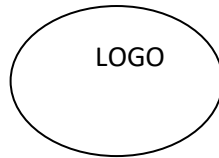


Chartered Insurance
Institute of Nigeria
Chief Examiners' Report
October 2025
Intermediate
(101-110)

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
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I01
INSURANCE LAW

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

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

I01 – INSURANCE LAW

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

Where a question is split into parts (a), (b), e.t.c., 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 basic insurance business. The attempt was 95% and the pass rate was 80%.

Question 2

The attempt was 70% while the pass rate was 60%.

Question 3

Candidates were examined on their knowledge in the law of agency. 90% candidates attempted this question. Pass rate was 75%.

Question 4

90% of candidates attempted this question with a 65% pass rate.

Question 5

95% of candidates attempted this question with a 80% pass rate.

Question 6

Candidates understood the requirement of the question but had difficulty in moving from theory to application. They will get use to application of principles to practical issues with time. The pass rate was 60%.

Question 7

Candidates, majority of them had idea and knowledge of principles of negligence which made them to acquire few marks. Performance would have been better if candidates took time to understand the basic principle of the course. The pass rate was 40%.

Question 8

Performance was poor but it was bonus for those who had knowledge understanding of the maxim. The pass rate was 40%.

Question 9

Candidates did not understand the question and thus did not answer it according to the stated scenario. 90% of candidates attempted this question with a 20% pass rate.

Question 10

100% of candidates attempted this question with a 60% pass rate.

Question 11

This question examined the definition of insurance policy and other items. About 70% of the candidates attempted the question, a fair attempt by the candidate overall. The pass rate was 60%.

Question 12

This question was about who an actual agent is and other items. About 95% of the candidates attempted this question, with 55% pass rate.

Question 13

The question examined the knowledge of candidates on torts using case studies. It was well attempted and 70% of the candidates that attempted it scored above 50%.

Question 14

The question examined the knowledge of candidates on the principle of insurable interest in a tenant – landlord scenario. Attempt was good with candidates showing some level of understanding of how to give advice to both parties.

Question 15

About 80% of those who got the answers listed all the answers without the boundaries. About 75% of the candidates did not pick the question at all as it was an optional question.

Question 16

65% of the candidates attempted this optional question which examined the principle of contribution in insurance. The general performance was fairly satisfactory. A good number of the candidates demonstrated a sound understanding of the definition of contribution, providing accurate and relevant explanations.

Question 17

The question was an optional in part II of the paper. The question examined the knowledge of candidates of the effect of inequality on contract of policies. Attempt was good 75%. Over 60% had a good understanding of the demands of the question and performance was above average. Many candidates were able to apply the legal principles to the hypothetical questions.

Question 18

The overall performance was below average with only 50% of them scoring above 20% out of available 30 marks.

Comments on Overall Performance

The questions covered the whole of the coursebook. The questions were intended to examine the knowledge of candidates and application of basic principles of law especially as they relate to insurance. The overall performance of candidates was below average.

Suggestions on Improvement(s) (if any)

Major issue is the ability to apply principle of law to hypothetical scenarios which will show their understanding of the principles. It was observed that the new trend of setting practical questions is going traction and has come to stay. Therefore, it is believed that performance will improve with time.

Tutorial centres are encouraged to let candidates preparing for the examinations in this course know this development.

Candidates are advised to read question thoroughly for proper understanding and adequate treatment.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. 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.

Solution

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)

2. (a) Define the tort of Battery? **(2 marks)**
- (b) Give the appropriate description/definition of the tortious wrong committed in these scenarios:
- (i) John imposes total bodily restraint on Bisi, preventing him from going where she wants to go. Has John committed any tortious wrong against Bisi? **(4 marks)**
- (ii) Will it make any difference if John argues that there is no physical contact with Bisi. **(4 marks)**

Solution

- (a) Battery is an unjustifiable and hostile application by the defendant of physical force, even though it may be slight, to the claimant. **(2 marks)**

- (b) (i) Tort of False Imprisonment is imposition of total bodily restraint on the claimant by the Defendant preventing him from going where he wants to go. No physical contact is necessary. Locking someone in a room where he has entered voluntarily may amount to false imprisonment. **In view of the above, John has falsely imprisoned Bisi.**
(4 marks if “tort of false imprisonment” is correctly linked to the circumstance)

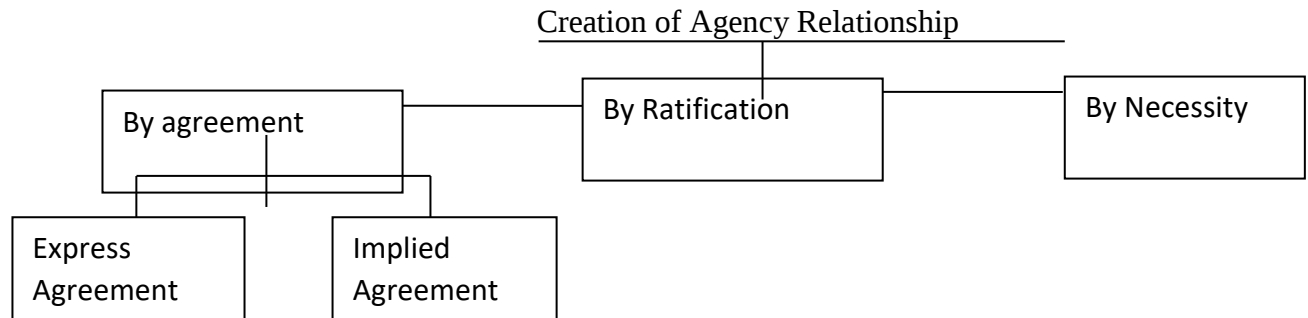
- ii. The position will still be the same as in (a) above because no physical contact is necessary and imprisonment in the description of the tort means 'False'. The liability is the same. **(4 marks)**
(Grand Total: 10 marks)

3. (a) Who is an agent in the law of agency? **(4 marks)**
- (b) Complete this with regard to creation of agency:

Solution

- (a) An Agent is a person who has authority or power to act on behalf of another called the Principal. The task of the Agent is to bring about a valid contact between his Principal and another call the third party after which he may drop out of the relationship. This is based on the principle that he who asks that something be done on his behalf by another is himself deemed to have done it. **(4 marks)**

(b) In the law of agency, the rule is that he that asks that anything be done in his name or on his behalf is taken to have done such act by himself. An agency relationship can be created as depicted below:



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

4. Which branch of Insurance law captures the following issues?
- Control of behaviours which harms or threatens the peace and stability of the community or the State. (2 marks)
 - The legal relationship between private citizens and various agencies of Federal and sub-regional impact of governments of Nigeria and their activities or ordinance citizens. (2 marks)
 - The relationship with the structure of the main institution of the government and their relationship to each other including that between the two houses of the National Assembly, the Federal Government, the State and the Local Governments. (2 marks)
 - Give (2) two main classifications of law and an example of each. (4 marks)

Solution

- Criminal Law (2 marks)
- Administrative Law (2 marks)
- Constitutional Law (2 marks)
- (i) Private Law: - law of contract; - law of tort; - law of trust;
 - law of property; - law of succession; - family law.
 (ii) Public Law: - criminal law; - administrative law; - constitutional law.
 (1 mark for each correctly stated classification. 1 mark for each correct example. Sub-Total per classification: 2 marks. Grand Sub-Total: 4 marks)
 (Grand Total: 10 marks)

5. Obinna owes Uche a debt of ₦1,000,000.00. Uche is proposing to take a life policy on the life of Obinna and Obinna is proposing same for the life of Uche. Are the two legally justified to do so? Briefly explain your response.

Solution

The questions begging answers are: whether a creditor has an insurance interest in the life of his debt or and vice versa. Insurable interest is the principle that stands the insured besides the subject matter of insurance and see whether its loss will bring loss to the insured and it is continued existence will bring gain to the insured. Based on the foregoing, Uche has an Insurable interest in the life of Obinna because he stands to lose if Obinna dies. ***However, Obinna, the debtor has no corresponding insurable interest in the life of Uche. He cannot therefore take a policy on obinna's life.***

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

6. (a) Explain the “posting rule” as it relates to Acceptance in the law of contract. (4 marks)
- (b) Mr. K makes Mr. G an offer to sell his car to Mr. G. Mr. G accepts the offer in writing by posting the letter of acceptance two days after the offer was made. Before receiving the acceptance letter but after it was posted, Mr. K sold off the car to someone else on the excuse that he did not receive any letter of acceptance. Does Mr. G have any case against Mr. K? (6 marks)

Solution

- (a) The “Posting Rule” relates to the concept of acceptance in the law of contract. As a general rule an offeree or his agent must communicate his acceptance to the offeror for it to be effective. As it is often said, acceptance cannot be communicated by any “reliable source”; but the Posting Rules is an exception to the general rule. It states that acceptance is effective the moment it is posted and not only when it is received. A contract can be established even if the letter of acceptance never arrives. (4 marks)
- (b) What is the legal implications of the letter of acceptance sent by Mr. G which Mr. K never received? Acceptance must be communicated to the offeror by the offeree to be effective.(2 marks). However, there is an exception to the general rule- it is called the '**Posting Rule**'.(1 mark). It states that an acceptance is effective once posted and a contract is established even if it does not arrive at the offeror's place. (2 marks). Based on the principle stated above, a valid contract is established between Mr. K and Mr. G. The excuse of Mr. K is ineffective in law.(2 marks)
- (Grand Total: 10 marks)**

7. (a) What is the tort of “Negligent Misstatement”? (4 marks)
- (b) Adlat and Co. are a firm of Chartered Accountants. The Firm contacted BCA Bank limited for the purpose of getting a Reference on one of the Bank’s customers-BBC Limited, with which they intended to do a business. The Bank negligently gave a favourable reference about the customer to the Accountants which they relied on. The business turned out to be a mere bubble resulting in a huge loss to them as the company- BBC limited, soon went into liquidation. Meanwhile, the Bank whilst writing the Reference latter had carefully put a disclaimer in the letter. Adlat and Company proposes to sue the Bank in negligence. Advise the firm. (6 marks)

Solution

- (a) Negligent Misstatement is a tort that arises from a careless verbal or written statement or advice as against negligent actions without regards to their implications on people generally when such statement or advice is relied upon to their detriment. There need not be any contractual relationship between the 'giver' and 'user' of the advice. (4 marks)
- (b) The questions to be settled are: Is BCA’s written “reference” negligent and can liability arise from it, what is the implication of the disclaimer in the reference letter and on that basis, is the bank liable to AdLat&Co?In the law of negligence, liability can arise from statements or written advice given negligently. (1 mark). Such liability is not based on any contractual relationship. There is a special relationship between the maker/ user of the statement or advice where it is reasonable for the user of the advice to rely on it, the give of the advice can reasonably foresee that the advice is likely to be acted upon and that the recipient is likely to suffer if it is inaccurate and the advice is acted upon causing loss to the user of the advice. The only saving grace from liability is if the maker or giver has avoided liability in the letter or statement. (3 marks).

From the question, it is clear that BCA's Reference was Negligent and that AdLaT relied on the same to their detriment. However, BCA had carefully avoided liability by the disclaimer inserted in the letter. Because of the disclaimer, BCA will not be liable to AdLaT & Co. See **Hedley Byrne v Heller's and Partners**.

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

8. (a) What is the 'De Minimis' Principle" in the law of contract? (4 marks)
(b) A offered his phone to B who accepted to buy it at the offer price. B accepted the offer but inquired from A if he, A, would accept payment by cheque, cash or bank transfer. A felt aggrieved and sold the phone to C instead. Can B sue for breach of contract? (6 marks)

Solution

(a) The "***deminis non curat lex***" principle states that the law does not concern itself with 'trifles' or trivialities. It is applied in respect of concept of acceptance in the law of contract. A trivial variation will not affect an acceptance. A mere trivial clarification will not constitute a counter offer as to render an acceptance ineffective. (4 marks)

(b). The legal issue is whether a mere clarification sought by an offeree can invalidate his acceptance of an offer. The law is that the law does not concern itself with trifles. This is the ***deminis non curat lex***' rule. It could be taken that B's inquiry is innocuous because it relates to mode of payment for the goods that was agreed to be bought. What A did could amount to a breach of contract for which B could sue him.

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

9. Tito, aged 15, is a daughter of a poor fisherman in the creek of Bayelsa State. She purchased a policy to cover her necklace and shoes which were stolen in her house. She has contacted his insurers for claims. The insurance company has refused to settle the claim on the basis that Tito is a minor. Advise Tito on the course of action open to her.

Solution

This question raises the issue of capacity of a minor to enter into an insurance contract. The established principles are that an insurer who grants a cover to a minor is fully liable to meet all valid claims under the policy. Minors are liable for and bound by contracts for necessities only. Necessaries are goods and services reasonably necessary for minor's situation in life. Few insurances may well pass for necessities depending on which type e.g. Motor (being a compulsory policy). The issue is her necklaces and shoes necessities for which an insurance cover could be given? Based on the circumstances of Tito in life, necklaces and shoes cannot be regarded as necessities for which an insurance cover could be obtained. ***Therefore, the cover granted by her insurer was ineffective and unenforceable. Tito has no remedies against the insurers.***

(3 marks for any correct and completely stated advise. Maximum of 2 to be graded. 4 marks for the last bolded one in italics, which must be compulsorily stated. Total: 10 marks)

10. Johnson is an agent appointed by his principal an Estate Agency firm. Johnson's authority is to scout for property for sale by his principal. For a particular transaction, Johnson who was once told have authority to delegate to his staff members to carry out minor errands through his appointed boys, sent Ayo to buy newspaper where a sale advert had been placed by the firm. Ayo was knocked down and wounded by an Okada rider. The Managing Director of the firm was in his village where the telecom service was poor making him unreachable for his permission to be obtained before the delegation of the task to Ayo. The

firm is refusing to take care of Ayo. Is the firm justified in refusing to take care of Ayo's body injury?

Solution

The legal issue in the question is can an agent delegate his authority or can an agent further delegate his authority and make his principal to be bound by the acts of the sub-agent? In the law of agency, the agent owes his principal the duty to personally perform the agency task and not delegate same to another. However, the above position admits of some exemptions namely

- where the Principle express my permits delegation
- where authority to delegate can be implied from the circumstances of the agency task
- where necessity dictates delegation
- where the trade custom allows it

With respect to Johnson, he is justified to have delegated the task to Ayo. What he delegated was a minor/clerical errand. Mr. Johnson's Principal cannot turn around to deny him. The Principal is deemed in law to have sent Ayo on the errand and he is therefore liable.

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

11. (a) What is insurable interest? **(2 marks)**
(b) What are the effects of the following Acts on the operation of the concept?
(i) Marine Insurance Act 1906
(ii) The Life Assurance Act 1774 **(4 marks)**
(c) Life Support Insurance Company limited, insured the life of the king of Madol Kingdom. Life Support Company reinsured the policy with InsureRE. The initial policy was canceled although the reinsurance contract was kept in force. King of Madol kingdom later died, InsureRE repudiated the claim made on it by Life Support Insurance Limited and on the ground that the king had no insurable interest at the time of his death. Is InsureRE justified legally to avoid liability? **(4 marks)**

Solution

(a) It is the legal interest to insure arising out of a financial relationship recognised at law between the insured and the subject of insurance. **(2 marks)**

(b) (i) Effects of Marine Insurance Act 1906. The Act in its Section 6 provides that the Insured must be interested in the subject matter of insurance at the time of loss not at the time inception of the contract and it doesn't matter that since the loss, the interest has ceased. The section also allows subject matter of Marine Policy to be insured 'lost or not lost' meaning that it is possible for the insured to recover under a Marine Policy even if they acquired their interest after the loss has occurred, unless the insured was aware of the loss and insurer was not. **(2 marks)**

(ii) Life Assurance Act 1774.

In its Section 1, it condemns the practice of a "mischievous form of gaming" on lives.

- Person benefitting from the insurance must have an insurable interest in the life or event insured. Sec.1
- The name of the person for whose benefit the Policy has been effected must appear in the policy. Sec.2
- The insured can recover no more than the amount of the value of his interest. Sec.3
- The Act does not apply to insurances on ships, goods or merchandises. Sec.4.

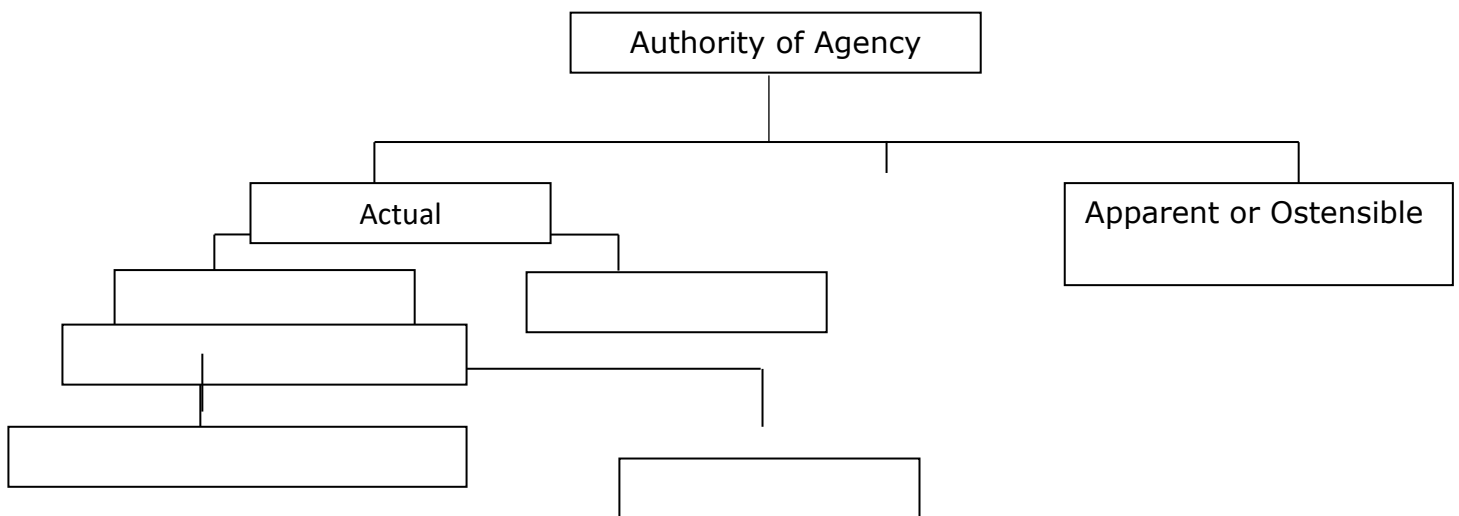
(2 marks)

(c) The legal issue is at what point is insurable interest required for there to be a valid contract of life insurance? The position of the law is that in life assurance, insurable interest is required when the contract is made/ at the inception and not at the time of death or time of claim or maturity of the policy.

InsureRE was wrong to have required insurable interest at the time of death of the king of Madol Kingdom. In **Dalby v The India and London Life Insurance Company**, the court, faced with similar circumstances as in the instance scenario, held that the requirements of the Life Assurance Act were met because it did not require that the interest necessary at the inception should exist at the time of loss.

(4 marks)
(Grand Total: 10 marks)

12. (a) Distinguish Actual Authority of an agent from his Apparent Authority. (4 marks)
(b) With respect to the authority of an Agent, complete this diagram:

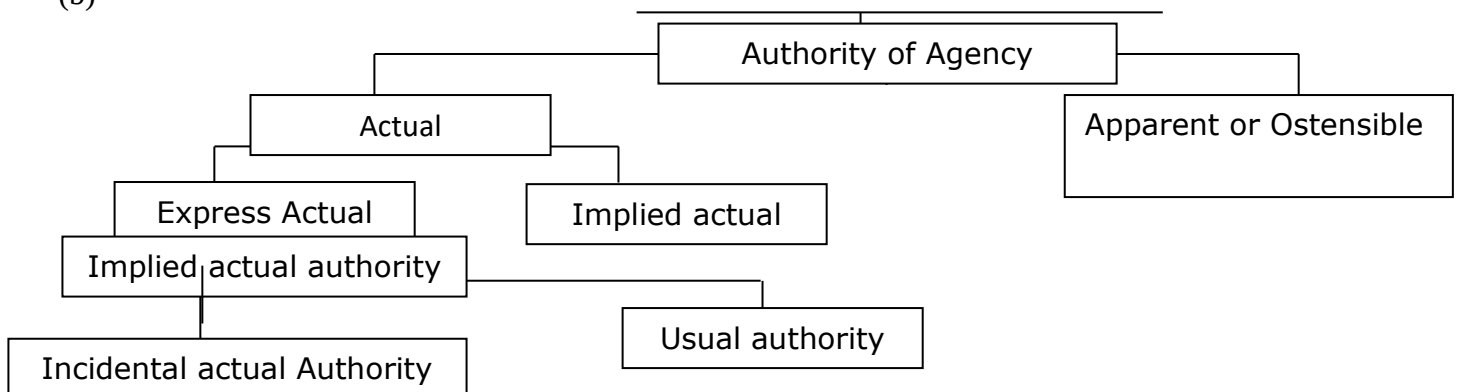


(6 marks)

Solution

(a) The Actual Authority of an agent is real in that he has been expressly and by implication appointed to act for the principal. His Apparent Authority is not real it only appears in the eyes of a third party that he has such authority and is able to bind the principal. (4 marks)

(b)



(6 marks)
(Grand Total: 10 marks)

13. (a) Which interest does the tort of trespass to land protect? (2marks)
- (b) Mr. Almond owns an acre of land which is fenced round but unbuilt. Akeem is a member of the land-owning family that sold the land to Mr. Almond. Akeem has entered into the land through a broken part of the fence and remains there without any justification. Has Akeem committed any tort and would your answer be different if Akeem had only heaped junks and dirt on the land? (8marks)

Solution

- (a) The tort of trespass protects a person's possession of or possessory right in land. (2marks)
- (b) Trespass to land is the direct interference with land which **is** in the possession of another. The tort is actionable per se- no damage to the land needs occur before it can be actionable. It suffices if the interference is intentional in that the wrong doer must have intended to go to the land in question. The entry must be unlawful, remaining in the land must be unlawful, it is trespass placing or throwing any material object upon the land of another like rubbish or litter.

Based on the foregoing, Akeem's entry and remaining on the land being without justification is trespass.

As shown above, heaping of dirt on the land has the same consequence. Therefore, it is still trespass. (8 marks)

(Grand Total: 10 marks)

14. Tunde is the lessee of Mr. Tayo who leased a three bedroom flat to Tunde. Tunde intends to insure the house comprising of four numbers of 3 bedroom flat. Mr. Tayo has refused to give his consent.
- (a) What question is raised by the scenario above? (3marks)
- (b) What insurance principle is involved in the question raised in (a) above? (2marks)
- (c) Advise both Messrs. Tunde and Tayo. (5marks)

Solution

- (a) The questions raised by this scenario are: does a tenant have insurable interest in the part of his landlord's house as to enable him offer the same for insurance and can the landlord prevent him from doing so? (3marks)
- (b) The insurance principle involved is insurable interest. (2marks)
- (c) In property insurance, the concept of Insurable interest applies to the landlord / Tenant relationship. The landlord (lessor) has insurable interest in his property. Similarly, the lessee, the tenant also has insurable interest in the property because he may be legally liable to pay for repairs if the property is damaged or destroyed and may have to pay rent even when the property is inhabitable. (3marks)
- Therefore, both Messrs. **Tunde and Tayo** have insurable interest in the property and both can offer it for insurance placement. (2marks)

(Sub-Total: 5 marks)
(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. At the Professional Polytechnic of Insurance, two (2) groups of students hold different view on the principle of indemnity; A group holds the view that "the principle of Indemnity cannot

be varied or modified” while the other group posits that “the principle can be varied or modified”. As an insurance law scholar, moderate and reconcile these two views.

Solution

The two positions held by the two groups are correct. (2 marks)

On the view that the Principle cannot be varied, this would seem to accord with the traditional position as espoused by **Bret, L.J.** stating that the contract of insurance contained in a Marine or Fire Policy is a contract of indemnity and of indemnity only. Any proposition that prevents the insured from obtaining a full indemnity or which gives him more than a full indemnity is certainly wrong. See **Castellain v Preston**. (5 marks).

However, in practice, parties may, if they wish, agree to make the policy to provide more or less than strict Indemnity. Examples of such agreement may relate to the sum insured or limit of liability, other Policy limits, under-insurance and average, excess or deductibles and franchise. (10 marks).

Apart from the foregoing, there instances when the concept may be extended to make the insured recover more than a strict Indemnity. Some of these instances are: cover on reinstatement basis; new for old; agreed value cover; partial losses under-valued policies. (10 marks)

Therefore, both positions are correct although one may be taken as theoretical and the other practical. (3 marks)

(Grand Total: 30 marks)

16. (a) What is “contribution” in insurance? (4 marks)
- (b) What is “contribution condition” and how does it operate *vis-à-vis* the doctrine of “contribution”? (4 marks)
- (c) SafeTrust Insurance Company has engaged you to provide a guide as how to displace the operation of the principle of contribution as it operates at common law. Provide and explain four (4) guides by which SafeTrust Insurance Company can override the common law rules. (8 marks)
- (d) Explain the operation of principle of contribution in the following circumstances:
- (i) a fire policy that was extended to cover earthquake on a property was issued on September 4, 2023 for a period of one year, in line with standard global best practices on days of cover for such policies and from the record, the policy was not renewed with BEQ Insurance Plc. The insured took out a similar policy on the same property with Allianz Insurance Corporation that started at 4p.m. of September 4, 2024. The BEQ Policy included a clause under which if there was any other insurance in place, the other insurance will respond first and BEQ would only be liable for loss in excess of the cover of the other Policy. There was a similar clause in the Allianz Policy. At 4.34p.m. on September 4, 2024, the property was struck by earthquake and was severely damaged. BEQ settled the claim but sought 50% contribution from Allianz Insurance Corporation on the basis that Allianz insurance had been on risk at the same time. (8 marks)
- (ii) John has a Policy with MEM Insurance covering his goods in his Warehouse at Matori, Lagos State and another Policy with Core Insurance Limited covering all his Warehouses in Lagos State. (6 marks)

Solution

(a) Contribution is to the right of an insurer to call upon others similarly, but not necessarily equally liable to the same insured, to share the cost of an indemnity payment. (4 marks)

(b) **Contribution Condition** is a clause that sets out the loss to be met if the insured has another policy which covers it. Its effect is to override the operation of common law rules relating to **contribution** which empowers an insured who has two or more policies in place to claim against the insurers in any order and for such proportion of the loss they think fit. (4 marks)

(c) SafeTrust Insurance Company can use any of the following types of “contribution condition” to displace the operation of contribution at common law as follows:

- “Escape” Clauses; *
 - ‘More Specific Insurance’ Clauses *
 - “Other Non-Contribution” Clauses
 - ‘Rateable Proportion’ Clauses
- (8 marks)

(d) (i) This relates to the operation of one of the conditions for contribution i.e. having two or more policies being in place. There must be more than one Policies in existence and they must be of indemnity contract and in force at the time the insured incident. From the question, it cannot be said that the two policies were in place at the same time and at the time of the insured incident. It is not enough to argue that Allianz had been at risk at the time.

Allianz policy is to be construed as incepting at 4pm on the 4th of September, 2024 and this is to ensure seamless continuing cover rather than overlapping cover. See ***Body Corporate 74246 v QBE Insurance and Allianz Australia Insurance Ltd.***

Therefore, BEQ cannot recover any contribution from Alliance Insurance Company.

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

(ii) This relates to the operation of another condition for contribution in insurance- subject matter common to all the two policies is a continuation precedent. In the question, the concept will operate and both MEM and Core Insurance companies will share Indemnity payment on agreed basis. (4 marks)

(Total: 30 marks)

17. (a) Chief Anebeli Yusuf lost his election into the Senate of the Country’s National Assembly. He has filed his petition at the Election Petition Tribunal. He has contracted a Chief Clerk of the tribunal to help him arrange to see the Chairman of the tribunal to be settled with a view to compromising the result of the tribunal to favour him for a fee. How valid is the contract? (10 marks)

(b) Discuss the validity or otherwise of the following contracts:

- (i) Ahmad contracted with (5) five young girls aged 20, 22, 24, 25 and 26 in furtherance of prostitution and other pornographic and immoral purposes in Nigeria where prostitution is not that illegal. (5 marks)
- (ii) A group of young boys and girls have agreed/contracted never to marry in absolute restraint of marriage even though they are not practicing celibacy. (5 marks)
- (iii) Armstrong, a Briton, agreed with Dauda, a Nigerian, to export ten kilograms of banned substance to Nigeria for valuable consideration. (5 marks)

- (iv) Yusuf lives in Ukraine. He has agreed by way of contract to supply ammunitions to Olesk who resides in Russia for use in Russia War on Ukraine. (5 marks)

Solution

(a) This is an example of contracts that are contrary to Public Policy but that do not necessarily involve commission of a legal wrong or forbidden by any statute. (5 marks)

This is a contract to corrupt public life. It is illegal, Chief Enebeli cannot enforce it. The contract fails the test of its object being legal. (5 marks)

(Sub-Total: 10 marks)

(b) (i) Contract that tends to sexual immorality is void for illegality. Therefore, any contract in furtherance of prostitution or other immoral purposes are contrary to good morals and it is therefore illegal. Ahmad's contract with the girls is contrary to good morals and therefore illegal. (5 marks)

(ii) This is also another example of contracts that is contrary to Public Policy. It is a contract affecting the freedom of marriage- a person agreeing not to marry at all without being under celibacy. The contract is void for illegality on that basis. (5 marks)

(iii) Another example of contrary to Public Policy. Contract to break the law of a friendly foreign nation or state. It is a contract likely to harm good foreign or international relations. It is viewed with all seriousness and taken to be against Public Policy. It cannot be enforced in law. Armstrong and Dauda cannot agree to break the laws of Nigeria. Their contract is therefore illegal and unenforceable. (5 marks)

(iv) It is a common knowledge that both Russia and Ukraine are at war. A contract which involves trading in arms and ammunitions in war time with an 'enemy' is illegal. Enemy in this context means a person voluntarily resident or carrying on business in enemy occupied territory. Yusuf in Ukraine, Olesk in Russia cannot contract in arms deal in this war time. If they do, such will be termed contrary to Public Policy and therefore illegal. (5 marks)

(Grand Total: 30 marks)

18. (a) Define subrogation as an insurance term. (4 marks)
- (b) As an insurance practitioner and student of insurance law, determine and resolve the issues involved in the following scenarios:
- (i) A house owner with a household policy engaged the services of a plumber who came to work in his house and negligently damaged the plumbing accessories in the house the cost of which was ₦5,000,000.00. The house owner has a Household Policy that covered fire damage. What options are opened to the house owner? (8 marks)
- (ii) In the event that the house owner is compensated by both his insurer and the plumber's insurers, what options are open to the house owner's insurer? (8 marks)
- (iii) A seller of a house received ₦330,000.00 from his insurers when the property was damaged by fire between the signing of contract and completion of sale. The Buyer later completed the purchase and despite the fire incident still paid the full price of ₦3,500,000.00. (10 marks)

Solution

(a) Subrogation is the right of one person, having indemnified another under obligation to do so, to stand in the place of that other and avail himself of all the rights and remedies of that other, whether already enforced or not. (2 marks)

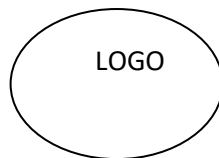
(b) (i) The issue here is the effect of subrogation. The effect is to prevent the insured from recovering twice for the same loss thereby preserving the concept of indemnity. (2 marks)
The house owner. The options are: claim from his insurers or claim against the plumber but the former option is easier. (6 marks)

ii. If the house owner's insurers settled him, his right to proceed against the Plumber is transferred to his insurers who can sue the plumber in the insured's name. (6 marks)

iii. This relates to the principle of subrogation that the insured cannot to recover for the same loss twice and where he has done so, he must yield the excess to his insurer.

The seller has fouled the general rule in this situation. He will have to pay the sum of ~~£~~ 330, 000 being sums received from his insurance from the purchase price which the fire incident did not affect negatively. Otherwise, the seller would be making profit from his loss. See **Castellain v Preston**. (8 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I02
COMMERCIAL PROPERTY AND
BUSINESS INTERRUPTION INSURANCES

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

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

I02 – COMMERCIAL PROPERTY AND BUSINESS INTERRUPTION
INSURANCES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was to examine the understanding of the candidates on code of ethics. Those who attempted it performed average wise. The pass rate was 50%.

Question 2

The question was to examine the understanding of the candidates on the principles of insurance as it relates to conditions. The pass rate was 70%.

Question 3

The question was to examine the understanding of the candidates on business interruption. The pass rate was 68%.

Question 4

The question was to examine the understanding of the candidates on contingences. The pass rate was 75%.

Question 5

This was a coursebook question which a lot of candidates did not understand. The pass rate was 44%.

Question 6

The question was to examine the understanding of the candidates on fidelity guarantee insurance. The pass rate was 66%.

Question 7

The question was to examine the understanding of the candidates on excess. The pass rate was 21%.

Question 8

The question was to examine the understanding of the candidates on survey. The pass rate was 69%.

Question 9

The question was to examine the understanding of the candidates on fire tetrahedron. The pass rate was 68%.

Question 10

The question was to examine the understanding of the candidates on Reinsurance. The pass rate was 72%.

Question 11

The question was to examine the understanding of the candidates on survey of gas premises. The pass rate was 1%.

Question 12

The question was to examine the understanding of the candidates on business interruption. The pass rate was 4%.

Question 13

The question was to examine the understanding of the candidates on contingences that are covered by fire, lightning and limited explosion. The pass rate 27%.

Question 14

The question was to examine the understanding of the candidates on benefits for both insurer/insured in commercial property business interruption. The pass rate was 44%.

Question 15

The optional question was to examine the understanding of the candidates on claim settlement. 48% of candidates attempted the question while the pass rate was 57%.

Question 16

The optional question was to examine on some simple definitions. 40% attempted of candidates attempted the question while the pass rate was 77%.

Question 17

The optional question was to test the understanding of the candidates on cyber insurance. The pass rate was 51%.

Question 18

The optional question was to test the understanding of the candidates on components of gross profit insured. Those who attempted the question passed above average. The pass rate was 60%.

Comments on Overall Performance:

The overall performance was average with a pass rate of 51.5%.

Suggestions on Improvement(s) (if any):

Candidates are encouraged to study more diligently and ensure that as they study, they are able to theories with practice, while understanding how to apply what is being read to case study questions.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. 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.

Solution

The code of ethics required to be complied with as a member of the Institute are 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)

2. Assume that you are the claims manager in an insurance organisation, and during the processing of a claim you realised that more than one insurer was involved.
- (a) What internationally acceptable principle of insurance should be applied?(2 marks)
- (b) List any four (4) other conditions that should be present for (a) to be applicable at common law? **(8 marks)**

Solution

(a) The internationally acceptable principle of insurance that should be applied is the principle of contribution. **(2 marks)**

(b) The other conditions that should be present for (a) to be applicable at common law are that the:

- policies must cover the same property that is properly destroyed or damaged must be common to all policies;
- same insured interest in the loss must be common to all policies;
- policies must be in force at the time of loss;
- policies must be contracts of indemnity
- the peril insured against which caused the loss must be common to all.

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

3. Business Interruption (BI) Insurances does not necessarily cover ALL risks; rather its focus in on indemnifying the insured on two major measures. What are these two (2) measures of compensation which can be claimed under BI insurance cover?

Solution

The measures of compensation which can be claimed under Business Interruption Insurance Cover are the:

- (i) loss of gross profit or other insured income resulting from a reduction in turnover in consequence of that inability (or reduced ability to operate);
- (ii) additional costs incurred to reproduce those lost activities in some ways and to avoid or diminish the reduction in turnover.

(5 marks for each correct and completely stated measure. Grand Total: 10 marks)

4. List any five (5) contingencies that are normally covered under a “First Loss” Policy.

Solution

The contingencies that are normally suitable for a “First Loss” Policy are:

- * storm; * flood; * escape of water;
- * impact; * sprinkler leakage; * theft.

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

5. When fire is covered in insurance, the term fortuitous i.e. unexpected is most applicable. List any five (5) causes of fortuitous fire.

Solution

The causes of fortuitous fire are:

- * people; * trees; * heating system;
- * waste; * lighting; * power systems; * materials.

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

6. Fidelity Guarantee (FG) Insurance exists in different types mainly because of the uniqueness of the Group of members that are required to be covered under the policy. State and briefly explain any two (2) types of FG Insurance.

Solution

The different types of Fidelity Guarantee Insurances are:

- * individual FG Policy; * collective FG Policy;
- * position FG Policy; * blanket FG Policy.

(Candidates are required to state only two (2) types. They are also required to briefly explain the stated type. 2 marks for each correctly stated type, 1½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded under each type. Sub-Total per Type: 5 marks. Grand Total: 10 marks)

7. Explain the terms and give an explicit example on each term:
(a) excess; (b) aggregate deductible.

Solution

(a) **Excess:** is the term used to apply to relief that the insurer gets from liability to pay the specified (first) amount otherwise payable under the policy even though the particular event give rise to a claim that is duly covered by the terms of the policy.

(b) **Aggregate Deductible:** is the term used to apply to when an insured with a substantial deductible included within their policy suffers several losses and then look to protect their balance sheet and chooses an aggregate deductible above which their trading position would be seriously affected. The aggregate deductible imposes an upper limit on the amount they will pay in any period of insurance.

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

8. As a prudent underwriter, list out any eight (8) items that should be found in a pre-loss survey report on a business interruption policy.

Solution

The following are some of the items that should be found in a pre-loss survey report on a business interruption policy:

- * insured; * fire extinguisher; * usage; * address; * tenure;
- * operation; * occupation; * premises; * location; * previous losses;
- * heating

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

9. What are the four (4) essentials elements of fire tetrahedron? Briefly explain the relationship, as it relates to fire insurance.

Solution

The essential elements of Fire Tetrahedron are:

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

**(Candidates are required to explain the relationship of the listed item to fire insurance. 1 mark for -
Total per item: 2½ marks. Grand Sub-Total: 10 marks)**

10. When the sums insured on a property and business interruption insurance are above the retaining capacity of the insurer, the insurer explores the reinsurance option. List the two (2): (a) main methods of reinsurance; (b) the types of reinsurance.

Solution

- (a) The two main methods of reinsurance are:
(i) treaty reinsurance; and (ii) facultative reinsurance.
(2 ½ marks for each correctly stated method. Sub-Total: 5 marks)
- (b) The two types of reinsurance are:
(i) proportional reinsurance; and (ii) non-proportional reinsurance.
(2½ marks for each correctly stated method and type. Sub-Total: 5 marks)
(Grand Total: 10 marks)

11. As the staff officer of the insurer of flammable liquids and gases premises on an insured premise, what four (4) issues should be correctly advised to the insured on safety on the premises?

Solution

The issues that should be correctly advised to the insured on safety on the premises are that:

- hoses, valves and torches are to be kept in good order;
 - cylinders are to be carefully stored by segregating the full and empty ones and ensuring that partly used cylinders are finished off and stored as empty;
 - full cylinders are used in rotation so that none is left full and unused for long periods;
 - empty cylinders are regularly removed from the premises.
- (2½ marks for each correct and completely stated issue. Grand Total: 10 marks)**

12. In business interruption insurance, the insured is usually encouraged to keep a record of the total indebtedness to the insured of all customers with whom the insured deals on credit basis.
- (a) What does this record entail or show to the insurer? **(3 marks)**
- (b) How is this record kept by the insured? **(5 marks)**
- (c) What is the name given to this specific type of insurance where such debts are covered? **(2 marks)**

Solution

- (a) This record shows to the insurer the total indebtedness to the insured of all customers with whom the insured deals on credit basis. **(3 marks)**
- (b) The record is kept by the insurer in such a way that monthly records of total indebtedness is recorded **(2 marks)**, which assist in establishing the value of the debts at the time of destruction of the record **(1 mark)** by adjusting the figure for extra credit agreements entered into between the record date **(1 mark)** and the date of destruction and payment received in the same period **(1 mark)**.
(Sub-Total: 5 marks)
- (d) The name given to this specific type of insurance where such debts are covered is called a book debt insurance. **(2 marks)**
(Grand Total: 10 marks)

13. It is not all contingencies that are automatically covered by the basic fire, lightning and limited explosion cover. To this end, as a prudent underwriter, list any ten (10) main insurable contingencies which can be added to the basic fire, lightning and limited explosion cover?

Solution

The main insurable contingencies which can be added to the basic fire, lightning and limited explosion cover are:

- * explosion; * storm; * escape of water/burst-pipe; * aircraft;
- * earthquake; * flood; * sprinkler leakage; * terrorism;
- * spontaneous combustion; * riot; * civil commotion;
- * material damage.

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

14. In any Property and/or Business Interruption Insurance policy, profit sharing (low claim rebate) is usually a stated policy condition. This has benefits for both the insurer and the insured. State these benefits as are applicable to:

- (a) the insurer; (b) the insured.

Solution

(a) The benefit to the insurer is that it provides an incentive to the insured to renew the policy since the rebate is only available if the policy is renewed. (5 marks)

(b) The insured benefits by lower premium if the loss ratio is below a certain figure and therefore encourages improved risk management. (5 marks)

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

- 15.

S/N	Item Description	Sum Insured (₦)	Basis of Cover
1.	Building	22,500,000.00	Reinstatement day one 15%
2.	Machinery, plants, fittings, and fixtures	11,250,000.00 declared value	Reinstatement day one 15%
3.	Stock and materials	9,000,000	Indemnity

The above table shows the sum insured stated in the schedule and ₦10,000.00 excess applies. The insurer admits liability under the terms of the policy. However, it was found that some of the items in the policy schedule are under-insured.

The underinsured items are:

Machinery, plant, fittings and fixtures ₦12,000,000.00

Stock and material in trade ₦13,500,000.00

The insured submitted a claim for the following values.

Building repairs ₦5,250,000.00

Machinery and Plants, Fittings and Fixtures ₦750,000.00

Stocks and materials in trade ₦3,600,000.00

Outline what the adjusted loss settlement to be under the policy, with stated justifications.

Solution

- (i) Building is not under-insured (2 marks)

(Sub-Total: 6 marks)

$$\frac{\text{Declared value} \times \text{claim}}{\text{Sum Insured}} \quad (2\text{marks})$$

(Sub-Total: 8 marks)

Declared value X claim (2 marks)

(Sub-Total: 8 marks)

Stock and material ~~N~~ 2, 400,000.00 (1 mark)

(Sub-Total: 8 marks)

(Grand Total: 30 marks)

17. (a) Cyber insurance has been available in the market for years, though cover has evolved considerably over that time. Most composite insurers now offer a specific cyber cover solution and there are also a number of specialist providers in the market. Enumerate any five (5) typical cover under cyber insurance and state the type of risk covered under each. **(20 marks)**
- (b) Concisely list four (4) underwriting considerations that are reviewed by specialist underwriters when assessing cyber risk. **(10 marks)**

Solution

(a)

S/N	TYPICAL COVER	RISKS COVERED
1	Data breach liability	For personal and corporate data
2	Data breach cost	Includes notifications costs and IT forensic cost
3.	Network security liability	For hacked or compromised systems including damage of service attack.
4.	Media Liability	For digital publication
5.	Business Interruption	Caused by a cyber incident
6	Restoration costs for data and programmes	Resulting from a cyber business interruption event
7.	Crisis Communication	To mitigate reputational damage
8.	Hacker Theft Cover	Based upon theft of funds
9.	E-payment liability	Including some fines and penalties

(2 marks for each correctly listed cover type. 2 marks for each correctly stated risk covered. Sub-Total per cover type: 4 marks. Maximum of 5 cover types. Grand Sub-Total: 20 marks)

(b) The underwriting considerations that are reviewed by specialist underwriters when assessing cyber risk are:

- security of the internet connection;
- security of the device and software;
- controls over access to the data and services;
- protection in place against viruses and other malware;
- procedures to ensure devices and software are kept up to date; and
- business continuity planning including backup and disaster recovery procedures

(2½ marks each correct and completely stated consideration. Maximum 4 to be graded. Sub Total:10 marks)
(Grand Total: 30marks)

18. The following figures were supplied by the Finance Controller of FosTom Plc:

Turnover	₦1,500,000.00
Opening stock as at January 2023	₦ 220,000.00
Closing stock as at Dec 2023	₦ 145,000.00
Purchases	₦ 750,000.00
Closing work in progress as at Dec 2023	₦ 67,500.00
Opening work in progress as at Jan 2023	₦ 95,000.00
Direct wages	₦ 127,000.00
Packaging materials	₦ 144,000.00
Carriage	₦ 378,500.00
Power	₦ 25,500.00
Rent and Rates	₦ 75,000.00
Advertising	₦ 21,500.00

Assist the company in calculating the Gross Profit.

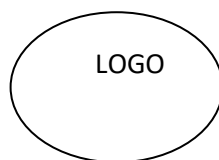
Solution

Turnover	₦1,500,000.00	(2marks)
Closing stocks as at Dec 2023	₦145,000.00	(2marks)
Closing work in progress Dec 2023.....	₦67,500.00	(2marks)
	₦1,712,500.00	(4marks)

Less

Opening Stock as at January 2023	₦220,000.00	(2marks)
Opening work in progress Jan	₦95,000.00	(2marks)
Purchases.....	₦750,000.00	(2marks)
Packaging materials.....	₦144,000.00	(2marks)
Carriage.....	₦378,500.00	(2marks)
Total.....	₦1,587,500.00	(4marks)
Gross Profit ₦1,712,500.00 - ₦1,587.500		(3marks)
	= ₦125,000.00	(3marks)

Grand Total: 30marks



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I03
INSURANCE BUSINESS AND FINANCE

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

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- Handle the answer booklet with care.
- Do not write on the question paper.
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- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
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**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)
WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 2025
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

I03 - INSURANCE BUSINESS AND FINANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

Where a question is split into parts (a), (b), e.t.c., 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 candidates on their proximity to insurance market environment. The pass rate was below average. Some candidates were listing FRC and ICAN.

Question 2

Candidates were examined on the reasons for expansion of a manufacturing organisation. Rather than answering the question, some wrote lengthy and laboriously on various ways to expand the company profitability like return on investment. The pass rate was below average.

Question 3

The question examined candidates on barriers to communication. Although it was a compulsory question, 95% of the candidates attempted it and the pass rate was 90%.

Question 4

The question examined candidates on main responsibility of audit committee in an organisation. 68% pass rate was achieved.

Question 5

The question examined candidates on benefits of agency. Although it was a compulsory question, 90% of the candidates attempted it and the pass rate was 59%.

Question 6

The question examined candidates on risk management and the generic risk management process of an enterprise. The pass rate was 84%.

Question 7

The question examined candidates on customer services in financial services sector. The pass rate was 82%.

Question 8

The question examined candidates on claims run-off. The pass rate was 91%.

Question 9

The question examined candidates on accounting ratios. 92% of the candidates attempted the question. The pass rate was 56%.

Question 10

This question examined candidates on claim ratio. 66% of the candidates attempted the question. The pass rate was 28%.

Question 11

The question examined candidates on risk appetite. 81% of the candidates attempted the question. The pass rate was 3%.

Question 12

The question examined candidates on effects of inadequate regulatory capital for insurance company. The pass rate was 34%.

Question 13

The question examined candidates on actuaries and their functions. 80% of the candidates attempted the question. The pass rate was 80%.

Question 14

The question examined candidates on corporate culture in an organisation. The pass rate was 72%.

Question 15

This was an elective question. 94% of the candidates attempted the question which examined understanding of utmost good faith. The pass rate was 47%.

Question 16

This was an elective question which examined candidates on their understanding of the meaning of management and financial accounting as well as the users, the components and the structure. The pass rate was 30%. Most candidates wrote extensively on management and financial accounting rather than structure format and time period, among others, as examined in the question.

Question 17

This was an elective question. 17% of the candidates attempted the question which examined knowledge of extrapolation in claim administration. The pass rate was 63%.

Question 18

This was an elective question. 35% of the candidates attempted the question which examined frameworks or parameters that the rating company will use to adequately assess the financial strength of the insurance company, a coursebook question. The pass rate was 35%.

Comments on Overall Performance:

The overall performance was below average.

Suggestions on Improvement(s) (if any):

Candidates are encouraged to study more diligently and ensure that as they study, they are able to theories with practice, while understanding how to apply what is being read to case study questions.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. List four (4) organisations/trade associations that are involved in promoting and/or enforcing ethics, standards of knowledge and professionalism in Nigeria Insurance Market.

Solution

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)

2. XYZ Inc., a manufacturer of consumer goods, has experienced significant growth in recent years. The company is now considering expanding its operations to increase market share and revenue. Identify five (5) reasons why XYZ Inc. may want to expand its operations.

Solution

The reasons why XYZ Inc. may want to expand its operations are:

- increasing consumers incomes; * availability of funds or finance.
- low interest rate; * advantages of large scale production;
- buoyant markets; * opportunities of product development;
- pride and self actualisation; * export opportunities;
- economic of scale; * increase revenue, profit and share holder value.

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

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

Solution

The common barriers to effective internal communication are:

- size of organisation; * language problems
- knowledge is power. that is, there should be flow of information;
- problem of time; * training not proper;
- grapevine; * inability to listen;
- failure to recognise the need to dissemination information.

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

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

Solution

The main responsibilities of Audit Committee are:

- monitoring the integrity of the company's finance statement;
- reviewing the company's financial statement;
- monitoring and reviewing effectiveness of the company's internal audit;
- abreast with external auditors' independence and objectivity and ensuring effectiveness of the audit process;
- making recommendation to the board on many issues relating to the operations, management and community of the company;
- reviewing enterprise risk and report to the board for policy procedure and necessary compliance;
- developing and implementing policy on engagement of their external auditor.

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

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

Solution

The benefits of FRCN are:

- generation of employment opportunity;
- improvement of public sector financial and capital markets;
- facilitating integration into financial and global markets;
- promoting private sector growth;
- help the growth of local and foreign direct portfolio.

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

6. A Company's management recognises that effective risk management is essential to achieving its business objectives and minimising the risk of an enterprise. However, the team is seeking guidance on the risk management process and how to implement it in a way that is tailored to company's specific needs and circumstances.

- (a) What is risk management? **(2 marks)**
(b) List any four (4) of the generic risk management process of an enterprise for the Management to consider implementing. **(8 marks)**

Solution

- (a) Risk management is the process of identifying, assess and mitigating potential risks that could impact an organization individual or assets. **(2 marks)**
(b) The organisation's strategic objective is to minimise risks that are threatening the organisation. The chronological presentation of the risk management of an enterprise is as shown below:

- | | | | |
|--------------------|---|--|---------------|
| • risk assessment; | * | risk analysis – identification description and estimation; | |
| • risk evaluation; | * | risk reporting; | * decision; |
| • risk treatment; | * | residual risk reporting; | * monitoring. |

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

(Grand Total: 10 marks)

7. A financial institution (bank) is committed to delivering exceptional customer service to its clients. However, the bank has received feedback from customers that its service levels are not meeting their expectations. The bank's Management team has recognised the importance of customer service in maintaining customer loyalty and driving business

(a) What is customer service as related to financial services? (4 marks)

(b) List and explain the three (3) distinct elements of customer service. (6 marks)

(a) Customer service as related to financial services include all activities to:

- * prospect and contract potential customers;
- * process and pursue;
- * deliver;
- * fulfill; and
- * follow up and feedback for possible strategy.

(b) The following are the three district elements of customer service:

- **pre-transactional:** that is customer service mission statement, staff training, complaints handling, e.t.c.;
- **transactional:** that is managing customer service demand patterns, timing and monitoring levels of customer's service delivery;
- **post-transactional:** Claims handling service, handling complaints and cross-selling.

(Grand Total: 10 marks)

8. An insurance company is facing a challenge in managing its claim portfolio. There are many lapsed policies and there are also outstanding claims to be settled. The Management has charged the claims unit with the responsibility of developing a strategy to manage these claims and minimise the financial impact. The claims department has adopted the concept of claim run-off as a key component of the strategy to be adopted to address the challenge.
- (a) What is “Claim Run-Off”? (4 marks)
- (b) State any three (3) (groups of) officers that can make decisions on the amount to be set aside for claims in an insurance organisation. (6 marks)

(a) The accuracy of the amount set aside for claims is likely to be judged by the claims run-off. The run-off in the year is the incurred during a particular year on the amount set aside for the year. Hence it will be:

(b) The following are the responsible officers in an organisation that can make decisions on the amount to be set aside for claims:

- Statutorily: Supervisory Authority;
 - External Actuaries;
 - CFO;
- * Board of Directors;
 - * Company Senior Executive Team;
 - * Technical Board Committee.

9. ABC Limited, is a cement manufacturing in Nigeria and the Management of the organisation is interested in evaluating its profitability using various ratios.

- (a) How should the following ratios be calculated:
 (i) Gross Profit; (ii) Net Profit;
 (iii) Return on Capital Employed. **(6 marks)**
- (b) Distinguish between productivity and profitability ratio. **(4 marks)**

Solution

(a) Profitability is one of the most important measures of a company's success and its viability. Three of the standard ratio are the following

Gross Profit Percentage Ratio: $\frac{\text{Gross Profit}}{\text{Sales or Revenue}} \times 100$ (2 marks)

Net Profit Percentage Ratio: $\frac{\text{Net Profit}}{\text{Sales or Revenue Turnover}} \times 100$ (2 marks)

Return on Capital Employed (ROCE) Ratio; also called Net Profit Percentage Ratio:

$\frac{\text{Profit before Interest charges and Tax}}{\text{Share capital + Reserves + Borrowing}} \times 100$ (2 marks)

(Grand Sub-Total: 6 marks)

(b) Productivity ratio compares inputs and outputs directly, so does not use money as a measuring rod as profitability (2 marks); while profitability ratio compares the money value of outputs with the money value of the input; the difference between the two is the profit we can be expressed either monetarily or as ratio (2 marks). (Grand Sub-Total: 4 marks)

(Grand Total: 10 marks)

10. XYZ is one of the leading insurance providers in Nigeria. The company's Management is interested in evaluating its claim expense and commission ratio from the below.

Income Statement 31st December, 2024

(A) Income

-Gross Premium 2,287

-Outward Reinsurance (475)

-Net Written Premium

-Change in Gross Premium for unearned Premium (91)

-Less Change in the -Provision for Unlearned 'Premium, Reinsurers' Share 19

-Change in the Provision for Unlearned Premium (72)

-Net Earned Premium 1640

-Net Investment Return 403

Total Income 2043

B) Expenses

-Gross Claims Incurred (2452)

-Reinsurers' Share 1110

-Claims Incurred Net of -Reinsurance (1342)

-Acquisition Costs (170)

-Other Operating Expenses (150)

Total Expenses (1662)

Profit Before Tax 381

Tax Expense (115)

Profit for the Period 266

(a) Calculate the following:

(i) Claim Ratio; (ii) Expense Ratio;

(iii) Commission Ratio; (iv) Combined Ratio. (8 marks)

(b) State a technical comment on the result of the correctly calculated Combined Ratio. (2 marks)

Solution

(a) (i) Claim Ratio = $\frac{1342}{1640} \times 100 = 81.8\%$ (2 marks)

(ii) Expenses Ratio = $\frac{150}{1640} \times 100 = 9.1\%$ (2 marks)

- (iii) Commission Ratio = $\frac{170}{1640} * 100 = 10.3\%$ (2 marks)
- (iv) Combined Ratio = $\frac{1662}{1640} * 100 = 101.3\%$ (2 marks)
- (Grand Sub-Total: 8 marks)**

- (b) The comment is that, the fact that the combined ratio exceeds 100% means that the company is making a loss. (2 marks)
- (Grand Total: 10 marks)**

11. Core insurance company, is in the process of reviewing and updating its risk management framework. The Board of Directors has recognised the importance of defining the company's risk appetite and has instructed that the risk management department should be saddled with the responsibilities of developing a comprehensive risk appetite statement. List any four (4) statements that can be typically included in the risk appetite statement.

Solution

The statement that can be included in the risk appetite of the insurance company are:

- statement of the risk that it is available for the company to bear;
- risk that are not acceptable;
- the probability of failure that is deemed to be acceptable;
- the maximum loss that is available from any one incident;
- the target level of financial security;
- the quality and diversity of investments.

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

12. (a) Intel Insurance Company, is facing a significant challenge in meeting its regulatory capital requirements. The company's regulatory capital has been deemed inadequate and the company is at risk of being forced to cease operations unless it can find a way to address this issue. Give a viable option available for the company to continue to be in operation. (4 marks)
- (b) Asisa Insurance Company, is preparing to implement the Solvency II directive, a regulatory framework that sets out the capital requirements for insurance firms. State any three (3) of the requirements that Solvency II Directive say about the actuarial function and insurance firms. (6 marks)

Solution

- (a) In the case of inadequate regulatory capital, the following buffers or option can be adopted.
- raise more regulatory capital and this could be by issuing new shares in a limited liability company;
 - issuing long-term debt that meets the regulatory requirement for such regulatory capital.
 - 4 marks.
- (b) The requirements that Solvency II Directive say about the actuarial function and insurance firms are that:
- to reduce the regulatory capital requirement;
 - that the volume of business written partially in lines which generate a high capital requirement should be looked at;
 - to consider its reinsurance strategy and issuing new shares in a limited liability company;
 - switching out of higher risk assets such as equities, into lower risk ones such as government bonds.

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

(Grand Total: 10 marks)

13. Lion Life Assurance Company, is seeking to appoint a Chief Actuary to oversee its actuarial function. The company's Management team is keen to understand the role and responsibilities of the Chief Actuary and how the Chief Actuary can contribute to the company's success.

- (a) Who is a chief actuary? (4 marks)
(b) Enumerate any three (3) functions and responsibilities of a chief actuary in an insurance organisation. (6 marks)

Solution

(a) A chief actuary is a senior level professional responsible for leading the actuarial function within an organisation; typically, an insurance organisation or a pensions fund organisation. The chief actuary plays a critical role in ensuring the financial soundness and stability of an organization. The chief actuary may be appointed by a life insurer. However, actuaries are widely employed in both life and non-life business. (4 marks)

- (b) The functions and responsibilities of a chief actuary in an insurance organisation are:
- technical pricing of new and existing products;
 - calculation of claims reserves;
 - estimation of risk-based capital requirement;
 - examination and calculation of investment risks for funds supporting technical reserves
 - risk management (overseeing);
 - developing and maintaining complex actuarial models to estimate liabilities assets and financial performance.

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

14. An International construction company, is seeking to understand its corporate culture and how it impacts its business operations. The company's management has recognised that a strong corporate culture is essential for driving employee engagement, customer satisfaction, and ultimately, business success.

- (a) Define corporate organisation culture. (2 marks)
(b) Enumerate, with very brief explanation, any two (2) related factors that can constitute the organisation culture. (8 marks)

Solution

(a) Corporate organisation culture refers to the shared values, beliefs, attitudes and behavior that clearly define an organisation and its identity; and also shapes its interactions with employees, customers and stockholders. That is, an organization corporate culture can be summarised as the way we do things around here. (2 marks)

- (b) The related factors that can constitute the organisation culture are:
- **norms:** the behavior which is most acceptable to the organisation e.g approaches to: problem-solving; time keeping; the way meetings are run, e.t.c.
 - **belief and values:** that is what is the organization stand for. e.g. integrity, honesty, promptness in service delivery; social responsibility.
 - **management style:** the behavior of the managers e.g open door, autocratic, paternalistic, democratic and constructive.

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

Part II

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

Each question carries 30 marks.

- 15) Utmost Good Faith is one of the principles of insurance that will be deployed by an underwriting firm to be able to assess the risk being proposed by a textile manufacturer. (a) Explain the principle of utmost good faith in relation to insurance practice. (6 marks)
- (b) What are the details that need to be disclosed in the following classes of insurance?
- (i) Building and Contents/Stock; (ii) Business Interruption;
 - (iii) Employers Liability; (iv) Public Liability;
 - (v) Motor Insurance Liability; (vi) General Insurance Business Claims
- (24 marks)

Solution

(a) **Utmost Good Faith** is a positive duty to voluntarily disclose, accurately and fully, all facts material to the risk being proposed, whether requested or not. This means that the parties to a contract must volunteer material information in all negotiations before the contract comes into effect.

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

- (b) (i) **Building and Contents/Stock:** survey of the building revealing housekeeping process occupation of the house; usage; environmental hazard;
- (ii) **Business Interruption:** details of earnings showing three preceding years and projected earnings for the two subsequent years;
- (iii) **Employers' Liability:** members of staff and estimated annual payroll;
- (iv) **Public Liability:** a description of the types of product produced and annual turnover;
- (v) **Motor Insurance Liability:** details of all private and commercial vehicles, security device, value, scope of cover.
- (vi) **General Insurance Business Claims:** loss history for the preceding three to five years; and the loss ratio for the past three (3) years.

(4 marks for each correctly stated detail under each term. Sub-Total: 24 marks)

(Grand Total: 30 marks)

16. Miranda Insurance Plc is desirous to improve its financial reporting accounting and decision-making process. The Management is seeking to fully understand the following. As a good student in this course, explain the following to them:
- (a) Difference between the two concepts of “management accounting” and “financial accounting.” (5 marks)
- (b) Further, differentiate between the following concepts with reference to the two terms in (a) above:
- (i) Structure and Sources; (ii) Format;
 - (iii) Time Period; (iv) Audit Information;
 - (v) Access to Management Accounts Information. (25 marks)

Solution

(a) Financial accounting is basically concerned with providing historical information to external stakeholders and interested parties (2½ marks); while management accounting on the other hand is concerned with the internal planning and control of an organisation to enable its managers to make sound decision (2½ marks)

(Grand Sub-Total: 5 marks)

- (b) (i) **Structure & Sources:** Financial accounting involves day to day record of company transactions. Presenting this information in the financial statement for external consumption. It is

highly structured around the account regulation. Management accounting is formulated in different ways to suit many purposes.

(ii) **Format:** Information on the financial position is primarily provided in the balance sheet. Unlike financial accounting, management accounting system are not just concerned with money but include non-monetary quantitative information such as labour hours, raw of raw materials usage and electricity consumption.

(iii) **Time Period:** Financial accounts are based on historical information that is, transactions in the previous accounting period and not intended as a guide or pointer to the future. Meanwhile, management accounts not only lean on the historical information but also focused on the future.

(iv) **Audit Requirement:** Financial statements are audited by external auditor to confirm the show a true and fair view of the company. Management accounting by contrast is an affair. Organisations management accounting information is not made available to the public.

(v) **Access to Management Accounting Information:** Limited liability companies are compelled to disclose to the world their financial statement. Management accounting is for internal consumption.

(2½ marks for each correct and completely stated comparison. Sub-Total per term: 5 marks. Grand Sub-Total: 25 marks)

(Grand Total: 30 marks)

17. It is common to use a range of methodologies for proactively protecting the cost of claims.

(a) What does the phrase “extrapolating claims statistics” mean. (6 marks)

(b) Enumerate, and briefly explain, any four (4) methodologies for extrapolating claims statistics in order to arrive at an estimate of the total cost of claims. (24 marks)

Solution

(a) “Extrapolating claims statistics” means to learn about claim development for each category of claims (3 marks) and form an opinion on the likely range of possible estimates (3 marks).

(Sub-Total: 6 marks)

(b) The methodologies for extrapolating claims statistics in order to arrive at an estimate of the total cost of claims are:

(i) **Projection of Paid claims:** The simplest method is to just extrapolate the paid claims only. Inflation provision could also be factored. Inflation adjustment is particularly important and relevant because inflation might markedly influence the projected and actual.

(ii) **Projection of Incurred Claims:** One expect that this method will provide a more accurate of total claims then a projection of paid claim, there could however be issues when there is significant change in claims handling procedure and methods.

(iii) **Loss Ratio Method:** This is not too popular now. A small change in the experience could extrapolate to a large change in total estimate. The loss ratio method will normally start with a year that is reasonably developed. Assumptions will be made for the main drivers in the change to loss ratio from the date. Such premium rate changes and claim inflation.

(iv) **Bornbuetter-Ferguson:** This is straight forward combination of the loss ratio method with paid loss or income loss.

(v) Other methods could be cost of claims an **experience-based method** would be used for a very long-tail liabilities with high degrees of uncertainty such as asbestos, pollution and other health hazard exposures.

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

Sub-Total per term: 6 marks. Grand Sub-Total: 24 marks)

(Grand Total: 30 marks)

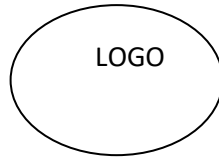
18. ACB Rating Company Agency, a reputable rating agency has been appointed to assess the financial strength of ABC Insurance Company. The agency wants to evaluate the ability of ABC Insurance Company to meet its financial obligations. State and explain any six (6) frameworks or parameters that the rating company will use to adequately assess the financial strength of the insurance company.

Solution

The typical framework that could be used by a rating company to assess the financial strength of an insurance company are:

- **Economic and Industry Risk:** The environment framework in which insurance company operated. The treat of new entrants, volatility of the sectors and other operational and environmental influence.
- **Competitive Position:** The profile of the business mix in terms of competitive strength and weakness.
- **Management and Corporate Strategy:** This takes into consideration quality and credibility of such a company and set of strategies.
- **Enterprise Risk Management:** The management of both risks with upside as well as downside of a company determines the success and the strength, frequency, severity of risk, risk mitigation, monitoring and reporting are encompassing. The organization ERM must be strong to earn the high financial rating.
- **Operating Performance:** This involves looking at the performance ratios; loss, expense, combined ratios and return on equity.
- **Investments:** The investment strategy. Is it with its liability profile. The contribution of investment to total company earning could also be weighed.
- **Capital Adequacy:** This is the quality and level of capital required to run the business based on the risk appetite adopted.
- **Liquidity:** the ability to manage cash efficiently and availability of credit facilitated as it may be required.
- **Financial flexibility:** This considers the Insurer's potential need for additional capital or liquidity in the long and short term. (Six points to be graded 30marks)

(3 marks for each correctly stated framework. 2 marks for each correct and completely stated explanation. Sub-Total per framework: 5 marks. Maximum of 6 to be graded. Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I04
BUSINESS AND ECONOMICS

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

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

I04 – BUSINESS AND ECONOMICS

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

Where a question is split into parts (a), (b), e.t.c., 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 regulatory environment of the insurance industry. About 91% of the 149 candidates attempted the question, while only 47% of those who attempted the question passed it. Candidates need to be more familiar with the insurance regulatory environment.

Question 2

The question examined the knowledge of candidates on the negative contributions of petroleum to the Nigerian economy. Almost all the 149 candidates attempted the question and 87% of them passed. The performance was above average.

Question 3

The question examined the knowledge of candidates on the players or parties in the insurance market. All the candidates attempted the question with a 71% pass rate. The performance was above average.

Question 4

The question examined the knowledge of candidates on the effect of ICT on insurance practice. The question was attempted by almost all the candidates (99%) and 82.43% of the obtained a pass mark. The performance was encouraging and indicated that candidates are familiar with this aspect of the syllabus.

Question 5

The question examined the knowledge of candidates on the objectives for which CBN was established. 98% of the candidates attempted the question and 89.11% of them obtained a pass mark. This was an impressive performance that shows that they prepared very well for this type of question.

Question 6

The question examined the knowledge of candidates on the concept of public goods and their examples. Almost all the candidates (99.3%) attempted it and 86% obtained a pass mark.

Question 7

The question examined the knowledge of candidates on the theories of money. All the 149 candidates attempted the question. Only 10 of them representing, about 7% failed. The pass rate of 93% was an excellent performance.

Question 8

The question examined the knowledge of candidates on the principles of price control in a free market economy. All the 149 candidates attempted the question and the pass rate was 84%. This was also an excellent performance.

Question 9

The question examined the knowledge of candidates on the concept of cost and revenues of firms. 149 candidates attempted the question and 89% of them passed the question, which was also an excellent performance.

Question 10

The question examined the knowledge of candidates on the concept of exchange rates. 93% of the 149 candidates attempted the question and 66% of those who attempted the questions passed it. The performance was quite above average but can still be improved upon.

Question 11

The question examined the knowledge of candidates on risk management. 88% of the candidates attempted the question and the pass rate was 33%, which was a below average performance. Candidates need to be rooted in their knowledge of risk management.

Question 12

The question examined the knowledge of candidates on contemporary concept of CGC and CSR. 81% of the candidates attempted it and the pass rate was 13%. This was also a below average performance. Candidates need to study more comprehensively.

Question 13

The question examined the knowledge of candidates on the capital structure of companies. 84% of the candidates attempted the question and 55% of them has a pass rate, which was an average performance. Candidates need to study more comprehensively.

Question 14

The question examined the knowledge of candidates on the sources of revenue of the government. All the candidates attempted the question with a 57% pass rate achieved, which was an average performance.

Question 15

The question examined the knowledge of candidates on the common barriers for new entrants into some industries. 73% of the candidates attempted the question and 70% of them obtained a passed mark.

Question 16

The question examined the knowledge of candidates on market forces and types of elasticity of demand. 64% of the candidates attempted the question and recorded a 56% pass rate, which was also an average performance.

Question 17

The question examined the knowledge of candidates on Environment Impact Analysis (E.I.A.) of projects. Only 34% of the candidates attempted the question and 48% of them passed, reflecting the seemingly below average performance of candidates on practical questions.

Question 18

The question examined the knowledge of candidates on the ability to adopt the theory of demand and supply to the insurance industry. 39% of the candidates attempted the question with a 12% pass passed. It showed that candidates should learn to adopt general economic theories to practical industry environment.

Comments on Overall Performance:

The overall performance was an above average performance with an achieved 63% pass rate.

Suggestions on Improvement(s) (if any):

Candidates are encouraged to endeavor to balance the understanding of theory with practicality. They are also encouraged to understand what they are studying and be able to put them into correct perspectives when examined on them.

In addition, a deeper studying with ability to relate what is being studied to case study critical thinking basis is highly advised.

Tutorial centres are also encouraged to assist candidates with case studies focus questiona as against simply tutoring on theories.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. 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 sector. State any four (4) of these five transformational focus drives by the Current Management of NAICOM.

Solution

The five transformational drive of the current Management of NIACOM recently released are:

- safeguarding policy holder and restoring public confidence in the sector;
 - improving the safety and soundness of insurance industry;
 - strengthening supervisory and regulatory capacities;
 - fostering innovation and sustainability;
 - penetration of insurance products across the country.
- (2½ marks for each correctly stated manual. Maximum of 4 points to be graded. Total: 10 marks)

2. The economic resources of a nation could sometimes turn out to be counter-productive as well as positively productive. In the light of this, enumerate any five (5) negative contributions of petroleum to the Nigerian economy.

Solution

The negative contributions of petroleum to the Nigerian economy are:

- environmental pollution;
 - increased social vices like corruption and quest for quick money in the society;
 - destruction of other sectors of the economy such as agriculture;
 - rural-urban migration; * high inflation rate;
 - political instability; * economic instability.
- (2 marks for each correct and completely stated contribution. Maximum of 5 to be graded. Grand Total: 10 marks)

3. The insurance industry of any nation is a conglomerate of players in various capacities and some of these players influences the market in varying degrees. List any five (5) group of operators in an insurance market.

Solution

The groups of operators in an insurance market are:

- buyers of insurance; * composite insurance companies;
 - life assurance companies; * general insurance companies;
 - Lloyd's of London; * proprietary companies;
 - mutual companies; * reinsurance companies;
 - captive insurance companies; * insurance brokers;
 - independent financial advisers; * retailers as insurance sellers;
 - direct insurance; and * internet sales of insurance.
- (2 marks for each correctly stated group. Maximum of 5 to be graded. Grand Total: 10 marks)

4. Involvement of ICT (Information and Communication Technology) has become inevitable in almost every sphere of live. Enumerate any four (4) areas where insurance practices have made considerable use of information technology.

Solution

The areas where insurance practices have made considerable use of information technology are:

- electronic placement; * claims payment and services;
- control of distribution channels; * provision of bespoke solutions;
- mass marketing; * business communication;
- management information.

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

5. The Central Bank of a country is established and mandated to carry out certain objectives. Enumerate any four (4) objectives of the Central Bank of your Country.

Solution

The objectives of the Central Bank of a Country are:

- ensure monetary stability; * ensure price stability;
- issue legal tender currency; * maintain external reserves;
- promote a sound financial system;
- act as bankers and financial advisors to central (federal) government.

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

6. Goods and services that constitutes the consumption pattern of a country. These goods are sometimes broadly classified into public goods and merit goods.

- (a) Define what public goods are. (4 marks)
- (b) Give three (3) examples of (a). (6 marks)

Solution

(a) **Public Goods** are types of goods and services that might be inadequately provided by the private sector. The benefits conferred on society. They cannot be attributed directly to individuals, since they benefit the whole population. This means that individual 'users' cannot easily be charged for them through the pricing system. Thus, the State normally intervenes to provide these types of goods and funds them from tax revenues. (4 marks)

(b) Examples are defense, the police forces, prison services, fire services, public schools, public roads, hospitals.

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

7. For any commodity to qualify to be used as money it must possess certain qualities. State any five (5) of the characteristics of a good money.

Solution

The characteristics of a good money are:

- storable or storability; * homogeneous;
- stability in value; * portable or portability;
- divisible into smaller units or divisibility; * relative scarcity;
- recognisable or cognisability; * generally acceptable or acceptability.

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

8. Concisely describe the following:

- (a) Price Legislation (4 marks); (b) Price Flooring (3 marks)
- (c) Price Ceiling (3 marks)

Solution

(a) **Price Legislation** is a process by which the government or the state fixes the market price of certain goods and services by their intervention in the market forces of demand and supply.

(4 marks)

(b) **Price Flooring** is a type of price legislation by fixing the minimum price for a product or service such products or services are not allowed to be sold or bought below such crisis prices, mainly to protect producers. (3 marks)

(c) **Price Ceiling** is the fixing of the maximum price for a product or service. Buying and selling of goods and services above such prices are not allowed, mainly to protect the consumers. (3 marks)

(Grand Total: 10 marks)

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

Solution

Average Revenue (AR) is the revenue of a unit of output and so can be found simply by dividing a firm's total revenue (TR) by the level of output (Q). (2 marks)

Marginal Revenue (MR) is the change in total cost (TR) caused by a one-unit change in the level of output. (2 marks)

Using symbols, we can define average revenue (AR) and marginal revenue (MR) as follows:

$AR = TR/Q$ (2 marks)

$MR = \Delta TR / \Delta Q$ (2 marks)

where ΔQ represents a (unit) change in output. (2 marks)

(Grand Total: 10 marks)

10. (a) Define exchange rate stating an example. (4 marks)

(b) State and simply explain the two (2) types of exchange rates. (6 marks)

Solution

(a) Exchange rates is the rate at which the currency of a country is exchanged with other countries' currencies e.g. Naira to American Dollar, e.t.c. (4 marks)

(b) The two (2) types of exchange rates are:

(i) fixed exchange rate: in a fixed exchange rate system, the government does not allow the exchange rate to fluctuate freely according to market forces. Instead, the government uses policies designed to maintain the exchange rate at a pre-arranged level.

(ii) floating exchange rate: if the Government allows the naira to float, the exchange rate will be determined by the supply and demand for naira in the foreign exchange market.

(2 marks for each correctly stated type. 1 mark for each correct and completely stated explanation. Sub-Total per type: 3 marks. Grand Sub-Total: 6 marks)

(Grand Total: 10 marks)

11. In managing the risks of an enterprise, the cycle is not complete until proper treatments are accorded on every identified risk. Explicitly state the four (4) ways by which identified risks of an enterprise can be treated.

Solution

The four (4) ways by which identified risks of an enterprise can be treated are:

- accept it which would be normal for unavoidable low risk activities or those that are considered unlikely to occur;
- transfer it which would be normal for those risks where some sort of external payment or action is considered a cost-effective approach. for example, a risk could be transferred by way of insurance, by a legal contract, or use of financial derivatives;
- reduce it by means of preventive measures. for example, training to avoid the risk, protective clothing, removal of flammable goods;
- avoid it altogether by leaving a particular market for example.

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

12. (a) What is corporate global citizenship (CGC)? (4 marks)
(b) Establish a link between CGC and CSR (Corporate Social Responsibility). (6 marks)

Solution

- (a) Corporate Global Citizenship (CGC) is about how a company itself acts as a stakeholder, promoting the business as a valued entity acting in its own right. (4 marks)
(b) The link between CGC and other functions in a corporation is hard to specify. Some see CGC as something that has evolved from CSR. It differs from CSR by its strategic nature and a fuller 'understanding of the role of business in society'. While businesses may pursue a policy of CSR, some companies with global reach may see themselves playing an important role as citizens of the world. This means that they will often consider issues further from home when making investment decisions. A good example of CGC could be implementing high standards of health and Safety in factories in countries where these are not mandatory. A negative example, on the other hand, could be tolerating poor standards for the sake of profit.
(3 marks for each correct and completely stated established point under each term. Grand Sub-Total: 6 marks)
(Grand Total: 10 marks)

13. (a) What is a "Rights Issue"? (4 marks)
(b) State the three (3) options that are open to shareholders concerning (a) above. (6 marks)

Solution

- (a) A "Rights Issue" is a way for companies to raise additional capital by offering existing shareholders the chance to purchase more shares directly from the company at a price lower than the market value. (4 marks)
(b) Shareholders can:
 - exercise their right to buy the share;
 - sell their rights to buy the shares. In practice this option is only available to large shareholders, the smaller shareholders' profit would be wiped out by dealing fees;
 - do nothing. Usually when the shareholder does nothing, the company sells the shares on their behalf and sends them the proceeds.(2 marks for each correct and completely stated option. Sub-Total: 6 marks)
(Grand Total: 10 marks)

14. To finance its expenditure, Governments depend heavily on its sources of revenue. Enumerate any five (5) main sources of revenue to the Government.

Solution

The main sources of revenue to the Government are:

- | | | |
|------------------------------|---|--------------------|
| * taxes; | * loans; | * grants and aids; |
| * license; | * savings; | * rents and rates; |
| * fees, fines and royalties; | * earnings from government investments. | |
- (2 marks for each correctly stated source. Maximum of 5 to be graded. Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. State and explain vividly any five (5) of the common barriers that made it difficult for some new entrants into some industries.

Solution

The common barriers that made it difficult for some new entrants into some industries are:

- **Capital Costs:** Some industries are more expensive to enter than others because the cost of buying the necessary physical assets is very high. High capital costs are probably the principal barrier to entry into the insurance industry. High fixed costs make it difficult for start-ups to compete with established firms. Also, in a regulated industry, like insurance, the costs of compliance may deter new firms from entering the market. In more general terms, the larger established insurance companies will be enjoying lower costs as a result of economies of scale, making it even more difficult for potential new insurers to enter the market.
- **Marketing Costs:** To compete effectively in most markets, including the insurance market, a well-known and respected brand name is required. A new insurance firm will at first find it difficult to enter a market dominated by established brands as consumers are likely to view a new and unknown brand with uncertainty. To combat this problem, the new entrant would have to make use of marketing in order to raise the profile of its new brand, which can be a very expensive process.
- **Sunk Costs:** Sunk costs cannot be recovered. To set up an insurance business, for example, employees need to be hired and trained. If at a later date the owner of the company decides to withdraw from the insurance industry, the money spent on the buildings and fixtures will be partially recoverable as they can be sold to another buyer. However, the money spent on staff cannot be recouped as staff can hardly be sold on to another company. High sunk costs of this sort may dissuade new firms from entering the industry.
- **Legal Barriers:** Legal restrictions may limit the number of potential new entrants into a particular market. Such restrictions may be due to government policies on trade and inward investment, as can be illustrated by the problems facing insurance companies doing business in the emerging Chinese and Indian markets.
- **Authorisation By Regulatory Authorities is Needed to Write Premiums:** In some industries, including insurance, certain minimum criteria must be complied with to gain a 'license'. Also, the international nature of insurance means that there is a need for universal acceptance of the relevant qualifications and standards.
- **Differences in Languages and Customs:** This may mean that customers feel more comfortable with a local as opposed to an overseas provider.
- **Varying Taxation Rates:** Some of which may be deliberately aimed at protecting domestic companies and the wish to avoid risks attached to exchange rate fluctuations.

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

16. (a) State and explain any three (3) factors that influence the demand for a product or service.
- (b) Write short notes on the following elasticity of demand (EoD):
- (i) price EoD; (ii) income EoD; (iii) cross EoD.

Solution

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

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

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

- (b) (i) **Price elasticity of demand.** This is the response or change in quantity demanded of a product or service to changes in the price of the product. (5 marks)
- (ii) **Income elasticity of demand.** This is the response or changes in the quantity demanded of a product or service to changes in the Income of the consumers. (5 marks)
- (iii) **Cross elasticity of demand.** This is the response or change in quantity demanded of a product or service (X) to changes in the price of another product (Y). This happens where the products are substitutes or complimentary. (5 marks)

(Sub-Total: 15 marks)
(Grand Total: 30 marks)

17. (a) Private sector enterprises in their operations do impact the environments either negatively or positively. In what ways can you describe “externalities” in this instance. **(2 marks)**
- (b) Explain any seven (7) probable effects of increase in unemployment on the insurance industry. **(28 marks)**

Solution

(a) Firms in the private sector may be overly concerned with their internal costs. As a result, they may make decisions which are positive for them but negative for society as a whole. Economic activity creates economic and social costs, some of which are external to the producing organisations. These external costs are called externalities. In order to keep costs down and profits up. This would create a negative externality. **(2 marks)**

- (b) The probable effects of increase in unemployment on the insurance industry are:
- potential for increases in social disruption leading to increased claims;
 - possible increased government intervention in the economy including regulation to combat unemployment;
 - potential for protectionist measures in a country which then results in corresponding measures in overseas countries, resulting in damage to the insurance industry;
 - disproportionate effects of unemployment on industry sectors and individuals leading to imbalance in insurers portfolio of risks;
 - claims incidence rates in general will increase as people will ensure they take the benefit of their insurance cover, with some making claims that are valid but may not have been paid in more positive economic circumstances;
 - claims on payments protection policies, i.e. unemployment cover, will increase significantly;
 - theft and crime rates are likely to increase as some individuals judge that they lack an income to purchase the goods and services they require;
 - the incidence of fraudulent claims and claims with exaggerated financial values is likely to increase as businesses and individuals attempt to make up for declining profits/incomes;
 - the demand for certain types of insurance will change as people seek basic protection of income, mortgage/credit repayments or health. Public provision of certain services will decline at the same time. Non-essential insurances will be less attractive as will the very goods and services they are protecting, e.g. travel;
 - premium income will be reduced as wage-rolls and turnover fall. Policy adjustments will result in return premiums. This reduces investment income and ultimately profits;
 - there might be a knock-on effect in the insurance industry, forcing redundancies;
 - there may be skills shortages in the insurance industry despite unemployment. The right mix of skills will include policy wording technicians, loss adjusters and claims managers: and if the country is in recession, spending on risk management is likely to reduce leading to insurance claims due to lack of maintenance and reduced health and safety standards. Risk managers of commercial companies could be made redundant in a cost-cutting exercise.

(4 marks for each correct and completely stated effect. Maximum of 7 to be graded. Sub-Total: 28 marks)

(Grand Total: 30 marks)

18. (a) Enumerate and explain vividly four (4) major factors that affect the supply of insurance products. **(24 marks)**
- (b) Differentiate briefly between the ‘long-run’ and ‘short-run’ condition of a firm. **(6 marks)**

Solution

The major factors that affect the supply of insurance products are:

a. **Level of Premium in the Market:** Insurance companies are in business with the aim of making profit for their shareholders. Consequently, the normal rules of supply apply to the insurance industry. As premiums rise, insurance companies attempt to supply more insurance, writing more policies and taking on more business. Firms behave in this way out of self-interest. The higher the premium charged, the greater the chance of making profit. One would expect managers to write more policies when premiums are high than when premiums are low.

b. **Costs:** The amount of insurance that companies are willing to supply at any given premium also partially depends upon the cost of supplying the insurance. A change in the cost of supplying insurance leads to a shift in the position of the supply curve. If the cost of supplying insurance rose, firms would respond by supplying less insurance since high costs reduce the amount of profit that can be made at any given level of premium. In practice, the situation is more complex. Apart from salaries, office space and information technology costs, the main cost of supplying insurance is claims payments and the level of interest rates. Insurance companies may make a profit not from the underwriting result, but from returns from investing premiums. If interest rates and/or stock market returns fall, companies experience reductions in such returns which lead to a fall in profits. This then results in shareholder pressure for higher profits through more careful underwriting decisions — in other words, better premium rates and fewer claims, which in turn cause a rise in the premiums charged across the market. Conversely when high returns are available from the investment of premiums insurers may pay less attention to underwriting results and rely on such returns to achieve profitability.

c. **Level of Capacity Available:** A firm's ability to write insurance policies is affected by the amount of capital (finance) the company has available. Insurance companies require finance to pay for claims made on their policies after the premiums have been exhausted. Underwriters must write a premium amount (capacity) in relation to the finance available. The larger the solvency margin, the lower the risk of insolvency and the more finance is available. The greater the capacity, the lower the premiums will become as underwriters compete for business to meet the 'capacity budgets' set by senior management. Levels of claims made in the past heavily influence the level of capacity available. If insurers have a series of good years with relatively little in the way of claims to pay, capacity within the industry is bound to rise. Companies will receive a steady stream of premium income but because claims are relatively low, cash outflows will be small. This net inflow of cash increases capacity. To maximise the return, insurers respond by writing more policies at any given level of premium. Natural disasters (catastrophes) and other large losses can have dramatic effects on capacity and industry supply. Sever, storms, hurricanes, earthquakes and acts of terrorism cause huge claims, leading to less capacity.

d. **Reinsurance:** Reinsurance is the transfer of whole or part of the risk by an insurer to a reinsurer, for premium. Through reinsurance, an insurer can smooth the effect of the underwriting result by removing large claims. Reinsurance can be very difficult to purchase if there has been a severe catastrophe or poor claims run — this causes reinsurance premiums to rise rapidly. The amount bought affects the amount of insurance the firm is able to supply. If less reinsurance is purchased, the insurance company is less willing to supply insurance. However, by adopting this policy the firm opens itself up to more risk, and if the poor claims run continues the consequence of its decision may be its liquidation,

e. **Uncertainty:** Although underwriters try to quantify risk and the likely size of claims that might be made when attempting to price insurance correctly, mistakes can occur. For example, in some areas of commercial insurance, claims can occur a long time after the premiums have been set and may be far higher than initially predicted. This makes it almost impossible to assess the exact cost

of supplying insurance and how much profit will be generated from the premium charged. This uncertainty makes supply decisions problematic. To take one example from the UK market, when insurance companies offered cover for liability from products in the 1950s and 1960s, they were not expecting high levels of asbestosis claims in the 1980s. The problem arose from policy wordings that paid claims occurring in the policy period, regardless of when they were discovered in the future. The effects of the exposure only started to show in terms of policy claims years after the initial contact. Insurers who previously believed that they had made healthy profits were left with massive claims to pay.

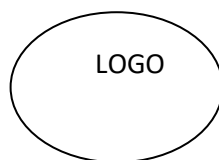
Usually, the pooling of risks reduces the exposure by sharing the distribution of losses. The job of an underwriter is still difficult, since the future is notoriously difficult to predict. Therefore, in reality factors such as experience combined with intuition are often significant in dealings between brokers and customers. In order to be successful underwriters must be aware that a balance exists between the desire to avoid risk and the desire to make profits. If a company only took on policies with stable claim rates, they would find themselves competing against many other underwriters seeking the same stable business. The intense competition created would help to keep premiums down. However, by rejecting anything with any uncertainty attached to it, the underwriter would also be rejecting the chance to make above average profits. (2 marks each for mentioning, 4 marks for explanation)

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

(b) “Long-run” refers to a period of time in the cost structure of a firm that all the cost elements (fixed and variable costs) can be varied with the output. All cost elements become variable **(3 marks)**. **While** ‘short-run’ refers to the time in the cost structure of a firm that the fixed cost elements cannot be varied with the output. **(3 marks)**

(Grand Sub-Total: 6 marks)

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I05
BUSINESS STATISTICS AND
OPERATIONS RESEARCH

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

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

I05 – BUSINESS STATISTICS AND OPERATIONS RESEARCH

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

Where a question is split into parts (a), (b), e.t.c., 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 on the knowledge of specific insurance types. 56 candidates attempted it; 49 (87.5%) of them performed above average.

Question 2

The question examined candidates on the knowledge of the stages of operations research. 51 candidates attempted it; 30 (58.8%) of them performed above average.

Question 3

The question examined candidates on the knowledge of the Algorithm to solve linear programming problem. Only 36 candidates attempted it; just 2 (5.6%) of them performed above average.

Question 4

The question examined candidates on the knowledge of Arithmetic mean. 47 candidates attempted it; 20 (42.6%) of them performed above average.

Question 5

Out of 56 candidates, 54 of them attempted the question and 39 (72.2%) of them performed above average.

Question 6

The examiner observed that only 27 candidates attempted this question and 15 (55.6%) of them performed above average.

Question 7

The question examined candidates on the knowledge of the assumptions of linear programming problem. 73.2% of the candidates attempted the question and 73.1% of them performed above average.

Question 8

The question examined candidates on the knowledge of formulation of linear programming problem. 67.9% of the candidates attempted the question and 48.4% performed above average.

Question 9

44.6% of the candidates attempted this question and 32.5% of those that attempted it performed above average. This question was not well understood by the candidates.

Question 10

85.7% of the candidates attempted this question and 62.5% of those candidates performed excellently. This shows that candidates understood the question very well.

Question 11

The question examined candidates on the knowledge of the queuing theory. 75% of the candidates attempted the question and 38.1% of them performed above average.

Question 12

The examiner observed that out of 56 candidates, 55 of them attempted the question and 50 (90.9%) of these candidates performed above average.

Question 13

Out of 56 candidates, 55 of them attempted the question and all the candidates passed this question excellently.

Question 14

Out of 56 candidates, 55 of them attempted the question and 37 (67.3%) of them performed above average, which showed that candidates have better understanding of this question.

Question 15

The examiner observed that only 17 candidates attempted this question and 47.1% of them passed with above average marks. Majority that failed did not know how to tabulate properly.

Question 16

This question examined the knowledge of candidates on moving average and seasonal variation. Only 12.5% of the candidates attempted this question and none of them passed. The candidates did not understand the question.

Question 17

The examiner observed that only 27 candidates attempted this question and 15 (55.6%) of them obtained an above average mark. Other candidates could not interpret the data provided.

Question 18

Out of 56 candidates, 54 of them attempted this question and 46 (85.2%) of them obtained excellent grades in the question. This showed that they understood the question very well.

Comments on Overall Performance:

The overall performance was above average, with a pass rate of x%.

Suggestions on Improvement(s) (if any):

Candidates are encouraged to prepare more adequately for future examinations and also attend tutorial classes for more clearer understanding.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. There are various types of compulsory insurances in Nigeria. Enumerate any four (4) of these and state the effective coverage provided by each.

Solution

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

- **Third Party Motor Insurance:** protects third parties;
- **Builders Liability Insurance:** protects against construction-related risks;
- **Occupiers Liability Insurance:** covers liabilities from property occupancy;
- **Employers Liability Insurance:** covers employer liabilities for employee injuries;
- **Health Care Professional Indemnity Insurance:** protects healthcare providers against malpractice claims;

(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)

2. Explain any five (5) stages in an Operational Research model.

Solution

The stages in an operational research model are:

- a. **Definition of Problems and Objectives:** there has to be a clear objective which should be that, the result of the Study will form the basis or managerial decisions had in to an improvement in the way in which the business is run.
- b. **Identification of Variables:** the decision variables are the key to a convenient formulation of the problem. The variables must be carefully chosen so as not to get a clumsy problem.
- c. **Construction of a Model:** having identified the variable, a model must be developed which hopefully can be solved through the appropriate techniques. The model developed must be of the real world situation under study.
- d. **Manipulation of the Model to Produce Solution:** after the construction of the model, the next thing is to provide Solution by a standard mathematical means using a recognised operations research method.
- e. **Testing the Model and the Solution:** the solution given to the model must satisfy the constraints and must get the support for the current organizational objective after the operations research experts must have interpreted the results.
- f. **Implementation of Final Solution:** after careful interpretation of the results of the operations research study, the resulting solution would be implemented.
- g. **Review and Maintenance:** after implementation the performance of the model should be carefully monitored to ensure that it actually does work and fulfills its objective.

(1 mark for each correctly stated stage. 1 mark for each correct and completely stated explanation. Sub-Total per stage: 2 marks. Maximum of 5 to be graded. Grand Total: 10 marks)

3. Outline any five steps of the Algorithms to solve the Linear Programming Problem.

Solution

Step I: If the problem is of minimization, convert it to a maximization problem by multiplying the objective function Z by -1

Step II: See that all b_i s are positive, if a constraint has negative b_i multiply it by -1 to make b_i positive Convert all the inequalities to equations by addition of slack variables, artificial variables or by subtraction of surplus variable as the case may be.

Step III: Find the starting Basic Feasible Solution

Step IV: Construct the starting simplex table as follow

Step V: Testing for the optimality of BFS by computing $j = z_j - C_j$. If $z_j - c_j \geq 0$, the solution is optimal, otherwise, we proceed to the next step.

Step VI: To improve on the BFS, we find the *incoming vector*, entering the basic matrix. The variable that corresponds to the most negative $Z_j - C_j$ is the incoming vector. while the variable that corresponds to the minimum ratio b_i/a_{ij} for a particular i and $a_{iu} > 0$, $i = 1, 2, \dots, m$ is the *outgoing vector*.

Step VII: The *key element* or the pivot element is determined by considering the intersection between the arrows that correspond to both incoming and outgoing vectors. The key element is used to generate the next table.

Step VIII: Test this new BFS for optimality as in step VI. If it is not optimal repeat the process until the optimal solution is obtained.

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

4. (a) State any five (5) advantages of the “Arithmetic Mean”.
(b) State any five (5) disadvantages of the “arithmetic mean”.

Solution

(a) The advantages of the “Arithmetic Mean” are that:

- it is rigidly defined;
- it is easy to understand and easy to calculate;
- if the number of items is sufficiently large, it is more accurate and more reliable;
- it is a calculated value and is not based on its position in the series;
- it is possible to calculate even if some of the details of the data are lacking;
- of all averages, it is affected least by fluctuations of sampling;
- it provides a good basis for comparison.

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

(b) The disadvantages of the “arithmetic mean” are that:

- it cannot be obtained by inspection nor located through a frequency graph;
- it cannot be in the study of qualitative phenomena not capable of numerical measurement i.e. intelligence, beauty, honesty, e.t.c.;
- it can ignore any single item only at the risk of losing its accuracy;
- it is affected very much by extreme values;
- it cannot be calculated for open-end classes;
- it may lead to fallacious conclusions if the details of the data from which it is computed are not given.

(1 mark for each correct and completely stated disadvantage. Maximum of 5 to be graded. Sub-Total: 5 marks)

(Grand Total: 10 marks)

5. Compute median for the following data.

Class	0-10	10-20	20-30	30-40	40-50	50-60	60-70	70-80	Total
Frequency	10	15	15	20	8	8	6	8	90

Solution:

Here values in multiples of 10, so width of the class interval is 10.

Class	Frequency (f)	Cummulative Frequency (F)	Mid-Value (X)
0 – 10	10	10	5
10 - 20	15	25	15
20 – 30	15	40	25
30 – 40	20	60	35
40 – 50	8	68	45
50 – 60	8	76	55
60 – 70	6	82	65
70 – 80	8	90	75
Total:	90		

$$\frac{N}{2} = \frac{90}{2} = 45, \text{ class is } 30 - 40 \quad (2 \text{ marks})$$

$$\text{Here } L = 30, N = 90, f_m = 20, c = 10, cf = 40 \quad (2 \text{ marks})$$

$$\text{Median} = L + \left(\frac{\frac{N}{2} - cf}{f_m} \right) \times c \quad (3 \text{ marks})$$

$$= \text{Median} = 30 + \left(\frac{45 - 40}{20} \right) \times 10 \quad (1 \text{ mark})$$

$$= 30 + 2.5 \quad (1 \text{ mark})$$

$$= 32.5 \quad (1 \text{ mark})$$

(Grand Total: 10 marks)

6. Enumerate any five (5) of the characteristics of Linear Programming Problem.

Solution

The characteristics of Linear Programming Problem are:

- well defined objective functions; *
- additive of resources and activities; *
- linearity of the objective function and constraints;
- divisibility of activity and resources; *
- finiteness of the activities and resources.

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

7. State and explain any four (4) of the five assumptions in Linear Programming Models.

Solution

The five assumptions in Linear Programming Models are:

- **linearity:** it is assumed that decision variables are of the first power. there is no provision for higher powers like squares and cubes in any of the equations and inequalities;
- **divisibility:** values of the decision variables are allowed to be fractions and need not be integers alone;
- **deterministic parameters:** it is assumed that the values of the parameters are known and are constant. this means that the model assumes a static state. it is pertinent to point out that in real life situation, there are probabilistic model parameters;
- **non-negativity:** all decision variables must take on non negative values;
- **additively:** the linearity concept also implies that the total measures of the objective function and the total usage are additive in nature.

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

8. A factory uses three different resources for the manufacture of two different products, 35 units of the resource A, 27 units of B and 31 units of C being available. 1 unit of the first product requires 3, 3 and 5 units of the respective resources and 1 unit of the second product requires 5, 3 and 4 units of the respective resources. It is known that the first product gives a profit of 12 monetary units per unit and the second 13. Formulate the Linear Programming Problem.

Solution

Let: X_1 represent total number of the 1st product.

X_2 represents total no of the 2nd product.

The total information is summarised below in tabular form.

Resources	X_1	X_2	Total Units Available
A	3	5	35
B	3	3	27
C	5	4	31
	12	13	

(2 marks)

∴ The total profit $Z = 12X_1 + 13X_2$

Constraints:

$$3X_1 + 5X_2 \leq 35 \quad (1 \text{ mark})$$

$$3X_1 + 3X_2 \leq 27 \quad (1 \text{ mark})$$

$$5X_1 + 4X_2 \leq 31 \quad (1 \text{ mark})$$

$$X_1, X_2 \geq 0$$

The LPP is:

$$\text{Max } Z = 12X_1 + 13X_2 \quad (1 \text{ mark})$$

$$\text{s.t } 3X_1 + 5X_2 \leq 35 \quad (1 \text{ mark})$$

$$3X_1 + 3X_2 \leq 27 \quad (1 \text{ mark})$$

$$5X_1 + 4X_2 \leq 31 \quad (1 \text{ mark})$$

$$X_1, X_2 \geq 0 \quad (1 \text{ mark})$$

(Grand Total: 10 marks)

9. Outline the step by step method of finding Initial Feasible Solution using the Least Cost Rule.

Solution

This approach is also known as intuitive approach; it uses the lowest cell cost as the basis for selecting routes. The rules/steps involved here are:

Step I: identifying the cell that has the lowest unit cost. If there is a tie, select one arbitrarily. Allocate a quantity to this cell that is equal to the lower of the available supply for the row and demand for the column.

Step II: cross out the cells in the row or column that has been exhausted (if both have been exhausted), adjust the remaining row or column total accordingly.

Step III: the cell with the lowest costs from the remaining cells. Allocate a quantity to this cell that is equal to the lower of the available supply of the row and demand for the column.

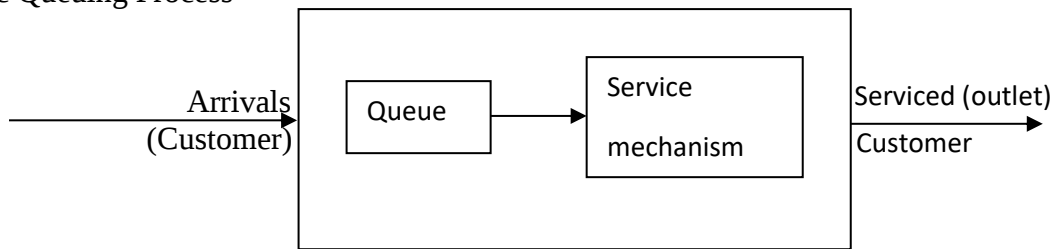
Step IV: Repeat steps 2 and 3 until all supplies and demand have been allocated.

(2½ marks for each correct and completely stated step. Global Total: 10 marks)

10. (a) Draw the Basic Queuing Process. (4 marks)
 (b) State three (3) of the four, queue-classes, and what points each attend to. (6 marks)

Solution

(a) Basic Queuing Process



(b) The four, queue-classes, and what points each attend to are as shown below:

- Single Queue: Single Service Point
- Multiple Queue: Multiple Service Points
- Single Queues: Multiple Service Points
- Multiple Queues: Single Service Points

(1 mark for each correctly stated class. 1 mark for each correctly stated point to the class. Sub-Total per class: 2 marks. Maximum of 3 to be graded. Sub-Total: 6 marks)
(Grand Total: 10 marks)

11. State any five (5) characteristics of a queuing system.

Solution

The characteristics of a queuing system are:

- maximum number of customers allowed (calling population); * an arrival pattern;
- a service pattern; * service channels; * a queuing discipline'
- a steady state or a transient state; * a traffic intensity.

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

12. (a) State any three (3) limitations of “Statistics”. (6 marks)

(b) Differentiate between descriptive and inferential statistics. (4 marks)

Solution

(a) The limitations of “Statistics” are:

- Statistics is not suitable to the study of qualitative phenomena;
- Statistics does not study individuals;
- Statistical laws are not exact;
- Statistics table may be misused;
- Statistics is only one of the methods of studying a problem.

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

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

(Grand Sub-Total: 4 marks)

(Grand Total: 10 marks)

13. (a) Differentiate between “finite population” and “infinite population”. (4 marks)

(b) State any two (2) advantages of Census Method. (3 marks)

(c) State any two (2) limitations of Census Method. (3 marks)

Solution

- (a) A population is said to be finite if it consists of units that are countable in nature (2 marks); while, a population is said to be infinite if it has units that are uncountable and can take values at certain range. (2 marks)

(Sub-Total: 4 marks)

- (b) The advantages of Census Method are that:

- the data are collected from each and every item of the population;
- the results are more accurate and reliable, because every item of the universe is required;
- intensive study is possible;
- the data collected may be used for various surveys, analyses, e.t.c.

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

- (c) The disadvantages of Census Method are that:

- it requires a large number of enumerators;
- it is a costly method;
- it requires more money, labour, time energy, e.t.c.
- it is not possible in some circumstances where the universe is infinite.

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

14. Explain any four (4) reasons why using a sample from the population is sometimes preferred to using the total population.

Solution

Using a sample from the population is sometimes preferred to using the total population because:

- complete enumerations are practically impossible when the population is infinite;
- when the results are required in a short time (sample saves time);
- when the area of survey is wide (large scope);
- when resources for survey are limited, particularly in respect of money and trained persons (saves cost);
- when the item or unit is destroyed under investigation (destructive nature of items under study).

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

Part II

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

Each question carries 30 marks.

15. Premium received on yearly basis by AIK Insurance Co. between Years 2000 and 2004 is given below:

Year	2000	2001	2002	2003	2004
Premium (NGN-millions)	12.75	14.99	16.48	22.10	25.00

- (a) Obtain the trend equation $Y = a + bt$ using coding method. (24 marks)

- (b) Predict the premium in the following years

- (i) 2006; and (ii) 2010. (6 marks)

Solution

Year	Code (t)	Profit (Y)	Yt	t ²
2000	-2	12.75	-25.50	4
2001	-1	14.99	-14.99	1
2002	0	16.48	0.00	0
2003	1	22.10	22.10	1
2004	2	25.00	50.00	4
Total:	0	91.32	31.6	10

((1 mark each for coding (5 marks); (1 mark each for Yt (5 marks) (1 mark each for t² (5 marks))

The trend line equation is $Y = a + bt$

where

$$\bar{Y} = \frac{\sum Y}{N} = \frac{91.32}{5} = 18.264 \text{ (1 mark)}$$

$$\bar{t} = \frac{\sum t}{n} = \frac{0}{5} = 0 \text{ (1 mark)}$$

$$b = \frac{n \sum Yt - \sum Y (\sum t)}{n \sum t^2 - (\sum t)^2} \text{ (1 mark)}$$

$$= \frac{5(31.61)}{5(10)} = \frac{31.61}{10} = 3.161 \text{ (1 mark)}$$

$$\begin{aligned} \text{also, } a &= \bar{Y} - b\bar{t} \text{ (1 mark)} \\ &= 18.264 - 3.161(0) \text{ (1 mark)} \\ &= 18.264 \text{ (1 mark)} \end{aligned}$$

∴ The trend equation becomes $Y = 18.264 + 3.161t$ (2 marks)

The Venture's profit in the years ahead is computed as thus

(i) In year 2006, $t = 4$ (1 mark)

$$\begin{aligned} Y &= 18.264 + 3.161(4) \text{ (1 mark)} \\ &= \text{N}30,908,000:00 \text{ (1 mark)} \end{aligned}$$

(ii) In year 2010, $t = 8$ (1 mark)

$$\begin{aligned} Y &= 18.264 + 3.161(8) \text{ (1 mark)} \\ &= \text{N}43,552,000:00 \text{ (1 mark)} \end{aligned}$$

(Grand Total: 30 marks)

16. Study the data below on the quarterly consumption of cement (Thousand Tons) of Adeola Construction Company.

Years	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2001	83	81	98	114
2002	124	113	115	152
2003	163	162	168	175
2004	191	180	184	197

- (a) Construct a 4-year moving average for the quarterly consumption of cement of Adeola Construction Company. (18 marks)
- (b) Find the seasonal variation (using additive model produce) (12 marks)

Solution

Y e a r	Q r t	Y	4-poin t moving total	2-4 point moving total	4 point Moving Average (Trend)
2 0 0 1	1	8 3			
	2	8 1	376		
	3	9 8	417	793	9 9
	4	114	449	866	1 0 8
2 0 0 2	1	124	466	915	1 1 4
	2	113	504	970	1 2 1
	3	115	543	1047	1 3 1
	4	152	592	1135	1 4 2
2 0 0 3	1	163	645	1237	1 5 5
	2	162	668	1313	1 6 4
	3	168	696	1364	1 7 1
	4	175	714	1410	1 7 6
2 0 0 4	1	191	730	1444	1 8 1
	2	180	752	1482	1 8 5
	3	184	-	-	-
	4	197	-	-	-

(6marks) (6marks) (6marks)

[½ Mark each for 12 correct answer in each column (18marks)]

(b) Find the seasonal variation (using addition model produce) of the given data on example

Solution

Y e a r	Q	Y	T	Y-T	QM	S . v
2 0 0 1	1	8 3			9.3	8.65
	2	8 1			-8.0	-5.65
	3	9 8	9 9	-1	-6.7	-7.35
	4	114	108	46	5.0	4.35
2 0 0 2	1	124	114	10	9.3	8.65
	2	113	121	-8	-5.0	-5.65
	3	115	131	-16	-6.7	-7.35
	4	152	142	10	5.0	4.35
2 0 0 3	1	163	155	8	9.3	8.65
	2	162	164	-2	-5.0	5.65
	3	168	171	-3	-6.7	-7.35
	4	175	176	-1	5.0	4.35
2 0 0 4	1	191	181	10	9.3	8.65
	2	180	185	-5	-5.0	4.35
	3	184	-	-	-6.7	-7.35
	4	197	-	-	5.3	4.35

(6marks) (6marks)

(½ mark each for 12 correct answers in each column QM and seasonal variation (12marks))

(Total: 30 marks)

17. Table below shows Ojuolape Construction Company Limited, willing to provide top soil for the residential housing developments. Top soil can be supplied from different farms as shown below.

	Project 1	Projects 2	Projects 3	Supply
Farm A	X_{11} 4	X_{12} 2	X_{13} 8	160
Farm B	X_{21} 5	X_{22} 1	X_{23} 9	200
Farm C	X_{31} 7	X_{32} 6	X_{33} 3	200
Demands	100	200	260	

- Formulate this information as a linear programming problem. (12 marks)
- Obtain the initial feasible solution using North West Corner Rule, stating whether it is feasible or not and showing the eventual total cost. (8 marks)
- Obtain the initial feasible solution using Least Cost Rule, stating whether it is feasible or not and showing the eventual total cost. (8 marks)
- Which of the methods in (c) and (d) above is preferable and why? (2 marks)

Solution

- (a) Transportation table for Ojuolape Construction Company Limited:

	Project 1	Projects 2	Projects 3	Supply
Farm A	X_{11} 4	X_{12} 2	X_{13} 8	160
Farm B	X_{21} 5	X_{22} 1	X_{23} 9	200
Farm C	X_{31} 7	X_{32} 6	X_{33} 3	200
Demands	100	200	260	

(3 marks)

$$\text{Min } Z = 4X_{11} + 2X_{12} + 8X_{13} + 5X_{21} + X_{22} + 9X_{23} + 7X_{31} + 6X_{32} + 3X_{33} \quad (2 \text{ marks})$$

s.t.

$$X_{11} + X_{12} + X_{13} = 160 \quad (1.5 \text{ mark})$$

$$X_{21} + X_{22} + X_{23} = 200 \quad (1.5 \text{ mark})$$

$$X_{31} + X_{32} + X_{33} = 200 \quad (1.5 \text{ mark})$$

$$X_{11} + X_{21} + X_{31} = 100 \quad (1.5 \text{ mark})$$

$$X_{12} + X_{22} + X_{32} = 200 \quad (1.5 \text{ mark})$$

$$X_{13} + X_{23} + X_{33} = 260 \quad (1.5 \text{ mark})$$

$$X_{ij} \geq 0 \text{ for all pairs of } (i,j)$$

(1½ marks each for correct equation. Sub-Total: 9 marks)

(b) **INITIAL FEASIBLE SOLUTION USING NORTH WESTCORNER RULE**

To From	M ₁	M ₂	M ₃	Supply
W ₁	100 4	60 2	8	160
W ₂	5	140 1	60 9	200
W ₃	7	6	200 3	200
Demands	100	200	260	560

(4 marks)

The Solution is feasible because the number of feasible Solutions is 5:
 $(m + n - 1) = (3 + 3 - 1) = 5$ (1 mark)

$X_{11}, = 100, X_{12} = 60, X_{22} = 140, X_{23} = 60, X_{33} = 200$ (1 mark)

Total Cost $Z = 4(100) + 2(60) + 1(140) + 9(60) + 3(200)$
Total Cost = $400 + 120 + 140 + 540 + 600 = \text{# } 1800$ (2 marks)

(c) **INITIAL FEASIBLE USING LEAST RULE**

To From	M ₁	M ₂	M ₃	Supply
W ₁	100 4	2	60 8	160
W ₂	5	200 1	9	200
W ₃	7	6	200 3	200
Demands	100	200	260	480

(4 marks)

The initial solution is feasible because the number of variables is, $m + n - 1 = 5$ (1 mark)

Solution is;
 $X_{11} = 100, X_{13} = 60, X_{22} = 200, X_{23} = 0, X_{33} = 200$ (1 mark)

Total Cost $Z = 4(100) + 9(60) + 200(1) + 9(0) + 3(200)$
Total Cost $Z = 400 + 540 + 200 + 0 + 600 = \text{N}1740$ (1 mark)

(d) Compare the solution with the North West Corner Rule, this has a total cost that is ~~N~~60 less.
Therefore, least cost rule gives better approximation than the North West Corner Rule. [2 marks]

18. (a) (i) What do you understand by the term “Statistics”? (3 marks)
(ii) What do “primary data” and “secondary data” mean. (4 marks)
(b) Explain the following methods of data collection with their merit and demerit:
(i) interview method; (8 marks)
(ii) mailing questionnaire method; (9 marks)
(iii) registration method. (6 marks)

Solution

- (a) (i) **Statistics:** is a body of theories and methods which have been developed for handling the collection and description of sample data for the purpose of drawing useful conclusions (3 marks)
- (ii) **Primary Data:** This is data collected at first hand for specific raw purpose e.g. social, industrial survey (2 marks). **Secondary Data:** is the data that is already existing or data obtained from someone else's record. (2 marks) (Grand Sub-Total: 4 marks)
- (Grand Total: 7 marks)

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

Advantages

- People usually respond when confronted in person
 - Interviewer note specific reaction and eliminate misunderstanding about the question
 - Interviewer is able to give his personal assessment of the responded
- (2 marks for any correctly stated advantage. Only 1 to be graded. Sub-Total: 2 marks)

Disadvantages

- Expensive – Time consuming
 - Bias of interviewer if not well trained
 - Decline response in face-to-face interview
- (2 marks for any correctly stated disadvantage. Only 1 to be graded. Sub-Total: 2 marks)
- (Grand Sub-Total: 8 marks)

- (ii) **Mailing Questionnaire Method:** in this case, a set of question called questionnaire is mailed to the respondent who answers and returns the completed form to the office of origin. (5 marks)

Advantages

- It is cheap and quick
 - More reliable information could be obtained
 - Confidential questions are answered
 - No interviewer bias.
- (2 marks for any correctly stated advantage. Only 1 to be graded. Sub-Total: 2 marks)

Disadvantages

- Problem of non-response
 - No interviewer present to explain ambiguous questions
 - Wrong person may complete the form
- (2 marks for any correctly stated disadvantage. Only 1 to be graded. Sub-Total: 2 marks)
- (Grand Sub-Total: 9 marks)

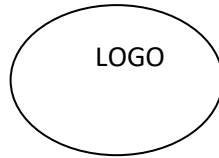
- (iii) **Registration Method:** by registration method, data are collected by keeping records of events immediately they occur or as soon after their occurrences; birth, death, divorces, e.t.c. (2 marks)

Advantages

- More efficient
 - Reliable information collected
- (2 marks for any correctly stated advantage. Only 1 to be graded. Sub-Total: 2 marks)

Disadvantages

- Very costly
 - Burden of reporting on the respondent.
- (2 marks for any correctly stated disadvantage. Only 1 to be graded. Sub-Total: 2 marks)
- (Grand Sub-Total: 6 marks)
- Grand Sub-Total: 23 marks)
- (Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I06
OPERATIONAL MANAGEMENT

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

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

I06 – OPERATIONAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

Where a question is split into parts (a), (b), e.t.c., 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

Pass rate of 60% was achieved. Candidates appeared to be fairly familiar with NAICOM regulations.

Question 2

Pass rate of 60% was achieved. Candidates were required to distinguish between zones of certainty and uncertainty in decision making.

Question 3

Pass rate of 54% was achieved. The question examined stress management. Understanding of what is being studied could improve future performances.

Question 4

Pass rate of 54% was achieved. The question focused on staff appraisal interview. Deeper studies could improve future performance.

Question 5

Pass rate of 42% was achieved. The question examined action plan of business operations. It was a technical question and deeper studies would have produced improved outputs.

Question 6

Pass rate of 35% was achieved. Though the question was simple and direct, performance was below average. The question examined service level agreement (SLA) in business.

Question 7

Pass rate of 58% was achieved. The question examined attribution of a successful project. Better studies could improve future performance.

Question 8

Pass rate of 87% was achieved. The question examined benefits that Automatic Call Distributor (ACD) brings to businesses. The performance was very good.

Question 9

Pass rate of 65% was achieved. The question examined customers' expectations on telephone service. The performance was good.

Question 10

Pass rate of 80% was achieved. The question focused on advantage of coaching methods. The performance was also very good.

Question 11

Pass rate of 92% was achieved. The question examined skills that agents are required to have in handling telephone calls. The performance was extremely good.

Question 12

Pass rate of 86% was achieved. The (a) part question examined understanding on outsourcing, while the (b) part examined understanding on reasons for using internal promotion as a means of recruiting into vacancies.

Question 13

Pass rate of 5% was achieved. The question examined qualities of a Manager in getting the job done effectively. Candidates provided general question. Though a seemingly direct question, performance was dismally very poor.

Question 14

Pass rate of 55% was achieved. The question examined knowledge on flexible working hours and the 8-5 working hours tradition. Better studies could improve future performance.

Question 15

Pass rate of 42% was achieved. The question examined Action Centred Leadership of Dr. John Adair on task-team-individual requirement, which was a technical question. Better studies could improve future performance.

Question 16

Pass rate of 64% was achieved. The question examined hierarchy and motivational factors. Performance was good.

Question 17

Pass rate of 28% was achieved. The question “who help leaders to perform?” was a reverse examination of examining the roles of leaders to subordinates. Performance was below average.

Question 18

Pass rate of 20% was achieved. The question (a) examined employees information about their job, while the (b) part examined understanding on barriers to communication. Performance was below average.

Comments on Overall Performance:

Overall performance was 50%, which was simply average.

Suggestions on Improvement(s) (if any):

Candidates are encouraged to endeavor to understand what they are studying and be able to put them into correct perspectives when examined on them. In addition, a deeper studying with ability to relate what is being studied to case study critical thinking basis is highly advised.

Tutorial centres are also encouraged to assist candidates with case studies'-based focus as against simply tutoring on theories.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. 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.
- (a) Enumerate two (2) ways by which insurance brokers can ensure compliance with the Revised Market Conduct requirements set by NAICOM? **(4 marks)**
- (b) What three (3) steps should a broker take to promote ethical sales practices in light of the Revised Market Conduct? **(6 marks)**

Solution:

- (a) 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)**
- (b) The steps that a broker should take to promote ethical sales practices in light of the Revised Market Conduct includes:
- 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)

2. (a) When planning what is to be done in team management, we have been advised to be clear about our “Zones of Certainty” and “Zones of Uncertainty”. Briefly explain the two (2) terms. **(6 marks)**
- (b) Dr. Meredith Belbin grouped the eight team roles into 2, namely, ‘Outward Looking’ and ‘Inward Looking’. What are the four (4) team roles grouped under ‘Outward Looking’? **(4 marks)**

Solution

- (a) **Zones of Certainty:** Where you have all the information and expertise you need and can plan forward realistically **(3 marks)**. **Zones of Uncertainty:** Where you are ignorant and where there is great uncertainty, start doing things. Go and find out from people who might know the area; start some limited experiments or trials. Then feed that information into the team quickly, so that it can be used to plan forward and make decisions about what to do next.
(3 marks) (Sub-Total: 6 marks)

- (b) The four (4) team roles grouped under ‘Outward Looking’ are:
 * co-ordinator; * plant; * resource Investigator; * shaper.
(2½ marks for each correctly stated team role. Total: 10 marks)

3. If stress is prolonged, it leads to lower physical and behavioural effectiveness. In the correct order, state and explain Dr. Selye's three (3) stages of stress.

Solution

Dr. Selye's 3 stages of stress are:

- **Alarm:** the first stage leads to the following changes in the body – increased heart rate, sweating, shallow breathing, tightening of muscles, stomach spasms. However, these changes release energy and this helps to focus concentration;
- **Resistance:** this is the second stage, where the body prepares to resist potential threats. When the threat recedes, the body returns to its normal state.
- **Exhaustion:** the third stage occurs when there is a prolonged or excessive threat. This is the danger stage as lengthy endurance will mean the body chemicals become a kind of poison and a stress management approach will be needed to return the body to a normal state.

(2 marks for each correctly stated stage. 1 mark for each correct and complete explanation. Sub-Total per stage: 3 marks. 1 mark for correct ordering. Grand Total: 10 marks)

4. Staff appraisal interview must be seen as a normal managerial process for improved performance. State any four (4) issues that should be discussed with colleagues at the appraisal interview.

Solution

The issues that should be discussed with colleagues at the appraisal interview are:

- agreement of the results which were achieved or exceeded;
- clarification on how the results were achieved;
- discussion on how any strength displayed in the performance can be built upon;
- agreement on the areas where the required results were not achieved;
- identification of causes of failure;
- drawing up a plan for the forthcoming period with agreed targets and performance improvement objectives.

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

5. As a member of the committee asked to draw business/action plan at the division/operation level, suggest any five (5) critical areas that should be included in the plan.

Solution

The critical areas that should be included in the plan are:

- the objectives of the plan (which must be specific, measurable, achievable, relevant and time defined);
- the strategy for achieving those objectives;
- the specific activities which will be undertaken;
- allocation of specific responsibility for carrying out each activity;
- the dates for starting and finishing each activity;
- the specific estimated resource requirement (based on time estimates) for the period of implementation;
- the expected cost of the activities;
- the expected results (sometimes called milestones) on completion of the activity.

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

6. (a) In order to make it clearer to your colleagues at work, in one sentence, separate the meaning of actual costs from committed costs. **(6 marks)**
- (b) Service Level Agreements (SLA) will continue to grow in use between two contractual parties. State the two (2) key reasons for the use of SLA. **(4 marks)**

Solution

(a) **Actual Costs** are those costs that have passed through the books of the organisation (3 marks), whereas **Committed Costs** represent those orders whose costs have not yet been invoiced in the books of the organisation. (3 marks) (Sub-Total: 6 marks)

(b) The two (2) key reasons for the use of SLA are:

- people now want to know what level of service they can expect from organisations; and
- for businesses that outsource part of their operations, the level of service to be delivered will be built into the supplier contract.

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

(Grand Total: 10 marks)

7. A “project” and a “successful project” differ in meaning. State any five (5) attributes of a successful project.

Solution

The attributes of a successful project are:

- stated objectives and deliverables are achieved; * delivered on time;
- within budget; * perform to an agreed specification;
- meet pre-defined success criteria; * satisfy the sponsor and beneficiaries.

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

8. The Automatic Call Distributor (ACD) is a computerised telephone system capable of handling telephone call efficiently. State any four (4) benefits of ACD to the customer.

Solution

The benefits of ACD to the customer are:

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

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

9. Henley Centre identified customer expectations with regard to telephone services under three (3) classes namely: Convenience, Cordiality and Consistency. Identify any four (4) specific expectations under “Convenience”.

Solution

Customer expectations with regard to telephone services under “convenience” are:

- to be answered quickly; * to get through to someone who could help;
- to be transferred only once, if at all; * to have no need to repeat themselves; and
- an informatic queuing system.

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

10. Enumerate any four (4) advantages of the 1:1 Coaching Method as coaching in this manner requires that the coach should be with the trainee at his desk to observe things.

Solution

The advantages of the 1:1 Coaching are:

- everything is seen and heard; * problems can be dealt with quickly;
- it is easy to demonstrate; * system interaction can be seen;
- trainee is getting quality time.

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

11. Before an agent will be allowed to anchor a phone in a call centre, the agent requires some skills. Enumerate any four (4) of these skills.

Solution

The skills required by a new agent in call centre are:

- * customer service/sales handling; * call handling; * product knowledge;
- * system knowledge; * communication skill.

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

12. (a) Many companies within the financial services sector are outsourcing a number of their key functions. Enumerate any two (2) reasons why there is increasing motivation towards outsourcing. **(4 marks)**
- (b) One of the ways to recruit into a vacant position is through internal promotion. State any three (3) reasons for using this method. **(6 marks)**

Solution

- (a) The reasons why there is increasing motivation towards outsourcing are:

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

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

- (b) The reasons for using internal promotion to fill vacancies are:

- there is less need for orientation and training when an existing staff member is appointed;
- there is a pre-existing familiarity between the promoted staff member and their colleagues;
- there is an internally verifiable track record of achievements;
- the high costs of external recruitment agencies are avoided.

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

13. One of the competencies of a Manager is *Achieving Quality Results*. Enumerate any four (4) of the specific characteristics of this competence.

Solution

The specific characteristics of the “achieving quality results” competence are that the competence:

- plans work on day-to-day basis to achieve short-term objectives;
- does not take information at face value;
- double checks work where necessary;
- checks work meets business standards and requirements;
- manages own time effectively.

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

14. (a) Many organisations are moving away from the permanent 8-5 type of contracts to flexible contracts as the former do not provide them with the flexibility they need. Adduce the two (2) reasons for the shift. **(4 marks)**
- (b) Leadership is a complex area of Management. However, researchers have identified eight main views of leadership. State any three (3) of those views. **(6 marks)**

Solution:

- (a) The two reasons for the shift from 8-5 type of contracts to flexible contracts are:
- companies need specialised skills for particular periods;
 - consumers are now demanding service outside traditional working windows, which means organisations are having to provide service in the evenings and over weekends.
- (2 marks for each correct and completely stated reason. Sub-Total: 4 marks)**
- (b) The eight main views of leadership as identified by researchers are:
- | | |
|---|------------------------------|
| * the existence of special leadership traits; | * behavioural theories; |
| * situational leadership; | * action centred leadership; |
| * transactional leadership; | * intrapreneurship; |
| * transformational leadership; | * facilitative leadership. |
- (2 marks for each correctly stated view. Maximum of 3 to be graded. Sub-Total: 6 marks)**
- (Grand Total: 10 marks)**

Part II

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

Each question carries 30 marks.

15. The Action Centred Leadership of Dr. John Adair identified three key areas of effectiveness, which are: the task, the team and the individual. Enumerate four (4) needs of each of these stated areas.

Solution

The needs of each of the stated areas are:

- **Task Needs:** the leader should:
 - define the team's goals and objectives;
 - ensure the appropriate resources are available;
 - develop work plans and define team tasks;
 - allocate the work and resources;
 - control the work rate and quality;
 - check performance against plans;
 - adjust the plans as necessary.

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

- **Team Needs:** the leader should:
 - set and agree standards and maintain discipline;
 - build and maintain team spirit and morale;
 - encourage, motivate and give a sense of purpose;
 - ensure communication within the team;
 - appoint sub-leaders;
 - train and develop the team.

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

- **Individual Needs:** the leader should:
 - agree individual objectives;
 - attend to any personal problems;
 - give praise and reward to individuals;
 - train and develop individuals;
 - recognise and use individual abilities.

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

(Grand Total: 30 marks)

16. (a) Maslow emphasised “hierarchy” in his “hierarchy of needs to motivation”. Briefly state and explain the motivating factors according to the hierarchy of Maslow. (15 marks)
- (b) Herzberg approach was to separate motivation factors from hygiene factors:
- (i) Define each to show their difference. (5 marks)
- (ii) State two (2) examples under each factor. (10 marks)

Solution:

- (a) The motivating factors according to the hierarchy of Maslow are:
- **physiological needs:** the most basic physical needs such as hunger, thirst, sex, sleep and so on;
 - **safety needs:** the need for a safe, ordered, stable and secure world in which to live and work;
 - **social needs:** for love, friendship, a feeling of belonging to someone or something;
 - **esteem needs:** for self-respect and the respect of others;
 - **growth needs:** for the sense of achievement or ‘self-actualisation’.
- Note: "hierarchy" means "order" and this must be followed as stated in the solution
- (2 marks for each correctly stated need. 1 mark for each correct explanation. Sub-Total per need: 3 marks. Grand Sub-Total: 15 marks)

- (b) (i) **Motivation Factors** are those factors which make people work better or harder (2½ marks); while **Hygiene Factors** are those factors which are a negative influence if they are not right, but do not really have any positive effect if they are more than adequate (2½ marks). (Sub-Total: 5 marks)

- (ii) **Motivation Factors:** Achievement, Recognition, Work itself, Responsibility, Advancement
Hygiene Factors: Company Policy & Administration, Supervision, Salary, Relationships, Working Conditions
 (2½ marks for each correctly stated example. Maximum of 2 under each factor. Sub-Total per factor: 5 marks. Grand Sub-Total: 10 marks) (Grand Total: 30 marks)

17. (a) Leaders help team members perform but who help the leaders to perform? The answer is that they have to look after themselves. Enumerate, and briefly explain, any three (3) of the four simple steps that the leader can take. (12 marks)
- (b) (i) State in the correct order, the four (4) Stages of Team Development according to ‘Tuckman Model’. (8 marks)
- (ii) Enumerate any four (4) characteristics of a good level of synergy in the ‘Performing Stage’ of the model in (i) above. (10 marks)

Solution:

- (a) The simple steps that the leader can take are:
- **Use Your Boss:** Ensure that you sit down together to review your success criteria and how you are doing;
 - **Encourage Frank Feedback from Others:** Ask others at all levels from time to time how they see you and your performance, and how they think you could improve;
 - **Develop A Support Network:** Get together with other leaders, formally or informally, to discuss common problems;
 - **Monitor Your Stress Levels:** Realise when stress is having an adverse effect and do something about it. Leaders help themselves perform:
- (2 marks for each correctly stated step. 2 marks for each correct and completely stated explanation. Sub-Total per step: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)
- (b) (i) Tuckman Model: Forming – Storming – Norming – Performing (1 mark for each correctly stated stage. 4 marks if order is followed. Sub-Total: 8 marks)

(ii) The characteristics of a good level of synergy in the 'Performing Stage' of the model in (i) above are:

- working collaboratively and independently;
- feeling of team strength;
- showing confidence in accomplishing tasks;
- sharing leadership;
- performing at high levels.

(2½ marks for each correct and completely stated characteristic. Maximum of 4 to be graded. Grand Sub-

Total: 10 marks)

(Grand Total: 30 marks)

18. (a) If the aim of communication is for employees to give their best, state and explain any two (2) main areas where employees need information about their jobs. (12 marks)

(b) State and explain any six (6) common barriers to communication. (18 marks)

Solution

(a) The main areas where employees need information about their jobs are:

- **Job Content:** examples include: details of the individual's own function, responsibilities and authorities; the results expected and how performance is assessed; how the job affects and is affected by others, and how it affects costs/expenses; changes to the job systems, targets.
- **Job Context:** examples include: details of the organisation structure, conditions of employment; how pay and prospects are assessed: changes in office management, organisation etc.; local union developments/ proceedings.
- **General Background Information:** examples include: the company's policy, objectives, performance and results; the overall management philosophy; major company developments/innovations; external developments – such as legislation – affecting the company.

(3 marks for each correctly stated area. 3 marks for correct explanation/example. Sub-Total per area: 6 marks.

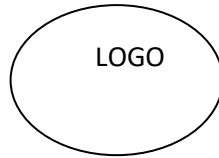
Maximum of 2 to be graded. Grand Sub-Total: 12 marks)

(b) The common barriers to communication are:

- **The Problem of Size:** where there are three or more levels in an organization, a casual approach may not work. A deliberately designed communication system can be helpful.
- **Natural Reserve/Fear/Lack of Confidence:** many of us tend to feel that 'if in doubt, keep your mouth shut'. Many managers experience the fear that it is better to say too little than too much.
- **Knowledge is Power:** for many people, the possession of confidential information confers a sense of power. Withholding information may be viewed as a means of preserving status.
- **The Language Problem:** it is well known that many people interpret words in different ways, and therefore, this barrier must be carefully removed by explanation, especially where jargon is used.
- **The Problem of Time:** we are always immensely busy with something else, probably sorting out the tangles from a previous failure in communication. In addition to this, the management team is busier still at times of upset or change, just when the exchange of understanding is more important than ever.
- **Training:** many managers are inadequately equipped with, and unaccustomed to using, organised methods of information flow. Moreover, many do not even know that it is an essential part of their duties to be skilled, however simply, in the exchange of understanding, including feedback.

- **The Grapevine:** one of the subtlest methods of passing information is through the grapevine, whose characteristic is generally to impute uncharitable motives to the often accurate information which it conveys.
- **Failure to Recognise the Need to Tell:** a very common cause of breakdown in communications. 'I didn't think to tell him', or 'I didn't realise she needed to know', are the kind of expressions which so often demonstrate this failure.
- **Inability to Listen:** often managers incorrectly deduce that to communicate means giving or sharing information. It is worth emphasising that to be effective, communication needs to be a two-way process.

(2 marks for each correctly stated barrier. 1 mark for each correct and completely stated explanation. Sub-Total per Barrier: 3 marks. Maximum of 6 to be graded. Grand Sub-Total: 18 marks)
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I07
MARINE AND AVIATION INSURANCE

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

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

I07 – MARINE AND AVIATION INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

Where a question is split into parts (a), (b), e.t.c., 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

Attempt by candidates were good with a commensurate good performance. Candidates are encouraged to prepare adequately for better performance.

Question 2

Candidates were unable to provide adequate response to the question. This could be due to lack of in-depth knowledge or inadequate preparation.

Question 3

Attempt by candidates was average and performance was also average.

Question 4

Candidates showed in-depth understanding of the question, although some were unable to provide the correct answer.

Question 5

Majority of the candidates did not attempt the question. This can be deduced to be as a result of lack of adequate preparation.

Question 6

There was a good attempt by candidates on answering this question although they could have done better with deeper preparation.

Question 7

The question examined candidates' knowledge of exclusions under aviation hull, war and allied perils policy. Pass rate was average, which could likely be due to partial understanding or inadequate preparation.

Question 8

The question examined candidates on important documents for registration of an aviation insurance company. Only very few candidates were able to answer it correctly.

Question 9

The question examined candidates' knowledge of international aviation regulatory bodies. Majority of the candidates could not provide the response adequately. This showed lack of adequate preparations.

Question 10

Candidates were examined on the operational hazards under aviation insurance policies. Only about 20% of the candidates were able to provide correct answers. This also showed lack of adequate preparations.

Question 11

Most of the candidates attempted the question with a below average performance, which was an improvement, compared to the performance from last diet.

Question 12

The candidates that attempted this question answered it relatively above average.

Question 13

The response to this question was average.

Question 14

The response to this question was below average.

Question 15

The question examined the knowledge of candidates on Marine Insurance Act. Attempt and performance were just average with majority of the candidates not being able to respond adequately.

Question 16

A large number of candidates attempted the question and their performance was equally commendable.

Question 17

Candidates' performance was average in this question.

Question 18

This question was attempted by all the candidates with a remarkable pass rate.

Comments on Overall Performance:

There was an improvement in performance compared to the performance from last diet although the pass rate was still below average.

Suggestions on Improvement(s) (if any):

Candidates are highly encouraged to attend tutorials for better understanding of this course, while also endeavoring to understand what they are studying and be able to put them into correct perspectives when examined on them.

In addition, a deeper studying with ability to relate what is being studied to case-study critical thinking basis is highly advised.

Tutorial centres are also encouraged to assist candidates with case-studies-based focus as against simply tutoring on theories.

I07 - MARINE AND AVIATION INSURANCE

Part I

Answer ALL questions in Part I.

Each question carries 10 marks.

1. (a) 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)
- (b) In what three (3) ways does the circular reflect the Commission's commitment to regulatory compliance? (6 marks)

Solution

(a) The directives might have the following implication:

- 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)

(b) 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)

2. (a) Extortion and Hijack Expenses Coverage in aviation insurance is of what purpose? (4 marks)
- (b) Enumerate the three (3) situations that are covered under the coverage stated in (a) above. (6 marks)

Solution

(a) The **purpose of Extortion and Hijack Expenses Coverage in aviation** is that the coverage compensates for expenses incurred due to hijacking, extortion threats, or unlawful control of aircraft. (4 marks)

(b) The situations covered by **Extortion and Hijack Expenses Coverage** are:

- threats against passengers or crew during hijacking;
- extra expenses due to unlawful seizure;
- payments related to negotiation for hostage release.

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

3. As well understood, international conventions play crucial roles in marine and aviation insurance. Compare and contrast the Montreal Convention 1999 and the Hague-Visby Rules in terms of liability coverage as it relates to:
- (a) the overview of the conventions; (4 marks)
 - (b) liability coverage; (3 marks)
 - (c) legal and financial implications. (3 marks)

Solution

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

Montreal Convention 1999: Establishes liability rules for international air travel, covering passenger injury, baggage loss and cargo damage. (2 marks)

Hague-Visby Rules: Governs the liability of carriers for loss or damage to goods transported by sea. (2 marks)

(Sub-Total: 4 marks)

(b) **Comparison of Liability Coverage:**

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

OR

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

(Sub-Total: 3 marks)

(c) **Legal and Financial Implications:**

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

(Sub-Total: 3 marks)

(Grand Total: 10 marks)

4. (a) **What is 'Overhaul Life' in aviation insurance?** (4 marks)
- (b) **Enumerate any three (3) components considered under 'Overhaul Costs'.** (6 marks)

Solution

(a) 'Overhaul Life' refers to the period or operational time after which an aircraft component requires mandatory maintenance or replacement. (4 marks)

(b) The **components considered under 'Overhaul Costs' are:**

- labor costs for disassembly; * labor costs for reassembly;
 - replacement of worn-out parts; * testing expenses; * certification expenses.
- (2 marks for each correctly stated component. Maximum of 3 to be graded. Sub-Total: 6 marks)
- (Grand Total: 10 marks)

5. (a) **What does the “War and Terrorism Exclusion Clause” in aviation insurance Exclude?** (4 marks)
- (b) Enumerate the two (2) conditions that will make an insurer to provide cover to an insured at the occurrence of war and terrorism. (6 marks)

Solution

(a) This clause excludes coverage for damages arising from war, rebellion, or terrorism unless a specific policy is purchased. (4 marks)

(b) The two conditions that will make the insurer to provide cover to the insured at the occurrence of war and terrorism are:

- if the insured has a separate War Risk Insurance policy;
- if damage occurs during hijacking covered under the Allied Perils Policy.

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

(Grand Total: 10 marks)

6. The underwriting process is essential in marine and aviation insurance and thus governed by some critical factors. Enumerate any four (4) factors that underwriters consider when assessing risks and determining premium rates in marine and aviation insurance.

Solution

The factors that underwriters consider when assessing risks and determining premium rates in marine and aviation insurance are:

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

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

7. **Aviation Hull War and Allied Perils Policy has key exclusions. Enumerate any four (4) of these key exclusions.**

Solution

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

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

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

8. **In Nigeria, there are important documents required for registering an aviation insurance company. Enumerate any five (5) of these important documents.**

Solution

In Nigeria, the **important documents required for registering an aviation insurance company** are:

- Letter of Intent from the Promoter(s);
- Draft Memorandum and Articles of Association (MemArt);
- Evidence of Financial Soundness of Shareholders;
- Profile of Directors;
- CV of the proposed CEO; and
- Evidence of Regulatory Approval from the Relevant Authority

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

9. **Enumerate any four (4) international aviation regulatory bodies overseeing insurance standards in Nigeria.**

Solution

The **international aviation regulatory bodies overseeing insurance in Nigeria** are:

- International Civil Aviation Organization (ICAO);
- Federal Aviation Administration (FAA);
- European Union Aviation Safety Agency (EASA);

- International Air Transport Association (IATA).
- Safety Regulation Group (SRG)
(2½ marks for each correctly stated regulatory body, Total: 10 marks)

10. Four operational hazards are usually covered under aviation insurance policies. List these four (4) operational hazards.

Solution

The four **operational hazards covered under aviation insurance policies are:**

- * mid-air collision risks;
 - * emergency landings causing aircraft damage;
 - * ground handling accidents;
 - * engine failure during flight.
- (2½ marks for each correct and completely stated hazard. Grand Total: 10 marks)

11. Aviation Hull War and Allied Perils Policy usually cover various risks. List any four (4) of these risks covered under Aviation Hull War and Allied Perils Policy.

Solution

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

- acts of war, invasion, and hostilities; * strikes, riots, and civil commotions;
 - terrorist acts and sabotage; * hijacking or unlawful seizure of the aircraft;
 - confiscation under duress during flight operations.
- (2½ marks for each correct and completely stated risk. Maximum of 4 to be graded. Grand Total: 10 marks)

12. Aviation Hull All-Risks Policy covers many categories of claims. Enumerate any four (4) of these categories of claims.

Solution

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

- * hull damage from accidents;
 - * theft or loss of aircraft;
 - * ground collision damage;
 - * fire and explosion-related claims;
 - * damage during loading or unloading operations.
- (2½ marks for each correctly stated category. Maximum of 4 to be graded. Grand Total: 10 marks)

13. Aircraft Owners' and Operators' Liability Insurance cover various liabilities. List any four (4) of these liabilities.

Solution

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

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

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

14. (a) What does the principle of indemnity in marine insurance ensure? (4 marks)
(b) List three (3) methods of indemnification in (a) above. (6 marks)

Solution

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

(b) The methods of indemnification are:
 * cash payment; * repair or replacement;
 * reinstatement of the insured property
 (Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. (a) The Marine Insurance Act 1906 remains a fundamental law in marine insurance. State and briefly explain the four (4) key provisions of this Act. (24 marks)
- (b) Enumerate any two (2) impact of the Act on modern marine insurance practices. (6 marks)

Solution

- (a) The key provisions of this Act and its impact on modern marine insurance practices are:
- **Utmost Good Faith (Uberrimae Fidei)** – both insurer and insured must disclose all material facts;
 - **Insurable Interest:** the policyholder must have a financial interest in the insured subject matter at the time of the loss;
 - **Warranties:** the insured must abide by policy warranties to maintain coverage;
 - **Conditions:** the insured must meet policy conditions, such as seaworthiness, to maintain coverage.

(5 marks for each correctly stated provision. 3 marks for each correct and completely stated explanation under each provision. Sub-total per provision: 24 marks)

- (b) **Impact on Modern Marine Insurance:**

- provides a legal framework for marine insurance policies worldwide.
- sets guidelines for claim settlements
- sets guidelines for liability disputes.

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

(Grand Total: 30 marks)

16. State any three (3) different liabilities covered under aviation insurance and briefly explain how, through insurance policies, airlines manage these stated risks.

Solution

The different liabilities covered under aviation insurance are:

- **Third-Party Liability:** covers damage to people or property outside the aircraft (e.g., if an aircraft crash into a building).
- **Passenger Liability:** protects airlines against claims from passengers who suffer injury or loss during a flight. Compensation limits are set under international conventions like the Montreal Convention 1999.
- **Crew Liability:** ensures compensation for pilots and other crew members in case of injury or loss of life.
- **Baggage and Cargo Liability:** covers loss, damage, or theft of passengers' baggage and shipped goods.
- **Risk Management Strategies in Aviation Insurance:** airlines use risk pooling, loss prevention programs, and high-limit liability coverage to minimise financial exposure.

(5 marks for each correctly stated liability. 5 marks for each correct and completely stated explanation. Grand Sub-Total per liability: 10 marks. Maximum of 3 to be graded. Grand Total: 30 marks)

17. Reinsurance is a significant concept in all aspects of insurance, but of particular reference here is on marine and aviation insurance sector.

- (a) Explain the concept of reinsurance in this sector. (4 marks)
- (b) Explain the importance of the concept in this sector. (10 marks)
- (c) State and explain two (2) types of reinsurance in this sector. (10 marks)
- (d) State any three (3) benefits of reinsurance in this sector. (6 marks)

Solution

(a) Reinsurance is a risk management strategy where an insurance company transfers a portion of its risk to another insurer to protect itself from significant losses. (4 marks)

(b) The importance of reinsurance is that it allows insurance companies to stabilise their financial position, protect against large claims, and expand their underwriting capacity. (10 marks)

(c) The two types of reinsurance in Marine and Aviation Insurance:

Facultative Reinsurance: covers individual risks agreed upon between the insurer and reinsurer. Used for high-risk marine or aviation policies.

Treaty Reinsurance: covers a portfolio of risks based on pre-agreed terms, providing automatic coverage for all qualifying policies.

(3 marks for each correctly stated type. 2 marks for each correct and completely stated benefit. Sub-Total on each type: 5 marks. Sub-Total: 10 marks)

(d) The benefits of reinsurance in marine and aviation insurance are:

- protects insurers from catastrophic losses (e.g., shipwrecks, aviation accidents);
- allows insurers to take on more policies without fear of insolvency.
- globally protects the portfolio of insurers.

(The above is not conclusive. 2 marks for each correct and completely stated benefit. Maximum of 3 to be graded. Sub-Total: 6 marks)

(Grand Total: 30 marks)

18. Marine insurance policies are of five different types.

(a) Enumerate these five (5) types of marine insurance policies available. (10 marks)

(b) State what each type covers. (10 marks)

(c) Explicitly explain the circumstances under which each type would be most applicable. (10 marks)

Solution

(a) The different types of marine insurance policies available are:

* **Hull Insurance;** * **Cargo Insurance;** * **Freight Insurance;**
* **Liability Insurance;** * **Time and Voyage Policies.**

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

(b) The cover provided by each type are::

- **Hull Insurance:** covers physical damage to the ship due to perils of the sea.
- **Cargo Insurance:** protects the goods being transported against risks such as fire, theft, and sinking.
- **Freight Insurance:** ensures that shipping companies receive their freight charges even if goods are lost before reaching their destination.
- **Liability Insurance:** covers the legal liability of shipowners for damages caused to third parties, including passengers, crew, and other ships.
- **Time and Voyage Policies** – A voyage policy covers a ship for a specific journey, while a time policy covers a ship for a set period, typically one year.

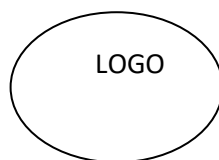
(2 marks for each correct and completely stated cover provided. Grand Sub-Total: 10 marks)

(c) The circumstances under which each type would be most applicable are as below:

- **Hull Insurance:** This policy is crucial for shipowners who need financial protection against unexpected damage or total loss.
- **Cargo Insurance:** It is essential for exporters and importers.
- **Freight Insurance:** This is especially relevant for chartered vessels.
- **Liability Insurance:** It is often required by international regulations.
- **Time and Voyage Policies** – Time policies are suitable for regular commercial operations, while voyage policies are ideal for single-use contracts.

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

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I08
AVIATION AND SPACE INSURANCE

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

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

I08 – AVIATION AND SPACE INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

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

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

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

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

Chief Examiner's Comments

Question 1

The question was an industry question and 50% of the candidates did not answer it adequately.

Question 2

The question asked was a coursebook question. It was simple and straight forward. Performance was below average.

Question 3

50% pass rate was achieved.

Question 4

50% pass rate was achieved.

Question 5

50% pass rate was achieved.

Question 6

50% pass rate was achieved.

Question 7

50% pass rate was achieved.

Question 8

50% pass rate was achieved.

Question 9

50% pass rate was achieved.

Question 10

The pass rate achieved here was below average.

Question 11

The pass rate achieved here was below average.

Question 12

The pass rate achieved here was below average.

Question 13

50% pass rate was achieved.

Question 14

50% pass rate was achieved.

Question 15

50% pass rate was achieved.

Question 16

50% pass rate was achieved.

Question 17

The pass rate was below average.

Question 18

50% pass rate was achieved.

Comments on Overall Performance:

There was a 50% pass rate recorded in this course this diet.

Suggestions on Improvement(s) (if any):

Candidates are also highly encouraged to attend tutorials for better understanding of this course, while also endeavoring to understand what they are studying and be able to put them into correct perspectives when examined on them.

In addition, a deeper studying with ability to relate what is being studied to case-study critical thinking basis is highly advised.

Tutorial centres are also encouraged to assist candidates with case-studies-based focus as against simply tutoring on theories.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. (a) 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)**
- (b) In what three (3) ways does the circular reflect the Commission's commitment to regulatory compliance? **(6 marks)**

Solution

(a) The directives might have the following implication:

- 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)

(b) 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)**

2. Explicitly explain any four (4) benefits that a Captive Insurance Company can provide its owner.

Solution

The benefits that a Captive Insurance Company can provide its owner are:

- A captive can provide the financial strength to retain a portion of risk commensurate with the balance sheet of the group of companies to which it belongs, allowing individual operating companies to self-insure at a level more appropriate to their own profit centre.
- The cycles of the insurance market can lead to wide variations in premium prices over time. A captive, underwriting working losses, leaves its parent to purchase catastrophe cover from external insurers or reinsurers, cover that is generally more suitable in price and rated more specifically to the risk in question.

- If an insurer no longer has to fund administration and profit costs at the lower end of the risk spectrum, a captive may reduce net insurance cost. Thus, the total cost of the risk should be established and reduced. The presence of a captive in the risk financial programme of a corporation can encourage insurers to rate a risk more competitively in the knowledge that they may otherwise lose premium income to the captive.
- If located in an off-shore environment with low or zero tax, the captive's investment income can build up more quickly than, for example, a self-insurance fund onshore.
- As funds paid out in premiums do not leave the group until paid out in claims, there can be an increase in net cash flow.
- There may be tax advantages in forming a captive for the following reasons:
 - Premium paid to the captive constitutes tax deductible expenses in most parent domiciles, subject to transfer pricing rules (USA is an exception).
 - Profits from the captive can be deferred.

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

3. There are some technical risk factors that must be considered when performing the risk assessment of a satellite. Enumerate and briefly explain any four (4) of these risk factors.

Solution

The technical risk factors that must be considered when performing the risk assessment of a satellite are:

- **Heritage:** the history of the satellite type, its systems and the components used in each of its units.
- **First Flight Items:** as new components are developed there will be a time when the component is launched on a satellite for the first time. When first flight item are used, the risk assessment activities will usually focus on the design, build and importantly, the testing of the component.
- **Redundancy:** once a satellite has been launched it is not possible to retrieve or repair it. With this in mind, the satellite is built with spare critical components so that if a unit falls during the lifetime of the satellite a spare unit is available to be used.
- **Margin:** in addition to redundant components, margins will also be specified. As an example, if a satellite is designed to serve a satellite operator for 15 years, it will usually be launched with sufficient propellant to complete at least 16 years in orbit, such that some margin over and above the requirement is available.
- **Anomaly Resolution:** despite satellites, being built and operated under very strict conditions, anomalies do occur. How the satellite manufacturer and operator have been able to resolve previous anomalies will also be a factor in the risk assessment.
- **Choice of Launch Vehicle** – some launch vehicles have better track records than others and this will be reflected in the rating applied.

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

4. Enumerate any two (2) reasons for the use of deductibles in aircraft hull and liability insurance.

Solution

The reasons for the use of deductibles in aircraft hull and liability insurance are:

- (i) Deductibles serve to remove the involvement of insurers with those smaller losses that are seen as one of the operating costs of an aircraft. Insurers use deductibles as a way of avoiding the trouble and expense of dealing with minor claims. With some smaller claims, the cost of handling the claim could be higher than the claimed amount without the application of the deductibles.

- (ii) The application of a deductible may also help to improve the risk in that the Insured knows that they stand to share the loss and, it is hoped, will take more care. It could also improve the moral hazard of a risk.
- (iii) Insurers often use deductibles in conjunction with rating as a way of offering a competitive advantage over rivals; for example, by offering a lower rate but a higher deductible or vice versa.

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

- 5. (a) Briefly explain facultative reinsurance. **(3 marks)**
- (b) Provide an advantage of (a). **(2 marks)**
- (c) State two (2) scenario-based examples as it relates to the use of (a) in aviation and/or space portfolio. **(5 marks)**

Solution

(a) A facultative Reinsurance is generally a one-off specific reinsurance arrangement whereby an underwriter will decide which aspects they wish to reinsure on a case by case basis. Facultative reinsurance is also used when local legislation requires a local insurance company to 'front' the risk. **(3 marks)**

- (b) The **advantages** of facultative reinsurance are that:
- the original underwriter can accept an otherwise desirable risk and reinsure out the part that they do not like;
 - placing it facultatively can be administratively work-intensive and the premiums/commissions can be low for the work involved.

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

(c) **Examples are:**

An underwriter may have accepted a high participation on the original risk than they want. The underwriter may then reinsure a percentage of the entire risk.

OR

On an airline risk an underwriter may choose to reinsure out all aircraft with a low hull value or of a type that he does not like.

(The examples stated above are NOT exhaustive. 2½ marks for each correctly stated advantage. Maximum of 2 to be graded. Sub-Total: 5 marks)

(Grand Total: 10 marks)

6. Enumerate the four (4) main categories of space insurance.

Solution

The four main categories of space insurance are:

- * Pre-launch insurance;
- * Launch and in-orbit insurance;
- * In-orbit insurance; and
- * Third-party liability insurance.

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

- 7. (a) What is the principal aim and purpose of the Chicago Convention 1944? **(2 marks)**
- (b) What does the Convention in (a) above deal with. **(2 marks)**
- (c) Enumerate any three (3) of the minimum documentation that must be carried on board of an aircraft engaged in international navigation. **(6 marks)**

Solution

(a) The principal aim and purpose of the Chicago Convention 1944 was to promote co-operation between nations and develop civil aviation in an orderly manner on the basis of equality of opportunity as between contracting states. **(2 marks)**

(b) The Chicago Convention deals with issues such as flight over the territory of contracting states, registration and nationality of aircraft, measures to facilitate air navigation and conditions to be fulfilled with respect to aircraft (including minimum documentation requirements and regulation in respect of crew and aircraft). The Chicago Convention also sets out international standards and recommended practices. (2 marks)

(c) The convention also lists certain minimum documentation which must be carried on board an aircraft engaged in international navigation:

- * Aircraft's Certificates of Registration and Airworthiness;
 - * Appropriate Crew Licenses;
 - * Radio Station License;
 - * Log Book;
 - * Passenger and Cargo Manifests.
- (2 marks for each correctly listed documentation. Maximum of 3 to be graded. Sub-Total: 6 marks)
(Grand Total: 10 marks)

8. List any five (5) factors which affect the rating of an aircraft hull and liability risk.

Solution

The factors which affect the rating of an aircraft hull and liability risk are:

- * type of aircraft;
 - * pilot experience;
 - * aircraft uses;
 - * passenger seating;
 - * general market conditions;
 - * geographical limits;
 - * who maintains the aircraft;
 - * claims record.
- (2 marks for each correctly stated factor. Maximum of 5 to be graded. Total: 10 marks)

9. (a) Enumerate any six (6) types of injury shown in the schedule of compensation of a Lloyd's Accident policy. (6 marks)

(b) List any two (2) timescale for payment of compensation per Proviso 5 of the Lloyd's Accident Policy. (4 marks)

Solution

(a) The types of injury shown in the schedule of compensation of a Lloyd's Accident policy are:

- * Death;
 - * Total and irrevocable loss of sight of both eyes;
 - * Total and irrevocable loss of sight of one eye;
 - * Loss of two limbs;
 - * Loss of one limb;
 - * Total and irrevocable loss of sight of one eye and loss of one limb;
 - * Permanent total disablement (other than total loss of sight of one or both eyes or loss of limb);
 - * Temporary total disablement;
 - * Temporary partial disablement.
- (6 marks)

(b) The timescale for payment of compensation per Proviso 5 of the Lloyd's Accident Policy are:

- * Under item 1, if death occurs within 12 months of the date of the accident;
- * Under items 2 to 6, if loss occurs within 12 months of the date of the accident;
- * Under item 7, the Insured Person becomes totally disabled within 12 months of the date of the accident, and such disablement lasts for 12 months.

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

10. An aircraft repairer is exposed to various liability exposures in respect of his customers' aircraft whilst in the care, custody and control of the repairer; and what insurance coverage is available in respect of such exposure.

Solution

The following suffices for the required explanation:

- Insurable interest will arise largely through Contract but may arise through possession.
- In addition to the exposure that a repairer will have simply whilst a customer's aircraft is in its possession or its care, custody and control, the repairer's exposure extends to while he is working on the customer's aircraft. In the event of loss or damage to that aircraft arising while the work is being carried out by the repairer or his employees, the repairer is liable. The exact legal situation will vary depending on the wording of any contractual agreement between the repairer and its customer.
- The usual way that an aircraft repairer would insure his liability for a customer's aircraft is using Section 2 of the Airport Owners and Operator's Liability (Ariel) Policy. This section is commonly known as Hangarkeepers Liability and covers the Insured's liability for loss of or damage to non-owned aircraft whilst on the ground and in the care, custody and control of the Insured or while being serviced, handled or maintained by the Insured or his servants. This section normally excludes loss or damage arising during test flights, although it may be possible to have this coverage reinstated.
- The exclusion under Section 2 of the Ariel policy are:
 - Loss or damage to clothes, personal effects and merchandise.
 - Loss or damage to aircraft or aircraft or aircraft equipment hired, leased by or loaned to the Insured.
 - Loss or damage to any aircraft while in flight (which is defined in the policy).

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

11. Briefly explain the main differences between the two aviation nuclear risks excluded clauses AVN38B and AVN71 and when each might be used.

Solution

AVN38B is usually used on aircraft policies. It also recognises that there are different types and toxicity of nuclear or radioactive materials. In particular, radioactive materials are used in a wide variety of professions and can be carried in special containers aboard aircraft, and losses may be covered in certain circumstances. Rules for the carriage of radioactive materials are laid down in the ICAO "Technical Instructions for the Safe Transport of Dangerous Goods by Air", Losses arising from otherwise excluded nuclear risks may be covered, subject to the materials being handled in compliance with the ICAO rules. **(5 marks)**

AVN71 is normally used on non-aircraft policies and it is also on the other hand, is an absolute exclusion with no allowances for different types of exposure or radioactive materials. **(5 marks)**
(Total: 10 marks)

12. When notifying an air accident to the relevant authority in Nigeria there are some information that must be reported. Enumerate any eight (8) of these.

Solution

The information that must be reported when notifying an air accident to the relevant authority in Nigeria are:

- The type, model, nationality and registration marks of the aircraft.
- The name of the owner, operator and hirer (if any) of the aircraft.
- The person in command.
- The date and time (UTC or GMT).
- The last point of departure and the next point of intended landing of the aircraft involved.
- The position of the accident in relation to some easily defined geographical location.
- The number of persons on board and the number killed or seriously injured.
- The nature of the accident as far as it known.
- Brief particulars of damage to the aircraft.

- (ix) The person reporting the accident to the AAIP is also required to inform the local police of the accident and the place where it occurred.
 - (x) It is the responsibility of the policy to report the accident to the relevant Air Traffic Control Centre.
- (1½ marks for each correctly stated information. Maximum of 8 to be graded. Total: 10 marks)**

13. Satellites may be put to use for different applications. Briefly explain any four (4) of these difference applications.

Solution

The different applications to which satellites may be put to use for are:

- (i) Communication services such as trans-oceanic telephony, the delivery of satellite television and satellite-based mobile phone services for those who travel outside areas served by terrestrial means, as well as the emergency services for times when terrestrial services have failed.
- (ii) Meteorology, which not only provides the general public with the weather forecast each day but which also allows scientists to build a model of the environment to help predict the impact of environmental change.
- (iii) Earth observation whereby images are collected by satellites for popular uses such as Google Earth as well as professional uses such as town planning, disaster monitoring and agriculture where satellite imagery can be used to remotely monitor the health of crops, for example.
- (iv) Navigation systems such as the Global Positioning System (GPS) which have now come into common usage with satellite navigation for cars being the most prominent application. Navigation, both for ships and aircraft, relies on accurate timing signals. New applications of navigation services are constantly being proposed: search and rescue, civil engineering and land-mine clearance being just a few examples, in addition, the accurate timing signals of the navigation systems are increasingly allowing for the time-stamping of financial transactions, improving the security of the financial.
- (v) Science, whereby satellites are used to understand the formation of the universe and the planets so that we can gain a better insight into the development of, and future for, the Earth.

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

14. List the five main applications for which satellites are used for.

Solution

The five main applications of satellites are used for are:

- * communication services; * meteorology; * earth observation;
- * navigation systems; and * science.

(Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. You are a claims adjuster for an aviation insurer. You have been notified by an insurance broker that an aircraft operated by one of the aviation insurer's policyholders has crashed on landing resulting in injuries to each of the twelve passengers on board. There were two UK families on board in addition to the crew. The aircraft is UK registered and was operating on a UK domestic flight. You appointed a lawyer to investigate the extent of the insured's liability for the crash.

- (a) Identify, with justification, the four (4) key considerations which the lawyer is required to include in his preliminary report.

(20 marks)

- (b) Explain, with justification, based on your answer to (a) above, what two (2) factors you would expect the lawyer to consider when recommending a liability claims reserve. (10 marks)

Solution

(a) The four key considerations which the lawyer is required to include in his preliminary report are:

(i) The **nationality, name, age and address of each of the passengers, and the extent of their relationships both with other passengers and any other family members.** This information would allow the lawyer to understand the following:

- Name provides an identity.
- Nationality might create a situation where some non-UK nationals might be able to seek higher levels of compensation from a non-UK country, e.g USA where compensation awards can significantly exceed UK levels.
- Age is an initial indication of whether the individual is a child, working adult or retired person. Whilst subsequent information on careers, dependencies and incomes will likely provide greater clarity, an initial assessment of the insurer's potential exposure will be determined by this information.

(ii) **The extent of the injuries to each passenger.**

- The extent of injuries will allow the insurer to determine the extent of activity it may be able to undertake to mitigate the effects of such injuries. Examples could be, with the injured parties' agreement, referral to specialist medical treatment facilities and the use of rehabilitation services. The appropriate deployment of such medical services could make a significant improvement in the recovery period of an injured person or, at the least, minimise the long-term effects of their injuries if they are of a permanent nature.

(iii) **A copy of the aircraft's papers including its navigation log and maintenance records.**

- This information would enable the extent to which the aircraft was being used in an appropriate manner, was on a recognized flight and had been maintained in accordance with the manufacturer's recommendations. If the accident is subsequently proved to be due, in part or total, to a maintenance fault, having early confirmation of who undertook the maintenance, and where and when that maintenance took place, would support any subsequent action to hold them responsible.
- Details of the flight crew, including pilots' licenses, ratings, latest medical checks, total hours flown, including the time on this type of aircraft, together with information on duty hours over, say, the last week.

(iv) **An understanding of the experience, capacity, and suitability of the pilots who were involved in the accident might provide indication that there was something less than ideal.** Clearly, the starting expectation would be that the crew were blameless for the accident, however, if deficiencies are identified, their relative importance regarding the circumstances of the accident might influence how the claim is handled. For example, if the pilots were at the end of a long duty, at the time of the accident, it might be more difficult to defend the claim than if it was their first flight for several days after a period of rest.

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

(b) The factors one will expect the lawyer to consider when recommending a liability claims reserve are as explained below:

Damages would, in the absence of any non-UK injured passengers' considerations, be calculated under English law. As the flight was domestic, rather than international, the Montreal Convention 1999 would not apply.

It will also be expected that the lawyer should base his calculations of the initial liability claims reserve on the sums awarded by the courts in recent types of injuries. The calculations would include, for each passenger, the following factors to the extent to which they apply to the individual:

- Age
- Loss of future income (where the award reflects potential loss or reduction in future income).
- Dependents.
- Medical costs arising from the accident to date and estimated for the future.
- Pain and suffering.
- Loss of amenities of life.

Where elements of the information are unknown, such as where the recovery period of an individual can only currently be estimated, I would expect the lawyer to make educated assumptions, based on the experiences of previously injured individuals in arriving at a claim cost per passenger and in the aggregate.

This would be a provisional reserve, which would be subject to review as more information subsequently became available.

(5 marks for each correct and completely stated factor with justification. Maximum of 2 to be graded.

Sub-Total: 10 marks)

(Grand Sub-Total: 30 marks)

16. You are an underwriter for an aviation insurer. You are approached by an aviation insurance broker who is seeking to place the aviation products liability insurance for a prospective client who manufactures a range of aircraft components and ground handling equipment.

These manufactured components and equipment comprise of:

- Hydraulic systems for landing gear.
- Hydraulic systems for wing flaps.
- Aircraft catering equipment.
- Ground-based auxiliary power units.

The aviation insurance broker has provided you with the historic and projected turnovers and the claims experience.

- (a) Explain, with four (4) justifications, the significance of the historic and projected turnovers to underwriting considerations of the aviation products liability insurance.

(20 marks)

- (b) State, two (2) key items of additional information that will be needed to obtain a quote from the aviation insurance broker, with justification.

(10 marks)

Solution

- (a) Aviation products liability insurance is generally written on a losses occurring basis. A claim is dealt with by the policy in force at the time the accident occurs and not the policy in force at the date the claim is notified to the policyholder.

Historic and projected turnovers are key in the consideration of aviation products liability insurance, as they are indicators of volume of business transacted for the client over their business lifetime. These turnovers will be split by type of product, to reflect the differing risks that each type of product will contribute to the overall assessment of the insurance proposition.

Additionally, the turnovers by type of product will be divided between military and non-military users alongside division between USA and non-USA activity. The extent of military turnover may justify a lower rate as the risks arising from use of the products are accepted by the customer. Correspondingly, USA turnover can justify a higher rate due to the higher potential frequency and/or cost of claims reflecting the USA's litigious culture.

The breakdown of turnover by type of product assists in understanding the quantity of units in use and, therefore, the aggregate exposure in place.

Finally, the annual changes in historical and projected turnovers are good indicators of the trends in the client's business. These changes are essential material information as the future nature of the business, and its aggregate risk, may be very different to the historical performance. The rating of the business needs to reflect these changes, to ensure it reflects the aggregate exposures.

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

(b) The key items of additional information are:

- Whilst **historic turnover** is important, it needs to be considered in light of the number of units in active service. The number of units in active service would be important information to assess the full scope of the risk. Clearly units which are now out of active service present little if no liability risk exposure.
- The **claims record, by type of product**, would allow for comparison with the relevant annual turnovers. This information would allow for both claims frequency and average claim costs as a percentage of turnover to be computed, and provide an indication of future trends in claims.
- Criticality of **the unit in the safe operation of an aircraft** is an important feature. This knowledge is hugely important in assessing the potential consequence of the failure of a product, and therefore the potential cost of a loss to the insurer. For example, the failure of a hydraulic system for landing gear may prevent the safe landing of an aircraft, with potential catastrophic consequences. Correspondingly, failure of a ground-based auxiliary power unit may delay or prevent an aircraft being ready to take-off on time, which is an inconvenience rather than grounds for a catastrophic claim.
- **Introduction of different materials**, e.g. carbon fibre, into existing types of products or new technology may mean that historic claims experience may not reflect future experience. Understanding the potential effects of new technology and/or new materials will be important in assessing the potential future cost of claims.

(3 marks for each correctly stated item. 2 marks for each correct and completely stated justification.

Sub-Total per item: 5 marks. Maximum of 2 to be graded. Sub-Total: 10 marks)

(Grand Total: 30 marks)

17. You are an insurance broker. One of your clients, FOA plc, operates a fleet of small aircraft. The aircraft hull policy for this client contains an Additions and Deletion clause AVN 17A and an Aircraft laying-up returns clause AVN 26A. The aircraft insurance hull rate is 0.75% of the aircraft value per year. The policy period is 12 months from 1st January.

The client notifies you of the following:

- The addition of an aircraft of identical type and value to those in FOA plc's current fleet with effect from 1st February. The aircraft is valued at \$3million.
- The addition of a larger and more expensive aircraft to those in FOA plc's current fleet with effect from 1st March. The aircraft is valued at \$5million.

- The addition of several larger and more expensive aircraft at various dates later in the policy period. Each of these aircraft will be valued at \$5million.
 - The aircraft added from the 1st February will be laid up from 1st October to the end of the policy period.
 - Your client's aviation insurer has provided you with a ground risk rate of 0.25%.
- (a) Calculate, showing all your workings, the additional premium for the addition of the aircraft of identical type and value.
 - (b) Calculate, showing all your workings, the return premium for the aircraft of identical type and value which is to be laid up.
 - (c) Explain how the Additions and Deletions clause would be applied for each of the aircraft types being added to the policy.

Solution

- (a) The calculation for the additional aircraft of identical type and value is:
 Multiply the aircraft value by the hull rate = the annual premium. **(4 marks)**
 Therefore:
 $\$3,000,000.00 \times 0.75\% = \$422,500.00$ **(2 marks)**
 As this aircraft is not on risk for the entire annual period, the annual premium is calculated on a pro-rata basis. **(1 mark)**
 Period 1 February to 31 December = 334 days on risk. **(1 mark)**
 Therefore:
 $\$422,500 \times 334/365 = \$20,589.04.$ **(2 marks)**
 The additional premium due for the aircraft of identical type and value is \$20,589.04.
(Grand Sub-Total: 10 marks)

- (b) Aircraft laying-up return clause AVN 26 allows the aircraft to be laid up for an agreed period at an agreed hull rate lower than the full flight risks hull rate. **(2 marks)**

The aircraft has been advised as being laid-up from the 1 October to the end of the policy period. Therefore, there is a return premium due to be paid to the client. **(1 mark)**

The return premium is the pro-rate element of the annual deducted from the ground risk rate. This can be calculated as two separate premiums or combined in a single calculation. **(2 marks)**

The period 1 October to 31 December is 92 days. **(2 marks)**

The return premium is the change in rate multiplied by the pro-rata period multiplied by the aircraft value. **(1 mark)**
 Therefore, $(0.75\% - 0.25\%) \times 92/365 \times \$3,000$ **(1 mark)**
 $= \$3,780.82$ **(1 mark)**

The return premium due for the aircraft of identical type and value is \$3,780.82.
(Grand Sub-Total: 10 marks)

- (c) Clause AVN 17A is an example of an additions and deletion, which is applicable to hull cover only. The effect of AVN 17A is to allow aircraft of the same type and value to be included automatically during the policy period. This automation allows the operation of the policy, during the policy period, to be straightforward and efficient for both the client and insurer.

In the case of the first additional aircraft, as it is of identical value and type to the aircraft currently on the policy, AVN 17A would apply the existing hull rate to the aircraft. The

only action required, would automatically be included. The only action would be for the client to ensure that the insurer is notified in writing of the additional aircraft within 10 days of its addition to the policy. This notification would be undertaken by me, on behalf of the client.

In the case of the second additional aircraft, which is larger and greater in value than the existing aircraft, a new rating would need to be sought and agreed from the insurer. It is likely that there will be a different rating for this additional aircraft, as it is a material change in risk. This would all need to be completed prior to the additional of the second aircraft.

In the subsequent cases of later additional aircraft of the same value and type as the second additional aircraft, AVN 17A will allow for their automatic addition at the appropriate rate. These automatic additions will follow the same procedure as that of the first additional aircraft in the case of the first addition. This is as they are of the same type and value of an aircraft already covered under the policy.

(5 marks for each correct and completely stated way. Maximum of 2 to be graded. Sub-Total: 10 marks)
(Grand Total: 30 marks)

18. (a) You are an insurance broker. You have been approached by one of your airline clients that operate a fleet of aircraft. The client has acquired a number of spare aircraft engines that are stored in various locations. These engines are used as replacements on their own aircraft and other airlines' aircraft as required. The client has an aircraft hull and liability policy.

The client has asked you to explain the extent of insurance cover that may be available for these spare aircraft engines whilst they are in storage and undergoing testing.

- (i) State the type of cover available for these spare aircraft engines.
(5 marks)
- (ii) Describe the three (3) extents of cover, if any, under the type you have identified in (a) above, for when a spare engine is moved out of storage, tested and later fitted to another airline's aircraft.
(15 marks)
- (b) State any four (4) documents that are required to be carried in an aircraft engaged in international navigation by Article 29 of the Chicago Convention 1944?
(10 marks)

Solution

- (a) (i) The cover option for these spare aircraft engines is spares all risks insurance.
(5 marks)
- (ii) When a spare engine is moved out of storage, tested and later fitted to another airline's aircraft the cover available under the spares all risks insurance, if any, is as follows:
- **Moved out of Storage:** the coverage under the spares all risks insurance includes transit to anywhere in the world subject to the geographic limit stated in the policy. (5 marks)
 - **Testing:** this is a standard exclusion under the spares all risks insurance. However, the exclusion may be deleted subject to the insurer's agreement and the application of the applicable aircraft deductible. (5 marks)
 - **Fitted to another airline's aircraft:** coverage under the spares all risks insurance continues until the commencement of the operation of fitting it to, or placing it on board, the aircraft to which it is destined. The engine would then be covered by the other airline's aircraft hull policy. (5 marks)

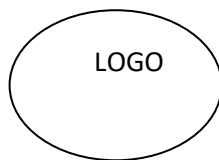
(Grand Sub-Total: 15 marks)

(b) The documents that are required to be carried in an aircraft engaged in international navigation by Article 29 of the Chicago Convention 1944 are:

- * aircraft's certificates of registration and airworthiness;
- * appropriate licenses for crew;
- * radio station license (if applicable); and
- * log book requirements;
- * cargo manifest;
- * passenger manifest.

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

(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I09
INSURANCE PRACTICE AND REGULATION

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

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

I09 – INSURANCE PRACTICE AND REGULATION

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

Part I - 140 marks.

Part II - 60 marks.

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

Where a question is split into parts (a), (b), e.t.c., 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

Majority of the candidates attempted the question and above average marks were achieved. Attempt was 87.19%, with a 60% pass rate.

Question 2

Candidates demonstrated their knowledge and understanding of the question. Attempt was 99.17%, while 95% pass rate was achieved.

Question 3

The question was highly attempted but percentage pass rate was low due to a non-comprehension of the question. Attempt was 97.11%, while 24.26% pass rate was achieved.

Question 4

Below average understanding of the question by candidates was observed. Attempt was 77%, while 6% pass rate was achieved.

Question 5

This was a direct question that was understood by virtually all the candidates. Attempt was 94%, while 83% pass rate was achieved.

Question 6

The question was well understood by the candidates. Attempt was 98%, while 87% pass rate was achieved.

Question 7

The question was not well understood by most candidates. Attempt was 82.8%, while 12.30% pass rate was achieved.

Question 8

The question was well attempted but not well answered especially the part (b) of it. Attempt was 96.8%, while 18.4% pass rate was achieved.

Question 9

The question was well attempted and well understood. Attempt was 97.4% while 70.6% pass rate achieved.

Question 10

Majority of the candidates attempted the question and the pass rate was a little above average. Attempt was 98.78% while 58.70% pass rate achieved.

Question 11

Majority of the candidates who attempted this question performed averagely. Attempt was 93%, while 53% pass was achieved.

Question 12

The question was well attempted and well understood by candidates. Attempt was 98.7%, while 80% pass rate was achieved.

Question 13

The question was well attempted by the candidates, although they demonstrated a lack of knowledge of the question. Attempt was 80%, while 43.01% pass rate was recorded.

Question 14

Majority of the candidates attempted the question. 95% attempt was recorded while 91% pass rate was achieved. Candidates demonstrated their knowledge and understanding of the question.

Question 15

90% of the candidates attempted the question, with an achieved 70% pass rate.

Question 16

The candidates attempt on the question was 90%, while 50% pass rate was recorded.

Question 17

The candidates did not understand the question and were unable to respond adequately to management techniques used by insurers. Attempt was 23.14% while 19.64% pass rate was recorded.

Question 18

Lack of proper understanding of the question was demonstrated by the candidates, with below average marks achieved in parts (a) and (b) of the question. Performance in part (c) was impressive. Overall percentage of attempt was 41.32% of the candidates and a pass rate of 40% was achieved by those who answered the question.

Comments on Overall Performance:

The overall performance of the candidates stood at 55.37%. (above average).

Suggestions on Improvement(s) (if any):

More adequate preparations are recommended because there is obviously room for improvement in future examinations.

Candidates are also highly encouraged to understand what they are studying and be able to put them into correct perspectives when examined on them.

In addition, a deeper studying with ability to relate what is being studied to case-study critical thinking basis is highly advised.

Tutorial centres are also encouraged to assist candidates with case-studies-based focus as against simply tutoring on theories.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. 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.

Solution

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 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)

2. List five (5) types of general business insurance policies and briefly explain their purposes.

Solution

The following are types of general business insurance policies and their purposes are:

- Fire Insurance: Covers damage to property caused by fire.
- Motor Insurance: Covers liabilities arising from the use of vehicles.
- Marine Insurance: Covers goods transported over water.
- Liability Insurance: Covers legal liabilities to third parties.
- Health Insurance: Covers medical expenses for illnesses and injuries.

(The list above is NOT exhaustive. Candidates are free to state from the listed policies in the Insurance Act 2003.

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

3. Enumerate any four (4) essential elements of a valid insurance contract.

Solution

The essential elements of a valid insurance contract are:

- | | | |
|-------------------------|---|----------------|
| • Offer and Acceptance; | * | Consideration; |
| • Legal Capacity; | * | Legal Purpose; |
| • Mutual Consent. | | |

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

4. Briefly discuss, with a minimum of two (2) completely concise points, the components and operations of the common pool in marine insurance.

Solution

The operation of a common pool started in the early days of marine insurance, where various merchants having goods carried on a particular ship agree to voyage, to make contribution to any member who suffered a loss during voyage, after the loss has taken insurance company gather together people who wants insurance protection and set up to operate a pool and takes

contribution in forms of insurance premium from many people, and settle losses of few. This idea of common pool works because only few people will suffer losses within a year.

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

5. Life assurance policies are usually taken by policyholders for various reasons. Enumerate any four (4) reasons why life assurance policies are usually taken out.

Solution

The reasons why life assurance policies are usually taken out are:

- financial protection for family members;
- coverage for funeral expenses; *
- business protection *
- mortgage repayment;
- long-term investment and savings.

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

6. Describe the concepts of:

- (a) contribution; (3 marks) (b) subrogation; (3 marks)
(c) provide an example on each. (4 marks)

Solution

(a) **Contribution:** An insurance principle where multiple insurers share the liability for a claim proportionately. (3 marks)

(b) **Subrogation:** An insurance principle where an insurer, having indemnified an insured, stands in the position of the client, to take recover from the negligent third party. (3 marks)

(c) **Example:** If a property is insured by two companies, both will contribute to the loss payment based on their respective coverages.

Example: If a property was involved in a claim and the negligent third party is known, the insurer will, after indemnifying the insured, stand in the place of the insured, to recover from the negligent third party.

(The examples above are NOT exhaustive. 2 marks for each correctly stated example under each term. Maximum of 1 per term. Sub-Total: 4 marks)

(Grand Total: 10 marks)

7. List any four (4) reasons/fundamentals for calculating capital requirements (solvency margin) for insurance operators in any insurance market.

Solution

The essence of capital adequacy requirement for insurance operators in Nigeria is to help to create a stable insurance market, and to protect consumers and policy holders. The risk of significant market stability, and policy holder loss as a result of insurance company failures will be reduced with adequate capital base.

The fundamental for calculation of capital (solvency margin) is the difference between the admissible assets and admissible liabilities the residue remaining is the solvency margin. Also, to ascertain the adequacy of capital bases, the assets and liabilities must be properly valued, and to ensure consistency, regulator like NAICOM gives guidelines as to valuation of firms' ad assets and liabilities, and what type of assets are allowed to make up affirm regulatory capital.

Also, regulations tend to use a risk based approach regulation governing the rules of solvency capital adequacy of insurance operator.

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

8. Explain the term ‘moral hazard’ and state its impact on underwriting.

Solution:

Moral Hazard: The risk that the behavior of the insured might change because they have insurance coverage.

Impact: It increases the likelihood of claims, leading underwriters to charge higher premiums or impose stricter conditions.

(5 marks for correct and completely stated definition. 5 marks for any correctly stated impact on underwriting. Total: 10 marks)

9. Enumerate any four (4) types of perils typically covered under a standard home-owners insurance policy.

Solution:

The types of perils typically covered under a standard home-owners insurance policy are:

* fire; * theft; * vandalism; * storms; * explosion

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

10. Define “reinsurance” and explain its significance for insurance companies.

Solution:

Reinsurance is the act whereby an insurer transfer some of its risks to a reinsurer.

Significance: reinsurance helps insurers manage large risks, stabilises financial performance and provides capital relief.

(5 marks for correct definition 5 marks for any correctly stated significance. Total: 10 marks)

11. List the four (4) advantages of direct sales in the distribution channels of insurance business.

Solution

The four (4) advantages of direct sales channel to insurer are:

- low acquisition cost since there is no commission payable;
- closer contact with customers which gives opportunity of cross selling;
- exploits modern, efficient marketing, and processing tools such as call centres i.e. channel, and web centres, internet, e.t.c.;
- attracts higher retention rate at renewal.

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

12. Explain the term ‘indemnity’ and state any two (2) manner in which it is applied in property insurance.

Solution

Indemnity is the insurance principle that ensures that an insured is restored to the financial position the insured was, just prior to the insured loss.

(6 marks. 2 marks to each of the coloured phrases)

In property insurance, indemnity is provided through repairs, reinstatement, replacement or cash payment.

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

13. Enumerate any four (4) exclusions commonly found in health insurance policies.

Solution

The exclusions commonly found in health insurance policies are:

* pre-existing conditions; * cosmetic surgery;

- * experimental treatments;
- * injuries from hazardous activities;
- * non-medical expenses.

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

14. (a) Explain the meaning of “complaint” in insurance practice. **(4 marks)**
 (b) List any two (2) reasons why “complaints” can be justified as a good behavior to insurance firms. **(6 marks)**

Solution

(a) Complaint in insurance practice is any expression dissatisfaction whether written, or oral, whether justified, or not. **(4 marks)**

(b) “Complaints” can be justified as a good behavior to insurance firms for the following reasons:

- complaints are valuable feedback from customers that is available to insurance company in order to take step to improve services;
- insurance companies handle complaint as feedback effectively to avoid bad negative publicity from the public;
- complain also represent opportunity for direct personal contact with the customer, and a chance to rebuild trust, and enhance customer loyalty.

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

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. (a) State the purpose of compulsory insurances in any country. **(5 marks)**
 (b) List and discuss any three (3) types of compulsory insurance in Nigeria. **(15 marks)**
 (c) (i) Describe the underwriting cycle and its impact using the insurance industry as a focus. **(2 marks)**
 (ii) State and briefly explain the two (2) phases of the underwriting cycle. **(8 marks)**

Solution:

(a) The purpose of compulsory insurance in any country is to protect public welfare by ensuring coverage for high-risk scenarios and guaranteeing compensation. **(5 marks)**

(b) The types of types of compulsory insurance in Nigeria are:

- Motor Third Party Insurance: Protects third parties involved in road accidents.
- Builders Liability Insurance: Covers liabilities from construction activities.
- Group Life Insurance: Provides death benefits to employees’ families.
- Occupiers Liability Insurance: Covers liabilities for injuries on the property.

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

(c) (i) Underwriting Cycle is the cyclical pattern of profitability in the insurance industry, influenced by competition, capacity, and claims experience. **(2 marks)**

(ii) The phases of the underwriting cycle are:

- **hard market:** High premiums, strict underwriting, limited capacity.
- **soft market:** Low premiums, relaxed underwriting, increased capacity.

(2 marks for correctly listed type. 2 marks for correct and completely stated explanation. Sub-Total per type: 4 marks. Grand Sub-Total: 8 marks)

(Grand Total: 30 marks)

16. (a) List any four (4) key functions of an insurance company's claims department.

(10 marks)

(b) (i) Explain the concept of 'risk pooling' in insurance. (2 marks)

(ii) State and explain any three (3) advantages of risk pooling for policyholders.

(18 marks)

Solution

(a) The key functions of an insurance company's claims department are:

- claims processing and validation; * investigation and fraud detection;
- customer support and communication; * settlement and payout;
- regulatory compliance and reporting.

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

(b) (i) Risk Pooling: Combining risks from multiple policyholders to ensure that the financial impact of a loss is shared. (2 marks)

(ii) The advantages of risk pooling are:

- reduced individual cost of coverage;
- greater predictability of losses;
- access to a larger pool of resources for claims;
- enhanced stability for the insurance company.

(Candidates are required to explain. 3 marks for correctly stated advantage. 3 marks for correct and completely stated explanation. Sub-Total per advantage: 6 marks. Grand Sub-Total: 18 marks)

(Grand Total: 30 marks)

17. (a) State and explain any four (4) risk management techniques used by insurers.

(20 marks)

(b) Outline any four (4) regulatory requirements for establishing an insurance company in Nigeria. (10 marks)

Solution

(a) The risk management techniques used by insurers are:

- **risk avoidance:** eliminating the risk by not engaging in the activity;
- **risk reduction:** minimizing the impact or likelihood of the risk;
- **risk transfer:** shifting the risk to another party, typically through insurance;
- **risk retention:** accepting the risk when the cost of transferring it is greater than the potential loss;
- **risk sharing:** distributing the risk among multiple parties.

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

(b) The regulatory requirements for establishing an insurance company in Nigeria are:

- * obtain a license from NAICOM; * meet minimum capital requirements;
- * comply with statutory reporting requirements; * maintain solvency margins;

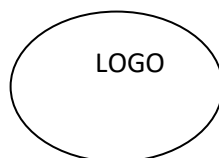
* adhere to corporate governance standards

(2½ marks for each correct and completely stated requirement. Maximum of 4 to be graded. Sub-Total: 10 marks)
(Grand Total: 30 marks)

18. (a) State the Legal Framework/Act of Parliament governing insurance practice in Nigeria. (5 marks)
- (b) Enumerate and explain any two (2) key regulations in current use in the Nigerian Insurance Industry. (10 marks)
- (c) (i) Enumerate any two (2) roles of reinsurance in managing catastrophic risks. (5 marks)
- (ii) State and explain the two types of reinsurance arrangements available in practice. (10 marks)

Solution

- (a) Legal Framework: Governed by the Insurance Act and regulations by NAICOM. (5 marks)
- (b) The key regulations in current use in the Nigerian Insurance Industry are:
- Insurance Act 2003: Establishes operational guidelines for insurance companies.
 - NAICOM Act 1999: Defines the powers and functions of NAICOM.
 - Pension Reform Act 2014: Regulates group life insurance and pension funds.
- (3 marks for each correctly stated regulation. 2 marks for correct and completely stated explanation. Sub-Total per regulation: 5 marks. Maximum of 2 to be graded. Grand Sub-Total: 10 marks)
- (c) (i) The roles of reinsurance are:
- helps primary insurers manage large-scale risks;
 - stabilises loss experience for primary insurers; and
 - improve capacity.
- (2½ marks for each correct and completely stated role. Maximum of 2 to be graded. Sub-Total: 5 marks)
- (ii) Types of reinsurance arrangements are:
- **Facultative Reinsurance:** where individual risks are transferred as they are booked;
 - **Treaty Reinsurance:** where cover is provided on entire risk portfolio basis.
- (3 marks for each correctly stated type. 2 marks for correct and completely stated explanation. Sub-Total per type: 5 marks. Grand Sub-Total: 10 marks)
(Grand Total: 30 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA
INTERMEDIATE

OCTOBER 2025 DIET EXAMINATION PAPER

SUBJECT I10
INSURANCE BROKING PRACTICE - I

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CHARTERED INSURANCE INSTITUTE OF NIGERIA

I10 – INSURANCE BROKING PRACTICE - I

INSTRUCTIONS TO CANDIDATES

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Part I - 140 marks.

Part II - 60 marks.

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

Where a question is split into parts (a), (b), e.t.c., 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

36% pass rate was achieved. Candidates need to prepare better and keep abreast of the development in the insurance industry.

Question 2

82% pass rate was achieved. This is a good attempt on the demonstration of excess and franchise.

Question 3

30% pass rate was achieved which shows a below average of understanding of the question on purpose of analysis under programme design and operation.

Question 4

20% of the candidates passed the question on regulatory information that should be provided to client, an indication of lack of adequate preparation. Candidates should create time for studying.

Question 5

30% pass rate on this critical aspect in insurance, which was on the general guidelines on material circumstances calls for concern.

Question 6

20% pass rate was achieved, which was an indication of lack of understanding of 'triangulation' in insurance claims and ways by which the cycle re-broking exercise can be broken. This cause for deeper studying, with perhaps, attendance of tutorials by the intending candidates.

Question 7

90% of the candidates that passed the question expressed good understanding of it, which was an evidence of good preparation on the basic activities of Brokers in relation to claims.

Question 8

86% pass rate was achieved. The question examined explanation of deliberately uninsured losses and unintentional uninsured losses as well as factors that determine co- insurance option under program design.

Question 9

42% pass rate was achieved on the question that examined criteria that determine market leadership among underwriters on certain risk and "distance contract".

Question 10

36% pass rate was achieved. The question examined claims analysis and deductible analysis with additional data for large companies.

Question 11

52% pass rate was achieved. The question examined activities of Brokers while waiting for policy documentations and reasons for effective diary system.

Question 12

58% pass rate was achieved. The question examined explanations of how a Broker should handle a claim professionally.

Question 13

66% pass rate was achieved. The question examined fraud in insurance, which was a coursebook question.

Question 14

4% pass rate was achieved. Candidates demonstrated a severe lack of understanding of the question which examined on OECD's risk transfer pricing guidelines and risk evaluation process.

Question 15

42% pass rate which represents 15 candidates out of 36 candidates that sat for it can be said to be good enough professional indemnity/ recommendation for it and explanation of the basic characteristics of self-insured programmes and 'umbrella policy'. Candidates are encouraged to study more deeply, with understanding.

Question 16

77% pass rate for 24 out of 31 candidates that chose the question on risk retention, differences between passive and active retention and the obvious signs of insurer in trouble and explanation of the term 'risk transfer'. The performance showed a good understanding by the candidates, though, there is room for better performance.

Question 17

43% pass rate was recorded here as 6 candidates out of 14 that attempted the question passed. Candidates expended time on writing answers that were not in sync with the questions asked. Candidates are advised to know how to be concise in their approach to answering questions and to study more.

Question 18

14 out of the 18 candidates that attempted the question passed it, which resulted in a 78% pass rate.

Comments on Overall Performance:

The overall performance was below average. This could be due to inadequate preparation and wrong assumption that candidates can use residual knowledge to pass this professional course and hence do not value the sacrifice and commitment require to pass.

Suggestions on Improvement(s) (if any):

Candidates are advised devote time for preparation and desist from applying residual knowledge to answer the questions.

Better still, they can consider putting in extra efforts so as to be successful in their professional journey and not simply to assume that the course will be a walk-over because of its general life-applicable nature.

Candidates are also highly encouraged to attend tutorials for better understanding of this course, while also endeavoring to understand what they are studying and be able to put them into correct perspectives when examined on them.

In addition, a deeper studying with ability to relate what is being studied to case-study critical thinking basis is highly advised.

Tutorial centres are also encouraged to assist candidates with case-studies-based focus as against simply tutoring on theories.

Part I**Answer ALL questions in Part I.****Each question carries 10 marks.**

1. (a) State two (2) ways through which the directives in the circular on exhaustion/utilization of local content capacity prior to any offshore/overseas insurance/reinsurance placement impact the competitive landscape of the insurance industry. **(4 marks)**
- (b) In what three (3) ways does the circular reflect the Commission's commitment to regulatory compliance? **(6 marks)**

Solution

(a) The directives might have the following implication:

- 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)

(b) 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)**

2. Briefly explain the following terms:

- (a) excess; (b) franchise.

Solution:

- (a) **Excess:** Excess is term used in Nigeria and the UK, by both the insurance industry and the insuring public, to describe the amount of a claim that the insured has to pay. The effect is that the total policy limit is inclusive of the excess.
- (b) **Franchise:** Franchise is a term that is sometimes used as an alternative to an excess or deductible. The basic difference is that with an excess or deductible, the amount is to be borne by the insured, with the insurer dealing with the remainder of the claim. A franchise

acts like an excess for claims up to the level of the franchise, but if the total claim exceeds the franchise, then the insurer will deal with the claim in its entirety, without contribution from the insured.

(5 marks for each correct explanation. Total: 10 marks)

3. (a) Explain the purpose of analysis under programme design and operation. **(4 marks)**
(b) State any two (2) areas where analysis supports the placement of decision. **(6 marks)**

Solution:

- (a) The purpose of the analysis is to support programme design and placement decisions in a number of areas. **(4 marks)**
(b) Areas where analysis supports the placement of decisions are:
- the correct limits for various property and business interruption exposures;
 - selecting the correct level of deductible and its impact on the insured; and
 - evaluating self-insured options in terms of present cost against conventional premiums.

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

4. Understanding of the regulatory information is vital to all insurance institutions. State any four (4) regulatory information that should be provided to a client of any Broker in Nigeria.

Solution:

The regulatory information that should be provided are:

- Confirmation of NAICOM regulation;
- The firm's NAICOM registration number and how to check that the firm is indeed registered;
- The regulated activities the firm is authorised to undertake, e.g. to provide 'advice' or to 'arrange' the sale of insurance policies;
- The 'cooling off' period for consumers;
- Details of the firm's complaints procedures; and
- The availability of any compensation, i.e. the NAICOM.

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

5. Explain any five (5) general guidelines on material circumstances in an insurance contract.

Solution:

The general guidelines on material circumstances in an insurance contract are:

- If you are in doubt as to whether information is material, it is best to disclose it with clarity and urgency.
- It is always worth discussing it with an experienced colleague and insurers, but if you are not certain about their responses, disclose.
- Rarely will disclosure prejudice your client, whereas non-disclosure certainly will.
- Where applicable, loss information must include details on both insured and uninsured losses.
- Market practice with respect to the standard approach to the length of claims experiences is irrelevant to material circumstance.

- Indeed, deciding not to show certain very large losses in a claims experience because they are, say, more than five years old, is naive. The passage of time does not necessarily render a fact ‘immaterial’ and most underwriters are aware of the majority of large losses in their sector, so omission simply makes the broker look unprofessional.
- It is common practice for the losses of businesses that have been sold to be removed from claims experiences. Whilst this is understandable, it is dangerous, at least without supporting comment.

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

6. (a) Explain the term “triangulation” in insurance claims. **(6 marks)**
- (b) Most brokers will encourage their clients, particularly commercial clients, to confine re-broking exercises to say, a three or five-year cycle. State any two (2) ways by which this cycle can be broken. **(4 marks)**

Solution

(a) A triangulation is necessary as liability claims have a number of characteristics that require further analysis. Often, they are notified some time after the date of occurrence, typically as much as 12-18 months. They also tend to have a far longer period to settlement than property claims. These claims tend to have their own rate of inflation, which is usually greater than the general rate of inflation in the economy. Finally, liability claims have a tendency to increase in cost for a variety of reasons, including improved medical knowledge and the courts' expanding the definition of liability.

(6 marks for correct explanation)

- (b) This cycle can be broken if:
- there is a significant change in the insurance market; and/or
 - an insurer imposes excessive terms at a renewal; and/or
 - there is a change in the client’s business activities.
- (2 marks for each correctly stated point. Maximum of 2 to be graded. Sub Total: 4 marks)**
(Grand Total: 10 marks)

7. An insurance policy is a promise that the policyholder will be indemnified for losses resulting from a specified event. It is the responsibility of the broker to ensure that this promise is kept. Enumerate any five (5) basic activities of the broker in relation to claims.

Solution

The basic activities of the broker in relation to claims include:

- advising the client as to whether the loss is recoverable or covered by the policy;
- giving immediate notification of losses to insurers;
- advising the client of their rights and obligations under the policy;
- arranging for the completion of appropriate claims forms;
- ensuring that, where necessary, adjusters are appointed and briefing the client on the role of the adjuster;
- assisting the client in preparing the necessary documents and information in support of the claim to best present the claim to the market;
- collecting claim payments from insurers; and
- especially when a major loss occurs, attending site meetings with the adjuster and the insurer’s personnel.

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

8. (a) Briefly explain the following terms in relation to loss experience:
 (i) Deliberately uninsured losses (ii) Unintentional uninsured losses (6 marks)
 (b) State two (2) factors that determine co-insurance option under programme design and operations. (4 marks)

Solution:

- (a) (i) Deliberately uninsured losses are losses within the self-insured retention, losses where insurance had deliberately not been taken out
 (ii) Unintentionally uninsured losses are losses that the policy did not cover the loss, the sum insured was insufficient
 (3 marks for each correctly stated explanation. Sub Total: 6 marks)
- (b) The factors that determine co-insurance option under programme design and operations are where:
- the risk is high, complex or requires significant limits and no one insurer can provide 100% capacity;
 - it is needed to gain excess or spare capacity to allow for mid-term increases in risk or exposure; and
 - given today's economic environment, some clients may wish to look to spread their risk capital among a number of insurers.
- (2 marks for each correctly stated option. Maximum of 2 to be graded. Sub Total: 4 marks)
 (Grand Total: 10 marks)

9. (a) Explain the criteria that determine market leadership amongst underwriters on certain risk.
 (b) Explain the term "distance contract".

Solution

- (a) Individual underwriters tend to specialise and market leaders emerge for certain risks. The leader will **offer the best combination of knowledge, capacity and credibility to attract the support of other underwriters**, who may not have specialist knowledge.
 (5 marks)
- (b) A distance contract is one for which communication facilities are exclusively at a distance, i.e. by post, telephone, email or the internet and there is no face-to-face communication.
 (5 marks)
 (Grand Total: 10 marks)

10. (a) Briefly explain the following terms under the programme design and operation:
 (i) claim analysis (ii) deductible analysis (6 marks)
 (b) A summary claims experience is usually sufficient for small businesses, but larger companies may need data in addition. State any two (2) of such data. (4 marks)

Solution

- (a) (i) Claim Analysis: The aim of claims analysis is to identify trends within the data: Are claims getting worse or better? If I eliminated this or that process or location, what difference would it make?
 (ii) Deductible Analysis: Deductible analysis illustrates how historic claims would be allocated between amounts retained by the insured and amounts transferred to insurers under various deductible scenarios.
 (3 marks for each correctly stated explanation. Sub Total: 6 marks)
- (b) The data needed by larger companies in addition are:
- details of losses that were not insured, for example, losses falling within the excess/deductible or self-insured retention;

- a listing of all claims, compiled in a spreadsheet, showing all the usual data, such as date of occurrence, cause, amounts paid and outstanding amounts; and
- for liability claims a triangulation of claims data showing their development over time, because these claims are often notified sometime after their occurrence and can take years to settle completely.

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

(Grand Total: 10 marks)

11. (a) Best practice, reinforced by the NAICOM, requires policy wordings to be issued to the insured 'promptly'. Where the insurer is preparing the policy, the broker needs to do two (2) activities during this period. State the two (2) activities.

(4 marks)

- (b) State any three (3) reasons why effective diary system is essential. (6 marks)

Solution:

- (a) Where the insurer is preparing the policy, the broker needs to:

- keep a diary system so they can chase the insurer for the policy if necessary; and
- set up a system to check that the policy is correct once it has been received.

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

- (b) Effective diary systems are essential to:

- alert the broker that a renewal is due;
- ensure the tasks passed to another party, for example, a request for an extension of cover, are acted upon in good time;
- ensure that premiums are collected from clients and paid to the market within agreed timescales; and
- ensure that any warranties applied to the contract are handled prior to their requirement date.

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

(Grand Total: 10 marks)

12. Explain how a broker should handle a claim professionally, with at least four (4) explanations.

Solution

Where a broker is involved in all areas of claims handling, their first action on **receiving advice of a claim will be to confirm, from their records, that the loss falls under a policy they have arranged.** However, it is the insurer who will have the final say. What they do next varies according to the nature and probable size of the claim.

Whatever the claim, however, **the insurer must be notified immediately in all cases.** Unless there is a special arrangement between the broker and the underwriter, **notification to the broker is not deemed to be notifying the insurer as required by the policy condition.**

The skill and knowledge of the broker are required when there are questions about the validity of a claim or the extent of the loss. The broker should negotiate with the insurers to find a fair and amicable solution.

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

13. (a) Describe the term "insurance fraud." (4 marks)
- (b) Explain the following terms in relation to (a) above:
- (i) opportunistic fraud (ii) organised fraud (6 marks)

Solution:

(a) Fraud is a criminal offence: insurance fraud is 'fraud'. The law of agency does not override a broker's duty to comply with the law. A broker who pursues a claim on their client's behalf when they know it is fraudulent is committing an offence.

(4 marks for correct explanation)

(b) (i) **Opportunistic Fraud:** This is where individuals or firms exaggerate or inflate genuine claims to increase the value of a payout. In a minority of cases, opportunistic fraudsters will fabricate an entire claim, including, for example, deliberately causing damage so as to be able to claim.

(ii) **Organised Fraud:** This is where criminal gangs take out insurance policies with the specific intention of committing fraud.

(3 marks for each correctly stated explanation. Sub Total: 6 marks)

(Grand Total: 10 marks)

14. (a) State the OECD's *Risk Transfer Pricing Guidelines*. (4 marks)

(b) State any three (3) Risk Evaluation Process. (6 marks)

Solution:

(a) The OECD's *Risk Transfer Pricing Guidelines* state that:

- the pricing of goods/intangibles/services between one subsidiary and another must be on an 'arm's length' basis; and
- allocations must reflect the underlying risks of the subsidiary and its claims experience.

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

(b) The evaluation process includes the following functions:

- quantifying the effect that potential losses will have on the business;
- evaluating a 'worst-case scenario' with relation to its effects on the business and future plans;
- reviewing the effect of previous losses, both significant and minor, and measuring their effect on the business, with special consideration given to cash-flow and amended projects;
- measuring the estimated 'downtime' following loss, including any knock-on effect to other branches or any seasonal variations; and
- evaluating the business's ability to respond after serious loss, including any contingent crisis management planning.

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

(Grand Total: 10 marks)

Part II

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

Each question carries 30 marks.

15. (a) You have been assigned oversight responsibilities for a brokerage firm whose operational license is valid for two years, from January 1, 2020 to December 31, 2021. Upon review, you observe that the broker secured Professional Indemnity Insurance covering the period from September 2019 to September 2021.

As the oversight officer,

(i) explain broker's professional indemnity. (5 marks)

(ii) what recommendation should be made to your team-lead, on the issue of the insurance policy? (5 marks)

(iii) what is the rationale behind the response in (ii) above? (5 marks)

(b) (i) Explain two (2) basic characteristics of self-insured programme. (10 marks)

(ii) Explain the term “Umbrella Policy.”

(5 marks)

Solution

(a) (i) The professional Indemnity Insurance is a compulsory Insurance cover that protects a professional man against his legal liability towards third parties for injury, loss, or damage, arising from his own professional negligence or that of his employees in the conduct of his business. A broker’s professional indemnity policy provides cover for the broker’s broking activities. It does not provide cover for other activities the broker may undertake, such as underwriting, making valuations and giving legal advice. It also excludes any claims arising out of the insolvency of an insurer.

(ii) As the oversight officer, I will recommend that the broker should be instructed to provide an updated Professional Indemnity (PI) Insurance Certificate that covers the entire period of the operational license, specifically from January 1, 2020, to December 31, 2021. The extended policy should then be submitted as part of the compliance documentation of the firm to ensure continuous cover.

(iii) Rationale:

Professional Indemnity Insurance is a mandatory regulatory requirement designed to protect clients and third parties from financial losses arising from the broker’s professional negligence, errors, or omissions. The current policy, which ends in September 2021, leaves a significant gap of over 15 months (from October 2021 to December 2022) during which the broker would be operating without valid indemnity coverage.

This gap exposes clients, the broker, and the industry to unnecessary risks and violates the conditions for maintaining an operational license. Ensuring full alignment between the Professional Indemnity cover and the license period is essential for regulatory compliance, effective risk management, and maintaining public trust in the insurance broking profession.

(5 marks for each correctly stated explanation, recommendation and rationale. Sub Total: 15 marks)

(b) (i) The basic characteristics of self-insured program are:

- The client retains an amount on each loss: this retention will be considerably higher than a standard deductible, say ₦50,000.00, ₦100,000.00 or ₦250,000.00 each loss, or even more for larger risks;
- The full policy limit operates either in excess of the deductible or the deductible forms part of the limit; -it is important for clarity on this, as it can have a bearing on the way covers in excess of the ‘primary’ policy work; and
- The sum of all retentions is limited to a pre-determined amount or aggregate (or ‘agg’ in the language of the market).

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

(ii) An *umbrella policy* sits over a policy or programme, but is independent of the cover provided underneath. It will have its own wording – an umbrella does not follow any other terms and conditions – and its own attachment point, which may not necessarily be the total limit of indemnity provided by the primary and excess layers. There will be no ‘drop-down’ provision. It is a way of providing additional limits or specialist cover, e.g. product recall, at the catastrophe end of a client’s exposures.

(5 marks for correctly stated explanation)

(Grand Total: 30 marks)

16. (a) (i) Explain the term “risk retention”. (4 marks)

(ii) Distinguish between passive risk retention and active risk retention.

(6 marks)

- (b) (i) State five (5) obvious signs of an insurer in trouble. (10 marks)
(ii) Explain the term “risk transfer.” (10 marks)

Solution:

(a) (i) Risk retention means that an organisation will itself meet, in whole or in part, the cost of losses resulting from a particular risk.

(ii) **Passive risk retention** applies to situations where the organisation is unaware that a risk exists or, alternatively, where the existence of a risk is recognised but no active plan has been evolved to deal with it.

Active risk retention arises when an organisation takes a conscious decision to bear the cost of any losses resulting from a recognised risk.

(3 marks for each distinguishing explanation. Sub Total: 6 marks)

- (b) (i) The obvious signs of insurers in trouble are:
- rapid expansion, especially when excellent results are produced contrary to the general trend of the market;
 - petty delays (with little or no excuse) in settling claims and returning premiums;
 - unusual claims reserving practices,
 - before the demise of the Independent, anecdote abounded about serious injury claims reserved at tiny amounts;
 - an unreasonable stance being taken on large claims;
 - constant pressure on the broker to increase volume to the insurer;
 - the style and demeanour of the insurer – ‘pride comes before a fall’; and
 - an overbearing and dominant chief executive.

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

(ii) **Risk transfer** is where the insurer transfers the risk of receiving the premium from the broker to itself. If a broker receives the premium from a client, the insurance company assumes that it has received the premium as it has cascaded risk transfer to the broker. It is especially important for brokers to understand where the risk transfer is provided, as some wholesale brokers will cascade the risk transfer afforded to them by the insurer to their broker customers. If risk transfer is not provided by an insurer, it may affect whether the firm will allow placement of risks.

(10 marks for correctly stated explanation.)

(Grand Total: 30 marks)

17. (a) Briefly explain the following terms:
- | | |
|---------------------------------|---------------------------------|
| (i) Business Continuity Plan | (ii) Liability Survey |
| (iii) Post Loss Control Service | (iv) Disaster Recovery Services |
- (20 marks)
- (b) (i) State any three (3) activities involved in the final stage of the risk management process. (6 marks)
- (ii) Enumerate the two (2) options that a client has on “risk transfer”. (4 marks)

Solution:

(a) (i) **Business Continuity Plan:** A broker can provide assistance with the development of the business continuity plan (BCP) either as an extension of its property survey or as a dedicated service, encompassing a range of non-property matters.

The aim is to help the client understand the risks that could have an impact on their business, e.g., a major fire at their central warehouse, failure of utilities or a terrorist threat at their head office, etc. The broker will then help the client to put in place a plan to deal with such eventualities, so that the business gets back up and running in the shortest possible time and to ensure that positive messages are communicated to customers and suppliers.

(ii) **Liability Survey:** A similar situation applies with general liability surveys. Here a broker may identify a particular product risk and may sub-contract further investigation to, say, an expert in food safety and product recall.

(iii) **Post Loss Control Service:** Some brokers go beyond 'processing' a client's claim with insurers to providing active assistance in the event of a loss. Such as:

- quantifying and submitting a claim;
- halting any further damage; and
- undertaking detailed negotiations with loss adjusters, etc.

(iv) **Disaster Recovery Services:** As an extension to post loss control services, some brokers are involved in providing specific assistance in the event of a major loss, e.g. a product recall incident or a major transportation accident. The services range from access to specialist public relations (PR) support to a full crisis management capability.

(5 marks for each correctly stated explanation. Sub Total: 20 marks)

(b) (i) The activities involved in the final stage of the risk management process are:

- identify all the risk exposures;
- evaluate their impact on the business;
- control and eliminate them wherever possible; and
- put in effective risk prevention measures.

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

(ii) A client has the following options on risk transfer:

- either retain the risk themselves, or
- transfer it to someone else, e.g., an insurer.

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

(Grand Total:30 marks)

18. (a) There are a number of reasons why a multinational organisation, operating in several number of different countries, would want to consolidate its insurance arrangements around the world into one global programme. State five (5) advantages and five (5) disadvantages of a global approach. **(20 marks)**

(b) (i) State three (3) factors that should be considered by a Broker in deciding on which insurer to place a risk with. **(6 marks)**

(ii) The principle of contract certainty makes it a market rule that the cover should be agreed before inception. State two (2) approaches that help ensure that this happens. **(4 marks)**

Solution

(a) (i) Advantages of a global approach are:

- It offers consistency of cover.
- It provides central control of cover and cost.
- Savings are obtained through group buying.
- It offers simpler identification of losses worldwide.
- It can act as a vehicle for a global approach to risk management.

- It facilitates controlled participation in its own risk by the parent, for instance through a captive.
- Premium allocations can be adjusted for claims experience and used as a tool to encourage better risk management.

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

(ii) Disadvantages of a global approach are:

- The parent company needs to control from the centre, which may conflict with established management style.
- It could upset local relationships.
- It may cost more in aggregate terms.
- It can cause legislative problems.
- It reduces choice of insurers.
- The premium invariably has to be allocated between subsidiaries and may need to be paid locally. Often, this allocation process requires careful negotiation between different subsidiaries, especially those who do not like impositions from head office, or who feel their risk is better than others.
- Subsidiaries may be forced to 'buy' cover that either does not apply or has limits that are considerably in excess of their individual exposure.

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

(b) (i) The factors that should be considered by a Broker in deciding on which insurer to place a risk with are:

- credit facilities;
- support and sales literature;
- reputation and experience; and
- brokerage.

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

(ii) The approaches that help ensure that this happens are:

- using agreed wordings with insurers;
- specifying all clauses in full;
- separating clauses into those that will affect the premium, those that can largely be regarded as standard and those that will require specific negotiation; and
- making negotiating the wording an integral part of the placing negotiation with insurers.

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

(Grand Total: 30 marks)