional treaty.
- is commission a factor? Proportional treaties will provide commission to the insurer while non-proportional treaties will not.
- does the insurer envisage a long-term relationship with the reinsurer who will follow the fortunes of the insurer? This is better achieved in a proportional treaty.
- should reciprocity be pursued?

(3 marks for each correct and completely stated factor. Maximum of 10 to be graded. Sub-Total: 30 marks)
(Grand Total: 34 marks)

11. (a) Explain the following different types of premiums under a non-proportional treaty.
- | | |
|------------------------|-----------------------------------|
| (i) Flat Premium; | (ii) Deposit Premium |
| (iii) Minimum Premium; | (iv) Minimum and Deposit Premium. |
- (20 marks)
- (b) State any seven (7) items that are required to be contained in a proportional treaty statement of account. (14 marks)

Solution

(a) (i) **Flat Premium:** this is a fixed monetary premium to be paid by the reinsured. It's not dependent on the actual premium on the reinsured portfolio. This is used where it may be difficult to estimate the size of the portfolio. There will be no adjustment of the premium

(ii) **Deposit Premium:** this is an agreed amount of money to be paid, on account, by the reinsured and which will be subject to adjustment at the end of the contract. If the final adjusted premium is less than the deposit premium, the reinsurer will be obliged to return to the reinsured the difference between the actual premium and the deposit premium. Any amount greater than the deposit premium will be paid to the reinsurer as additional premium. Assume that the deposit premium is ₦5million but the actual premium is ₦4.5million. The reinsured will get a return premium of ₦500,000.00. On the other hand, if the actual premium is ₦5.8million, the reinsured will pay an additional premium of ₦800,000.00.

(iii) **Minimum Premium:** this is a separate amount of premium detailed in the contract which represents the minimum amount of premium that the reinsurer requires for the protection provided. It is used in conjunction with a deposit premium. Assume that the deposit premium is ₦5million and with a minimum premium of ₦4.75million. If the actual premium is ₦4.5million then the minimum premium of ₦4.75million becomes applicable, leading to a return premium of ₦250,000.00.

(iv) **Minimum and Deposit Premium:** this is an amount of premium that has been agreed to be both the deposit and minimum premium required by the reinsurer. If the adjusted premium results in an amount greater than the minimum and deposit premium, then additional premium would be paid by the reinsured but there will not be a return premium if the adjusted premium is less than the minimum and deposit premium. Assume that the minimum & deposit premium is ₦5million but the actual premium is ₦4.5million. There will not be a return premium as the adjusted premium is less than the minimum & deposit premium. On the other hand, if the actual premium is ₦5.8million, the reinsured will pay an additional premium of ₦800,000.00.

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

- (b) The following items can be found in a proportional treaty statement:
- * reinsured; * treaty period; * premium; * commission
 - * title which shows the name of the reinsurance contract; * brokerage;
 - * paid claims; * cash loss paid/refunds; * premium portfolio transfer;
 - * loss portfolio; * loss reserve deposit; * excess of loss premium.

(2 marks for each correctly stated item. Maximum of 7 to be graded. Sub-Total: 14 marks)

(Grand Sub-Total: 34 marks)

12. (a) When setting aggregate exposure for catastrophe, state and describe the two (2) alternatives that may be used to make the assessment. (10 marks)

- (b) Briefly describe any two (2) ways of arranging a retrocession programme. (10 marks)

- (c) State any seven (7) main claims handling procedures for a reinsurer. (14 marks)

Solution

(a) The estimation of catastrophe aggregate exposure can be done using two different sets of data. One based on sum insured or output of a catastrophe model, as explained below:

- **sum insured method:** this is a crude method of estimating catastrophe exposure. It involves adding up the sum insured at risk for the area in question arising from a portfolio of risk and then apply a factor which assesses the maximum loss from all treaties on the same catastrophe event. This factor could be 4%.
- **catastrophe modelling:** the alternative approach is to use a catastrophe model. A catastrophe model is a computer-aided software and would incorporate both the frequency and severity of a catastrophe. It simulates losses from thousands of catastrophe events that have been coded into the model. The output is more refined and allows exposure at different return periods.

(3 marks for each correctly stated model. 2 marks for each correct and completely stated explanation. Sub-Total per model: 5 marks. Grand Total: 10 marks)

- (b) The ways of arranging retrocession cover are:

- **individual contracts:** this is facultative retrocession on individual contracts as the need may arise. it will be used in classes with large exposure but not enough number of risks. it can also be used as a top-up to bring the values within the underwriting capacity;
- **treaty:** this may be proportional or non-proportional and may be used as reciprocity or to reduce exposure to an acceptable level. in recent years, they have been used to reduce the capital requirement;
- **whole account protection:** this is usually an additional excess of loss cover to protect against the accumulation of losses from different types of business arising from a single event.

(3 marks for each correctly stated way. 2 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total per way: 5 marks. Grand Total: 10 marks)

- (c) The main claims handling procedures for a reinsurer are:
- the way claims are processed depends on the class of business involved and whether the claim is for major or minor losses;
 - examination of the question coverage;
 - has a policy been issued for the insured? if yes, what were the conditions on the original policy and what was the sum insured?;
 - have there been any amendments and when?;
 - when does the original policy commence and does it end?;
 - is the risk mentioned in the claim covered under the original policy?;
 - is there any exclusion that may apply?;
 - is the reinsurance cover to be refused as a result of the reinsured failing in any of its duties;
 - does the claim fall within the period of reinsurance?.

(2 marks for each correctly stated item. Maximum of 7 to be graded. Sub-Total: 14 marks)

(Grand Sub-Total: 34 marks)

13. (a) You are designing an ICT system to capture the necessary information required to administer a non-proportional facultative placement. Describe:
- (i) ten (10) items to help with policy administration; **(10 marks)**
 - (ii) six (6) items to help with claims administration **(6 marks)**
- (b) You have been asked to draft a commutation agreement with a cedant. State any four (4) key items/sections expected in the agreement. **(8 marks)**
- (c) State any four (4) sources of information by rating agencies. **(10 marks)**

Solution

- (a) (i) The items to administer non-proportional facultative placement policies are:

- unique reference produced by the reinsured, intermediary or reinsurer;
- intermediary identifier; * class of business;
- name of the original insured; * location of the risk;
- period of original insurance and reinsurance; * interest or perils covered;
- original currency of the limit and premium; * reinsured's deductible;
- limit of indemnity or liability; * facultative excess of loss rate;
- reinsurance brokerage including any specific override;
- reinsurer's written line; * reinsurer's signed line;
- any variation from conditions contained in standard wording;
- premium payment warranties.

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

- (ii) Items to administer claims on non-proportional facultative reinsurance program are:

- unique claims reference; * date of loss; * cause of the loss;
- details of the circumstances of the loss, usually in form of a report;
- estimate of the original incurred loss for 100% amount
- from ground up 100% loss affecting facultative excess of loss placement and incurred loss to the facultative excess of loss layer.
- summary of settled amounts and corresponding changes to outstanding reserve amounts

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

(Grand Sub-Total: 16 marks)

- (b) The items/sections expected in a commutation agreement are:

- the parties to the agreement;
- the contracts to be commuted;

- the price in terms of settlement;
 - the release terms, especially the absolute discharge arising from future liability;
 - the law governing the agreement;
 - what to do in the event of a dispute arising under the agreement.
- (2 marks for each correctly stated clause. Maximum of 4 to be graded. Sub-Total: 8 marks)**

- (c) The sources of information by rating agencies are:
- published materials such as the annual report, accounts and statutory returns;
 - strategic plan; * operational plan;
 - more detailed breakdown of financial information;
 - information about clients; * sources of business and its production.
- (2½ marks for each correctly stated source. Maximum of 4 to be graded. Sub-Total: 10 marks)**
(Grand Total: 34 marks)

14. (a) You have just analysed the loss ratio of two portfolios. Describe five (5) environmental factors that may affect the calculated loss ratios. **(10 marks)**
- (b) Enumerate any four (4) reasons why retentions are not fixed by solely relying on mathematical or computer models. **(10 marks)**
- (c) You are an underwriter with Great Reinsurance Company. You are concluding the quota share/surplus treaty of Ambitious Insurance Company but you are concerned about the exposure exceeding your expectations.
- (i) State any two (2) ways that exposure on the treaty can be controlled. **(4 marks)**
- (ii) List two (2) income items on the profit commission statement. **(4 marks)**
- (iii) List three (3) outgo items on the profit commission statement. **(6 marks)**

Solution

- (a) The environmental factors that may affect the calculated loss ratios are:
- inflation may cause increased claim amounts often without similar effect on the sums insured;
 - recession may result in reduction in business and premium income and this could lead to increasing claims frequency;
 - competition may cause unplanned and unforeseen reductions in premium;
 - changes in employment levels may affect crime;
 - certain technological developments may improve risks while others may worsen it;
 - court awards for personal injury may be expected to increase, thus increasing liability claims;
 - life expectancy increases due to medical science and technology. this could affect assessment for claims involving severe bodily injury.
- (2 marks for each correctly stated factor. Maximum of 5 to be graded. Sub-Total: 10 marks)**
- (b) The reasons why retentions are not fixed by solely relying on mathematical or computer models are:
- different insurers attach different levels of importance to the various factors that influence retention;
 - there is really no correct retention level but an optimal retention for each insurer;
 - the optimal retention provides an insurer with a framework to achieve its corporate objectives;
 - the retention is also affected by the characteristics of the portfolio;
 - the risk appetite (the level of risk an entity is willing to assume) is also a strong determination of the retention level;

- the actual retention level also needs to be acceptable to the reinsurers. it is therefore a compromise between what the insurer wants and what the reinsurer sees are prepare to agree to.

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

(c) (i) The ways by which exposure on the treaty can be controlled are:

- specifying the territorial scope; * cession limit; * imposing an event limit;
- limiting the proportion of inward facultative acceptance.

(2 marks for each correctly stated way. Maximum of 2 to be graded. 4 marks)

(ii) The income items on the profit commission statement include:

- premiums;
- losses outstanding from the previous year/brought forward;
- unearned premium reserve brought forward from the previous year.

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

(iii) The outgo items on the profit commission statement include:

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

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

(Grand Sub-Total: 14 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A03

FINANCE AND ACCOUNTING

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A03 – FINANCE AND ACCOUNTING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question assessed the candidates' understanding of the fundamental concepts of budget and budgeting. Out of 197 candidates, 196 attempted the question, and 125 candidates, representing 64%, achieved a pass mark. The overall performance was considered fairly good.

Question 2

The question assessed candidates' understanding of the types of costs and the distinction between share premium and share capital. About 99% of the candidates attempted the question, with a pass rate of approximately 65%. The overall performance was good; however, many candidates were unable to clearly differentiate between share premium and share capital. Candidates are advised to master these concepts thoroughly for future examinations.

Question 3

The question assessed candidates' knowledge of the provisions of the Companies Act regarding the maintenance of accounting records. About 98% of the candidates attempted the question, but only 35.5% achieved the pass mark, indicating below-average performance. Candidates are advised to study all aspects of the syllabus thoroughly to improve their performances in future examinations.

Question 4

The question evaluated candidates' understanding of the reasons for government supervision of insurance companies in any country. About 99% of the candidates attempted the question, with approximately 97% attaining the pass mark. The performance was highly encouraging, and candidates are advised to maintain this standard.

Question 5

The question focused on the fundamental concepts of accounting and the various types of accounting methods. About 98% of the candidates attempted the question, and performance was very good, with approximately 87% scoring above the required pass mark.

Question 6

The question assessed candidates' understanding of the various items commonly classified under prepayments and accrued income in the statement of financial position, as well as the disclosure of related notes in the final accounts. Over 97% of the candidates attempted the question, and overall performance was above average, although a significant proportion (42%) had difficulty fully comprehending the depth of the question's requirements.

Question 7

The question assessed candidates' knowledge of items classified under personal and impersonal accounts. About 98% of the candidates attempted the question, and the pass rate of 63% indicates an above-average performance.

Question 8

The question evaluated candidates' understanding of the general principles that guide prudent insurers in making investment decisions. 98% of the candidates attempted the question, with a pass

rate of 58%. Candidates are advised to provide standard coursebook-based answers in future examinations.

Question 9

This compulsory question carried 25% of the total marks. It partially assessed candidates' knowledge of insurance industry organisations and trade associations, as well as their understanding of final accounts interpretation (accounting ratios). All 197 candidates attempted the question, but only 24 candidates, representing 12%, passed. This outcome is very disappointing. As the question was drawn directly from the coursebook, candidates are strongly advised to study the course material more thoroughly.

Question 10

The question assessed candidates' understanding of the sources of revenue or income of the Inland Revenue and the concept of Value Added Tax (VAT). About 55% of the candidates attempted the question, with approximately 50% attaining the pass mark. However, many candidates misinterpreted the question and provided incorrect answers. Candidates are advised to carefully read and understand each question before responding.

Question 11

The question examined candidates' knowledge of the characteristics of a good financial statement and their understanding of the new provisions in comparison with the previous Act. Over 74% of the candidates attempted the question, and performance was good, with approximately 62% scoring above the pass mark. However, 26% of the total candidates chose to attempt other questions.

Question 12

This question examined candidates' understanding of the investment terms investment property and institutional investor. A significant 82% of the candidates attempted the question, with an average performance reflected in a 43% pass rate.

Question 13

The question assessed candidates' understanding of the essential attributes a budget should possess and the potential biases human nature can introduce into the budgeting process. About 62.44% of the candidates attempted the question, with only 39.84% achieving the pass mark. Many candidates were unable to clearly identify the key attributes of a good budget or explain how human nature can influence it.

Question 14

The question assessed candidates' knowledge of the general business revenue account, including premium income, premium earned, claims incurred, and the factors used to determine the required size of a business. About 76% of the candidates attempted the question, with a commendable pass rate of 74%. The overall performance was impressive.

Comments on Overall Performance:

The overall performance stood at 45.69%, which is slightly below average. Candidates are encouraged to study more diligently to improve their performance in future examinations.

Suggestions on Improvement(s) (if any):

- i. Candidates should study more diligently to strengthen their understanding of the course.
- ii. They should carefully read and comprehend each question before attempting to answer.

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

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. When Managers in an organisation set a budget, it is aimed to achieve certain objectives. Enumerate any four (4) objectives that budgets enable managers to achieve.

Solution

The objectives that budgets enable managers to achieve are to:

- * plan; * coordinate; * communicate; * control and * evaluate.
 (1½ marks for each correctly stated objective. Maximum of 4 to be graded. Grand Total: 6 marks)

2. (a) In Accounting, there are different types of costs that are relevant to decision-making. Enumerate any three (3) of these types of cost.
 (b) Outline, by way of definition, the difference between share premium and share capital.

Solution

- (a) The types of costs relevant to decision-making in accounting are:
 * relevant costs; * sunk costs; * opportunity costs; * incremental costs.
 (1 mark for each correctly stated cost type. Maximum of 3 to be graded. Sub-Total: 3 marks)

- (b) By way of definition, the difference between share premium and share capital is that **share capital** is the money contributed by shareholders to subscribe for the shares of the company. It is known as owner's equity. It is normally stated at par value or nominal shares; while **share premium** is the difference between the par value of the company share and its market value. The share premium is a capital reserve. It may only be utilized for very limited purposes. It is not available for distribution to shareholders in normal circumstances.

(1½marks for each correct definition. Grand Sub-Total: 3 marks)
 (Grand Total: 6 marks)

3. (a) Company Act requires every company to keep accounting records sufficient to show and explain the company's transactions and to perform two duties. Outline these two (2) duties. (4 marks)
 (b) List any two (2) items that are categorised as other assets on the balance sheet of any financial institution. (2 marks)

Solution

- (a) The two duties that the Company Act requires every company to keep on accounting records in order to show and explain the company's transactions are:

- to disclose with reasonable accuracy, at any time, the financial position of the company at all times;
- to enable the directors to ensure that any balance sheet and profit and loss account prepared for the purposes of the Act complies with its requirements.

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

- (b) The items that are categorised as other assets on the balance sheet of any financial institution are:

- * tangible assets and stock other than land and buildings:
- * cash at bank; * cash in hand
- * own shares * all others not specifically stated elsewhere.

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

4. Explicitly enumerate any six (6) main reasons that support government supervision of insurance companies in any country.

Solution

The main reasons that support of government supervision of insurance companies in any country are:

- * requirements for compulsory insurance; * regulation of premium rates;
- * authorization of insurers for some or all classes of business; * control of managers, e.t.c.;
- * regulation of policy conditions; * limitation of expenses charges;
- * financial requirements – deposits, premiums, capital, solvency;
- * requirement for annual returns; * power of direction and other intervention;
- * controls in advertising and marketing; * controls of intermediaries;
- * compulsory compensation schemes for affected policyholders and claimants.

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

5. (a) Accounting is founded on some basic concepts, without which it cannot hold. State any three (3) of these basic concepts of accounting.
- (b) Cost accounting methods are of various types. Enumerate any three (3) of them.

Solution

- (a) The basic concepts of accounting are:

* going concern; * accruals; * consistency; * prudence.

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

- (b) The different types of cost accounting methods are:

* cost recording; * absorption costing; * variable or marginal costing;
* product costing; * activity-based costing; * standard costing.

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

(Grand Total: 6 marks)

6. (a) There are various items commonly found under the prepayment and accrued income on the statement of financial position. List any two of such items.(4 marks)
- (b) When the final accounts and accompanying notes are produced by a limited company, the documents prepared may be referred to as ... or ... accounts. (2 marks)

Solution

- (a) The items that are commonly found under the prepayment and accrued income on the statement of financial position are:

* accrued interest and rent; * deferred acquisition cost;
* other prepayment and accrued income.

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

- (b) When the final accounts and their notes are produced by a limited company, they may be referred to as **published accounts** or **shareholders' accounts**.

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

(Grand Total: 6 marks)

7. When preparing a statement of accounts, some items are required to be listed under personal accounts, while some are to be listed under impersonal accounts. List three (3) specific examples under each term.

Solution

Account Type	Examples
Personal Accounts	Debtors, creditors, assets, liabilities
Impersonal Accounts	Wages, sales, premium, commission, depreciation

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

8. List and briefly explain any three (3) general principles that should guide prudent insurers when investing.

Solution

The general principles that should guide prudent insurers when investing are:

- **Legal:** the law requires insurers to separate funds for investment. Life fund and general business funds must be separated for different types of investments.
- **Yield:** it should be the aim of insurers investment policy to invest its funds to earn the maximum expected yield thereon.
- **Spread:** investment should be spread over the widest possible range in order to secure the advantages of favourable and minimize the disadvantages of unfavourable political and economic trends.
- **Future Trends:** offices should vary their investments in accordance with their view of probable future trends.
- **Social and Economic Factors:** offices should endeavor to orient their investment policy to socially and economically desirable ends.
- **Sundries:** these provides most of the general guidelines e.g a higher risk profile may be adopted by a life insurer to try and improve the attractiveness of its with-profit portfolio.

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

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) List four (4) organisations/trade associations that are involved in promoting and/or enforcing ethics, standards of knowledge and professionalism in Nigeria Insurance Market. (10 marks)
- (b) The following are the financial statements of Right Season Nigeria Limited for the years ended 31st December 20X2 and 20X3.

Income statement for the year ended 31st December;

	20X3	20X2
	N'm	N'm
Sales	5,600	1,800
Cost of Sales	(3,360)	(720)
Gross Profit	2,240	1,080
Selling Expenses	(540)	(300)
Bad debts	(280)	(36)
Depreciation	(416)	(116)
Interest	(384)	(24)
Net Profit	620	604

The statement of financial position as at the end of:

	20X3		20X2	
	N'm	N'm	N'm	N'm
Assets				
Non Current Assets				
Factory	882		900	
Machinery	3,582		980	

	4,464	1,180
Current asset:		
Inventory	476	60
Trade receivables	1,166	166
Bank	-----	24
	1,642	250
Total Assets	6,106	2,130
Equity:		
Share Capital	656	600
Retained Earnings	1,878	1,258
	2,534	1,858
Non Current Liabilities:		
Loans	3,200	200
Current Liabilities:		
Trade Payables	350	72
Bank	22	-----
	372	72
Total Liabilities	3,572	272
Equity and Liabilities	6,106	2,130

The directors of Right Season Nigeria Limited appointed a sales manager towards the end of 20X2. The Manager devised a plan to increase sales and profit by means of a reduction in selling price and extended credit terms to customers. This involved a considerable investment in machinery early in 20X3 to meet the increase on credit.

Required:

Using appropriate/most common four each of the (i) profitability ratios and (ii) liquidity ratios, explain, with at least four (4) reviewed ratios and impacts, whether the performance and financial position of Right Season Nigeria Limited has improved as a result of the new policies adopted by the company. **(40 marks)**

Solution

(a) The Organisation/ trade association that are involved in promoting ethical standards and professionalism in Nigeria Insurance Market are:

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

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

(b) **Profitability Ratios are:**

		20X3		20X2
1.	Gross Profit %			
	= $\frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$	= $\frac{2,240}{5,600} \times 100$	=	$\frac{1,080}{1,800} \times 100\%$
		= 40%		= 60% (4 marks)
2.	Net Profit %			
	= $\frac{\text{Net Profit}}{\text{Sales}} \times 100\%$	= $\frac{620}{5,600} \times 100$	=	$\frac{604}{1,800} \times 100$
		= 11.1%	=	33.6% (4 marks)

3. Return on Capital Employed

$$= \frac{\text{Profit Before Interest}}{\text{Equity} + \text{Long Term Loan}} = \frac{(630+384) \times 100}{2,534+3,200} = \frac{(604+24) \times 100}{1,858+200}$$

$$= 17.5\% = 30.5\% \text{(4 marks)}$$
4. Return on Equity

$$= \frac{\text{Net Profit}}{\text{Equity}} = \frac{620}{2,534} \times 100 = \frac{604}{1,858} \times 100$$

$$= 24.5\% = 32.5\% \text{(4 marks)}$$

(b) **Liquidity Ratios**

- | | 20X3 | 20X2 |
|---|--|--|
| 1. Current Ratio
$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$ | $= \frac{1,642}{372}$ $= 4.41:1$ | $= \frac{250}{1,858}$ $= 3.47:1 \text{(4 marks)}$ |
| 2. Acid Test Ratio
$= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$ | $= \frac{1,642 - 476}{372}$ $= 3.13:1$ | $= \frac{250 - 60}{72}$ $= 2.6:1 \text{(4 marks)}$ |
| 3. Trade Receivables Collection Period
$\frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365$ | $= \frac{1,166}{5,600} \times 365$ $= 76 \text{ days}$ | $= \frac{166}{1,800} \times 365$ $= 33.7 \text{ days (4 marks)}$ |
| 4. Trade Payables Collection Period
$\frac{\text{Trade Payables}}{\text{Credit Purchases}} \times 365$ | $= \frac{350}{3,360} \times 365$ $= 38 \text{ days}$ | $= \frac{72}{720} \times 365$ $= 36.5 \text{ days (4 marks)}$ |

In absolute terms, sales figure in 20X3 of ₦5,600 million is 311% of the corresponding figure of ₦1,800million in 20X2. The net profit of ₦620million in 20X3 is 102.6% of the corresponding figure in 20X2. To the extent that profit and sales in 20X3 are higher than the corresponding figures for 20X2, the objective of the company was achieved. However, profit per naira has decreased from 33.6% in 20X2 to 11.1% in 20X3, which is a significant drop. In addition, there is a decrease in return on capital employed in 20X3, which is 17.5% compared to the corresponding figure of 30.5% in 20X2. In spite of the effort of the company, there is also a drop in return on equity from 32.5% in 20X2 to 24,5% in 20X3. Although based on the liquidity ratio and quick asset ratio, the company is solvent, too much of its funds is tied down with credit customers in 20X3 compared to what happened in 20X2. This is reflected in the fact that the trade receivables collection period in 20X3 is 76 days compared to 34 days in 20X2.

(2 marks for each correct and completely interpreted implication of the calculated figures. Maximum of 4 to be graded. Grand Sub-Total: 8 marks)
 (Grand Sub-Total: 40 marks)
 (Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) There are various sources through which the Federal Inland Revenue Service in

- the country of any insurer's operation can perform its function of increasing tax revenue in accordance with legislation. List and briefly explain any three (3) of such sources. (15 marks)
- (b) List and explain any two (2) expenses which are not allowable for consideration while computing corporation tax. (10 marks)
- (c) (i) What is Value Added Tax (VAT)? Where is it derived from? (3 marks)
 (ii) How is VAT calculated? (4 marks)
 (iii) What is the general rule regarding VAT as it relates to goods and/or services? (2 marks)

Solution

(a) The sources that the function of the Federal Inland Revenue Services in the country of any insurer's operation to raise taxes in accordance with legislation are through:

- **income:** Income for tax purposes can be derived from many sources such as annual profits or gains in respect of rent and similar payment from land and property in Nigeria. Tax on personal income and allowances, taxes on profit arising from public revenue, dividends payable. Taxes on emoluments from any
- **Standard Rated Supplies:** include sales of furniture, fittings, catering services, management or inspection services, computer hire, internally printed stationery, etc.
- **Zero-Rated Supplies:** include insurances of persons (including reinsurance), certain disposals or leases of property.
- **Exempt Supplies:** include loans to others (rewarded by interest), certain buildings (rents) and issues of shares.

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

(b) The following expenses are not allowed for consideration when computing corporation tax:

- **Expenses Not Incurred Wholly and Exclusively for the Purpose of Earning Profits:** there should be some element of necessity or benefit for the company in incurring allowable expense e.g. a subscription to the professional body will be allowable but a political donation will not be allowable.
- **Appropriation of Profit:** such as the payment of dividends or corporation tax itself, will not be treated as a charge against income for corporation tax purposes.
- **Any Charge for Depreciation in the Accounts of the Company:** this is disallowed but is replaced by capital allowance which are prescribed by the statute.

(3 marks for each correctly and completely stated expense. 2 marks for any correct and completely stated explanation. Sub-Total per expense: 5 marks. Maximum of 2 to be graded. Grand Sub-Total: 10 marks)

(c) (i) **Value Added Tax (VAT)** is a tax levied basically on all supplies of services and goods in a country (2 marks). It is derived from Tax Legislation (2 marks). (Sub-Total: 3 marks)

(ii) It is calculated by charging the approved percentage (2 marks) on the amount of goods and/or services being purchased (2 marks). (Sub-Total: 4 marks)

(iii) The general rule is that all supplies of goods and services are taxable at the approved/standard rate (2 marks) (Sub-Total: 2 marks)

(Grand Sub-Total: 9 marks)
 (Grand Total: 34 marks)

11. (a) List and explain four (4) characteristics of a good financial statement. (8 marks)
 (b) With reference to The Companies and Allied Matters Act 2020 (CAMA 2020),

explain the new provisions compared to the previous ACT in respect of the following:

- (i) changes to share capital;
 - (ii) appointment of independent directors;
 - (iii) multiple directorship;
 - (iv) company seal;
 - (v) virtual general meetings/ virtual board meetings (20 marks)
- (c) A printer is considering replacing an old machine, which he purchased for ₦1,500,000.00 three years ago, with some labour-saving equipment. The old machine is being depreciated at ₦15,000.00 yearly. The following alternative equipment options are available for consideration.
- Machine A:** The purchase price of machine A is ₦2,500,000.00 and yearly cash operating costs are ₦50,000.00.
- Machine B:** The purchase price of machine B is ₦2,800,000.00 and yearly cash operating costs are ₦45,000.00.
- (i) What are the incremental costs, if any, in this alternative-choice situation? (4 marks)
 - (ii) What is/are the sunk cost(s), if any, in this situation? (2 marks)

Solution

- (a) The characteristics of a good financial statement are:
- **understandability:** one of the most important features of a financial statement is that it should be easily understood by the user.
 - **relevance:** the financial statement must contain relevant information for them to be useful to the users.
 - **reliability:** the contents of the financial statement must be reliable for all users,
 - **comparability:** the financial statement must be presented in such a way that it can be peer reviewed and also comparable with others in the industry without any reinvention of the wheel.
 - **Legal form:** the financial statement must conform to legal requirements.
- (1 mark for each correctly listed characteristic. 1 mark for correct and completely stated explanation. Sub-Total per characteristic: 2 marks. Grand Sub-Total: 8 marks)

(b) (i) **Changes to Share Capital:** There is no longer a concept of an authorised share capital. This has been replaced by a requirement that companies must have at least the minimum issued share capital required by the CAMA 2020 (₦100,000.00 for private companies and ₦2,000,000.00 for public companies, and must ensure that at least 25% of this issued share capital is paid up.

(ii) **Appointment of Independent Directors:** There are three major changes in relation to independent directors. The first and most significant is that every public company must now have a minimum of three independent directors. The second change is that the CAMA 2020 makes it the obligation of anyone (i.e. any shareholder) that has the power to nominate the majority of the members of Board to nominate at least three independent directors for the company. The third change is that in order to qualify appointment as an independent director, the nominee or his relatives must not, in the two years preceding the nominee's appointment to the board, have: (a) owned (directly or indirectly) more than 30% of the shares of the company; (b) been employed by the company. (c) acted as an auditor of the company, (d) paid or received from the company, sums exceeding NGN 20 million, or held up to 30% of the (or acted as a partner, director or officer) of an entity that received or made such a payment to the company.

(iii) **Multiple Directorships:** No person can be a director of more than five public companies at the same time. Any person that was on the board of more than five public companies as at the date on which the CAMA 2020 came into effect has a two-year period within which to comply. CAMA 2020 also requires persons who are nominated as directors of public companies

to disclose their existing positions on the boards of other public companies, before taking up the new appointment.

(iii) **Company Seal:** The use of company seals is now optional for all companies. The CAMA 2020 provides for how a company may execute certain documents in the absence of a seal.

(iv) **Virtual General Meetings/Virtual Board Meetings:** The provision in CAMA 2020 that permits private companies to hold their general meetings electronically, does not extend to public companies. This means that, absent any special dispensation from the regulators (such as those granted in Year 2020 as a result of COVID), public companies must continue to hold their general meetings physically. Section 289(1) of the CAMA 2020 replicates 263(1) of the repealed CAMA, and neither of these provisions make it clear that board meetings can be held virtually. Prior to the CAMA 2020, companies took the precaution of ensuring that their articles authorised the Board to meet virtually, otherwise Board meetings had to be held physically. Section 289(1) has been clarified by Regulation 16 titled 'Electronic Meetings of Directors' Regulation 16 provides that *"Directors may, in the exercise of their power to regulate their meeting as they think fit, hold their meetings electronically and by any means that would allow all directors to participate, speak and vote at the meeting. Where the meeting of the directors is held electronically, the minutes of the meeting shall indicate that fact. For the purpose of Section 289(1), it shall be sufficient to reflect the registered office address of the company as the physical venue of the meeting provided that a director and the company secretary (if any) shall be present at the physical venue of the meeting. Where the registered office address of the company cannot be used due to the absence of a director and the company secretary (if any) at such address, any other address in Nigeria would suffice for purposes of recording the minutes"*.

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

Sub-Total per item: 4 marks. Grand Sub-Total: 20 marks)

- (c) (i) The incremental costs are the purchase price (2 marks) and the cash operating cost. (2 marks). (Sub-Total: 4 marks)
- (ii) The depreciation on old equipment is a sunk cost because it represents an investment outlay made in the past. (2 marks)
- (Grand Sub-total: 6 marks)
(Grand Total: 34 marks)

12. (a) Explain the following investment terms:
- | | | |
|----------------------|-------------------------|---------------------|
| (i) ordinary shares; | (ii) preference shares; | (iii) rights issue; |
| (iv) bonus issue; | (v) debenture. | (15 marks) |
- (b) (i) Define the term "investment property". (4 marks)
- (ii) List five (5) ways by which an institutional investor can invest in property. (15 marks)

Solution

(a) (i) **Ordinary Shares:** are also known as equity shares. The majority of shares issued by the company are equity/ordinary shares. This type of share is traded actively in the secondary or stock market. These shareholders have voting rights in the company meetings. They are also entitled to get dividends declared by the board of directors. However, the dividend on these shares is not fixed and it may vary year to year depending on the company's profit. Equity shareholders receive dividends after preference shareholders.

(ii) **Preference Shares:** as the name suggests, this type of share gives certain preferential rights as compared to other types of shares. The main benefits that preference shareholders have are that they get first preference when it comes to the payout of dividends i.e, a share of the profit earned by the company; and when the company wind up, preference shareholders have the first right in terms of getting repaid. Further, there are three sub-types in

preference shares which are cumulative preference shares; non-cumulative preference shares and convertible preference shares.

(iii) **Rights Issue:** a rights issue is an invitation to existing shareholders to purchase additional new shares in the company. This type of issue gives existing shareholders securities called rights. With the rights, the shareholder can purchase new shares at a discount to the market price on a stated future date.

(iv) **Bonus Issue:** a bonus issue also known as a scrip issue or a capitalisation issue, it is an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increasing the dividend payout. For example, a company may give one bonus share for every given shares held.

(v) **Debenture:** a debenture is a marketable security (a type of investment) issued by a business or other organisation to raise money for long-term activities and growth. It is a form of debt capital so it is accounted for as debt on the balance sheet of the issuing company.

(1½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total per term: 3 marks. Grand Sub-Total: 15 marks)

(b) (i) **Investment Property** is land or a building (including part of a building) or both, that is held to earn rentals or for capital appreciation or both; not owner-occupied; not used in production or supply of goods and services, or for administration and not held for sale in the ordinary course of business.

(ii) An institutional investor can invest in the property in the following ways:

- purchasing properties (already existing or from a developer)
- developing properties itself;
- financing a development and taking a share of the resultant's income;
- providing mortgage finance to a development company;
- taking a share in the equity of a development company;
- entering into sale and leaseback arrangements;
- selling his property to an investor for a sum of money, then leasing it back at an annual rental.

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

(Grand Sub-Total: 19 marks)

(Grand Total: 34 marks)

13. (a) To achieve best results both from a performance and motivational point of view, budgets must possess certain attributes. List and explain any three (3) of such attributes. (12 marks)

(b) Human nature being what it is, there will be a tendency for individuals to attempt to influence the budget process and obtain stock budgets (that is, obtain targets which can be easily achieved). Outline the two (2) main reasons for budget bias. (8 marks)

(c) Authorisation to write new business may be withdrawn on the discretion and/or directive of the Regulator. Enumerate any four (4) circumstances in which such a power can be invoked. (14 marks)

Solution

(a) To achieve best results both from performance and motivational part of view, budgets must be:

- **attainable:**
 - * budget should not be bogus and imaginary;
 - * it should be what can be attained;
 - * it should reflect on the capacity of the person or utility that will run the budget:

- * previous period performance should serve as the basis for the budget;
- * resource available should be enough and capable at driving the budget.

- **participatory:**

- * it should not be force on the party that would drive the budget;
- * conducive atmosphere should be created to discuss the budget;
- * budget preparation and defence should be participatory;
- * management should make the budget process all inclusive.

- **delegated to responsible individuals:**

- * budgets should be delegable to unit of the organisation that will take care of preparation, executive and evaluation;
- * individuals should take responsibility for budgeting should report to management/ board of directors;
- * individuals responsible for budget should take responsibility for review as sanction for non-performance.

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

(b) The main reasons for budget bias are:

- if reward systems are too closely linked with budget achievement, managers will be motivated to seek lower, more easily achievable budgets;
- management perception that higher sales and profits figures are a requirement of the centre; this can lead to submission of over-optimistic forecasts;
- poor previous performance; some managers may feel that they need to promise more in the future.

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

(c) Some circumstances where the authorisation to write new business may be withdrawn on the discretion and/or directive of the Regulator are:

- at the request of the company;
- if the company has failed to satisfy an obligation imposed by the Act;
- if there exist a ground which would stop the Regulator from issuing an authorisation;
- if the company has ceased to be authorised in the State where its Head-Office is situated;
- where it ceases to carry on insurance business of a particular class or classes;
- where it has not commenced business in a class within twelve months of authorisation.

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

(Grand Total: 34 marks)

14. (a) Clearly explain the following terms in relation to the profit and loss account (Comprehensive Income Statement) of insurance companies.

- (i) General Business Revenue Account; (ii) Premium Written;
(iii) Premium Earned; (iv) Claims incurred. (20 marks)

(b) Enumerate any seven (7) factors that should be taken into consideration when trying to determine the required size for a business. (14 marks)

Solution

(a) (i) **General Business Revenue Account:** Accounts are usually prepared annually with the revenue and profit and loss account covering the results of twelve months. Sometimes it is very rare that events fit nicely inside a twelve-month period and it is only possible to assess them in annual terms by making estimates and assumptions at the end of each year to cover unfinished business. This is not always satisfactory and the industry has developed, as an alternative to

annual accounting, deferred annual accounting, and fund accounting. Whatever basis is adopted, it is usual for the items to be accounted for to be brought together in the General Business Revenue Account although analysis may be provided in the form of notes.

(ii) **Premium Written:** This is the sum of both direct premiums written and assumed premiums written, before deducting ceded reinsurance. Direct premiums written represent the premiums on all policies the insurance company writes during the year. In the present UK format, these are shown as a net figure separate from the revenue amount itself, but in the EU format, they are shown gross of reinsurance. The object is to give information about the extent to which a company reinsures its business or retains it and the extent to which it may be relying on the security of other insurers.

(iii) **Premium Earned:** These are premium written, unearned premiums brought forward, unearned premiums carried forward (or premium written plus or minus change in provision for unearned premiums). The figure is the first and principal component of the revenue account covering the income attributable to the year.

(iv) **Claims incurred:** This is the claim paid plus claims outstanding at end of a stated period, less claims outstanding at the beginning of the period, i.e. claim paid, outstanding claims carried forward - outstanding claims brought forward (or claims paid plus or minus change in outstanding claims provision).

(5 marks for each correct and completely stated explanation. Sub Total: 20 marks)

(b) The factors that should be taken into consideration while trying to set the required size are the:

- size of the insurer (net retention);
- type of business undertaken (class and geography);
- efficiency of management (i.e. claims and expense control, underwriting ability);
- risk of outstanding claims exceeding provisions thereafter;
- possibility of a collapse in investment values at a time when cash is needed;
- danger of default by debtors, particularly reinsurers;
- harmful effects of an increase in inflation rates, whether general or specific in relation to the business. Such as motor repair costs or court awards;
- degree of exposure to exchange rate risk;
- existence of equalization or other reserves counted as liabilities;
- basis of valuing assets and liabilities.

(2 marks for each correct and completely stated factor. Maximum of 7 to be graded. Sub-Total: 14 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A04

PRINCIPLES OF PROPERTY AND PECUNIARY

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A04 – PRINCIPLES OF PROPERTY AND PECUNICARY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question examined the knowledge of candidates on Policy Excess. Candidates performed excellently, with over 80% of those who attempted it passed.

Question 2

This question required candidates to define “excess” and “franchise” and to distinguish between the two. Nearly all candidates who attempted it passed.

Question 3

This question covered “business interruption insurance”. Over 90% of the candidates attempted it, with a 60% pass rate.

Question 4

Most candidates attempted this question and more than 50% achieved a pass mark.

Question 5

Many candidates did not understand the question, with several guessing their answers. Consequently, the pass rate was low.

Question 6

This was another popular question among candidates. About 89% scored above average, showing a good understanding of the topic.

Question 7

The question examined candidates’ understanding of explosion within the context of Engineering Insurance and proximate cause. Over 60% of those who attempted it passed.

Question 8

This question examined candidates’ knowledge of the “types of premiums”. All candidates attempted it and over 80% passed.

Question 9

As a compulsory question, it examined knowledge of “insurance law and declaration policy”. The average performance recorded was 40%.

Question 10

This technical question assessed candidates’ understanding of “default computer information”. About 70% of the candidates who attempted it performed well.

Question 11

About 6% of candidates who attempted this question failed, indicating that the majority performed well.

Question 12

This question focused on burglary and theft. Less than 40% of the candidates attempted it and fewer than 10% passed.

Question 13

A majority of candidates attempted this question, and more than half demonstrated a clear understanding. It covered “business interruption and combined policy package”.

Question 14

The question, which examined Division of Special Perils and Exclusions in Glass Insurance Policy, was well answered. Only about 7% of the candidates who attempted it failed.

Comments on Overall Performance:

The general performance was very impressive with 80.49% pass rate.

Suggestion on Improvement (s) (if any)

Candidates should dedicate more time and effort to studying their coursebooks to further enhance their understanding and performances.

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

.

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. An excess relieves the insurers from liability to pay a specified (first) amount otherwise payable under the policy, even though the particular event gives rise to a claim admissible in the terms of the policy. Enumerate any two (2) purposes of the excess.

Solution

The purposes of the excess are to:

- make the insured their own insurer for the specified amount of the excess, thus perhaps encouraging greater care or prudence on the part of the insured;
- relieve the insurer from the necessity to deal with the smaller losses, many of which will not even be notified to the insurer, with resultant reduction in administrative costs;
- reduce by the amount of the excess, the cost of every claim exceeding the amount of the excess.

(3 marks for each correct answer. Maximum of 2 points to be graded. Sub-Total: 6 marks)

2. By way of definitions, state the difference between “excess” and “franchise”.

Solution

The basic difference between an excess and a franchise is that where an excess is imposed, the amount of the excess is always deducted from the agreed amount of the claim **(3 marks)**, whereas with a franchise when the amount of the franchise is exceeded, the agreed amount of the claim is paid in full **(3 marks)**.

(Grand Total: 6 marks)

3. (a) Business interruption insurance brings together all the needs arising and savings made after a loss. Its function is to provide an indemnity in respect of the loss of income from a business arising out of insured damage to the premises. This indemnity needs to be sufficient to enable the insured to meet the insured costs. Analyse the two (2) insured costs that the indemnity in such an instance needs to meet. **(4 marks)**
- (b) In the standard fire and special perils policy, there are exclusions that appear in the ‘perils’ itself. Enumerate any two (2) of these perils. **(2 marks)**

Solution

- (a) The two insured costs that the indemnity in such an instance needs to meet are:

- those running costs which continue to be payable;
- providing the profit to the owners of the business which would have been earned had no damage occurred.

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

- (b) The perils are:

- explosions resulting from fire; * earthquake and subterranean fire;
- its own spontaneous fermentation or heating;
- its undergoing any heating process or any process involving the application of heat.

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

(Grand Total: 6 marks)

4. There is a basic difference between accountants' and insurers' gross profit. Discuss this basic difference.

Solution

The basic difference between accountants' and insurers' gross profit is that accountants' profit will take turnover and deduct purchases of raw materials to produce gross profit (3 marks), while insurers' profits are concerned with identifying that part of gross profit which relates to the business insured and can be the subject of an indemnity from insurance (3 marks).

(Grand Total: 6 marks)

5. (a) Identify any two (2) perils where 'first loss insurance cover' is popular.
(b) The 'standard all-risks' policy is designed for the insurance of all buildings, machinery and stock on a premise and, in effect, can still provide two (2) additional insurance covers. Enumerate the two (2) additional insurance covers it can provide.

Solution

- (a) The perils where the first loss is popular are:

- storm, flood, escape of water and impact;
- accidental damage [other than by fire and special perils;
- theft.

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

- (b) The two (2) additional insurance covers it can provide are:

- all the perils which are insurable on a standard fire and special perils policy;
- accidental damage.

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

(Grand Total: 6 marks)

6. Explain the term "accumulation of risk" in property and pecuniary insurance. Of what effect is this when an insured event occurs on the insurance company covering the risk?

Solution

Accumulation of risk in property and pecuniary insurance occurs when one insurer holds several different insurable risks (for example, types of property, business interruption and brook dust risks) for one or more firms or persons in respect of one address or several addresses. (3 marks)

The effect is that an insured event occurring in the premises of one firm or person may produce claims under the policies of the others, which could lead to a "run" on the insurance company from the multiple claims on the various insured events/items. (3 marks)

(Grand Total: 6 marks)

7. (a) Explicitly define "proximate cause". (4 marks)
(b) In "engineering insurance", what does the term "explosion" mean? (2 marks)

Solution

- (a) Proximate cause can be defined as "the **active efficient cause** which **sets in motion a train of events** that **brings about a result**, without the intervention of any force starting and working actively from a new and independent source.

(1 mark for each bolded phrase. Sub-Total: 4 marks)

- (b) In "engineering insurance" the term "explosion" means the **sudden violent rending** of the pressure plant **by force of internal steam or other fluid pressure** causing **botchily displacement of any part of the pressure plant together with forcible ejection of the contents**.

(2 marks for each bolded phrase. Total: 2 marks)

8. Correctly explain the following terms:

- (a) gross premium (b) net premium (c) earned premium.

Solution

- (a) **Gross Premium:** is the total premium paid by the insured. (2 marks)
- (b) **Net Premium:** is the gross premium less commission paid to the intermediary party. (2 marks)
- (c) **Earned Premium:** is that proportion of the net premium which relates to the time which has elapsed from inception of each policy currently in force to the date to when the earned premium is required to be calculated. (2 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) The aim of the Current Management of National Insurance Commission (NAICOM), when the priorities to transform the insurance industry was unveiled, was the safety and soundness of the sectors. State any four (4) of these five transformational focus drives by the Current Management of NAICOM. (10 marks)
- (b) The following figures were supplied by the Chief Financial Officer (CFO) of ABC Plc as @ 31/12/2024

	₦
Turnover	3,000,000.00
Purchases	1,500,000.00
Opening Stock 01/01/2020	440,000.00
Opening WIP as @ 01/01/2020	190,000.00
Closing Stock as @ 31/12/2020	290,000.00
Closing WIP as @ 31/12/2020	135,000.00
Direct Wages	127,000.00
Packaging Materials	288,000.00
Carriage	75,000.00
Power	25,000.00
Rent and Rates	75,000.00
Depreciation	150,000.00
Lightening and Heating	80,000.00
Advertising	60,000.00

- i. You are expected to assist the company to correctly calculate the sum insured for Gross Profit. (24 marks)

This policy is written on a standard sum insured basis and is based on a 12-month maximum indemnity period. This business is expected to grow by 10% in 2021 and 15% in 2022. Inflation rate could be in the region of 5%.

- ii. Calculate the Year 2021 Projected Gross Profit Sum Insured with Inflation. (8 marks)
- iii. Calculate the Year 2022 Recommended Gross Profit Sum Insured with inflation. (8 marks)

Solution

- (a) The five transformational drives of the current Management of NAICOM, recently released are:

- safeguarding policy holder 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)

(b)	(i)	₦	
	Turnover	3,000,000.00	(2 marks)
	Closing stock as @ 31\12\2020	290,000.00	(2 marks)
	Closing WIP as @ 31\12\2020	<u>135,000.00</u>	(2 marks)
		<u>3,425,000.00</u>	(3 marks)
	Less		
	Opening stock as @ 01\01\2020	440,000.00	(2 marks)
	Opening WIP as @ 01\01\2020	190,000.00	(2 marks)
	Purchases	1,500,000.00	(2 marks)
	Packaging materials	288,000.00	(2 marks)
	Carriage	<u>75,000.00</u>	(2 marks)
		2,493,000	(2 marks)
	Gross Profit	<u>932,000.00</u>	(3 marks)
	(Sub-Total: 24 marks)		

- (ii) An allowance should be made for the effect of growth for the business for 10% in 2021 and 15% in 2022. Also, the inflation rate would be in the region of 5%
- 2021 Projected Gross Profit Sum Insured with Inflation
- | | |
|-------------------------------|-----------|
| = Gross Profit + 10% + 5% | (4 marks) |
| = 932,000 + 10% + 5% | (1 mark) |
| = 932,000 + 93,200 + 51,260 | (1 mark) |
| = ₦ 1, 076,460.000 | (2 marks) |
- (Sub-Total Marks: 8 marks)

- (iii) 2022 Recommended Gross Profit Sum Insured
- | | |
|--|-----------|
| = 2018 Projected Gross Profit + 15% + 5% | (4 marks) |
| = 1,076,460 + 15% + 5% | (1 mark) |
| = 1,076,460 + 161,469 + 61,896 | (1 mark) |
| = ₦ 1, 299,825 | (2 marks) |
- (Sub-Total Marks: 8 marks)
- (Grand Total Marks: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) There are sequence review process that insurers need to apply at renewal. Some answers can be obtained from the insurer's information technology system by programming it to default it if the particular facts appear on the file. Enumerate any eight (8) of these questions. (24 marks)
- (b) The Theft Act of 1968 defines property to include some certain things. Enumerate any three (3) of what property is termed to include. (10 marks)

Solution

- (a) Some of such questions to be reviewed by insurers at renewal are:
- is the business classification still being underwritten? (insurers who have suffered catastrophic losses in particular trades may wish to restrict their portfolio of such acceptances)
 - is any peril included where previous terms were too cheap? (e.g. subsidence)
 - is the postcode of the risk address now in a higher profit risk area?
 - if the building, machinery and stock are insured on a floating basis over several risks (i.e. is the 3-yearly revaluation due?)
 - if the business interruption insurance applies to several premises, does the rate require review this year?
 - has cross reference to the risk index shown any new policies at risk since last renewal?
 - has the sum insured exceeded a level where a size discount may be considered now?
 - have rates for this business classification increased or reduced in the past 12 months?
 - what losses have occurred on this case since last renewal?
 - is the commitment on an estimated maximum loss (EML) basis likely to require a review of reinsurance or to need co-insurance in the coming year?
- (3 marks for each correctly and completed stated question. Maximum of 8 points to be graded. Total: 24 marks)

- (b) 'Property' is termed to include:
- money and all other property; * other intangible property;
 - real properties; including things in action; * personal properties;
 - land.
- (2½ marks for each correctly stated property type. Maximum of 4 points to be graded. Sub-Total: 10 marks
(Grand Total: 34 marks))

11. (a) Special perils are divided into four categories. State these four (4) categories and identify two (2) groups of perils covered under each one. (28 marks)
- (b) There are perils or events and property specifically excluded in glass insurance policy. State any three (3) of these perils. (6 marks)

Solution

- (a) The perils and what are covered are:
- **Chemical Perils:**
 - Explosion; * spontaneous combustion; * self-heating.
 - **Social Perils:**
 - riot, civil commotion; * Malicious persons
 - strikes, locked out workers, persons taking part in labour disturbances
 - **Natural Perils:**
 - storm & flood; * earthquake, subterranean fire;
 - subsidence, ground heave and landslip;
 - **Miscellaneous Perils:**
 - escape of domestic water; * sprinkler leakage;
 - falling air/space craft or pieces from therein;
 - impact by road/rail vehicles or animals.
- (3 marks for each correctly stated peril. 2 marks for each correctly stated group under each peril. Maximum of 2 to be graded. Sub-Total per peril: 7 marks. Grand Sub-total: 28 marks)
- (b) The perils or events and property specifically excluded in glass insurance policy are:

- scratching, chipping, damage to lettering (where the glass is not being affected) and glass already scratched;
- fire; * lightning; * explosion;
- damage in unoccupied premises.

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

(Grand Total: 34 marks)

12. (a) In theft policies, it is a condition precedent to the insurers liability under the policy that when an intruder alarm is installed, there are conditions that must be fulfilled. Explicitly enumerate any four (4) of these conditions. **(20 marks)**
- (b) The all risks policy has some exclusions which the insurer may insure but only after careful attention has been paid to prudent underwriting. List any four (4) of these exclusions. **(14 marks)**

Solution

- (a) The following are the conditions that must be fulfilled when an intruder alarm is installed:

- the intruder alarm is kept in an efficient condition;
- a maintenance contract is in force with the company which installed the intruder alarm or any other company agreed with the insurers and the maintenance contract company is immediately advised of any apparent defect in the intruder alarm or its signaling;
- any defection devices and their circuits connected for continuous operation are fully operable at all times;
- the premises are not left unattended unless the intruder alarm is put into full operation and is at the time fully serviceable to the best knowledge or belief of the insured or their authorised representative.
- the insurers are notified;
 - as soon as possible if written notice is received from the police warning of possible or intended withdrawal of response to calls from the intruder
 - before any alteration to or substitution of the intruder alarm and associated maintenance contract is made unless the terms of this endorsement are varied with the express agreement of the insurers.

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

- (b) The exclusions for consideration by the insurer after careful attention has been paid to prudent underwriting are:

- | | |
|---|-----------------------|
| * gradually operating causes generally; | * inventory shortage; |
| * empty property; | * freezing; |
| * escape of water; | * malicious damage. |

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

(Grand Total: 34 marks)

13. (a) Business interruption can be caused by many different damage. Explicitly enumerate any two (2) major damages that can bring about a business interruption loss. **(10 marks)**
- (b) Combined policies have benefits to the insured and the insurer. Explicitly explain any four (4) benefits of the combined policies to the insurers. **(16 marks)**
- (c) A package policy is designed to provide a very much simplified and easily understood contract which offers a full 'package' cover to particular trades or occupations. Enumerate any four (4) of these covers that package policy usually incorporate. **(8 marks)**

Solution

- (a) Some major damages that can bring about a business interruption loss are:
- damage by fire, special perils, theft and accidental causes to any property used by the insured for the business at the premises such insurances are written by companies, Lloyd's underwriters and captives who write materials damage insurances against those perils.
 - damage by explosion, collapse, mechanical or electrical derangement or sudden and unforeseen damage of or to the insured's steam pressure boilers, economisers, other pressure plant, machinery and lifting and other apparatus. these insurances are written by companies, Lloyd's underwriters and captives who specialise in engineering risks.
- (5 marks for each correct and completely stated damage. Maximum of 2 to be graded. Sub-Total: 10 marks)**

- (b) The benefits of combined policies to insurers are:
- easier handling as regards staff resources;
 - multi-disciplined expertise is developed in staff members and with staff relations with clients;
 - single policy only required, which reduces administration cost;
 - one renewal document only needed;
 - ease of review for insurer;
 - ease of review for the intermediary.
- [4 marks for each correctly and completely stated benefit. Maximum of 4 to be graded. Sub-Total: 16 marks)**

- (c) The covers that package policy usually incorporate are:
- | | |
|------------------------------------|------------------------------|
| * fire, material damage; | * consequential loss; |
| * theft, money, glass; | * goods-in-transit; |
| * employers' liability; | * public/products liability. |
| * fidelity insurance (occasional). | |
- (2 marks for each correctly stated cover. Maximum of 4 points to be graded. Sub-Total: 8 marks)**
(Grand Total: 34 marks)

14. (a) Property and pecuniary insurances, has eleven tasks to perform for every new risk proposed for insurance and every existing risk where a change of risk is notified or detected. Enumerate any ten (10) of these eleven tasks. **(30 marks)**
- (b) Enumerate any two (2) options that insurers have where the insured or proposer does not cooperate in risk improvement measures implementation. **(4 marks)**

Solution

- (a) The tasks to perform for every new risk proposed for insurance and every existing risk where a change of risk is notified or detected are:
- identify the perils;
 - check the general acceptability of the proposer and risk;
 - identify the underwriting factors and estimated maximum loss;
 - establish the type of risk and acceptance class;
 - apply the acceptance limit for the class;
 - utilise such automatic reinsurances as are available;
 - identify the premium/rating factors for the risk;
 - calculate terms;
 - make an offer to the proposer or introducing intermediary;

- make a list of all the factors which increase the risk with a comment against each on whether it can be reduced or eliminated;
- after consulting the survey or to check the feasibility of any action possible to reduce or eliminate each factor which increased the risk, review the case.

(3 marks for each correct and completely task. Maximum of 10 to be graded. Sub-Total: 30 marks)

(b) The options that insurers have where the insured or proposer does not cooperate in risk improvement measures implementation are:

- refuse to continue on risk after an increase in risk has occurred in an existing insurance and the insured will not try to eliminate or reduce the effect of the change;
- refuse insurance to an uncooperative proposer;
- refuse to offer renewal;
- refuse to make such a large share of the rule as was written prior to the risk increase.

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

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A05

LIFE ASSURANCE

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A05 – LIFE ASSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question examined candidates' application of underwriting principles. Those with a good understanding of the topic scored the full six (6) marks, while more than 50% scored below 3 marks. The overall performance can be described as average.

Question 2

This question also focused on underwriting. Unfortunately, it was widely misunderstood, leading to a high failure rate. Over 83% of the candidates scored below the average score, suggesting that the majority were unfamiliar with the specific requirements of the question or misinterpreted its intent.

Question 3

Although all candidates attempted this question, less than 2% were able to provide responses that aligned with the examiner's expectations. This showed a significant gap in understanding and highlighted the need for candidates to study this area more thoroughly.

Question 4

The question was straightforward and well understood. It was well attempted by most candidates, with a pass rate exceeding 90%. The simplicity and clarity of the question contributed to the good performance recorded.

Question 5

Similarly, this question was concise and direct. About 80% of the candidates provided the correct answers, reflecting good comprehension and adequate preparation in this area.

Question 6

Most candidates who attempted this question demonstrated a reasonable understanding of the topic, scoring over 50% of the marks allocated. The performance was generally satisfactory.

Question 7

Almost all candidates scored over 50% on this question. However, in part (b), approximately 75% of the candidates provided incorrect responses, showing unfamiliarity with the concept of death strain.

Question 8

Candidates' performance on this question was mixed. While some interpreted it correctly and answered appropriately, others misunderstood the question, leading to incorrect responses.

Question 9

This was a compulsory question, and the majority of candidates performed well. Over 65% scored above 35 marks out of the 50 marks allocated. However, a few candidates struggled with the section relating to assignment, which affected their overall scores.

Question 10

Less than 20% of the candidates demonstrated a full understanding of this question.. The majority showed only a partial grasp, suggesting the need for better comprehension of the topic.

Question 11

About 90% of the candidates attempted this question, but the pass rate was below 70%. Many deviated from the main focus of the question, which affected their scores. Paying attention to question requirements will improve outcomes in this area.

Question 12

Approximately 75% of the candidates understood this question and provided accurate and well-structured answers. The overall performance was commendable.

Question 13

This question was relatively simple and appeared to be a bonus question. About 90% of the candidates answered it correctly, demonstrating a strong grasp of the topic.

Question 14

This question examined on mortgages, which proved challenging for most candidates. Many were thrown off by the topic, leading to a low attempt rate and weak performance among those who tried it.

Comments on Overall Performance:

The overall performance of the candidates was slightly above average, the results indicated that many struggled with a proper understanding of key topics. More effort is required to achieve significant progress in future examinations.

Suggestions for Improvement:

Adequate preparation for future examinations is recommended.

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

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. State any six (6) occupations in life underwriting that have an above-average risk of death by accident.

Solution

The occupations in life underwriting that have an above-average risk of death by accident are:

- * scaffolders; * steeplejacks; * steel erectors; * trawlermen;
- * underground miners; * oil rig workers * bomb disposal workers * divers;
- * professional boxers; * handlers of radioactive materials.

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

2. Outline any six (6) exclusions commonly imposed by life offices for incapacity benefits.

Solution

The exclusions commonly imposed by life offices for incapacity benefits are:

- War, invasion and act of foreign enemy; * Riot or military or usurped power;
- Self-inflicted injury; * Participation in any criminal act
- Taking alcohol or drugs other than under the direction of a registered medical practitioner;
- Pregnancy, childbirth or any complications arising from them;
- Aviation, other than as a fare-paying passenger on a normal flight;
- AIDS; * Failure to follow medical advice.

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

3. Enumerate any three (3) important features of the code of practice regarding the handling of genetic test information in life assurance practice.

Solution

The important features of the code of practice regarding the handling of genetic test information in life assurance practice are:

- Insurance companies will not insist on genetic tests.
- Genetic test results will only affect insurance if they show a clearly increased risk of illness or death. A low increase in risk will not necessarily affect the premium.
- Insurance companies will always seek expert medical advice when assessing the impact of genetic test results on insurance.
- Insurers may take account of a test result only when reliability and relevance have been established by the Monitoring Group of the Human Genetics Committee (HCG).
- Applicants for insurance will not be asked to take a genetic test, but existing test results should be given to the insurance company when it asks a relevant question, unless it has said this information is not required.
- Existing genetic test results need not be disclosed in applications for life assurance up to £500,000 (including existing cover with that insurer) for life assurance, £300,000 for critical illness and £30,000 pa for income protection and long-term care cover. The only genetic test result that needs to be disclosed is for Huntington's Disease on life assurance contracts only.
- An applicant will not be required to disclose the result of a genetic test undertaken by another person (such as a blood relative), and one person's test information will not affect another person's application.
- The reason for an increased premium or rejection of an insurance application will be provided to the applicant's doctor on request.

- Insurers will not ‘cherry pick’ by offering a ‘preferred life’ lower than normal premiums on the basis of their genetic test results.

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

4. The evidence of a life assurance contract, which is the policy document, has many sections. List any four (4) of those sections.

Solution

The sections in the policy document are:

- * Heading; * Preamble; * Operative Clause;
- * Schedule; * Conditions; * Definitions.

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

5. In relation to life assurance contracts in a life office,
(a) what is death strain? (b) what is retention?

Solution

- (a) **Death Strain** is the sum assured less the reserve. (3 marks)
(b) **Retention** is the maximum sum assured a life office will hold before seeking reinsurance. (3 marks)

(Grand Total: 6 marks)

6. (a) State out any four (4) ways by which a trust can be created. (4 marks)
(b) In the context of mortality tables, write out the meaning of the following symbols:
(i) q_x (ii) p_x . (2 marks)

Solution:

- (a) The ways by which a trust can be created are by:
* deed; * will; * statute; * verbally; * implied.
(1 mark for each correctly stated way. Maximum of 4 to be graded. Sub-Total: 4 marks)

- (b) i) q_x represents the probability that a person now aged x will die at age x (that is, the probability that a person now age x would not survive to the next age $x + 1$) according to a particular mortality table. **OR**

q_x may also be said to represent the probability that a person now aged x will not survive to the next age $x+1$. (1 mark)

- (ii) p_x represents the probability that a person now aged x will survive to the next age $x + 1$ according to a particular mortality table (that is, the probability that a person now age x would survive to the next age $x + 1$). (1 mark)

(Sub-Total: 2 marks)

(Grand Total: 6 marks)

7. (a) When can “new business strain” occur? (4 marks)
(b) What are the two (2) major influencers of (a)? (2 marks)

Solution

- (a) New business strain can occur as a result of unexpected early claims before the life fund has had a chance to build up the large reserves possessed by the long-established offices. (4 marks)

- (b) It is also influenced by the level of reserves (1 mark) and heavy initial expenses (1 mark) such as commission and underwriting. (2 marks)

(Grand Total: 6 marks)

8. Outline any six (6) major unethical practices common in the life assurance market.

Solution

The major unethical practices common in the life assurance market are:

- * failure to disclose status;
- * selling in disguise;
- * churning;
- * switching;
- * overselling;
- * overcharging;
- * over optimistic projections

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

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) Chartered Insurance Institute of Nigeria is charged with determining the standard of knowledge and skills required for insurance practitioners and enforcing professional discipline within the industry. As a core professional, list any four (4) of the code of ethics required to be complied with as a member of the Institute. (10 marks)
- (b) (i) What is an assignment in relation to life assurance? (4 marks)
(ii) State and explain any four (4) exceptions to the priority rule regarding notice of assignment of life assurance policies. (20 marks)
- (c) Distinguish between joint tenancy and tenancy in common. (8 marks)
- (d) Enumerate any four (4) circumstances in which an existing trustee can be replaced with a new trustee. (8 marks)

Solution:

(a) The code of ethics required to be complied with as a member of the Institute is that: Members are required to:

- comply strictly with the code and all relevant laws and regulations
- act with the highest ethical standard and integrity
- act in the best interest of each client in discharging professional functions
- provide high standard of service in their professional calling.
- to be fair to all concerns, sex, race, gender, etc.

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

(b) An assignment is a transfer of ownership from one person to another. This frequently happens with life policies, so knowledge of the legal principles involved is necessary when dealing with claims or surrenders. An assignment may be temporary or permanent and can confer an absolute interest or a limited interest. (4 marks)

(c) The exemptions to the priority rule regarding notice of assignment of life assurance policies are:

Exceptions to the priority rule of notice

A trustee in bankruptcy takes the debtor's property subject to all existing equities.

The rule does not apply to voluntary assignments: that is, gifts or trusts. Notice does not give priority between consecutive voluntary assignees.

- 1 They cannot therefore, take priority over an earlier interest of which notice has not been given: *Re Wallis, ex parte Jenks (1902)*.
- 2 Where there is a conflict between an assignee for value who has not given notice and a voluntary assignee who has given notice, the giving of notice will not affect title. Priority will, in these cases, be determined by the dates of the assignments. The reason for this is that where no valuable consideration has been

given, the same need for protection does not arise.

The rule does not apply between assignee and assignor.

The rule does not apply where there is evidence of willful blindness on the part of an assignee for value.

The rule does not apply to mortgages for unlimited amounts, for example where there is an obligation to advance £x 'and further sums on the same security'.

3 The equitable principle is that they are equally affected by knowledge of the facts.

4 If a person intending to give a loan on the security of a policy has reason to suspect the existence of a prior interest of which no notice has been given, and deliberately refrains from making enquiries, relying on notice to gain priority over the earlier assignee, they will fail in their attempt. The equitable principle is that a person should not profit by their own negligence.

5 The further advances made under the original deed would rank in priority to subsequent mortgages, whether or not there had been notice of these. The principle is that a second mortgagee (see section G1A) should make proper enquiries before taking a charge on a policy.

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

(c) **Joint Tenancy:** under a joint tenancy, if one joint tenant dies their interest passes automatically to the survivor(s). On the death of the last survivor the property passes to the legal personal representatives. Thus, property held under a joint tenancy can be disposed of by will only by the last surviving joint tenant. Many joint life first death policies are held under a joint tenancy by the two lives assured. This means that when one dies the sum assured is payable to the other as the surviving joint tenant. **While, tenancy in common** differs from a joint tenancy in that on the death of a tenant in common their interest passes to their estate and can thus be disposed of by will. It will be rare for a joint life first death policy to be held under a tenancy in common by the two lives assured. However, it would mean that the sum assured would be payable 50% to the survivor, and 50% to the estate of the deceased. A joint tenancy is automatically converted to a tenancy in common by the bankruptcy of one of the joint tenants.

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

Sub-total per term: 4 marks. Grand Sub-Total: 8 marks)

(d) The circumstances in which an existing trustee can be replaced with a new trustee are where the existing trustee:

- * becomes bankrupt/goes into liquidation;
- * becomes physically unfit;
- * is a minor;
- * resigns his appointment;
- * commits an act of felony
- * leaves outside the country for more than 12 months calendar consecutively;

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) (i) What is the primary job of any claims department or unit of a life assurance company? (4 marks)

- (ii) State any four (4) conditions that a valid life claim is subjected to in order to confirm its validity. (10 marks)
- (b) Explain the process involved in a death claim processing by the life assurance company. (20 marks)

Solution

- (a) (i) The primary job of the claims department is to pay valid claims as efficiently and speedily as possible as well as paying the right amount to the right person. (4 marks)
- (ii) The conditions that a valid life claim is subjected to in order to confirm its validity are:
- payment of all due premiums;
 - production of the policy;
 - proof of title – the onus of which is on the claimant;
 - proof of death on a death claim;
 - proof of age on a death claim.
- (2½ marks for each correct and completely stated condition. Sub-Total: 10 marks)

(b) When a death claim occurs, the correspondence will normally be initiated by the claimant, or solicitors for the estate, who will write to the office informing them of the death and requesting the amount payable. **The first step is for the office to search its index of lives assured to ascertain all the policies on that life.** Then the date of death must be obtained, as the amount payable may depend on the exact date of death – for example, the profits on a with-profits policy or the sum assured on a decreasing term policy will vary according to the precise date of death. The office's initial reply will quote the amount payable, subject to the admission of the claim.

The next step is to obtain proof of death. When this has been done the validity of the claim can be assessed. This may depend on the cause of death. Once the office is satisfied that the claim is valid, the claimant must be requested to prove their title. Proof of age must be obtained if age has not already been admitted. The office will also require a form of discharge to be signed by the claimant before making payment. The format of this will be virtually the same as that used for maturity claims. Proof of death is vital for admission of a death claim. Deaths in the UK are proven by an official Death Certificate. The Death Certificate is an official copy, made by the Registrar of an entry in the Register of Deaths maintained pursuant to the Births and Deaths Registration Act. It is possible to get as many original death certificates as required from the Registrar on payment of the appropriate fee. Only original death certificates should be accepted as proof of death. There have been cases of life offices being defrauded by paying death claims based on forged photocopy death certificates.

Presumption of death sometimes happens that a life assured disappears and there is no direct evidence of death. Disappearing is not the same as dying and attempts have been made to defraud life offices in this manner. Caution should therefore be exercised in dealing with claims where it is alleged that the life has died, but nobody is found and therefore no death certificate is issued. Death may be able to be proved in such cases by circumstantial evidence. For example, if it is alleged that the life assured died when an airliner in which he was a passenger crashed into the sea, then proof could be adduced by the airline's written confirmation that the life assured was a passenger on the flight, and that the plane did crash into the sea with the loss of all those on board. It is also possible for the claimant to apply to the court for an order presuming death if the life assured has disappeared and been absent for seven years.

Cause of death: the office should take note of the cause of death shown on the death certificate. There is a possibility that the life assured died as a result of some activity that was excluded from the cover provided by the policy, for example, private flying, or mountaineering. Also, if death has occurred within a comparatively short period since the issue of the policy, the office should

pay heed to the possibility of non-disclosure. If the office suspects that there may have been non-disclosure of a material fact, it will have to make further enquiries.

Proof of title: will be required before a claim is paid.

- If the policy is a life of another contract, payment will be made to the assured on production of the policy.
- If it is a trust policy, payment will be made to the trustees, again on production of the policy.
- If the claim is being made by an assignee, both the policy and the deed of assignment will be required.
- If the policy is an own life policy that has not been assigned, then payment will be made to the estate. The estate is represented by the legal personal representatives, and they can prove their title by producing the appropriate grant of representation, which is issued by the court appointing them.

The executors, or administrators, must produce a grant to prove their title.

There are two types of grants:

- a **grant of probate** when a valid will naming executors was left;
- a **grant of letters of administration** where no valid will was left.

Proof of age: will be required on a death claim. Where proof of age is required, it is advisable to add to any quotation of the sum payable on death that it is subject to age having been stated correctly. Proof of age is important in that premiums are based on the age of the life assured, and if the age differs from that stated on the proposal, then an incorrect premium has been charged. If this happens often, the whole of office's rating basis will be upset. Therefore, most offices prefer age to be proven at the inception of the policy. This sometimes does not happen, so proof of age may be required on a subsequent death claim. Proof of age is not so important in maturity claims or surrenders, and is not usually required in these cases. Age is normally proven by the production of an official birth certificate.

(5 marks for each correctly stated and duly explained process. Maximum of 4 to be graded. Sub-Total: 20 marks)

(Grand Total: 34 marks)

11. (a) What is system software? (4 marks)
- (b) Enumerate any five (5) uses of computer systems in life assurance new businesses acquired. (10 marks)
- (c) Enumerate any five (5) uses of computer systems in life business existing businesses. (10 marks)
- (d) Enumerate any five (5) uses of computer systems in life business for claim processing. (10 marks)

Solution

(a) A system software is the part of the computer that controls the actual operation of the hardware whether it is large or small and is usually supplied by the manufacturer. (4 marks)

- (b) The uses of computer systems in life business for new businesses acquired are:
- maintain an alphabetical index of lives assured and/or proposed;
 - produce quotation;
 - check whether non-medical limits are being exceeded;
 - produce standard letters to request medical attendant's reports and medical examinations;
 - produce and issue acceptance letters;
 - produce policy documents;
 - set up the initial policy record;

- pay commission to the company representatives;
- produce sales figures for individual company representatives;
- produce sales figures for geographical areas or socio-economic classes for marketing and sales management purposes.

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

(c) The uses of computer systems in life business for existing businesses are:

- collection of premiums;
- operate areas procedures by issuing standard letters;
- allocating units each time a premium is paid on a unit-linked contract;
- administering fund switches on unit-linked contracts;
- allocating bonus and issuing bonus notices on with-profit;
- maintaining the record of notices of assignments;
- administering reinsurance arrangements;
- recording changes of names or addresses of policyholders;
- producing persistence statistics.

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

(d) The uses of computer systems in life business for claim processing are:

- produce and issue letters regarding impending maturities;
- produce and issue letters on death claims and issue cheque in settlement;
- produce death claims and IPI claims statistics;
- pay monthly benefits IPI claims;
- pay annuity instalment to the policyholder's bank account;
- pay regular withdrawals under unit-linked policies;
- pay regular installments of capital under family income benefit policies;
- calculate surrender values and issue letters and cheques when required;
- process policy loan applications.

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

(Grand Total: 34 marks)

12. (a) Explain what "term assurance" means, with at least two (2) explanations. **(4 marks)**

(b) Describe the following types of term assurance:

- | | |
|-----------------------------------|---------------------------------|
| (i) Level Term Assurance; | (ii) Renewable Term Assurance; |
| (iii) Convertible Term Assurance; | (iv) Decreasing Term Assurance; |
| (v) Increasing Term Assurance. | (30 marks) |

Solution

(a) Term assurance is the most basic form of life assurance. It will pay out only if the life assured dies during the term of the policy. If the life assured survives, no payment is made and the policy expires.

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

(b) (i) **Level Term Assurance:** the simplest form of term assurance is level term assurance. This contract provides that the life office will pay the sum assured only if the life assured dies during the term of the policy, i.e. before the expiry date. The sum assured does not vary during the term of the policy and once it has expired the policy has no value. This is the cheapest form of life assurance since the cover is only temporary and there is normally no surrender value available on early termination. It is frequently used to provide protection for the family of a breadwinner.

(ii) **Renewable Term Assurance :** some term assurances are 'renewable'. This means that on the expiry date there is an option to take out a further term assurance at ordinary rates without further evidence of health, as long as the expiry date is not beyond, say, the age of 65. Each subsequent policy will have the same option. Thus, instead of purchasing a 20-year term assurance, a 45-year-old man might effect a five-year renewable term assurance which gives him the option of renewing every five years. Whenever the policy comes up for renewal, the premium will increase since it is based on the current age of the life assured. If the insured elects the option, the life office cannot decline it. Renewable term assurances are used when there is a definite initial need for cover but it is not known how long the need will last.

(iii) **Convertible Term Assurance:** This is a level term assurance with an option which enables the assured to convert it, at any time during its existence, to a whole life or endowment assurance, without further evidence of health. The premium for the new policy will be that normally applicable to a whole life or endowment assurance policy for a person of the life assured's age at the time of conversion. If the original policy was issued with some form of extra premium, then the premium for the new policy will be similarly treated. Often part conversion is allowed instead of total conversion. The premiums charged for convertible term assurance will be slightly higher than for the ordinary level term assurance to allow for the cost of the conversion option.

(iv) **Decreasing Term Assurance:** Term assurance of this type has a sum assured which reduces each year (or possibly each month) by a stated amount, decreasing to nil at the end of the term. It is normally used to cover a reducing debt, such as the capital outstanding on a house purchase mortgage, with the sum assured being linked to the reduction in the capital outstanding under the loan. Although the cover decreases each year, the premium remains constant. Premiums are sometimes payable for a shorter period than the policy term itself. Some decreasing term policies also have a conversion option, although this is limited to the sum assured which remains at the time of conversion.

(v) **Increasing Term Assurance:** as a result of inflation, a term assurance with a level sum assured gives a reducing amount of real cover as the value of money declines year by year. Consequently, attempts have been made to combat this by introducing term assurance policies with some form of increasing sum assured.

(3 marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total per term: 6 marks. Grand Sub-Total: 30 marks)
(Grand Total: 34 marks)

13. (a) Define a contract. (4 marks)
(b) State and explain the five (5) essentials of a valid life assurance contract. (30 marks)

Solution

- (a) A contract is an agreement between two or more parties which is enforceable at law. (4 marks)
- (b) The five essentials of a valid life assurance contract are:
- offer and acceptance; *
 - capacity to contract; *
 - *consensus ad idem*.
 - consideration;
 - insurable interest;

Offer and Acceptance: The general law of contract applies to life assurance, but with certain modifications. The offer is not made by an insurer's prospectus or advertisement. This is merely an invitation to receive offers. The proposal form completed by the proposer is by law the offer.

This is then considered by the insurer, who may make any relevant enquiries and arrange for medical evidence if necessary. The insurer, if prepared to accept the risk, will then issue a letter of acceptance stating that it will issue a policy, provided that the first premium is paid within a specified time, and on the understanding that the state of health of the proposer remains unchanged. The letter of acceptance is, at law, a counter offer, which the proposer can accept by paying the first premium. The legal authority for this is *Canning v. Farquhar* (1886).

Consideration: A contract that is not under seal must have consideration to be valid. In life assurance this is always present in the form of the premium. Almost all life policies are issued under hand and are therefore simple contracts. A life policy can be issued under seal. However, there will still be consideration, the premium.

Capacity to Contract: Both the assured and the insurer must have the legal capacity to contract. There are certain restrictions on contractual powers in certain cases and these are dealt with below.

Minors: A minor, or infant, in English law is a person under 18 years of age (**Family Law Reform Act 1969**). Subject to certain exceptions, contracts made by minors are not enforceable against them, though minors may be able to enforce them. Contracts for ‘necessaries’ and certain contracts of employment beneficial to the minor are enforceable.

Mentally Disordered People: in general, a contract with a person of unsound mind is binding on that person if the disability was not known by the other contracting party.

Companies: A company has a legal identity separate from that of its members. The powers of a company to contract can be found in its constitution, which is its memorandum and articles of association.

Insurable interest: the proposer must have an insurable interest in the life assured. Before 1774 this was not necessary, and the lives of criminals and notorious people were insured by people unconnected with them in the hope of making a substantial profit on their early death.

Life Assurance Act 1774: this situation was remedied by the Life Assurance Act 1774. The Act may be summarised as follows:

- no interest, no insurance;
- the person interested (the proposer) must be named in the policy;
- no greater sum than the interest can be recovered.

Therefore, a life policy cannot be granted to a person unless that person has an insurable interest in the life to be assured. The essence of an insurable interest is that it must be an interest, recognisable by law, in the life assured such that death would cause a loss capable of valuation in money terms. The loss must result from the death as a result of some legal obligation or liability, and a mere moral obligation is not enough.

Consensus ad idem: This term means *in complete agreement of mind*. In any contract the parties must be *ad idem* – of the same mind – as to the subject-matter of the contract. In ordinary commercial contracts, each party is deemed to be equally able to assess the merits of the bargain offered. As long as a seller makes no misrepresentations they are under no duty to the buyer to express any opinion over what is offered for sale. Hence the maxim *caveat emptor*, let the buyer beware, applies. This could not apply to life assurance as the proposer knows personal facts of health, occupation and life risks that the insurer cannot possibly know. It is on these facts that the premium is assessed. The law therefore imposes on the proposer the duty of utmost good faith or *uberrima fides*.

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

Maximum of 2 to be graded under each term. Sub-Total per term: 6 marks. Grand Sub-Total: 30 marks)

(Grand Total: 34 marks)

14. (a) What is a Mortgage? (4 marks)
 (b) Enumerate and explain any three (3) rights of a mortgagee. (18 marks)
 (c) State and briefly explain the three (3) certainties of a trust. (12 marks)

Solution

(a) A mortgage is a type of assignment used in connection with a loan. If an asset is being used as security for a loan, that asset will be mortgaged by the borrower to the lender for the duration of the loan. (4 marks)

- (b) The rights of a mortgagee are the rights:
 * of repayment; * of power of sale;
 * of a receiver; * of foreclosure.

Rights of Repayment: the deed will contain a covenant by the borrower to repay the loan, and if they fail to do so within the three months' notice given, the lender can sue them for breach of this covenant to repay. The loan cannot be called in before the date specified in the deed. In practice this remedy is very seldom used, because the borrower is unlikely to have the money.

Rights of Power of Sale: if the mortgage is by deed then the mortgagee has the right, without application to the court, to sell the mortgaged property and recover the loan from the sale price, with any balance being paid over to the mortgagor. The mortgage deed may contain an express power of sale. Even if it does not, a statutory power of sale is conferred automatically by s.101 of the Law of Property Act 1925.

Rights of a Receiver: the mortgagee can appoint a receiver to take possession of the property and collect any income from it, and to apply it in reduction of the mortgage debt. This remedy may be convenient in the case of mortgages of land where there may be rental income, or shares where there may be dividend income, but is virtually never used in connection with life policies.

Rights of Foreclosure: the mortgagee can apply to the court for an Order of Foreclosure, whereby the court orders that the mortgage debt must be repaid by a specific date, which will normally be in six months' time. If the court grants the application, it will make an order *nisi*. If repayment is not made by the date set, the order becomes absolute and the mortgagee becomes the full owner of the property.

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

Maximum of 2 to be graded under each term. Sub-Total per term: 6 marks. Grand Sub-Total: 18 marks)

- (c) The three certainties of a trust are:
 (i) **Certainty of Words:** the words used in creating the trust must be definite and certain. Usually, most times the words used contain imperative words.
 (ii) **Certainty of Subject Matter:** the subject matter refers to the trust property and it must be capable of description and identification.
 (iii) **Certainty of Object:** The object refers to the named beneficiary(ies). The object must equally be capable of description of identification.

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

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A06

MOTOR INSURANCE

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A06 – MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question examined the candidates' understanding of the principle of "Utmost Good Faith" in insurance. The general performance was an above-average success rate of approximately 60–65%. This indicated that most candidates had a fair grasp of the topic and were able to provide relevant explanations and examples.

Question 2

The question examined candidates' knowledge of additional benefits available under a private motor policy. The overall performance was average, with about 55% of the candidates providing satisfactory responses.

Question 3

This question examined candidates' knowledge of the liability aspect involved in commencing a vehicle policy. Although over 90% of the candidates attempted the question, their performance was below average, with only about 45% scoring a pass. This showed that while the question was well attempted, many candidates lacked a solid understanding of the relevant liability provisions.

Question 4

The question examined candidates' understanding of who qualifies as a third party in a motor insurance policy. Performance was generally average, with about 55% of candidates demonstrating adequate knowledge of the concept.

Question 5

This question focused on the issue of an insured's liability arising from a third-party claim made without the insured's consent. Candidates' performance was average, ranging between 55% and 60%. While some answers were well-articulated, a number of candidates struggled to provide detailed explanations supported by relevant policy terms.

Question 6

The question examined candidates' understanding of the three areas covered by the engineering section of the combined road and garage motor trade policy. Performance was very poor, with scores ranging between 20% and 35%. This clearly indicated that most candidates were unfamiliar with this topic.

Question 7

This question examined the knock-for-knock agreement and its relationship to emergency treatment fees. Performance was average, falling between 55% and 60%.

Question 8

The question examined candidates' knowledge of underwriting considerations in motor policies (Part A) and notification procedures for newly acquired or replacement vehicles (Part B). Overall performance was average, between 55% and 60%.

Question 9

This question examined the candidates' understanding of liability in motor insurance. The responses revealed that while some candidates had a fair grasp of the basic principles, many were unable to provide detailed or well-structured answers.

Question 10

Part A examined on underwriting measures applicable to motorcycle insurance policies, while Part B examined alternatives available to insurers when dealing with substandard risks. Although the question was widely attempted, overall performance was below average, at about 45%. Many candidates failed to demonstrate a practical understanding of underwriting measures and risk alternatives.

Question 11

Part A examined candidates' understanding of the scope of comprehensive motor insurance, while Part B covered the different legal ages for obtaining a driver's license. The question was attempted by about 95% of the candidates, but performance was quite poor at 30%. This suggests that while the question was well attempted, but it was not well understood.

Question 12

Part A examined on repayment of hospital treatment fees, while Part B examined knowledge of fleet rating. The question was poorly attempted overall, with only 10% of candidates showing reasonable understanding and just 20% scoring above average.

Question 13

This question examined the importance and relevance of accident reports in Part A and procedures for notification to insurers and claims management in Part B. It was well attempted by about 78% of the candidates, with an average level of performance. Some candidates, however, failed to link their answers to practical claims handling situations.

Question 14

This question assessed knowledge of the purpose of an Internal Risk Motor Trade Policy and its applicable rating factors in Part A, while Part B focused on handling third-party personal injury claims. The question was attempted by 38% of the candidates, but performance was extremely poor as only one candidate out of the entire group passed.

Comments on Overall Performance:

The overall performance of candidates was generally average. While some candidates displayed a fair understanding of basic principles in motor insurance, many lacked depth, precision and the ability to apply theoretical knowledge to practical scenarios.

Suggestions on Improvement(s) (if any):

Candidates are strongly advised to improve their study habits.

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

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. Madam Mariam had insured her Toyota Saloon Car for the past two (2) years with M/S Trust Insurance Company Limited during which the insured car was involved in a road accident for which the insurer paid an accidental damage claim of ₦800,000.00. Shortly thereafter, she switched the insurance of the car to M/S Utmost Insurance Company Limited, where the car was also insured on a comprehensive basis but she never disclosed to the new insurers her past claim experience, even when there was a question related to that on the proposal form. Her colleague, Mr. Benson, took her up on this act of non-disclosure, but she stood her ground that her action was justified. Comment on Madam Mariam's action considering the universally acceptable principle of "Utmost Good Faith".

Solution

The Principle of Utmost Good Faith stipulates that all material facts must be disclosed by the Insured. The duty of disclosure exists at all stages leading up to the contract coming into existence. It revives again at renewal. However, Insurers tend to modify the common law position by a Policy term requiring notification of changes as soon as possible. Madam Mariam's refusal to disclose her past claims records/experience is a breach of the Principle of Utmost Good Faith (Uberima Fides).

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

- 2 (a) At an insurance seminar where the adequacy or otherwise of motor insurance premium was being discussed, some participants were of the view that the motor insurance premium was too high and did not benefit the insured all that. However, other participants had a contrary view by supporting the notion that motor insurance premiums were reasonable and the insured enjoyed more benefits from insurers. In this context, enumerate the two (2) general additional benefits that are enjoyed directly by the insured under a private motor policy. **(4 marks)**
- (b) Outline any two (2) categories of fleets available in motor insurance. **(2 marks)**

Solution

(a) The general additional benefits that are enjoyed directly by the insured under a private motor policy are:

- Personal Accident Cover for the Policyholder (usually capital benefit);
- Personal Accident Cover for the Spouse (usually capital benefit) and
- Medical Expenses up to a particular limit.

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

(b) The categories of fleets available in motor insurance are:

- * small fleet; * medium sized fleet; * large fleet.

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

(Grand Total: 6 marks)

3. Ms. Enamel purchased a commercial vehicle policy and while some stocks of Enamel were being unloaded at a truck park in Benin City, Edo State, a part of the goods fell down and damaged a part of the vehicle in the process. This resulted in lots of arguments in terms of whether or not the liability of the insurers engages, particularly with regard to the damaged part of the vehicle. Advise the insured the provision of the policy in this instance.

Solution

The risks of loading (1 mark) and unloading (1 mark) are covered under a commercial vehicle policy (2 marks) wherever it happens (2 marks) if the driver or attendant is carrying out the loading or unloading to the limits of the carriage way.

(Total: 6 marks)

4. Alhaja Taibat recently insured her newly acquired Mercedes Benz Saloon Car with M/S Success Insurance Company Limited on comprehensive basis. Having paid the premium, she was issued a payment receipt, certificate of insurance and the policy document. While going through the policy, she noticed that “Third Party” was mentioned therein. She wondered why the reference to a third party in the policy document even though she insured her car on comprehensive basis. Explain to the insured who a third party is, as far as motor insurance is concerned, linking the explanation to who first and second parties are.

Solution

Normally there are two parties to a motor insurance contract, the Insurer and the Insured and these are reflected in the Motor Insurance Policy. They are the First and Second Parties respectively. Any other person outside these two (i.e the Insurer and the Insured) is regarded as a Third Party and he is not a party to the contract. The Policy however makes provision for the protection of this (third party) interest.

(2 marks each for correct explanations of first, second and third parties. Total: 6 marks)

5. Whilst travelling from Ijebu-Ode to Sagamu, a Peugeot Saloon Car insured with Ultimate Insurance Company Limited had a road accident with an Opel Space Wagon, insured with Meticulous Insurance Company. The Peugeot Saloon Car was insured on Third Party basis while the Opel was insured on Third Party Fire and Theft Basis. There was serious argument between the two drivers as to who was responsible for the accident. According to the driver of Opel Space Car, the driver of the Peugeot Saloon Car negligently hit his car from the back and consequently should accept liability but the other driver refused insisting that he did not cause the accident and should not be held accountable. As a student of insurance, why is it usually advised that a driver/insured should be cautious in accepting liability in the event of an accident?

Solution

The reason why it is usually advised that a driver/insured should be cautious in accepting liability in the event of an accident is that should the policyholder or driver admit blame to a third party claimant, then the position of the Insurer may be prejudiced. The policy calls for no such admission to be made; but as long as the outcome of any civil litigation is not affected by any such admission – say, in a case where the policyholder or driver is in any event liable – then the Insurer is not likely to take any action.

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

6. Enumerate and briefly explain the three (3) aspects of cover offered by the Engineering Section of the Combined Road and Garage Motor Trade Policy.

Solution

The three aspects of cover offered by the Engineering Section of the Combined Road and Garage Motor Trade Policy are:

- **Fragmentation:** indemnify in respect of damage by impact to property owned or held in trust by the Insured, as a direct result of fragmentation of any part of the plant.
- **Breakdown:** again, damage to the plant by breakdown together with reasonable additional expenses (subject to a limit outlined in the schedule) incurred in arranging temporary or permanent repairs.

- **cost of hiring/increase costs:** this option will provide indemnity for the cost of hiring a replacement plant or completing the work normally undertaken by the insured plant in another manner necessarily and reasonably incurred by the insured for a period of up to one month following breakdown.

(1 mark for each correctly stated aspect. 1 mark for each correct and completely stated explanation. Sub-total per term: 2 marks. Grand Total: 6 marks)

7. In past years, knock for knock agreement exists in practice in the motor insurance space. Enumerate any three (3) contexts of “Emergency Treatment Fees” under the “knock for knock agreement”.

Solution

Motor policies issued in compliance with the RTA provide for the payment of emergency treatment fees. Where two vehicles are in collision the Knock for Knock Agreement provides that the emergency treatment fees are adequately catered for:

- in respect of persons in a vehicle are paid by the Insurers of that vehicle;
- in respect of persons not in a vehicle are paid by the insurer(s) of the vehicle that hit the person;
- in respect of all other persons are shared equally by the Insurers involved in the accident.

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

8. (a) Why do motor insurance underwriters place so much importance on “Occupation of all Drivers” in private car insurance rating? **(4 marks)**
- (b) Enumerate any of the actions required to be performed by the policyholder under a “Change of or Additional Vehicles” Condition in relation to Commercial Vehicle Policies? **(2marks)**

Solution

(a) Normally only the occupation of the main driver is of concern. There are some occupations that indicate to an underwriter a greater or lesser risk. Publicans may run the risk of being involved in drink driving whilst professional sportsmen and entertainers may impose a greater risk of expensive passenger claims from their work colleagues. On the other side of the coin, occupations such as police officer, nurse, e.t.c. may be worthy of special treatment by way of premium reduction. Therefore, for these reasons, motor insurance underwriters place so much importance on “Occupation of all Drivers” in private car insurance rating.

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

- (b) The actions required to be performed by the policyholder under a “Change of or Additional Vehicles” Condition in relation to Commercial Vehicle Policies are:
- the policyholder shall notify to the Insurer details of any additional or replacement vehicle immediately on acquisition. In the absence of such notification the cover provided by this policy shall not operate in respect of such vehicle and the Insurer will not pay for any loss of or damage to such vehicle nor for any injury, loss or damage arising as a result of an accident caused by or in connection with such vehicle;
 - the policyholder shall pay to the Insurer any additional premium which may be due as a result of the acquisition of such vehicle; and
 - the policyholder shall notify the Insurer of the disposal of the vehicle, in order to qualify for any refund or premium which may be allowable.

(2 marks for each correct and completely stated action. Sub-Total: 2 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) As part of NAICOM's role to establish standards for Insurance Business in Nigeria, a circular was issued to industry practitioners on fair trade practices and for the treatment of customers. Outline any four (4) of the minimum information that insurance institutions are required to update on their websites as stated in the circular. (10 marks)

- (b) Rasaq has just bought a brand new Sukuki Motorcycle for a sum of ₦1,500,000.00. He normally rides the motorcycle to and from the office every day. On this fateful day, he rode the motorcycle from Epe in Lagos State to Ijebu-Ode, Ogun State and ran into a Police checkpoint along the way, where the motorcycle particulars were demanded by the Police. He was able to produce all the particulars except the certificate of insurance. He pleaded with the police that his failure to produce the certificate was due to oversight.

According to the law, he (Rasaq) has contravened the provisions of Section 143 of the RTA and thus liable to conviction.

As Rasaq was not able to produce the Certificate of Insurance to the Police immediately, what other option is open to him to produce the Certificate? Enumerate the defenses open to Rasaq. Candidates' responses should be with at least five concisely stated points. (20 marks)

- (c) Chief Temitope drove his Sienna Space Car from Kano, Kano State to Kaduna, Kaduna State, to attend a Conference. This Toyota Space Car was insured on a Comprehensive Basis with M/S Excellence Insurance Limited for a sum insured of ₦4,500,000.00. During the currency of the conference, the insured car was burnt beyond economic reclamation as a result of an explosion by insurgents, where it was parked. Thank God that no life was lost. However, a nearby Toyota Land Cruiser was badly damaged. Similarly, a passerby pedestrian suffered some degree of bodily injury. The Policy contains a Terrorism Exclusion Clause; Chief Temitope reported the loss to his Insurers claiming the sum of ₦4,500,000.00. He also reported to the nearby Police Station.

As the Claims Manager of M/S Excellence Insurance Limited, you are required in this question to state how the claim should be professionally handled. (10 marks)

- (d) Pastor Ale has just bought a G-Wagon Car and wants to insure same with a reputable Insurance Company. This has been a subject of discussion amongst the Pastor and his friends. Please professionally and correctly advise him of four (4) ways by which he can insure his car and pay a reduced premium. (10 marks)

Solution

- (a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to industry practitioners on fair trade practices and fair treatment of customers. The stated minimum information that insurance institutions are required to update their websites with, as stated in the circular, are:

- procedure for delivery of policy documents;

- the average timeline to settle claims (for various classes of insurance);
- the timeline for acknowledging receipt of a claim notifications;
- business location and contact/telephone numbers of all; its branches;
- the compliant procedures.

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

(b) Section 165 of the RTA gives the Police the power to require the production of a Certificate of Insurance or security from a motorist. If the Certificate cannot be produced immediately, then it might be produced at a Police Station within seven (7) days, unless this is not reasonably practicable.

A person charged with using a motor vehicle in contravention of the RTA provisions shall not be convicted if he proves:

- that the vehicle did not belong to him and was not in his possession under a contract of hiring or of loan;
- that he was using the vehicle in the course of employment;
- that he neither knew nor had reasons to believe that there was not in force in relation to the vehicle such a policy of Insurance or security.

From the above, it could be seen that a person would escape prosecution if they are driving their employer's vehicle and did not know or had no reason to believe that there was no Insurance cover.

(Candidates can respond from any of the points stated above. 4 marks for any correct and completely stated point. Maximum of 5 to be graded. Sub-Total: 20 marks)

(c) Insurgency is a sort of terrorism, considering the definition of Terrorism. What is more, the Terrorism Exclusion Clause does not cover liability of whatever nature or costs or expenses, whether directly or indirectly caused by or contributed to or arising from Terrorism except in so far as is necessary to meet the requirement of the RTA, there being a Third Party Property Damage limit as stated in the Insured's Policy. **(4marks)**

However, damage to the third-party vehicle (Toyota Land Cruiser) would be met subject to the TPPD limit **(3 marks)**. So also, the thirty party (passerby pedestrian)'s bodily injury would be met in line with the provisions of the RTA **(4 marks)**.

(Sub-Total: 10 marks)

(d) The ways by which he can insure his car and pay a reduced premium are to insure on:

- Third Party only basis;
- Comprehensive basis but reduce cover to driving only by himself;
- Comprehensive basis but reduce cover to driving to himself and spouse;
- Comprehensive basis but increase Policy Excess;
- Comprehensive basis but do "Excess Buy Back".

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) M/S Robson Nigeria Limited recently bought a Honda Motorcycle to be used for

dispatch business. At the point of insuring of the motorcycle, The Procurement Manager enquired whether the feature applicable in the insurance of Motorcycle are the same with that of private cars. Please advise him of at least any five (5) underwriting measures that normally apply to motorcycle policies. Chapter 4 B4
(20 marks)

- (b) The essence of decent and prudent underwriting is for the Insurers to make underwriting profit at the end of the day. This ambition is usually slowed down or inhibited by underwriting of sub-standard risks, which, in practical terms, can be eliminated by way of total declinature. Enumerate four (4) alternatives available to an Insurer faced with a substandard insurance risk rather than declinature. (14 marks)

Solution

- (a) The underwriting measures usually applicable to motorcycle policies are:
- The accessories and spare parts will only be covered whilst they are attached to the motorcycle itself;
 - The loss or damage section of the motorcycle follows the basic cover provided under a private car policy;
 - One or two of the enhanced benefits are not provided e.g personal effect and personal accident;
 - There will be higher excess as the motorcycle is more prone to being damaged superficially or stolen;
 - The more elite motorcycle policy may include the following additional benefits by writing off a specific motor recovery service, for example, transmission of message to family or friends to alleviate anxiety;
 - There may be new motorcycle replacement clause within the policy but such a facility may only be available if for example, the motorcycle is stolen and not recovered;
 - Lastly some Insurers will stipulate that they will not indemnify in respect of any loss if the motorcycle is not fitted with manufacturers steering lock. It will also be a replacement that the lock is set and in operation.
- (4 marks for each correct and completely stated measure. Maximum of 5 to be graded. Sub-Total: 20 marks)

- (b) The alternatives available to an Insurer faced with a substandard insurance risk rather than declinature are:
- restrict cover to third party, fire and theft, third party only or “act only” in extreme cases;
 - load premium by percentage commensurate with increased degree of a risk;
 - impose substantial excess under accidental damage section or all section or all section if circumstances require it;
 - restrict use permitted to social, domestic and pleasure only;
 - exclude any driver with an unsatisfactory record.
- (3½ marks for each correct and completely stated alternative. Maximum of 4 to be graded. Sub-Total: 14 marks)
(Grand Total: 34 marks)

11. (a) There are four (4) types of policies issued in the Motor Underwriting Department. Each of the four (4) Policies has its limitations and shortcomings in scope. However, the Comprehensive Motor Policy tends to stand out amongst the four (4). Enumerate any five (5) advantages of taking up a Comprehensive Motor Policy. (20 marks)
- (b) Mr. Lawanson, who has been resident in the United States of America but recently returned to Nigeria, has written to enquire from you the possibility of obtaining a Driver’s License. Advise him of the minimum age for obtaining a Driver License as stipulated by the RTA 1972. (14 marks)

Solution

- (a) The advantages of taking up a comprehensive motor insurance policy are that it:
- gives the widest cover, including all the cover provided by third party, fire and theft, third party only and Act only policies;
 - covers loss of or damage to the Insured's vehicle by accidental collision or theft;
 - covers windscreen replacement and windows and scratching of paint work arising from the breakage of the glass without loss of the 'No Claim Discount' (NDC);
 - covers emergency medical treatment;
 - covers personal accident benefit;
 - covers medical expenses;
 - covers replacement of rugs, clothing and personal effects.

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

- (b) The minimum age for obtaining a Driving License as stipulated by the RTA is as follows:

Class of Motor Vehicle	Age (In Years)	
Invalid Carriage	16	(3 marks)
Motor Cycle	17	(3 marks)
Small passenger vehicles or small goods vehicles	17	(2 marks)
Agricultural tractors	17	(2 marks)
Medium-sized goods vehicles	18	(2 marks)
Other motor vehicle	21	(2 marks)

(Sub-Total: 14 marks)

(Grand Total: 34 marks)

12. (a) Enumerate any five (5) positions of the RTA with particulars reference to Repayment of Hospital Treatment Fees. **(20 marks)**
- (b) (i) Explain "fleet" in the context of motor insurance. **(6 marks)**
- (ii) State two (2) main reasons why a fleet rating may be preferred to the conventional methods of motor insurance rating, from an insured's point of view. **(8 marks)**

Solution

- (a) Repayment of hospital treatment fees is not a part of the compulsory insurance element as such. The following are the peculiarity of repayment of hospital treatment fees:

- the liability to pay rests directly with the insurer or the owner of the vehicle if self-insured;
- liability attached as soon as compensation has been paid to the injured third party;
- the insurer needs to have knowledge that hospital treatment has been given, and this normally stems from the fact that the hospital authority would have notified the insurer of its interest;
- there does not have to be an admission of liability. Therefore, the liability exists even if the third party was paid ex gratia;
- liability for payment exists even where the third is guilty of contributory negligence;
- there are separate figures for in-patient and outpatient fees;
- the in-patient fees are calculated by basing them upon the average cost of maintaining a bed at the hospital;
- the insurer's liability is limited. The limits are revised from time to time to take account of inflation;
- Unlike other parts of the RTA, this section applies to accidents not only on a road but also in other places where the public has access.

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

(b) (i) Insurers will differ in their definitions of 'fleet', but basically it will be an option where a policyholder has a certain number of vehicles. The minimum number will depend on each Insurer, but could theoretically be as low as five or six, although some fleet insurers will start at a higher number. The standard approach has been a minimum of ten vehicles, or alternatively five 'heavy risk' vehicles (e.g coaches or heavy goods vehicles)

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

(ii) From a fleet operator's (i.e Insured's) point of view, there are three main reasons why a fleet rating may be preferable. These are:

- the premium paid will often be substantial, and the insured will seek value for money as a result;
- the range of cover offered in the fleet market may be greater than would be available elsewhere;
- a good claims history (indicative of good risk management) should, in the insured's view, be reflected in the premium charged and, as we shall see, claims experience is the predominant rating factor. to that end, the commercial pressures on fleet insurers operate to a greater extent than other types of risk.

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

13. (a) Completion of the Accident Report Form by the Insured/Claimant in the event of an accident is very important. Why are "Details of Accident" - relating to Date, Time, Place, Full Description of Weather and Road Conditions, A Sketch Plan and Police involvement - very essential? (14 marks)

(b) Madam Doris Audu maintains a Private Motor Policy with M/S Kajola Insurance Company Limited. She has four (4) cars on the schedule of the policy all insured on comprehensive basis. During the course of the year, she added two (2) new cars – a Peugeot Saloon Car and Honda Civic whilst one car (Volkswagen Passat) was sold shortly thereafter, the insured notified the Insurers of the theft of one of her vehicles – A Peugeot Saloon Car and filed a theft claim for ₦5m.

The Insurer checked their record and discovered that the stolen car was never added to the schedule of the policy.

As the Claims Manager of Kajola Insurance Company Limited, how would you handle this claim taking into cognizance "The Change of or Additional Vehicle" Condition of the policy? Justify the above with a minimum of four (4) correct and concise explanations. (20 marks)

Solution

(a) The stated information are essential because:

Date: The date has to fall within the policy period. If the accident occurred shortly after a renewal, then it may be necessary to check with the intermediary to ensure that premium has been paid.

Place: If the accident did not take place within the normal territorial limit, as stated in the policy document, then the underwriting record will need to be checked to see whether or not the cover had been extended to include the country concerned.

The remainder of the information is required to determine liability. If the insured driver was to blame, then action may be taken to control the third-party claim. On the other hand, if the third party was at fault then early action needs to be taken to recovery of eventual outlay. Some insurers find it useful to ask the policyholder to give an opinion as to who was to blame. (14 Marks)

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

(b) The “Change of or additional vehicle” condition stipulates that: The policyholder shall notify to the Insurer details of any additional or replacement vehicle immediately on acquisition. In the absence of such notification the cover provided by this policy shall not operate in respect of such vehicle and the Insurer will not pay for any loss of or damage to such vehicle nor for any injury, loss or damage arising as a result of an accident caused by or in connection with such vehicle.

The policyholder shall

- pay to the insurer any additional premium which may be due as a result of the acquisition of such vehicle; and
- notify the insurer of the disposal of the vehicle, in order to qualify for any refund or premium which may be allowable;
- as far as this claim is concerned, there is an outright breach of the “change of or additional vehicle” condition in that the insured did not advise the insurers of any additional vehicle(s) and did not as well advise insurers of the disposal or sale of any vehicle. at the same time, no additional premium was paid for the added vehicles and so a refund was made by the insurer for the sold vehicles;
- the insured’s theft claim is therefore bound to fail due to breach of the change of or additional vehicle policy condition.

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

(Grand Total: 34 marks)

14. (a) (i) What is the intention of the Internal Risk Motor Trade Policy? **(4 marks)**
 (ii) State the two (2) rating factors used for third party and damage basis policies in Motor Insurance. **(10 marks)**
 (b) Comprehensively state how Third-Party Personal Injury Claims should be handled? **(20 marks)**

Solution

(a) (i) The intention of such policies is to indemnify the policyholder against liabilities that arise through the ordinary running of the premises business. They will normally be underwritten in the commercial property department of an insurer. **(4 marks)**

(ii) The policy issued on a third party and damage basis will base the premium on two factors:

- a flat rate, which measures the capacity of the premises by the number of private cars;
- a rate per mile on the policyholder’s annual wage and salary bill; this rate is clearly adjustable; **(5 marks for each correctly stated basis. Sub-Total: 10 marks)**

(Grand Sub-Total: 14 marks)

(b) Third Party Personal Injury claims are less numerous than other types of motor claims. However, since they are on average more complex and expensive to settle, they account for a substantial proportion of Insurers, total claims outlay. Once the degree of negligence has been established, the next stage is to ascertain the extent of the injury, the prognosis and the number of dependants. Minor injuries, with little likelihood of causing further problems, can be settled comparatively easily. However, more severe injuries might take a long time to settle, because of the natural reluctance of legal advisers of injured plaintiffs to agree settlement until the full consequence of the injuries is well established: the respective awards for damages might be high. Awards of several hundreds of thousands of pounds to a single person suffering severe injuries in a road accident are relatively commonplace.

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

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A07

LIABILITY INSURANCES

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A07 – LIABILITY INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

This question assessed candidates' understanding of the importance of the "duty of care". It was attempted by 85% of the candidates, with an impressive pass rate of 82.53%. The overall performance was excellent, as most candidates demonstrated a clear understanding of the concept and provided relevant examples to support their answers.

Question 2

The question assessed candidates' knowledge of the "Narrow Rule" in *Donoghue v. Stevenson*. Both the attempt and pass rates were high: at 84.13%. This represented an excellent outcome, reflecting the candidates' strong grasp of the case and its significance in establishing the principle of negligence in tort law.

Question 3

This question examined candidates' understanding of the "concept of nuisance". It was attempted by 71.43% of the candidates, with an equal pass rate of 71.43%. The performance was commendable, as most candidates showed a good understanding of the topic and articulated their points clearly.

Question 4

The question examined candidates' knowledge of the various defenses available in liability insurance. About 80% of the candidates attempted the question, and 73.02% passed. This indicates a good performance, with most candidates able to identify and explain the relevant defenses.

Question 5

This question examined candidates' understanding of negligence of fellow employees and the concept of a safe system of work. Sixty-two (62) candidates, representing 96.83%, attempted the question, and performance was outstanding. The responses reflected an excellent grasp of the topic.

Question 6

The question assessed candidates' knowledge of personal injury as it relates to public liability policies. Out of sixty-two (62) candidates who attempted the question, forty-five (45), representing 71.43%, passed. The performance was above average, showing that the majority of candidates understood the principles involved.

Question 7

This question assessed candidates' knowledge of the "date of knowledge" in liability insurance. It was attempted by sixty (60) candidates (95.24%), with forty-four (44) candidates (69.84%) passing and sixteen (16) (25.40%) failing. Performance was satisfactory overall, although a few candidates lacked depth in their explanations.

Question 8

The question examined candidates' understanding of defenses to an action in defamation. Sixty-one (61) candidates, representing 96.82%, attempted the question, with thirty-five (35) candidates (55.55%) passing. The performance was average, suggesting that while many were familiar with the concept, their explanations lacked clarity and relevant case references.

Question 9

This was a compulsory question that examined candidates' knowledge of NAICOM's supervisory role in the insurance industry and the doctrine of strict liability as established in *Rylands v.*

Fletcher. Candidates' understanding of NAICOM's supervisory role was generally poor, as reflected in their responses. Although all candidates (100%) attempted the question, only 24% passed.

Question 10

This question tested candidates' understanding of the concept of Vicarious Liability and related liability terms. Being an elective question, it was attempted by about 85% of the candidates, with an excellent pass rate of 82.54%. This demonstrates a very good comprehension of the course.

Question 11

This question tested candidates' understanding of several liability terms such as novus actus interveniens, negligent misstatement, damnum sine injuria and tort. It was attempted by about 50% of the candidates, with a pass rate of 79.31%. Those who attempted it performed impressively, indicating a good understanding of the key concepts.

Question 12

The question examined candidates' knowledge of liability-related terms. Thirty-seven (37) candidates, representing 58.72%, attempted it, and thirty-four (34) candidates (53.96%) passed. Twenty-six (26) candidates (41.26%) did not attempt the question. Performance was average, suggesting that some candidates may have avoided the question due to limited familiarity with the topic.

Question 13

This question examined candidates' understanding of Total Temporary Disablement, Premium Adjustment, and Limitation of Action. Thirty (30) candidates, representing 47.62%, passed the question, while nine (9) candidates (14.29%) failed. The overall performance was encouraging, showing a reasonable understanding of the topics covered.

Question 14

This elective question tested candidates' understanding of trigger events in liability policies and other liability terms. Thirty-five (35) candidates, representing 56%, attempted it, with twenty-two (22) candidates (62%) passing. The performance was above average, and with better preparation, candidates are likely to perform even better in future diets.

Comments on Overall Performance

The overall performance in this examination was very good, with a pass rate of 80.95%. The results indicated a solid understanding of liability insurance concepts among majority of the candidates.

Suggestions on Improvement(s) (if any):

While the performance was commendable, there is always room for improvement. Candidates are encouraged to dedicate more time to comprehensive study and revision before the examination. Candidates should strengthen their ability to apply case laws and practical examples to theoretical concepts to improve analytical depth in future examinations.

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

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. In the law of negligence, explain the importance of “Duty of Care”.

Solution:

In the law of negligence, the concept of duty of care is an important criterion as to whether liability attaches in a set of circumstances. We all owe a duty of care to our fellow human beings not to cause them injury or damage their properties. For a plaintiff to succeed in an action in negligence, it must be shown that the defendant owes the plaintiff a duty of care. Whether that duty exists is a matter of law and over the years, the courts have devised a number of tests.

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

2. Concisely explain the following practices/principles/terminologies:

- (a) the “narrow rule” in the “Donoghue v. Stevenson (1932)”.
(b) the “neighbour principle” rule?

Solution:

(a) The narrow rule in Donoghue V. Stephenson (1932) is that the manufacturer of the product owes a duty of care to their subsequent users of the product. The court therefore held that the defendant i.e. the manufacturer, owes a duty of care to the plaintiff (the end user of the product)

(3 marks)

(b) The “neighbor principle” rule that you are to love your neighbour becomes in law that we must not injure our neighbour. Who in law is our neighbour? Our neighbour is any person who is so closely and directly affected by our acts and we must have them in our contemplation as being so affected in all we do.

(3 marks)

(Total: 6 marks)

3. Consider the statement “a wrong done to a man by unlawfully disturbing him ----”.

- (a) Complete the statement.
(b) This statement is in the definition of which tort?
(c) State the name of the person to whom this definition is credited to.

Solution

(a) A wrong done to a man by unlawfully disturbing him in the enjoyment of his property, or in some cases, in the exercise of a common right.

(b) This is the definition of NUISANCE

(c) This definition is credited to SIR FREDERICK POLLOCK

4. There are usually different defenses that are available when defending oneself or another in a liability law case as learnt in this course. List any four (4) of these defenses.

Solution:

The different defenses that are available when defending oneself or another in a liability law case as learnt in this course are:

- | | | |
|----------------------------|---------------------------|---------------------------|
| * inevitable accident; | * vis major - Act of God; | * emergency/necessity; |
| * volenti non-fit injuria; | * statutory authority; | * contributory negligence |
| * accord and satisfaction. | | |

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

5. (a) Briefly explain the following in relation to employer’s liability insurance.

- (i) negligence of fellow employee; (ii) protective clothing.

(4 marks)

Solution

(a) (i) **Negligence of Fellow Employee:** An employer is vicariously liable for the negligent acts of employees one to another as they are for the acts of employees to third parties. (2 marks)

(ii) **Protective Clothing:** There is a duty upon an employer to provide clothing and things such as washing facilities to reduce the risk of injury or disease. It is the duty of an employer not only to provide protective clothing but also to see that it is worn. **(2 marks)**

(b) Some examples of what constitute “safe system of work” are:

- * planning and co-ordination of work;
- * provision of protective clothing
- * provision of instruction, training and supervision
- * layout of machinery;

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

(Grand Total: 6 marks)

6. Distinguish between “bodily injury” and “personal injury” as it relates to public liability policies.

Solution:

Public liability policy provides cover for liability that arises out of bodily injury i.e. physical hurt. It is now generally accepted that the term bodily injury will extend to include psychological injury such as mental anguish, stress, shock etc. to the extent that this is recoverable in law court (3 marks). **On the other hand**, personal injuries are non-injurious torts to a person, such as wrongful arrest, malicious prosecution, discrimination, defamation, etc. This is not a standard cover on the policy but available as an extension (3 marks).

(Grand Total: 6 marks)

7. Which aspect of liability insurance does the term “date of knowledge” apply to and what does the term mean in liability insurance?

Solution:

The concept of date of knowledge was introduced to deal with cases of latent injury or disease. (3 marks). It means that the plaintiff may not appreciate their plight or the seriousness of it until sometime after the incident itself. The date of knowledge is the date the plaintiff has the knowledge of the injury or disease and the identity of the defendant (3 marks).

(Grand Total: 6 marks)

8. Enumerate and explain any two (2) defenses to an action in defamation.

Solution

The defenses to an action in defamation are:

- **Justification:** No action will lie if the defendant can prove that the statement is true i.e. the substance of the statement is true.
- **Consent:** The defendant will have a defense if they can show that the plaintiff either expressly or by implication consented to the publication of the defamatory material
- **Fair comment:** This defense is very popular with newspapers that are honestly made without malice, based on true facts and that it was a matter of public interest.

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

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) As part of NAICOM's role to establish standards for Insurance Business in Nigeria, a circular was issued to industry practitioners on fair trade practice and for the treatment of customers. Outline any four (4) of the minimum information that insurance institutions are required to update on their websites as stated in the circular.
(10 marks)
- (b) As a result of scarcity of premium motor spirit (petrol) recently in Nigeria, Mr. Oliver Biggs a resident in Lagos used his premises to store 200 litres of petrol in jerry-cans. A fire broke out from his premises and spread to his neighbour's premises (Madam Bintu Fowl) causing extensive damage to her property estimated at ₦2,500,000.00.
- (i) What principle of law involved in the case study above and the case on which the principle of the law is rooted on that is? (6 marks)
- (ii) Discuss the four (4) relevancies or the applications of the principle of law in (a) above to this mini-case scenario. (16 marks)
- (iii) Is Mr. Oliver Biggs liable to Madam Bintu Fowl in the case study above? If yes, state the extent of liability and discuss the basis of the "yes" with a relevant decided case law. If no, also discuss the basis of the "no" with a relevant decided case law. (18 marks)

Solution:

- (a) As part of NAICOM's role to establish standards for the conduct of insurance business in Nigeria, a circular was issued to industry practitioners on fair trade practice and fair treatment of customers. The stated minimum information that insurance institutions are required to update their websites with, as stated in the circular, are:
- procedure for delivery of policy documents;
 - the average timeline to settle claims (for various classes of insurance);
 - the timeline for acknowledging receipt of a claim notification;
 - business location and contact/telephone numbers of all its branches;
 - the compliant procedures.
- (2½ marks for each correct and completely stated information. Maximum of 4 to be graded. Sub-Total: 10 marks)
- (b) (i) The principle of law that this is based on is "strict liability" (3 marks); and the case on which the principle of law is rooted on is the case of Ryland v. Fletcher (3 marks).
(Sub-Total: 6 marks)
- (ii) The rule of Ryland V. Fletcher is relevant to the mini case study in the following ways:
- Mr. Oliver Biggs as the occupier brought to something dangerous to his premises and accumulate it there. It is considered dangerous for Mr. Oliver to store 200 liters of petrol in his premises.
 - The rule of Ryland V. Fletcher applies to the liability for the escape of fire. Mr. Oliver did not bring and store fire on his land and allow it to escape. However, he brought flammable material (petrol) onto his premises which was badly stored, resulted in fire which escaped to his neighbour's property resulting in extensive damage.
 - The storage of 200 liters of petrol (accumulation) is regarded as artificial rather than natural use hence the rule of Ryland V. Fletcher is very relevant.
 - The accumulation of petrol ignited and fire spread i.e. escape beyond the boundary of Mr. Oliver.
- (4 marks to each correct and completely stated way. Sub-Total: 16 marks)

(iii) Yes (3 marks), Mr. Oliver Biggs is liable to Madam Bintu Fowl to the amount of ₦2.5 million for her property destroyed by the escape of fire. (5 marks)

This was the decision of the court in the case of *Mason V. Levy Auto Parts of England Ltd (1967)*. The defendants used a yard for the storage of combustible materials including petrol, grease and oil. A fire broke out in the defendants' yard and spread to neighbouring premises. (5 marks). The court ruled in favor of the plaintiff and in the same found Mr. Oliver liable in all the circumstances of the matter (5 marks).

(Sub-Total: 18 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) In liability insurance, there are occasions when a person is held liable for the tort committed by other persons.
- (i) What is the name of this type of liability? (2 marks)
- (ii) State and explain any two (2) categories of relationship where the type of liability in (a) above exists. (16 marks)
- (b) Explain the following liability terms:
- (i) territorial limit; (ii) joint tortfeasor; (12 marks)
- (iii) risk frequency.
- (c) Explain why the term "accidental" is used in the operative clause of a public liability policy. (4 marks)

Solution

- (a) (i) The name of the liability type arising from occasions when a person is held liable for the tort committed by other persons is 'Vicarious Liability'. (2 marks)
- (ii) The categories of relationship where the type of liability in (a) above exists are:
- **Master/Servant:** here we are concerned with a situation where an employer may be held liable vicariously to a third party for the actions of their employees.
 - **Principal/Agent:** here, a principal will normally be liable for the acts of their agents. The relationship is governed by the maxim "qui facit per alium facit per se" – he who does a thing through another does it himself.
 - **Principal/Independent Contractor:** a principal may be liable vicariously to an important contractor in the following ways:
 - if the task delegated to the contractor is unlawful act;
 - the principal cannot delegate statutory duty otherwise, he will be vicariously liable;
 - in cases involving strict liability, the principal will be vicariously liable where principal requires a contractor to carry out extra hazardous work.

(3 marks for correctly stated category. 5 marks for any correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total per category: 8 marks. Sub-Total: 16 marks)
(Grand Sub-total: 18 marks)

- (b) (i) **Territorial Limit:** territorial limit refers to the geographical area where cover on liability policy will operate. All liability issued in Nigeria are intended to protect the insured against claims occurring within the Federal Republic of Nigeria. (4 marks)
- (ii) **Joint Tortfeasor:** joint tortfeasor are persons who collaborate to commit a tort i.e. by common design they inflict or cause bodily injury or damage to the third party. Joint tortfeasor are severally and joint liable for their tort. At common law, a third party could sue any of the tortfeasor and recover in full. (4 marks)
- (iii) **Risk Frequency:** frequency is one of the ways by which risk can be measured. Frequency is concerned with how often a risk identified can happen i.e. the number of times the risk operates.

Some risks occur very frequently while some risks occur very rarely. Experience has shown that where the frequency is low, the severity is high and where the frequency is high, the severity is low. (4 marks)

(Sub-Total: 12 marks)

(c) The term “accidental” is used in the operative clause of a public liability policy because the intention of a public liability insurance policy is to cover on unexpected events i.e. the occurrence that trigger the policy must be accidental. The policy is not intended to cover pre-mediated act or inevitable events or gradually operating causes. Hence, the use of the word, accidental. (4 marks)

(Grand Total: 34 marks)

11. (a) Briefly explain the following terms:
- (i) novus actus interventions; (ii) negligent mis-statement;
 - (iii) damnum sine injuria; (iv) loss control audit (16 marks)
- (b) The general use of the word “nuisance” connotes something continuing i.e. continuous state. Discuss this statement with reference to a decided case law. (10 marks)
- (c) (i) Define tort. (2 marks)
- (ii) List any three (3) forms of tortious liability. (6 marks)

Solution

(a) (i) **Novus Actus Interveniens:** in order to succeed in an action in tort, the plaintiff must show that their damage was proximately caused by the activities of the defendant. In other words, there must be direct link between the act of the defendant and the result i.e. a chain of causation exists from the event to the result. This means there is no intervening cause (novus actus intervening) between the occurrence of the event to the result. When there is an intervening cause, it is possible for the defendant to escape liability.

(ii) **Negligent Misstatement:** is a statement or advice given whether verbal or in writing and when acted upon, result in financial loss. An example is a statement or advice given when someone acted as a referee i.e. when you vouch for a person in order to secure a job or obtain a loan. Legal liability now attaches for negligent misstatement which result in financial.

(iii) **Damnum Sine Injuria:** this means harm done without the commission of a legal wrong. Tort is the breach of duty which a person owes to his fellow men in general. In tort, not all action (or failure to take action) which cause injury or damage is actionable i.e. failure to take action in certain circumstances may not give right to a claim. For example, there is no duty to save a person drowning even if one can swim very well.

(iv) **Loss Control Audit:** loss control audit is a critical examination of an industrial operation in its entirety to identify potential hazards and level of risk. Audits are often undertaken by multidisciplinary teams and individual members should have a good knowledge of legal requirement and industry practice. In many companies, this expertise is readily available and so in some cases, audits tend to be undertaken by external specialists such as consulting engineers acting independently or employed by insurance companies

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

(b) **Nuisance:** the general use of the word nuisance connotes something continuing i.e. the act that constitutes interference to the plaintiff must have existed continuously. In other words, there must be frequency in the act of the plaintiff to constitute a state of nuisance. This position was decided in the case of “Stone V. Bolton 1951”. The fact of the case is that a ball was hit from a cricket ground struck the plaintiff who was walking along the nearby road. Evidence was adduced to show that six (6) balls had left the cricket pitch and landed on the road over a period of 28 years.

It was concluded that there was no continuous state in the nuisance from the cricket pitch, hence the case failed.

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

(c) (i) **Tort:** a tort is a civil wrong. Torts are breaches of right owned to people as a whole. It is the breach of duty which a person owes to his fellow man in general. A tort must be capable of giving rise to an action for unliquidated damages. (2 marks)

(ii) The forms of tortious liability are:

- * negligence; * nuisance; * breach of statutory duty;
- * the rule in Ryland v. Fletcher * strict liability; * defamation.

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

(Grand Total: 34 marks)

12. (a) Explain the following terms in relation to their usage in liability insurance:

- (i) limit of indemnity; (ii) remoteness of damage;
- (iii) occupation; (iv) work away risk. (20 marks)

(b) Write short notes on the following underwriting factors of public liability insurance:

- (i) passers-by; (ii) custody or control of property. (10 marks)

(c) List four (4) rating basis for public liability insurance. (4 marks)

Solution

(a) (i) **Limit of Indemnity:** most liability policies have limit of indemnity for any one occurrence which represent the insurer maximum amount payable to the insured. Limit of indemnity is usually fix by the insured which represent their legal liability to third party for bodily injury, death and damage to property.

(ii) **Remoteness of Damage:** a claimant may be able to show that the damage suffered by him has been proximately caused by the activities of the defendant, he may not recover full the extent of his loss as same may be considered too remote from the original act to be recoverable. When damage is considered to be remote, it means it could not be reasonably foreseeable. The principle of law is that a man should only be held responsible for the probable consequences of his act, the test is a reasonable foreseeability. If the damage suffered is not foreseeable, then it is too remote.

(iii) **Occupation:** the occupation of the insured is one of the important underwriting factors in most liability policies. The underwriter would request the insured to state all the activities they engage to enable them access the risk and also determine the equitable premium rate.

(iv) **Work Away Risk:** most liability insurance policies cover work away risk in addition to the premises risk. Work away risk involves the business activities of the insured away from the main premises. The issue with work away from the main premises is the lack of control over the insured's employee. In addition, the employees are working in an environment over which the insured has no knowledge or control.

(20 marks)

(b) (i) **Passer-By:** this is one of the underwriting factors of a public liability policy. It is important to consider the potential liability for bodily injury to passer-by. This is important in a construction site. Besides, where loading and unloading take place close to the public pavement, falling load can cause injury to pedestrians.

(ii) **Custody Or Control of Property:** the insured may have property belonging to third party in his/her custody and control. The nature of such property should be considered as this may increase the potential liability to third party.

(c) The rating basis for public liability insurance are:

- * turnover;
- * wage roll;
- * number of beds;
- * number of students;
- * seating capacity.

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

(Grand Total: 34 marks)

- (13) (a) Write short notes on each of the following in relation to liability insurance:
- (i) total temporary disablement;
 - (ii) premium adjustment;
 - (iii) limitation of action;
 - (iv) vicarious liability. (24 marks)
- (b) In Employers' Liability Claim involving death of an employee, the policy contains a provision to pay such claim to any other person. List and explain any two (2) categories of other persons that are referred to here and how the payments relates to the category. (10 marks)

Solution:

(a) (i) **Total Temporary Disablement:** this is one of the benefits of employers' liability insurance. An employee in the course of his/her duty may be involve in an accident resulting in bodily injury. When an employee suffers TTD, he/she will not be able to attend to his/her usual occupation during the period of disability which may last for a few weeks or months. The disability for the period is "total" because he/she is off duty during the period. If he/she is off duty partially during the same period, then it is partially during the same period, then it is partially temporary disablement.

(ii) **Premium Adjustment:** in liability policies, the premium adjustment relates to the condition of wages declaration. In employers' liability insurance for instance, the premium is usually based on estimated total wages of the employees. A rate is applied on estimated total wages to produces the premium which is regarded as a provisioner or deposit premium from inception. The wages declaration condition on the policy require the insured to declare to the insurer the actual wages paid to their employees as the end of the period of insurance for the purpose of premium adjustment. The purpose of premium adjustment is to ensure that the insurer change adequate and commensurate premium for the liability cover under the policy.

(iii) **Limitation of Action:** imposes a time limit within which a plaintiff must bring his action and this is to avoid the court having to deal with stale claims where the parties' memory of the events is vague and witness are unreliable. It is also to safeguard the defendant from the problem associated with defending a claim based on an accident which occurred a long time ago.

(iv) **Vicarious Liability:** means a person is liable for the tort of another i.e. a person will assume responsibility for the tort (wrongdoing) of another. There are occasions when a person is held liable for the tort committed by another person(s). this type of liability is known as "vicarious liability". This type of liability is common in the following areas:

- * between employers and employees;
- * between parent and children;
- * between principal and agent;
- * between partners in business.

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

Sub-Total per term: 6 marks. Grand Sub-Total: 24 marks)

- (b) **Indemnity to Other Persons implies any of the following:**

- the insured's personal representative as a member of the deceased family, wife, husband, children, e.t.c. Any director, partner or employee of the insured in respect any claims for which the insured would be entitled to indemnity;
- any director, partner or employee of the insured for whom with the consent of the insured, an employee is undertaking private work;
- the officers, committee and members of the insured's canteen, social clubs and welfare organisations.

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

(Grand Total: 34 marks)

14. (a) List and explain four (4) trigger events for the operative clause of liability policies. (20 marks)
- (b) Write short notes on each of the following:
- (i) latency; (ii) pain and suffering; (9 marks)
- (iii) loss of amenities. (5 marks)
- (c) List any two (2) risks covered by the product recall policy (5 marks)

Solution:

- (a) The trigger events for the operative clause of liability policies are:
- **Causation:** the causation means that the policy responds to an event which was caused in the period of insurance.
 - **Occurrence:** the occurrence trigger means that the policy responds to an event that occurs in the period of insurance.
 - **Manifestation:** the manifestation trigger means that the policy will respond to an event that becomes manifest to the insured during the period of insurance. For example, an event that takes place over several years but remains unnoticed will only trigger the policy when the event becomes noticed or manifest
 - **Losses Discovered:** losses discovered trigger covers losses that are discovered during the period of insurance. It is a common form of trigger in the reinsurance market. Losses means that the consequences of an insured event e.g. negligent act, breach of contract etc.
 - **Claim Made:** claim made trigger indemnifies the insured against claims that are made against the insured during the period of insurance. It is commonly used by underwriters who wish to limit their exposure to latency losses because at the end of the period of insurance the insurer knows that no further claims can't be made against the policy year in the future.

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

- (b) (i) **Latency:** seeks to identify the gap in the time between the start of a chain of event and its end. It also means the delay between the cause of liability and the claim being made. The side effect of a drug may become apparent many months or years after the patient has taken them.

(3 marks)

- (ii) **Pain and Suffering:** this involves bodily injury which the plaintiff needs not specifically proved and represent the largest single source of litigation. Damages for pain and suffering will be set to reflect their nature and severity and how long they have lasted or are likely to last in the future.

(3 marks)

- (iii) **Loss of Amenities:** this reflects the physical and/or mental limitation associated with injury suffered by the plaintiff. For example, a pianist losing two fingers would constitute a higher level of loss of amenities than a person who did not play any instrument. (3 marks)

(Sub-Total: 9 marks)

- (c) The risks covered by product recall policy are:

- the product recall policy provides following cover;
- cost of withdrawing the product completely from the market;
- cost of incurred in having the defect corrected and replaced;
- cost of incurred in disposing or n destruction of the defective product.

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

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A08

RISK MANAGEMENT

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A08 – RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question examined candidates' understanding of stakeholders in an organisation. It was very well attempted, with over 96% of those who attempted it achieving a pass.

Question 2

About 63% of the candidates demonstrated a good understanding of the question, while 37% showed little understanding. The poor performance indicated inadequate study of the relevant section of the coursebook.

Question 3

This question examined the risk transfer mechanism. Over 80% of the candidates attempted it, but only about 50% attained a pass mark. Candidates are advised to attend tutorial lectures regularly to strengthen their grasp of key concepts.

Question 4

The question examined candidates' knowledge of risk decision-making. Over 65% of those who attempted it passed, indicating that most candidates had a fair understanding of the topic.

Question 5

This question was well attempted by the candidates, with over 80% of those who answered it recording a pass.

Question 6

This was a popular question, with 58% of the candidates performing well. However, some candidates lacked a clear understanding of the requirements of the question.

Question 7

This question examined risk identification techniques and causes of stress in an organizational setting. Over 70% of the candidates who attempted it performed well, reflecting good understanding of the subject matter.

Question 8

Although over 90% of the candidates attempted this question, the majority did not demonstrate adequate knowledge of the Workplace (Health, Safety and Welfare) Regulations 1992. Consequently, less than 50% achieved a pass.

Question 9

The question, which was compulsory, examined knowledge of the Insurance Act, contingency planning, causes of supply failure, and the Data Protection Act 1998. Candidates' performance was average, with a 50% pass rate.

Question 10

This was an optional question in Section B. Over 70% of those who attempted it passed, indicating a good level of understanding.

Question 11

About 60% of the candidates attempted this question. Of these, 41% scored above average, while 59% performed poorly.

Question 12

Less than 30% of the candidates attempted this question, and fewer than 10% passed. Candidates need to study their textbooks more thoroughly to improve future performance.

Question 13

This question examined knowledge of threats to an organisation. Over 60% of those who attempted it performed very well.

Question 14

The question was familiar to the candidates, and performance was impressive, with 85% of those who attempted it recording a pass.

Comments on Overall Performance:

The overall performance of candidates was good.

Suggestions on Improvement(s) (if any):

Candidates are advised to dedicate more time to studying the prescribed coursebook in preparation 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 labeled (a), (b), (c), ..., from the same question should be answered together under the same number. However, if the next question has a different number, it should begin on a new sheet in the answer booklet.

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. “Stakeholders can be defined as people or organisation which could be affected by a risk incident occurring in the organisation”. Enumerate any six (6) of these stakeholders.

Solution

Some of the stakeholders in an organisation are:

- * employees; * suppliers; * customers; * distributors;
- * regulators; * media; * private investors;
- * banking industry; * quoted shareholders.

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

2. In setting out to model the consequences of a fire, enumerate any six (6) issues/items/situations that the Risk Manager and the Engineers will consider.

Solution

In setting out to model the consequences of a fire, the issues/items/situations that the Risk Manager and the Engineers will consider are:

- * ignition and fire source; * smoke movement
- * heat transfer to neighbouring structures and materials; * detection
- * the behaviour of those materials and structures in a fire; * toxicity
- * active fire safety features; * waste and run off;
- * the way humans behave and how they will exit the premises,

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

3. There are both advantages and disadvantages of transferring risk into the insurance market. Explicitly state any two (2) advantages of transferring risk into the insurance market.

Solution

The advantages of transferring risk into the insurance market are:

- insurance provides an economic vehicle for the sharing of exposures with a large number of other organisation;
- it brings to the organisation a wealth of experience in risk and risk funding mechanisms;
- the insurer can provide claims management services. This will release the organisation from detailed tasks for which they are not best skilled, and ones that could otherwise divert management from the mainstream demands of the organisation itself.

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

4. The Group Risk Committee has the responsibility to recommend risk decisions to the Board. List any four (4) permanent members of the Committee.

Solution

The permanent members of the Group Risk Committee are:

- * Risk Director; * Compliance Director; * Group Internal Auditor;
- * Legal Director; * Finance Director; * Public Affair Director.

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

5. (a) The risk manager needs to look beyond simple statements of unacceptable deviation by asking two key questions when it comes to deviation from the norm as it relates to risk management. Concisely state these two (2) key questions. **(2 marks)**

- (b) By way of definition, differentiate between risk retention and risk transfer. (4 marks)

Solution

- (a) The two key questions are:

- what event or cause could cause a deviation to that degree?
- what combination of events could cause a deviation to that degree?

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

- (b) **Risk retention** is the formal acceptance of a risk with the hope of keeping the same for future (2 marks); while **risk transfer** is either the sharing of the consequences of the risk when it happens or moving the risk to another party, the consequences of the risk incidents (2 marks).

(Sub-Total: 4 marks)

(Grand Total: 6 marks)

6. (a) It is important to remember that assets of an organisation may not be just be physical ones only. It could contain of non-physical assets too. Enumerate two (2) groups of physical assets that are important to an organisation.
- (b) As a risk manager of your organisation, you have been asked by the Board of Directors for the documents that you rely upon for effectiveness in your role, which are sourced internally within the organisation. Enumerate any two (2) of these documents.

Solution

- (a) The groups of physical assets that are important to an organisation are the:

- * human assets;
- * physical assets, including money in all its forms;
- * intellectual assets.

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

- (b) These internal documents are:

- * proposal papers;
- * auditor's reports;
- * insurance documents.

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

(Grand Total: 6 marks)

7. (a) In an organisation, a Risk Manager have techniques which can be used to identify risks. As a Risk Manager of your organisation, state any two (2) of the techniques that can be used by the risk manager to identify risk.
- (b) A survey was carried out to identify some causes of stress within an organisation. As a Risk Manager and from the survey report received, you have been asked by the Management of your organisation to call a meeting and address the staff on any three (3) major causes of stress in the organisation. What should be your three (3) major causes?

Solution

- (a) The techniques that can be used by the risk manager to identify risk are:

- * where do the risk lie?
- * what are those risks?
- * how can we clearly shape risk information for decision making?

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

- (b) The major causes of stress in the organisation are:

- * volume of work;
- * lack of consultation;
- * inadequate guidance;
- * moral and the organisational climate;
- * being undervalued.

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

(Grand Total: 6 marks)

8. Workplace (Health, Safety and Welfare) Regulations 1992 cover a wide of basic health, safety and welfare issues. List any four (4) of these issues.

Solution

The issues covered by the Workplace Regulations 1992 are:

- * ventilation; * heating; * lighting; * lighting;
- *workstations; * seating facilities; * welfare facilities.

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

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) Insurance Act 2003 classified the classes of General Insurances in its unique ways. List five (5) classes of General Insurance as classified in the Insurance Act 2003. **(10 marks)**
- (b) An organisation wishes to expand its service delivery (it could equally be the source of its supplies) within a new country. That country may be known to possess some risks that are different from the organisation's home country. As a Risk manager, analyse five (5) different exposures that the organisation may experience. **(15 marks)**
- (c) As a risk manager, the Board directed you to present a lecture to Management Staff members on what could cause supply to fail. You are also expected to expantiate on critical areas, look not only at the quality and resilience of the supplier's factory, but also the supplier's own policy in sourcing materials, any critical labour dependencies, shipping practices, contingency planning and even the supplier's financial stability. Enumerate any five (5) other questions that should be considered in the lecture. **(10 marks)**
- (d) The risk manager needs to be aware of all the legislation that may affect the organisation and consequently of many ways in which the organisation can be in breach of such legislation. Under the Data Protection Act of 1998, there are resultant exposures that need to be considered by the risk manager. State and explain any three (3) of these exposures. **(15 marks)**

Solution

- (a) The classes of general insurance business as classified by the Insurance Act 2003 are:
- * Fire Insurance Business; * General Accident Insurance Business;
 - * Motor Vehicle Insurance Business; * Marine and Aviation Insurance Business;
 - * Oil and Gas Insurance Business; * Engineering Insurance Business;
 - * Bond, credit Guarantee and Surety Insurance Business; and
 - * Miscellaneous Insurance Business.

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

- (b) The different exposures that the organisation may experience are:
- currency that is less than stable;
 - an insecure government;
 - a less developed or just different legal system;
 - a hurricane or earthquake zone;
 - a culture of corruption among police and other officials;
 - an otherwise poor infrastructure and high and violent crime experience.
- (3 marks for each correct and completely stated exposure. Maximum of 5 to be graded. Sub-Total: 15 marks)**
- (c) Some other questions that should be considered in the lecture are:
- does the supplier have one factory or more?

- is there a dependency on overseas shipping?
- is there a political risk in the country where the raw materials come from?
- what are the alternatives if a supply fails?
- are those alternatives if a supply fails?
- are those alternatives of adequate quality and can they arrive in time to meet critical business pressure?
- is contingency planning in place and exercised?

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

(d) Under the Data Protection Act of 1998, the resultant exposures that need to be considered by the risk manager are:

- the risk manager needs to understand where personal information is held around the organisation;
- effective procedures and controls including staff training, need to be in place to ensure the organisation is not in any area in breach of the terms of the Act;
- destruction of personal data can in some circumstances be construed as unfair or damaging. therefore, when risk managers are considering protection levels on assets and information, this additional responsibility over information held needs to be considered in seeking to understand the potential damage that may arise as a result of a loss;
- the organisation needs to keep record in such a way that it can respond properly to the right that individuals have to see the information held on them understand why the information is being held and to understand who has access;
- the appointment of data controller and data processors in all cases where personal data is used within the organisation. the data controller must be identified and named to the Data Protection Commissioner. Procedures are important to ensure that all is kept up to date and thus reflect changes in personal and in the operations undertaken.

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) If the consequences of being late are unacceptable. the traveler will have to analyse risks more seriously and make decisions about such risks. The risk acceptance level may change which will certainly lead to the need to have contingency plans.
- (i) Enumerate any three (3) options that may be cost effective to the traveler to avoid getting late for scheduled meetings, whether by road or by air travel. **(9 marks)**
- (ii) Analyse any two (2) contingency plans that the traveler may consider. **(9 marks)**
- (b) “Exercising” the management teams is an essential part of good continuity planning. It introduces them, in a non-threatening way, to circumstances and possibilities that may not be part of their usual life or job experiences. Enumerate four (4) usefulness of exercising the Management team every now and then. **(16 marks)**

Solution

(a) The options that may be cost effective to the traveler to avoid getting late for scheduled meetings, whether by road or by air travel, are:

- travelling one or two days before;

- the balance is between cost and the time lost in travelling early, against the consequences of a late arrival;
- weather or (un)known industrial unrest among airport workers, may contribute to the decision;
- choosing airports that have more equipment that enables bad weather landing and departures;
- choosing an airline that is large in the area and is more likely to have spare planes nearby to reduce delays due to aircraft failure.

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

(b) The contingency plans that the traveler may consider are:

- send the speech before hand to a local colleague to deliver if necessary;
- ensure that the colleague is available for the slot;
- ensure that the colleague possess enough credibility and will achieve the same result;
- ensure video conferencing facilities are available at base and at the venue.

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

(c) The usefulness of “exercising” management teams as an essential part of good continuity planning are that:

- it raises staff awareness and commitment;
- it checks decisions made about the resources needed;
- it checks the speed and availability of decision making;
- it reveals mistakes that may, in a real disaster, be destructive;
- it checks that planning and risk decisions are still current.

(4 marks for each correct and completely stated option. Maximum of 4 to be graded. Sub-Total: 16 marks)
(Grand Total: 34 marks)

11. (a) Aside the Health and Safety at Work Act 1974, what are the provisions and uses of the following under health and safety regulations as applicable across the full range of workplaces:

- Personal Protective Equipment (PPE) Regulations 1992
- Manual Handling Operations Regulations 1992
- Health and Safety Information for Employees Regulations 1989
- Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1996
- Electricity at Work Regulations 1989.

(20 marks)

(b) As the risk manager of your organisation and with the support of the Engineers, you are directed to set out a model to show the consequences of a fire disaster. Enumerate four (4) items/situations that should be put into consideration in this regard.

(14 marks)

Solution

- Personal Protective Equipment [PPE] Regulations 1992:** it requires employers to provide appropriate protective clothing and equipment for their employees. **(4 marks)**
- Manual Handling Operations Regulations 1992:** it covers the moving of objects by hand or bodily force. **(4 marks)**
- Health and Safety Information for Employees Regulations 1989:** it requires employers to display posters that tell employees what they need to know about health and safety. **(4 marks)**

(iv) **Reporting of Injuries, Diseases and Dangerous Occurrences Regulations [RIDDOR] 1996:** it requires employers to notify certain occupational injuries, diseases and dangerous events. (4 marks)

(v) **Electricity at Work Regulations 1989:** It requires that people in control of electrical systems to ensure that they are safe to use and maintained in a safe condition. (4 marks)

(Sub-Total: 20 marks)

(b) The items/situation to consider in setting out a model for the consequences of a fire are:

- * ignition and fire source;
- * heat transfer to neighboring structures and materials;
- * the behaviours of those materials and structures in a fire;
- * the way humans behave and how they will exit the premises;
- * waste and run off.
- * smoke movement
- * detection;
- * active fire safety features;
- * toxicity;

(3½ marks for each correctly stated item/situation. Maximum of 4 to be graded. Sub-Total: 14 marks)

(Grand Total: 34 marks)

12. (a) In a contract transaction, there are usually some general risks attached to such contracts, no matter how great the plans could have been. Each of these risks also have potential solutions as studied in the course. As a risk manager, state any five (5) of contract risks and under each one, state two (2) potential solutions to the risks. (30 marks)

(b) As a risk manager, enumerate any two (2) possible threats of transferring of risks to a counterparty. (4 marks)

Solution

(a) These are:

Counterparty Risk:

- * Guarantee by bank, insurer or parent company;
- * Retention of titles and assets;
- * Performance bond;
- * Credit insurance.

Project Risk:

- * Agreement on specifications, standards and controls;
- * Penalty clauses indemnifying late or poor quality delivery;
- * Clarifying liability responsibilities between principles and subcontractors
- * Limitations and exclusions;
- * Insurances;

Financial Risk:

- * Limitations/exclusion of liability;
- * Contacts that restricts the relationship to one project in isolation;
- * non-recourse' agreement;
- * Deposit of funds;
- * Penalties for late payment

Legal Risk:

- * Force majeure clause;
- * What liabilities may be transferred?
- * Legal jurisdiction clause;

Political Risk:

- * Force majeure clause;
- * Performance bond

Product Risk:

- * Clarify of responsibility;
- * Product liability insurance.

Environmental Risk:

- * A combination of the potential solutions as given for the other risks;

* ESG Risks.

(4 marks for each correctly stated type of risk. 1 mark for each correctly stated proposed solution under each type. Maximum of 2 to be graded under each type. Maximum of 5 types to be graded. Sub-Total per risk type: 6 marks. Grand Sub-Total: 30 marks)

- (b) The possible threats of transferring of risks to a counterparty may include:
- The counterparty may include the cost of the risk in the price negotiations if that counterparty has a lower level of risk tolerance than the organisation, then the organisation may be paying, indirectly, more than it would need to do so if it retained the risk itself;
 - The counterparty may be unable to meet the contracted obligation, this could mean that the unprotected loss falls back onto the possibly less prepared, organisation itself;
 - Negotiations to transfer the risk may fail, putting an otherwise lucrative contract in peril;
 - The risk management facilities and controls that would be routinely applied within the home organization may not be brought to bear to avoid risk incidents occurring.
- (2 marks for each correct and completely stated threat. Maximum of 2 to be graded. Sub-Total: 4 marks)**
(Grand Total: 34 marks)

13. (a) Define the term “threat” to an organisation. **(4 marks)**
- (b) The risk manager and the business managers will have started with a list of what external threats can be identified. They will only then have considered whether they can do harm to the subject organisation. Such external threat may have emerged from cultural, economic and geographic forces, security issues, failures and climatic and political change. As always, the driving force behind these risks’ assessments will be the potential to cause damage to the organisation and the possible extent of such damage. The level of these threats is what decides the reaction to them and what risk management may be realistic. None of these things are stable forces. They are extremely unlikely to remain as they were at the time they were first considered. Concisely enumerate any six (6) scenario or probable issues that are unlikely to remain as they were at the time they were first considered.
- (30 marks)**

Solution

- (a) “Threat” to an organisation is any form of action and/or inaction that is detrimental to the continued success of the organisation. **(4 marks)**
- (b) The scenario or probable issues that are unlikely to remain as they were at the time they were first considered as stated in the question are:
- Climates change year by year and progressively over longer periods;
 - The politics of countries change, as do political attitudes to individual social factors;
 - Losses experienced by others and the organization itself change expectations and likely loss levels;
 - Science evolves and brings new knowledge to risk scenarios. This new knowledge can identify new threats. Science especially medical science can reduce or raise the expectation of injury and other loss scenarios occurring;
 - Fashions change, items that are attractive to thieves will vary, for examples, during the computer chip shortage in the late 1990s;
 - Laws change, as do legal practices;
 - Regulators demand new standards;
 - Wars and civil wars may start, change gear, or cease.
- (5 marks for each correct and completely stated scenario. Maximum of 5 to be graded. Sub-Total: 30 marks)**
(Grand Total: 34 marks)

14. (a) What is continuity planning? **(4 marks)**

- (b) Continuity planning creates its own demand to ensure currency. The nature of this work is that it is rarely ever known precisely when it is going to be needed. The 'plan' may sit unused for months and years and then is needed at a moment's notice. It is needed also, at a time when there are tremendous urgencies, and severe workloads on key staff who are trying to ensure the survival of the organization. There will be no space during the crisis itself to then set about and bring the plan and risk information up-to-date. State and analyse any six (6) information within the plan that needs to be up-to-date. **(30 marks)**

Solution

(a) Continuity planning is a process of creating a system that ensures a business can maintain its critical functions, recover quickly from disruptions, and resume normal operations during and after a crisis, such as a natural disasters, cyber attack or infrastructure failure. It is often called business continuity planning (BCP). **(4 marks)**

(b) The information within the plan that needs to be up-to-date are:

- Are the contingency sites and equipment still available?
- Are they where the planners think they are?
- Do they match in with current mainstream equipment?
- Can the standby computer equipment read the new software?
- Are the business priorities that are addressed in that plan still the current ones?
- The plan needs to be up-to-date also in the little, but by no means unimportant, things:
- Are employee phone numbers still up-to-date?
- Is the contractor who is named to provide emergency services still in business?
- Is the same person (and their deputies) still the keyholder to the emergency crisis meeting room and thus able to ensure 24-hour, 7-day access?

(Candidates are required to analyse/explain the stated information).

4 marks for each correct stated information. 2 marks for each correct explanation. Maximum of 6 to be graded. Sub-Total: 30 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A09

MARKETING

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

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

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

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A09 – MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question examined candidates' understanding of the various ways of structuring the management of an international marketing operation. The pass rate was 38%. Candidates are advised to study the course materials to enhance their performance thoroughly.

Question 2

This question examined candidates' knowledge of vision statements, data warehousing, and contingency planning. It was attempted by 95% of the candidates, and all who attempted it achieved a 95% pass rate — an excellent performance.

Question 3

The question assessed candidates' understanding of types of corporate advertising. It recorded a 99% attempt rate and a 54% pass rate, indicating an average performance.

Question 4

The question assessed on contingency planning. Although 99% of the candidates attempted it, only 56% passed. The main reason for the below-average performance was that many candidates merely defined contingency planning without identifying or explaining its types.

Question 5

This question achieved a 66% pass rate. However, some candidates listed the stages of communication instead of the stages involved in selecting the right medium of communication, which affected their scores.

Question 6

An impressive performance was recorded in this question, with an 88% pass rate out of 99% of candidates who attempted it.

Question 7

The question examined candidates' awareness of marketing challenges, limitations, and potential drawbacks. It achieved a 62% pass rate. The use of case studies and real-life examples is encouraged to enhance understanding in this area.

Question 8

This question assessed candidates' understanding of customer centricity. Only 20% of the 116 candidates attempted it, with a low pass rate of 17%. This indicated that candidates had limited knowledge of the topic.

Question 9

This was a compulsory question attempted by all candidates, with a 65% pass rate. It examined candidates' knowledge of how brokers can comply with NAICOM market rules and ethical sales practices. Candidates performed well on questions relating to functions of the marketing department, objectives of distribution channels, and reasons for direct distribution. However, performance was weaker in the areas of compliance and ethics.

Question 10

The question assessed candidates' understanding of industry awareness (insurance), particularly in relation to market-based models. Being an elective question, it was attempted by 78% of the candidates, with a pass rate of 56%.

Question 11

This question assessed knowledge of new ideas and technological diffusion. It was attempted by only 38% of candidates, but performance among those who attempted it was good, with a 73% pass rate.

Question 12

The question assessed candidates' understanding of the marketing mix and its elements in the context of services. It recorded a 72% attempt rate and a 77% pass rate — a commendable outcome.

Question 13

This question evaluated candidates' knowledge of SWOT analysis. It was attempted by 81% of candidates, with a 66% pass rate, reflecting a satisfactory performance.

Question 14

This elective question was attempted by 36% of the candidates, with a 79% pass rate, an impressive performance among those who chose it.

Comments on Overall Performance:

The overall pass rate of 66.5% reflected a good performance by the candidates.

Suggestions on Improvement(s) (if any):

Adequate studying is required to enhance understanding and improve future examination outcomes.

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

Part I**Answer ALL questions in Part I.****Each question carries six (6) marks.**

1. State and briefly explain the two (2) ways of structuring the management of an international marketing operation.

Solution

The two ways of structuring the management of an international marketing operation are:

- **centralised marketing:** it uses a central head office to take over the strategic marketing function of the business;
- **decentralised marketing:** it is likely to be more closely in touch with the specific needs of their customer but the disadvantage of this is that there could be duplication between each unit for example in research.

(2 marks for each correctly stated way. 1 mark for a correct and complete explanation. Sub-Total per way: 3 marks. Grand Total: 6 marks)

2. Define the following:

- (a) a vision statement; (b) data warehousing; (c) contingency planning.

Solution

(a) A vision statement is a description of where the company wants to be at a stated time in future. It is private and usually restricted and may deal with issues such as the future market where the organisation wishes to operate, its future ownership, its broad financial performance goal and the public's perception of it. (2 marks)

(b) Data warehousing is the storage of names and personal details about existing and potential customers using current computer technology. (2 marks)

(c) Contingency planning is a series of strategic thrusts that are continually refined as more information about the environment becomes available (2 marks)

(Grand Total: 6 marks)

3. (a) State any two (2) types of corporate advertising that organisations normally use. (2 marks)

- (b) Enumerate any two (2) factors influencing the consumers' interest in buying product and selling in the market? (4 marks)

Solution

(a) The types of corporate advertising that organisations normally use are:

- * investors' relations advertising; * issue advertising;
- * corporate image advertising.

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

(b) The factors influencing the consumers' interest in buying product and selling in the market are:

- the amount of knowledge that consumers have about the market's offerings;
- the number of buyers and the relative size of their buying requirements;
- the ability of consumers to pay for goods and services.

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

(Grand Total: 6 marks)

4. Explicitly enumerate the three (3) types of contingency planning in marketing by an organisation.

Solution

The types of contingency planning in marketing by an organisation are:

- attempting to minimize the technical profitability of loss due to unforeseen risk;
- identifying alternative courses of action in the event of certain potential outcomes;
- planning a strategic response to major unpredictable events.

(2 marks for each correct and completely stated type. Grand Total: 6 marks)

5. What are the three (3) stages of selecting the right medium of communication?

Solution

The stages of selecting the right medium of communication are:

- deciding which communication channel to use;
- deciding which specific element of each channel are appropriate;
- deciding on the specific aspect of each element.

(2 marks for each correct and completely stated stage. Grand Total: 6 marks)

6. List the six (6) processes of designing new insurance product.

Solution

The six processes of designing a new insurance product are:

- initial rough idea for the new insurance product;
- identify the key benefits to the customers;
- identify the key product features;
- position the product within the existing market;
- evaluate the product potentials;
- redesign the rough idea to incorporate the above development work.

(1 mark for each correct and correctly stated process. Total: 6 marks)

7. Marketing over the years had experienced criticism and there are various criticisms of such over the years. Explicitly enumerate any three (3) modern criticisms of marketing.

Solution

The modern criticisms of marketing are:

- planned product obsolescence;
- the creation of an excessive materialistic society through advertisement;
- high pressure selling of poor quality product;
- wasted resources.

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

8. In insurance,

(a) what is the uninsured customer's core unsatisfied need?

(b) what supporting quality might also be required?

Solution

(a) The uninsured customer's core unsatisfied need is the need for protection against the uncertainty of risk or the need for peace of mind. (3 marks)

(b) The supporting quality might include quick service delivery like prompt payment of claim, prompt adjuster's service, e.t.c. (3 marks)

(Grand Total: 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) In light of NAICOM's recent circular, ABC Brokers, a well-established insurance brokerage firm, is reviewing the essential components of the Revised Market Conduct that all brokers must adhere to for compliant operations.
- (i) Enumerate two (2) ways by which insurance brokers can ensure compliance with the Revised Market Conduct requirements set by NAICOM? **(4 marks)**
- (ii) What three (3) steps should a broker take to promote ethical sales practices in light of the Revised Market Conduct? **(6 marks)**
- (b) (i) As a Consultant to the marketing committee of the Board of Gbogunbora Nigeria Insurance Plc, you are requested to highlight ten (10) broad group of activities that will usually be carried out by the marketing department. **(20 marks)**
- (c) The Board of Directors of BG Insurance Plc needed clarifications before they can approve the marketing distribution channel of the company. You are directed, as the marketing director to give four (4) main objectives of the organisation's distribution channels. **(12 marks)**
- (d) Evergreen Insurance Plc has not been enjoying the support of the Brokers in the market. You have just been appointed as the Consultant to the company on how to go on the way of direct marketing, kindly guide the company on two (2) positions when would it be most appropriate for an insurer to use direct distribution method. **(8 marks)**

Solution

- (a) (i) Brokers can ensure compliance by:
- Establishing a compliance officer role to oversee adherence to market conduct standards.
 - Conducting regular internal audits to assess compliance with NAICOM regulations.
 - Implementing a whistleblower policy to encourage reporting of unethical practices.
 - Providing ongoing training and resources to staff on market conduct expectations.
- (2 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 4 marks)**
- (ii) The steps that a broker should take to promote ethical sales practices in light of the Revised Market Conduct include:
- developing a code of ethics that outlines acceptable sales practices.
 - training sales staff on ethical selling techniques and the importance of transparency.
 - monitoring sales activities to ensure compliance with ethical standards.
 - encouraging feedback from clients to identify any unethical practices or concerns.
- (2 marks for each correct and completely stated step. Maximum of 3 to be graded. Sub-Total: 6 marks)**
- (Grand Total: 10 marks)**
- (b) The broad group of activities that will usually be carried out by the marketing department are:
- | | | |
|---|----------------------------------|-----------------------|
| * market research; | * competitors' research; | * customer profiling; |
| * development of strategic marketing plans; | | * advertising; |
| * development of operational marketing plans; | | * media relations; |
| * corporate affairs and sponsorship; | | * product development |
| * product pricing; | * branding and brand management; | |
| * sales management; | * customer service. | |
- (2 marks for each correctly stated group. Maximum of 10 to be graded. Sub-Total: 20 marks)**

- (c) The main objectives of the organisation's distribution channels are:
- to make the products or services available to customers;
 - to ensure that promotional effort is devoted to the product or service as closed as possible to the customer;
 - to provide the highest level of customer service;
 - to gather feedback from customers and intermediaries about the market;
 - to take advantages of economies of scale.
- (3 marks for each correctly stated objective. Maximum of 4 to be graded. Sub-Total: 12 marks)
- (d) The positions when would it be most appropriate for an insurer to use direct distribution method are:
- when the insurance buyers are large and well-defined;
 - when the insurance service is technically complex;
 - when the insurance has a high premium value;
 - when the selling function requires technical expertise and extended negotiation.
- (4 marks for each correctly stated positive. Maximum of 2 to be graded. Sub-Total: 8 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) State and explain any four (4) type of market based on the focus of the markets. (20 marks)
- (b) State any three (3) methods that an insurer can use to maintain a high quality of customers/staff interaction. (9 marks)
- (c) Briefly state any two (2) effective characteristics of personal selling? (5 marks)

Solution

- (a) The type of market based on the focus of the market are:
- **Production Based Market:** This market contains consumers who are not discriminating and will buy whatever is available. Typically, the sellers' emphasis is on efficient production and distribution.
 - **Product-Based Market:** This type of market is for goods and services which sell themselves, usually because of inherent quality and performance characteristics. Sales promotion is regarded as unnecessary
 - **Reluctant Market:** This type of market is one in which consumers will not buy sufficient goods and services unless they are persuaded to do so by advertising and sales promotion. Marketing is essential in this market.
 - **Consumer First Market:** This is the type of market where attention is shifted from sellers and producers to the consumers. This involves concentrating attention on the needs of the consumers because they are the most powerful party in the transaction
 - **Society First' Market:** This is a newly developing market type where society is considered. Needs of consumers are met in such a way that it does not negatively affect the society. Goods and services should be socially acceptable, non-harmful, and non-polluting.
- (3 marks for each correctly stated market type. 2 marks for each correct and completely stated explanation. Maximum of 4 to be graded. Sub-Total: 20 marks)
- (b) The methods that an insurer can use to maintain a high quality of customer/staff interaction are:
- rigorous staff selection standard;
 - motivation;
 - regular staff training and coaching;
 - quality management system
- (3 marks for each correctly stated method. Maximum of 3 to be graded. Sub-Total: 9 marks)

- (c) The effective characteristics of personal selling are that:
- it provides two-way communication;
 - the sales message can be tailored;
 - the sales person can use knowledge of the product to overcome objections;
 - a deal can be done on the spot.

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

(Grand Total: 34 marks)

11. (a) The theory of diffusion of innovation was propounded by E.M. Rogers in 1960 and examined the percentage of consumers who adopted a new product and service.
- (i) State the five (5) division of consumers into different groups according to this researcher. (10 marks)
- (ii) Explain any four (4) of those divisions stated in (i) above. (12 marks)
- (b) Enumerate any four (4) of the five marketing activities that an organisation must carry out if it wants to anticipate and measure the importance of needs and wants in a given group of consumers and to respond with a flow of needs-satisfying goods and services. (12 marks)

Solution

- (a) The five division of consumers into different groups according to this researcher are:
- (i) innovators; (ii) early adopters; (iii) early majority;
- (iv) late majority; (v) laggards.

(2 marks for each correctly stated division. Sub-total: 10 marks)

- (ii) They are explained below:

- **Innovators:** they think for themselves and actively try product that appeal to them. This 2.5% of the population are the fashion leaders. They are the first to be attracted to a new product.
- **Early Adopter:** The 13.5% of the population who are early adopters often have a certain status in the society and because they are not seduced merely by novelty, tends to be opinion leader who carefully consider the thing they do. Any time they adopt new product, it confers acceptability on them.
- **Early Majority:** The 34% of the population belongs to this class. It is less impulsive and more conservative and usually adopt only product that have been given a seal of approval by opinion leaders (i.e the early adopters)
- **Late Majority:** The 34% of the population belongs to this class. This group is skeptical. It needs to be convinced that the product is tested before it risks committing itself. Price often becomes a serious consideration to this class.
- **Laggards:** It has 16% of the population. Normally have lower income and low status. They are the last to adopt the product or service.

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

- (b) The organisation must:

- identify and target those markets most compatible with its resources;
- develop products that meet the needs of the target market better than competitive products;
- make products readily available;
- develop customer awareness of the problem solving capacity of the company's line of products;
- obtain feedback from the market about the success of company products and programmes.

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

(Grand Total: 34 marks)

12. (a) Define “marketing mix”. (4 marks)
 (b) State the six (6) elements of the marketing mix for service as studied in this course. (6 marks)
 (c) In a tabular form, state two (2) marketing related actions that can be taken under each of the six (6) elements of marketing mix for service. (24 marks)

Solution

(a) Marketing mix is defined as combination of controllable marketing variables that a manager uses to carry out a marketing strategy in pursuit of the firm's objectives in a given target market.

(4 marks)

(b) The six elements of marketing mix for service as studied in this course are:
 * product; * price; * promotion; * place; * people; * process.
 (1 mark for each correctly stated element. Sub-Total: 6 marks)

(c)

Marketing Mix	Marketing Related Action
Product	Expand the line Consolidate the line Standardise the design
Price	Put the price up Lower the price
Promotion	Change advertising Change personal selling strategy
Place	Change distribution methods Change service Change channels
People	Conduct a skill analysis and recruit new people Change service levels by segment Review and improve communication with customers
Processes	Alter the process for signing up new customers Change the way service is delivered

(2 marks for each correctly stated marketing-related action. Maximum of 2 marketing-related actions to be graded under each variable. Sub-Total per mix: 4 marks. Grand Sub-Total: 24 marks)
 (Grand Total: 34 marks)

13. (a) Explain what SWOT analysis is. (2 marks)
 (b) State three (3) generic examples under each element of SWOT. (12 marks)
 (c) There are usually five stages in a new product development process. State these five (5) stages. (20 marks)

Solution

(a) SWOT analysis is an analysis of the organisation’s strengths and weaknesses in the content of the opportunities and threats it faces. (2 marks)

(b) The generic examples under each element of SWOT are:

• **Strength:**

- * Size and status of the organisation;
- * Our national coverage;
- * The quality of service we provide;
- * Our close relationship with our customer;
- * The advance state of our technology.
- * Our experience and track record;
- * Our willingness to innovate;
- * The quality of our staff;

- **Weaknesses:**
 - * The poor coordination between our regional offices;
 - * The shortage of some key skills;
 - * The inconsistency of our quality standard
 - * We deal with too many mismatched customers.
- **Opportunities:**
 - * The increase in home by young ownership;
 - * We can use some of our other services;
 - * We can extend regional coverage because of our population;
 - * We can make better use of our company's computer
- **Threats:**
 - * Down time in the economy;
 - * Loss of key personnel's
 - * Problem in recruiting the right caliber of people;
 - * Registration of new insurer will increase competition.

(1 mark for each example. Maximum of 3 examples to be graded under each term. Sub-Total per term: 3 marks. Grand Sub-Total: 12 marks)

- (c) The five stages in a new product development process are:
- Stage 1: Objectives and strategies for the new product
 - Stage 2: Idea generation and processing
 - Stage 3: New product design
 - Stage 4: Testing
 - Stage 5: Commercialisation
- (4 marks for each correctly stated stage (both stage and action). Sub-Total: 20 marks)
(Grand Total: 34 marks)

14. (a) What is strategic marketing planning? (3 marks)
- (b) What is operational marketing planning? (3 marks)
- (c) Strategies are of little value unless they are put into practice and it is therefore essential that an action plan is drawn. What are the six (6) objectives that should be included in an action plan? (18 marks)
- (d) State any four (4) ways by which market research can be a useful tool of deployment in an organisation. (10 marks)

Solution

- (a) Strategic marketing planning is about deciding a marketing strategy for an organisation's long-term future. (3 marks)
- (b) Operational marketing planning is about maximizing the organisation's resources in the short -to medium-term to realise its short – and medium-term marketing objectives. (3 marks)
- (c) The six objectives that should be included in an action plan are:
- strategies for achieving those objectives;
 - allocations of specific responsibility for carrying out each activity;
 - dates for starting and finishing each activity;
 - specific estimated resources requirement for the period of implementation;
 - expected cost of the activities;
 - expected results on the completion of each activity.
- (3 marks for each correct and completely stated objective. Sub-total: 18 marks)
- (d) The ways by which market research can be useful tools in an organisation are:

- to identify and define target markets;
- to identify and define market opportunities;
- to identify and define marketing problems;
- to generate well-founded marketing objectives;
- to assist in the formulation of marketing strategies;
- to measure and evaluate the success of marketing strategies.

(2½ marks for each correctly stated way. Maximum of 4 to be graded. Sub-total: 10 marks)
(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT A10

INSURANCE BROKING PRACTICE - III

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WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER
2025 DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A10 – INSURANCE BROKING PRACTICE - III

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

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

Chief Examiner's Comments

Question 1

Only 10% of the candidates passed this question, which tested knowledge of three key requirements for success in sales. The performance was poor on a relatively simple question.

Question 2

This question was attempted by only 30% of the candidates, and none achieved a pass mark. It tested knowledge of areas of conflict between a practicing broking firm and its directors, staff, or related individuals. The zero pass rate reflects a clear lack of understanding and inadequate preparation. Candidates are advised to study diligently and attend lectures regularly.

Question 3

Performance on this question was very poor. Many candidates failed to identify two purposes of proprietary sales tools, which indicates insufficient knowledge of the topic. Candidates are encouraged to take their studies more seriously.

Question 4

Only 10% of the candidates passed this question, which examined knowledge of NAICOM's Information Requirements and Conduct of Business Rules, and two NAICOM requirements for brokers on product oversight and governance. The poor result reflects inadequate preparation. Candidates are advised to study purposefully and remain determined to succeed.

Question 5

A pass rate of 10% was recorded on this question, which assessed candidates on four basic objectives of risk management. This result is poor, considering the level of candidates taking this course. The poor preparation observed can be corrected through more serious study efforts.

Question 6

Only 10% of the candidates passed this question, which required candidates to (a) identify two specific details that must be included in a report on malpractice involving staff or other individuals, and (b) state two qualities required to be deemed fit and proper as a licensed insurance broker. Candidates are encouraged to understand the demands of the course. Greater advocacy is needed from the professional body to sensitise candidates.

Question 7

This question recorded a good performance, with 60% of the candidates passing. It assessed knowledge of three key steps required to build a sales culture. However, some candidates provided incomplete responses. Candidates should continue to improve their understanding through adequate study.

Question 8

A 10% pass rate was recorded on this question, which assessed knowledge of Section 24(1) of the Insurance Act, 2003 on the items included in the margin of solvency. The poor performance reflects limited reference to the relevant law. Candidates should deepen their study of the Act and related materials.

Question 9

This was a compulsory question with a 50% pass rate, which is below expectations. It assessed (i) ways insurance brokers can ensure compliance with NAICOM's revised market conduct requirements, and (ii) steps brokers can take to promote ethical sales practices. While candidates performed well in areas relating to functions of the marketing department and objectives of distribution channels, performance was weak in compliance-related areas. Candidates should study beyond coursebooks and stay informed about current industry developments.

Question 10

This question recorded a zero pass rate. It assessed understanding of (a) the importance of market conduct and business practice guidelines, (b) three regulatory areas covered in the brokers' regulation section of the guideline, (c) five supporting documents the CEO must submit for evaluation, and (d) four requirements expected from non-executive directors or partners by regulators. The total failure indicates inadequate preparation. Candidates should study this important professional area thoroughly.

Question 11

This optional question recorded a 20% pass rate, which is unsatisfactory. It covered (a) six areas where staff should be trained, (b) seven factors that influence distribution and marketing for insurers and brokers, and (c) four key aspects of a broker's role as an agent of the client. Candidates are advised to focus on the essential aspects of the syllabus and prepare more thoroughly.

Question 12

Another zero pass rate was recorded on this question, which covered several important topics:

- (a) steps a risk manager should take to identify risks affecting corporate goals,
- (b) explanation of claim preparation cost, premium finance agreement, and carrier service agreement,
- (c) reasons large brokers and global insurers develop dedicated IT systems, and
- (d) reasons companies outsource.

The woeful performance indicates a lack of adequate study and understanding. Candidates must improve their preparation and grasp of professional requirements.

Question 13

A 20% pass rate was recorded, reflecting poor performance. The question covered (a) ten NAICOM requirements for broker regulation under the Insurance Act 2003, (b) benefits of categorizing considerations into short-, medium-, and long-term, (c) benefits of chartered status, and (d) the role of rating agencies. Poor preparation was evident, and candidates are advised to commit more time to study.

Question 14

A zero pass rate was recorded on this question, which assessed candidates on (a) reasons why understanding a client's business is vital to a broker's success, (b) key features of a quality system, and (c) the meaning of Errors and Omissions. The total failure suggested that candidates are not taking the course seriously. Candidates are urged to dedicate adequate time and effort to study.

Comments on Overall Performance

The overall pass rate was below average. This indicates that candidates are not giving the course the seriousness it deserves, perhaps assuming it is an easy subject. Many responses lacked relevance, suggesting inadequate reading and poor understanding of the study materials.

Suggestions on Improvement(s) (if any):

Candidates must improve their level of commitment and preparation to meet the professional standards expected.

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

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. All businesses, regardless of industry, need to make their products or services available to those that may have a demand or need for them. As an insurance broker considering a new business development strategy of generating sales, state three (3) requirements for success in sales.

Solution

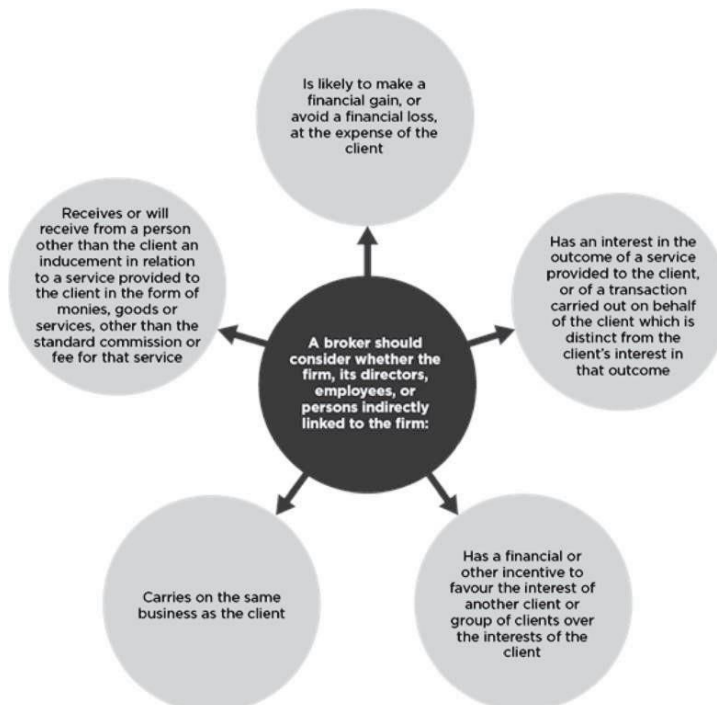
Success in sales requires the following:

- an effective strategy;
- consistent execution and persistence;
- realistic matching of the skills and resources of your business to the needs of the prospect;
- regular monitoring of the processes;
- balancing the mix of dedicated salespeople and client service staff;
- the right incentivisation of staff;
- allowing staff to focus on their key objectives;
- senior management support and engagement; and
- the creation of a sales culture.

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

2. With the aid of a diagram, show the areas of potential conflict between a practicing broking firm or a broker and any of its directors, staff, or individuals indirectly linked with the firm or broker.

Solution



(6 marks)

3. Prime Shield Insurance Limited, a top insurance provider, was looking to improve its sales efficiency and close more deals with large corporate clients. The company adopted several proprietary sales tools during the sales process. Explain two (2) of the purposes of the sales tools.

Solution

The purposes of these tools are to:

- Identify the best opportunities, where there is a greater chance of winning – the objective is to enable scarce resources to be allocated where they yield the best returns
- Bring the structure to the process of understanding how to match the needs and personality of the skills and resources of the broker; an example is identifying that the prospect has an issue with say product recall and matching that with an area of acknowledged expertise within the broker
- Identify the individuals at the prospect and how they will influence the outcome of the review. Terms are used such as economic buyer – the person who will most influence the buyer, the coach – the person who may not have the final decision but who will help the broker win the business.

(3 marks each for each correctly stated purpose. Maximum of two to be graded. Total: 6 marks)

4. (a) State the two (2) NAICOM's Information Requirements and Conduct of Business Rules. **(2 marks)**
- (b) State any two (2) NAICOM's requirements for brokers regarding Product Oversight and Governance. **(4 marks)**

Solution

- (a) NAICOM requires the following:
- insurance distributors must always act honestly, fairly and professionally in accordance with the best interests of customers; and
 - all information must be fair, clear and not misleading.
- (1 mark each for each correctly stated requirement. Sub Total: 2 marks)**
- (b) NAICOM requires brokers to provide clarity on issues such as:
- cases where distributors have a role in product manufacture;
 - target market assessment;
 - product testing; and
 - ongoing product reviews.

(2 marks for each correctly stated factor. Maximum of two (2) to be graded. Sub Total: 4 marks)
(Grand Total: 6marks)

5. The objectives of risk management are mainly to preserve the assets and income of any organisation by providing protection against fortuitous losses. State any four (4) basic objectives risk management seeks to attain. **(6 marks)**

Solution

The basic objectives are:

- continued growth; * higher profits; * lower costs;
- stable earnings; * peace of mind; * survival;
- minimal interruption of operations;
- satisfaction of social responsibility with a good public image.

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

6. (a) In line with global best practices and specific NAICOM guidelines, all broking

firms are required to submit quarterly reports to the Commission detailing any financial malpractices involving their staff, clients, or other individuals. State any two (2) specific information that must be included in these reports. **(4 marks)**

- (b) State any two (2) qualities a person must possess to be considered fit and proper to operate as a licensed insurance brokerage in Nigeria. **(2 marks)**

Solution

- (a) The specific information that must be included are:

- Identity of perpetrator
- Nature of malpractice
- Amount involved
- Penalty
- Preventive measures

(2 mark each for each correctly stated information. Maximum of two (2) to be graded. Total:4 marks)

- (b) The qualities are:

- Honesty, integrity and reputation
- Competency and capability
- Financial soundness

(1 mark each for each correctly stated quality. Maximum of two to be graded. Total:2 marks)

7. Creating a strong sales culture is not an overnight process and requires consistent effort and dedication. There is no quick fix or magic formula, but with the right approach, businesses can foster an environment where sales excellence thrives. Explain any three (3) steps required to build a sales culture. **(6 marks)**

Solution

The steps required to build a sales culture are:

- ensuring all staff understand the strategy of the firm, where it wants to grow and focus its activities and resources;
- making sure that all staff are engaged, even if they do not have the specific job of developing business – this can be done by regular communication of activity and progress and the celebration of success;
- adopting a methodical and structured approach to the sales process as described above. More importantly, ensuring that the process is adhered to and that there is a reward for good compliance as well as success. The converse is to ensure that where there is non-compliance, action is taken.
- senior level commitment and participation and support in terms of resources; monitoring of activity is vital; and
- ensuring that the people directly engaged in the sales process can and do focus on sales and are not distracted by other tasks or management responsibilities. Explicit targets are essential.

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

8. (a) According to Section 24(1) of the Insurance Act 2003, an insurer, except for life insurance business, must always maintain a margin of solvency, which is the excess of its admissible assets in Nigeria over its liabilities. List any three (3) items included in the margin of solvency as specified in this section of the Act. **(3 marks)**
- (b) State any two (2) key steps a risk manager can take to identify risks that may hinder the achievement of a company's goals or objectives? **(3 marks)**

Solution

- (a) The items are:

- Provisions for unexpired risks
- Provisions for outstanding claims
- Provisions for claims incurred but not yet reported
- Funds to meet other liabilities

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

(b) The key steps a risk manager can take are:

- One may need to determine the type of losses,
- Understand the immediate causes of loss,
- determine the underlying cause and consequences.

(1½ marks for each correctly stated key step. Maximum of two (2) to be graded. Sub Total: 3 marks)

(Grand Total 6 marks)

Part II

Compulsory Question.

This question carries 50 marks.

9. (a) In light of NAICOM's recent circular, ABC Brokers, a well-established insurance brokerage firm, is reviewing the essential components of the Revised Market Conduct that all brokers must adhere to for compliant operations.
- (i) Enumerate two (2) ways by which insurance brokers can ensure compliance with the Revised Market Conduct requirements set by NAICOM? **(4 marks)**
- (ii) What three (3) steps should a broker take to promote ethical sales practices in light of the Revised Market Conduct? **(6 marks)**
- (b) Enumerate three (3) advantages and three (3) disadvantages of “centralisation”. **(12 marks)**
- (c) Explain the following terms:
- (i) specialisation; (ii) segmentation. **(10 marks)**
- (d) List and explain the two (2) groups of Directors on the Board of a Broking Firm. **(12 marks)**
- (e) State any three (3) methods used to calculate fees in insurance broking. **(6 marks)**

Solution

- (a) (i) Brokers can ensure compliance by:
- Establishing a compliance officer role to oversee adherence to market conduct standards.
 - Conducting regular internal audits to assess compliance with NAICOM regulations.
 - Implementing a whistleblower policy to encourage reporting of unethical practices.
 - Providing ongoing training and resources to staff on market conduct expectations.
- (2 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 4 marks)**
- (Total: 10 marks)**
- (ii) The steps that a broker should take to promote ethical sales practices in light of the Revised Market Conduct include:
- developing a code of ethics that outlines acceptable sales practices.
 - training sales staff on ethical selling techniques and the importance of transparency.
 - monitoring sales activities to ensure compliance with ethical standards.
 - encouraging feedback from clients to identify any unethical practices or concerns.
- (2 marks for each correct and completely stated step. Maximum of 3 to be graded. Sub-Total: 6 marks)**
- (Grand Total: 10 marks)**

(b) The advantages of Centralisation are:

- Specialisation means the work is done more efficiently.
- Greater level of expertise in the team.
- Stronger relationships built due to regular contact with the broker's overseas network and understanding of their capabilities.
- A more compelling proposition for new clients.

Disadvantages of Centralisation are:

- Service may be impaired by lack of ownership.
- Risk that costs will increase.
- Reduced opportunity for client servicing teams to gain global servicing expertise.

(2 marks each for each correctly stated advantage and disadvantage. Maximum of three (3) each to be graded. Sub Total: 12 marks)

(c) (i) **Specialisation:** Insurance broking is a demonstration of specialisation in action. Generally, insurance brokers only do insurance broking and related risk services. As a result, they build knowledge and skills about risk and insurance that are valuable to their clients. No business can hope to cater for the needs of every buyer, whether consumer or business, from the same monolithic organisation.

(ii) **Segmentation:** Segmentation is essentially the identification of different groups of buyers within a market that share similar qualities and demonstrate similar buying behaviour. The segmentation process allows the business to match these distinct groups with its own distinct products and services. Segmentation is a natural extension of specialisation.

(5 marks each for correctly stated explanation. Sub Total: 10 marks)

(d) The two types of Directors are:

(i) Executive Directors **(1 mark)**

(ii) Non-Executive Directors **(1 mark)**

(i) **Executive Directors:** They work full-time in the company and are given management responsibility for running the business. The board usually appoints one of the executive directors to be accountable for the running of the company on a day-to-day basis. This person is variously known as the chief executive officer (CEO) or managing director. The rest of the executive is selected and appointed by the CEO and the board. Large public companies normally have nomination committees to oversee this function.

(ii) **Non-Executive Directors:** They are part-time appointments selected for the expertise they bring to the board. They do not perform an executive management role in the company. However, they attend board meetings and may be members of sub-committees in order to provide an independent view on matters such as audit, management remuneration and risk management. It is conventional for the chairman to be a non-executive director, although some firms do have an executive chairman. In the light of the different responsibilities of the chairman and the CEO, the potential for a clash when both have executive status is obvious.

(5 marks each for correctly stated explanation. Sub Total: 12 marks)

(e) The methods are:

- Recording and analysing the work done for a particular client
- Calculating the costs and expenses incurred, e.g. travel and accommodation, although many brokers, especially on global accounts that require extensive travel,

will require these expenses to be paid in addition, on a basis to be agreed with the client

- Understanding all aspects of its own costs
- Pricing the values to the client of its services

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

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. ABC Insurance Brokers Limited, a newly established corporate insurance broking firm, is in the process of obtaining the necessary regulatory approvals from the National Insurance Commission (NAICOM). To operate legally and ethically, the firm must understand and comply with the Market Conduct and Business Practice Guideline, which derive its authority from the National Insurance Commission Act 1997 and the Insurance Act 2003.
- (a) Explain any five (5) importance of the guidelines to ABC Insurance Brokers Limited. **(10 marks)**
 - (b) Enumerate three (3) regulatory areas covered in the Brokers Regulation Sector of the guideline. **(6 marks)**
 - (c) As a new corporate broking firm, list five (5) supporting documents the Chief Executive Officer must submit for evaluation. **(10 marks)**
 - (d) State four (4) requirements expected from Non-Executive Directors or Partners by the Regulator. **(8 marks)**

Solution

- (a) The importance of the guidelines to the insurance institutions:
- The guidelines set out the minimum standards required from Insurance Institutions in their dealings with Clients, Policyholders, Shareholders and other Stakeholders.
 - it promotes 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 claim's 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 Authorization requirements for insurance institutions.

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

- (b) Some regulatory areas covered by the guidelines are:

- Nomenclature of Insurance Brokers.
- Financial Penalty for Certain Violations/Breaches
- Financial Penalty for Certain Violations/Breaches
- Notification of Unremitted Premium.

(2 marks each for each correctly stated regulatory area. Maximum of three (3) to be graded. Sub Total: 6 marks)

(c) The Chief Executive Officers or Managing Partner must submit the following supporting documents as required:

- A completed Personal History Statement Form (PHS)
- Curriculum Vitae and credentials of the proposed Managing Director/CEO
- Copy of the proposed terms of employment
- Sworn affidavit that the proposed Managing Director/CEO has not been convicted of any financial misappropriation or other related offence.
- Extract of Board resolution in respect of the appointment of the proposed MD/CEO
- Evidence that the proposed MD/CEO is a current member of CIIN
- Handover Note/Exit report of the former Managing Director/CEO within 60 days of exit.
- The proposed Managing Director/CEO must pass Due Diligence Test conducted on him/her as the case may be.

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

(d) For Non-Executive Directors or Partners, the regulator requires:

- Board Resolution in respect of the appointment
- A completed Personal History Statement (PHS) form
- Curriculum Vitae
- Academic/Professional qualifications of the proposed Director
- The proposed Non-Executive Director must pass a due diligence test conducted on him/her as the case may be.

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

(Grand Total: 34 marks)

11. (a) NAICOM requires that staff of broking firms should be trained by their organisations. State six (6) areas that staff should be trained. **(12 marks)**
- (b) Apart from the rise of aggregators and the continued process of consolidation, many factors have had a significant bearing on distribution and marketing for both insurers and brokers. State any seven (7) of these factors. **(14 marks)**
- (c) State four (4) key aspects of the broker's role in acting as the agent of the client. **(8 marks)**

Solution

(a) The staff of broking firms should be trained in the following areas:

- ensuring that all employees who provide advice to consumers.
- employing personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.
- assessing an employee as competent until the employee has demonstrated the necessary competence. This assessment need not take place before the employee starts to carry on the activity.
- allowing an employee to give advice to consumers without appropriate supervision.

- ensuring that the level and intensity of supervision will be significantly greater in the period before the firm has assessed the employee as competent.
- ensuring that supervisors have the necessary coaching and assessment skills as well as technical knowledge and experience.
- ensuring that their employees' training needs are assessed at the outset and at regular intervals (including if their role changes). Appropriate training and support should be provided to ensure that any relevant training needs are satisfied. Firms should also review at regular intervals the quality and effectiveness of such training.
- reviewing on a regular and frequent basis employees' competence and taking appropriate action to ensure that they remain competent for their role.
- making appropriate records to demonstrate compliance with known rules by the regulator and keep them for three years after an employee stop carrying on the activity.

(2 marks each for each correctly stated area. Maximum of six (6) to be graded. Sub Total: 12 marks)

(b) The factors are:

- the sheer competitiveness of the industry;
- greater demand from large- and medium-sized clients for a wider and more sophisticated range of products and services;
- prolonged soft commercial insurance market conditions with few expectations of change, although rates are thought to have reached a plateau – these challenges the economic models of all market participants. The prolonged soft commercial market could see movement following the recent changes to the Ogden rate;
- lack of real growth in the private sector of the economy for many years, although 2014 saw a return of market confidence with companies starting to invest in construction and business projects;
- the continuing trend towards fees for broker services for mid-market clients; '
- claims farming, referral fees and fraud, particularly in the private motor sector leading to a Competition Commission review and possible reputational issues for the industry as a whole – referral fees have now been banned in the Jackson Reforms, which should see overall claims costs reducing and a more balanced settlement in favour of the claimant, as opposed to legal fees;
- the threat of the internet to further disrupt existing business models. Alongside this is the debate that in the desire to simplify the commercial insurance transaction online, there may be a rise in disclosure-related issues;
- the UK Competition and Markets Authority (CMA)'s ruling (with effect from August 2016) on the provision of information to motor insurance consumers about “No Claims Discount” (NCD) protection – the ruling is causing extensive changes to brokers' and insurers' systems and processes, and policyholder documentation;
- the fact that while the internet and other forces may change distribution methods, the underlying insurance product remains relatively unchanged proving that the model of the 'losses of the few being spread among the many' is robust;
- for insurers, the selection of the myriad alternative distribution routes;
- in the case of Lloyd's, how it manages its dependence on Lloyd's brokers;

- both insurers and brokers have to decide how physically close they need to be to their clients; do they maintain traditional multifunction branches, centralise some activities or make use of call centers?

(2 marks each for each correctly stated factor. Maximum of seven (7) to be graded. Sub Total: 14 marks)

(c) The key aspects of the broker's role in acting as the agent of the client are to:

- understand the client's business, its risk and insurance needs;
- design and source the most appropriate insurance cover, explain the options and give reasons for the advice;
- negotiate cost, cover and other terms that meet the client's needs;
- execute the client's instructions in an efficient manner;
- explain the needs and the behaviour of the market to clients;
- maintain effective relationships with the market in order to achieve the best results for the client;
- negotiate claims; and
- administer all aspects of the transaction in an efficient manner, including maintaining the necessary records.

(2 marks each for each correctly stated aspect. Maximum of four (4) to be graded. Total: 8 marks)

(Grand Total: 34 marks)

12. (a) State the three (3) key steps a risk manager can take to identify risks that may hinder a company's ability to achieve its goals or objectives? (6 marks)

(b) Explain the following terms:

- (i) claims preparation costs (ii) premium finance agreement
(iii) carrier service agreement (15 marks)

(c) Enumerate five (5) reasons why large brokers and global insurers develop dedicated Information Technology Systems. (10 marks)

(d) State the two (2) reasons why companies outsource. (4 marks)

Solution

(a) The key steps are:

- one may need to determine the type of losses;
- understand the immediate causes of loss;
- determine the underlying cause and consequences.

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

(b) (i) **Claims preparation costs** – policies will often have cover for payment of claim preparation costs. These cover the costs of preparing the claim, but exclude the costs of negotiation and/or claims advocacy

(ii) **Premium finance agreement** – brokers arranging premium finance will have arrangements with providers where they will earn a percentage of the interest charge typically any percentage above the provider's base rate.

(iii) **Carrier Service Agreement** - which are arrangements where the broker actually provides services to the insurer and thus the payments may be subject to VAT. The services can vary from organizing meetings between the insurer and the broker to develop the relationship, project work for the development of new products by the insurer, access to lists of clients and the provision of dedicated relationship staff by the broker to assist insurers in their relationship with the broker.

(5 marks each for correct explanation. Sub Total: 15 marks)

(c) The reasons why large brokers and global insurers develop dedicated IT systems are:

- Gather and collect underwriting information
- Manage and monitor claims
- Hold details of local policies
- Allocate premiums and calculate insurance policy taxes
- Arrange the rapid transfer of local premiums to where it is required
- Monitor the performance of local insurers.

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

(d) Companies outsource because of the following:

- the tasks are carried out in low-cost locations, particularly overseas where salaries and benefits are relatively low compared with the UK and there is an availability of suitable skills; and/or
- the contractor gains efficiency from specialisation and economy of scale, e.g. a catering contractor will be able to source food far more economically, or an outsourcing contractor may have a number of similar contracts with different phasing of demand that enables the work to be done with fewer people.

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

(Grand Total: 34 marks)

13. (a) Enumerate ten (10) NAICOM requirements for the registration of a broker in line with the Insurance Act 2003. **(20 marks)**
- (b) The effects of consolidation can be divided into short, medium, and long term. Explain the cycle. **(5 marks)**
- (c) State three (3) benefits of chartered status. **(6 marks)**
- (d) Briefly explain the role of Rating Agencies **(3 marks)**

Solution

(a) NAICOM requirements for the registration of a broker in line with the Insurance Act 2003 are:

- Copy of CAC forms C2.2, C2.3, C2.5
- Memorandum and Article of Association.
- Evidence of Incorporation as a limited liability Company.
- Application form 20.
- Evidence of payment of Application fee
- Sworn declaration by the CEO as to location of principal place of business.
- Sworn declaration by the CEO as to company's financial interest in other Insurance Institutions.
- Professional Indemnity cover
- CV and credentials of CEO.
- Evidence of professional qualification or related course.
- Evidence of registration of the CEO with CIIN
- Director profile with details of employment history for the past ten years.
- Evidence of resignation of the proposed CEO from previous employment & evidence of acceptance of the resignation.
- Letter of offer of appointment and acceptance of offer of proposed CEO.
- Completed personal data form.
- Five-year Business plan
- Payment of Applicable Registration Fee.

(2 marks each for each correctly stated requirement. Maximum of ten to be graded. Total: 20 marks)

- (b) In the short term, it will look like business as usual, in the medium term certain characteristics of what the new era is going to present will begin to manifest and finally in the long term, there will be new regulations and possibly a new law. The cycle will then begin again. Brokers must continue to re-engineer themselves. Their processes and thoughts to keep up with the changing times.

(5 marks for correctly stated explanation. Sub Total: 5 marks)

- (c) The benefits of chartered status are:

- Sharpens competitive edge
- Enhances business performance
- Promotes and supports regulatory compliance
- Provides tangible evidence of professional status
- Helps attract and retain talent

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

- (d) **Rating agencies** are regulators who guide insurance companies and help them to stand out by obtaining international ratings as a tool to demonstrate their financial strength and claims paying ability.

(3 marks)

(Grand Total: 34 marks)

14. (a) State the two (2) key reasons why understanding your client's business is vital to your success as a broker. (4 marks)
- (b) Enumerate eight (8) key features of quality system. (24 marks)
- (c) Explain the terms "Errors and Omissions". (6 marks)

Solution:

- (a) The reasons are:

- The broker can build upon and deepen the relationship with the client.
- The more that is known about the risk, the better the broking job that can be done, avoiding any exposure to errors or omissions (E&O).

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

- (b) The key features of quality systems are:

- | | |
|--|-------------------------------|
| * Incoming Post Routines | * Incoming Email |
| * Outgoing Email | * Meetings |
| * Broking Procedures | * Appraisal and Training |
| * Management | * Management Review |
| * Complaints | * Telephone Conversations |
| * Changes in Cover, Terms and Conditions | |
| * Diary Systems | * Self-Assessment File Review |
| * Supervision/ Peer Review | * Filing Systems |
| * Email/ Paperless Offices | |

(3 marks for each correctly stated feature. Maximum of eight (8) to be graded. Sub Total: 24 marks)

- (c) **Errors and Omissions:** One of the key objectives of a quality system is to reduce and eliminate errors. Making mistakes is a fact of life. If this were not true, then insurance need not exist. No business can prosper without taking risks and that means occasionally making mistakes. However, for the broker, mistakes may lead to a dissatisfied or lost client, or worse, a claim for negligence. In the language of insurance these are known as errors and omissions (E&O).

(6 marks for a correctly stated explanation. Sub Total: 6 marks)

(Grand Total: 34 marks)