



Chartered Insurance

Institute of Nigeria

Chief Examiners' Report

April 2026

*Associateship*

*(A01 - A10)*

# GENERAL RELATED ISSUES TO WATCH OUT FOR IN FUTURE SITTINGS

DO'S	DON'TS
Start studying for the next diet early (from November/December for April diets and May for October diets)	Concentrate all your time and effort on Part 1 at the detriment of Parts B & C (Intermediate and Associateship Level)
Start each question on a fresh page	Write after the 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 the tips learnt before the exams and concentrating on questions that would fetch you more marks.	Nurture fear on any subject. There is no subject that distinction cannot be obtained.
Attend the Annual Students' Forum.	Avoid the Annual Students' Forum.
<p><b>CANDIDATES SHOULD VISIT &amp; UNDERSTAND THE CONTENTS, REGULATIONS AND GUIDELINES/MARKING AGREEMENTS, ETC. ON THE FOLLOWING SITES: naicom.gov.ng (NAICOM), nigeriainsurers.org (NIA); ncrib.net (NCRIB); ilan.com.ng (ILAN); ciinigeria.org (CIIN)</b></p>	
<p><b>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 FACE NECESSARY DISCIPLINARY ACTIONS AND THE EMPLOYER WILL BE DULY INFORMED OF ANY SUCH INCIDENCE(S).</b></p>	
<p><b>STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!</b></p>	



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A01

RISK REGULATION AND CAPITAL ADEQUACY

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A01- RISK REGULATION AND CAPITAL ADEQUACY

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

The question was simple and straightforward. It tested the candidates' knowledge on the concept of risk. All candidates (100%) attempted it, and 93% passed.

### **Question 2**

The question examined the candidates' knowledge of risk analysis. All candidates (100%) attempted the question, with 93% achieving above-average performance.

### **Question 3**

The question examined data presentation. It recorded a 100% attempt rate, with 83% of candidates scoring above average.

### **Question 4**

The question tested the candidates' understanding of underwriting and authority. All candidates attempted the question, and 92% performed above average.

### **Question 5**

The question tested facultative reinsurance. All the candidates attempted it, with 92.3% of candidates passing. This reflects a very strong performance.

### **Question 6**

The question assessed the candidates' understanding of normal distribution. All candidates (100%) attempted the question; however, only 49.5% scored above average, indicating a weak performance.

### **Question 7**

The question tested the candidates' knowledge of the empirical relationship among the mean, median and mode. The question was attempted by all candidates, with 60% scoring above average. Although the question was relatively straightforward, some candidates demonstrated a lack of understanding.

### **Question 8**

The question examined the sampling techniques applied to quantitative analysis. All candidates attempted the question, and 56% passed above average.

### **Question 9**

Candidates were assessed on the NAICOM Prudential guideline and probability. Although this was a compulsory question, only 99% of candidates attempted it. Of those who did, just 49% scored above average, reflecting poor performance.

### **Question 10**

The question tested candidates' knowledge of financial rating. 69% of candidates attempted the question, with 84.8% of them passing it.

**Question 11**

The question examined candidates' knowledge of mean, mean deviation, standard deviation and co-efficient of variation. The question was attempted by 43.2% of candidates, with only 31% achieving above-average performance.

**Question 12**

Candidates were assessed on proposal form, actual and perceived received. The attempt rate was 92%, with 79% of candidates performing above average.

**Question 13**

The question tested candidates' understanding of regression. Only 33.19% of candidates attempted the question, but 73.7% of those who did passed, indicating good performance.

**Question 14**

The question tested candidates' knowledge of rating agencies. Out of 287 candidates, 151 attempted the question, representing an attempt rate of approximately 53%. Of these, 66% scored above average.

**Comments on Overall Performance:**

The overall performance was good with a pass rate of 61.32%.

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

Candidates are advised to intensify their preparation and adopt more comprehensive study approaches for future examinations.

## A01 – Risk, Regulation and Capital Adequacy

### Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. (a) Enumerate any two (2) generic meaning of a risk in insurance. (4 marks)  
(b) Distinguish between moral and physical hazards. (2 marks)

#### Solution

- (a) The four generic meanings of risk in insurance:
- Risk as the main cause of an undesired outcome
  - Risk as the object (i.e. the subject matter of insurance)
  - Risk as the probability of an undesired event taken place
  - Taking a risk by not putting in place what a reasonable man.
- (2 marks for each correctly stated point. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) Moral hazard relates to the attitude of the insured while physical hazard has to do with the physical feature(s) or characteristic(s) of the risk.  
(1 mark for each correctly stated distinguishing point. Sub-Total: 2 marks)  
(Grand Total: 6 marks)

2. Define the following in relation to risk analysis:  
(a) Risk Identification; (b) Risk Description; (c) Risk Estimation.

#### Solution

- (a) **Risk Identification:** This is a systematic way of identifying all the activities that may expose the organisation to various risks.
- (b) **Risk Description:** This is the explicit description of all the risks identified under the risk identification stage in a way that would be readily understood by all the stakeholders.
- (c) **Risk Estimation:** These are the estimates both in terms of quantitative & qualitative values (i.e. frequency of occurrence and impact level) to the organization. Usually in risk estimation, criteria such as H – M – L (H – stands for High; M – stands for Medium or Middle and L – stands for Low) may be employed in describing the estimate values or attributes.  
(2 marks each for correctly defined term. Total: 6 marks)

3. (a) Enumerate any two (2) methods of data presentation. (4 marks)  
(b) Define relative frequency? (2 marks)

#### Solution:

- (a) The methods of data presentation are:  
\* pictogram; \* tables; \* charts/diagrams; \* graphs.  
(2 marks for each correctly stated method. Maximum of 2 to be graded. Sub-Total: 4 marks)
- (b) Relative frequency is the ratio of the frequency (f) of a particular class limit to that of the total frequency of the whole data given. (i.e. the frequency of a class divided by the total sum of all the frequencies). Furthermore, relative frequency is usually expressed as a percentage.  
(2 marks for any correctly stated definition)  
(Grand Total: 6 marks)

4. (a) Define underwriting? (2 marks)  
(b) Distinguish between “binding authority” and “underwriting authority” (4 marks)

#### Solution

- (a) Underwriting is a process of determining whether or not the risk proposed for insurance should be accepted, and if it is to be accepted at what premium rates, terms & conditions. (2 marks)
- (b) “Binding Authority” gives the direct brokers and reinsurance brokers the authority to accept risks on behalf of the insurer/reinsurer and place the risks accepted with them; *while* “Underwriting Authority”

is the level of authority granted by an insurance company within certain predefined limits to the insurance intermediaries (such as the insurance brokers) to be involved in the underwriting process. It may equally be granted by the reinsurer to the insurance companies and reinsurance broking firms.

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

**(Grand Total: 6 marks)**

5. (a) What is facultative reinsurance? **(2 marks)**  
(b) State any two (2) advantages and any two (2) disadvantages of facultative reinsurance over treaty reinsurance. **(4 marks)**

**Solution**

(a) Facultative reinsurance is the placement and acceptance of business on an individual basis depending on its merit. Therefore, in a facultative reinsurance, there is no obligation on both the direct office and reinsurance company to place nor accept the risk being placed.

**(2 marks for correct and full definition)**

(b) **Advantages of facultative reinsurance over treaty reinsurance:**

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

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

**Disadvantages of facultative reinsurance over the treaty**

- It is very cumbersome in administration
- Acceptance is not automatic
- Possibility of leakages in vital information to competitors
- Possibility of loss of goodwill

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

**(Grand Total: 10 marks)**

6. (a) What is a “normal distribution”? **(2 marks)**  
(b) Enumerate any two (2) characteristics of a normal distribution. **(4 marks)**

**Solution**

(a) A normal distribution is a continuous probability distribution which can assume any value. **(2 marks)**

(b) The characteristics of a normal distribution are:

- It is a continuous distribution
- The mean ( $\mu$ ) lies at a point under the peak of the curve
- It is symmetrical (ie has both the two tails or sides exactly alike)
- In some specific areas under curve, there lie certain standard deviations above and below the mean ( $\mu$ ).
- The two tails of the curve do not touch the horizontal axis theoretically.
- The mean ( $\mu$ ) is zero, while the standard deviation ( $\delta$ ) is one for a standard normal distribution.
- It is bell shape

**(1 mark each for any correctly stated characteristic. Maximum of 4 characteristics to be graded. Total: 4 marks)**

7. (a) The mean, median and mode has an empirical relationship between them. Write it out. **(4 marks)**  
(b) What is a unimodal distribution? **(2 marks)**

**Solution**

(a) Mean – Mode = 3 (Mean – Median) **(4 marks)**

(b) A unimodal distribution is a distribution where a single mode exists. **(2 marks)**

8. Enumerate any four (4) sampling techniques that are usually applied to quantitative analysis.

**Solution**

The following are sampling techniques that are usually applied to quantitative analysis:

- \* random sampling;                      \* stratified random sampling;                      \* systematic sampling;
  - \* cluster sampling;                      \* double sampling;                      \* expert sampling;
  - \* purposive sampling;                      \* convenience sampling;                      \* quota sampling.
- (1½ marks for each correctly stated technique. Maximum of 4 to be graded. Total: 6 marks)**

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) According to NAICOM Prudential Guidelines for Insurers, Insurers' activities by guidelines are broadly classified into two categories; core and non-core- activities. List any four (4) of the core activities and any six (6) of the non-core activities. **(10 marks)**
- (b) How can the term “probability of an event (E) occurring” be defined? **(2 marks)**
- (c) A pair of dice is tossed.
- (i) Draw the sample space. **(5 marks)**
  - (ii) What is the probability that the sum of the two dice which appeared is eleven? **(3 marks)**
  - (iii) What is the probability that both dice showed the same number? **(3 marks)**
  - (iv) What is the probability that the sum of both dice gives a sum of at least nine? **(3 marks)**
- (d) A fair coin is tossed four times.
- (i) Construct a sample space for the four tosses of the coin. **(10 marks)**
  - (ii) List out all the possible outcomes of the experiment. **(8 marks)**
  - (iii) What is the probability of obtaining at least two heads? **(3 marks)**
  - (iv) What is the probability of more heads than tails? **(3 marks)**

**Solution**

- (a) The core activities of insurers, according to NAICOM Prudential Guidelines for Insurers, are:
- \* Underwriting;                      \* Claims Management;
  - \* Enterprise Risk Management; \* Investment and Related Benefits
  - \* Compliance with AML/CFT requirements
- (1 mark for any correctly stated activity. Maximum of 4 to be graded. Sub-Total: 4 marks)**

The non-core activities, according to NAICOM Prudential Guidelines for Insurers, are:

- \* Reinsurance Cession;                      \* Printing Services;
  - \* Loss Adjusting Services;                      \* Banking Services;
  - \* Marine Superintendent Services;                      \* Market Information Service;
  - \* Utilities and Phones Services; \* Purchase of Goods and Services;
  - \* Maintenance of Company Assets;                      \* Transportation Services.
- (1 mark for any correctly stated activity. Maximum of 6 to be graded. Sub-Total: 6 marks)**  
**(Grand Total: 10 marks)**

- (b) The “probability of an event (E) occurring” can be defined as the ratio of the number of times event (E) can occur to the total number of possible outcomes.

Thus,  $P(E) = \frac{\text{Number of times event E can occur}}{\text{Total number of possible outcomes}}$

In other words, the probability of any event is obtained by dividing the number of time(s) that the event can occur by the total number of possible outcomes. Probability ranges from 0 to 1.

**(2 marks for any correctly stated definition. Sub-Total: 2 marks)**

- (c) (i) A pair of dice is tossed. The construction of the sample space table is as shown below:

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6
4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

(5 marks for the correctly stated table. Sub-Total: 5 marks)

- (ii)

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6
4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

Probability that the sum of the two dice which appeared is eleven =  $2/36 = 1/18$  (3 marks)

- (iii)

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6
4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

Probability that both dice showed the same number =  $6/36 = 1/6$  (3 marks)

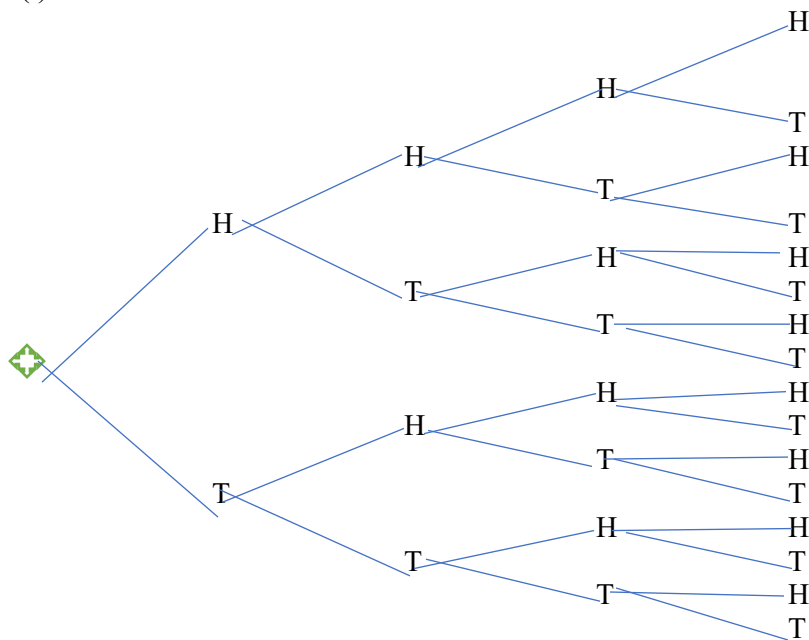
- (iv)

	1	2	3	4	5	6
1	1,1	1,2	1,3	1,4	1,5	1,6
2	2,1	2,2	2,3	2,4	2,5	2,6
3	3,1	3,2	3,3	3,4	3,5	3,6
4	4,1	4,2	4,3	4,4	4,5	4,5
5	5,1	5,2	5,3	5,4	5,5	5,6
6	6,1	6,2	6,3	6,4	6,5	6,6

Probability that the sum of the two dice is at least nine =  $10/36 = 5/18$  (3 marks)

(Grand Sub-Total: 14 marks)

(d) (i)



(2½ marks for each correctly shown horizontal space/diagram. Total: 10 marks.)

(ii)  $\{X\} = \{HHHH, HHHT, HHTH, HHTT, HTHH, HTHT, HTTH, HTTT, THHH, THHT, THTH, THTT, TTHH, TTHT, TTTH, TTTT\}$

(½ marks for each correctly stated combination. Sub-Total: 8 marks)

(iii)  $P(\text{of obtaining at least two heads}) = 11/16 = 0.6875.$  (3 marks)

(iv)  $P(\text{of obtaining at more heads than tails}) = 5/16 = 0.3125.$  (3 marks)

(Grand Sub-Total: 24 marks)

(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) In practice, insurance companies prefer to have a financial rating by the rating agencies. Explicitly state any four (4) reasons why insurance companies prefer to have a financial rating by the rating agencies (20 marks)
- (b) State any four (4) options available to insurance companies in case of shortfall regarding its regulatory capital? (10 marks)

### Solution

- (a) Insurance companies prefer to have a financial rating by rating agencies because:
- it demonstrates to policyholders that a third party has measured the likelihood of the insurance company being able to meet their financial obligations/commitments
  - it allows for financial strength comparisons among different insurance companies
  - Brokers and clients can decide on their risk appetite by choosing the financial rating that they prefer for their insurance carriers.
  - it allows for premium differentiation among the insurance companies, where by an extremely strong companies charge higher premium than a low rated company
  - it is another means of determining whether an insurance company is solvent or insolvent

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

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

- \* issuing new shares in a limited liability company;
- \* switching out of assets;
- \* reducing the volume of business written, particularly in lines which generate a high capital requirement.
- \* borrowing;
- \* purchasing reinsurance;

(3½ marks for any correctly stated option. Maximum of 4 to be graded. Sub-Total: 14 marks)  
(Grand Total: 34 marks)

11. The data below was obtained from Chartered Insurance Institute of Nigeria in respect of marks scored by candidates in one of the Institute’s examinations for Year 2023 April Diet:

Marks	1-10	11-20	21-30	31-40	41-50	51-60	61-70	71-80	81-90	91-100
Frequencies	6	9	3	8	30	9	16	4	10	5

Find the:

- (a) mean;
- (b) mean deviation;
- (c) standard deviation;
- (d) co-efficient of variation.

**Solution**

Class Limits	F	Class mid points (X)	Fx	/X – X/	f/X – X/	fX <sup>2</sup>
1 – 10	6	5.5	33	5.5 – 50.8 = 45.3	271.8	181.5
11 – 20	9	15.5	139.5	15.5 – 50.8 = 35.3	317.7	2,162.25
21 – 30	3	25.5	76.5	25.5 – 50.8 = 25.3	75.9	1,950.75
31 – 40	8	35.5	284	35.5 – 50.8 = 15.3	122.4	10,082
41 – 50	30	45.5	1,365	45.5 – 50.8 = 5.3	159	6,210.75
51 – 60	9	55.5	499.5	55.5 – 50.8 = 4.7	42.3	27,722.25
61 – 70	16	65.5	1,048	65.5 – 50.8 = 14.7	235.2	68,644
71 – 80	4	75.5	302	75.5 – 50.8 = 24.7	98.8	22,801
81 – 90	10	85.5	855	85.5 – 50.8 = 34.7	347	73,102.5
91 – 100	5	95.5	477.5	95.5 – 50.8 = 44.7	223.5	45,601.25
	<b>100</b>		<b>5,080</b>		<b>1,893.6</b>	<b>258,458.25</b>

(¼ marks for each correct figure in the table above. Sub-Total: 15 marks)

(a) Mean =  $Efx/Ef = 5,080/100 = 50.8$  (4 marks)

(b) Mean Deviation =  $1,893.6/100 = 18.936$  (5 marks)

(c) Standard Deviation =  $\sqrt{\frac{258,458.25}{100} - \frac{(5,080)^2}{100}}$   
 $= \sqrt{2,584.58 - (50.8)^2} = \sqrt{2,584.58 - 2,580.64}$   
 $= \sqrt{3.94} = 1.985$  (5 marks)

(d) Coefficient of variation = Standard Deviation/Mean \* 100%  
 $= 1.985/50.8 * 100\% = 3.91\%$  (5 marks)

(Grand Total: 34 marks)

12. (a) Define a “proposal form”? (2 marks)

(b) Enumerate any four (4) ways through which a proposal may be made by the proposer to an insurance company. (20 marks)

(c) Differentiate between “perceived and actual risks” with at least two (2) differentiations. (12 marks)

**Solution**

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

(2 marks for any correctly stated definition. Sub-Total: 2 marks)

(b) The ways through which a proposal may be made by the insured to an insurance company is:

- \* through completion of the hard copy of the proposal form;
- \* through telephone calls; \* via a broker;
- \* via a broker slip (Lloyd’s market); \* via the internet

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

(c) Perceived risks are risks as being perceived by individual persons. They are generally influenced by the following characteristics:

- \* familiarity; \* level of control; \* personal or societal consequences;
- \* frequency of the risky event; \* severity of the risky event.

while **Actual risks** are those risks we can directly observe, especially through physical counting of the current or past events relating to them. Examples are the number of motor accidents, theft cases, fire incidents and number of death claims say over the last 3 underwriting years. Since these events have actually taken place and are observable, we may thus refer to them as “real or observable risk”.

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

(Grand Total: 34 marks)

13. (a) Define regression? (2 marks)

(b) Enumerate any two (2) uses of regression. (6 marks)

(c)

X	100	140	150	110	122	82	148	170	145	115
Y	80	87	90	85	86	57	88	110	89	83

(i) Draw a scattered diagram for the above data. (6 marks)

(ii) Determine the regression line of y on x. (20 marks)

**Solution**

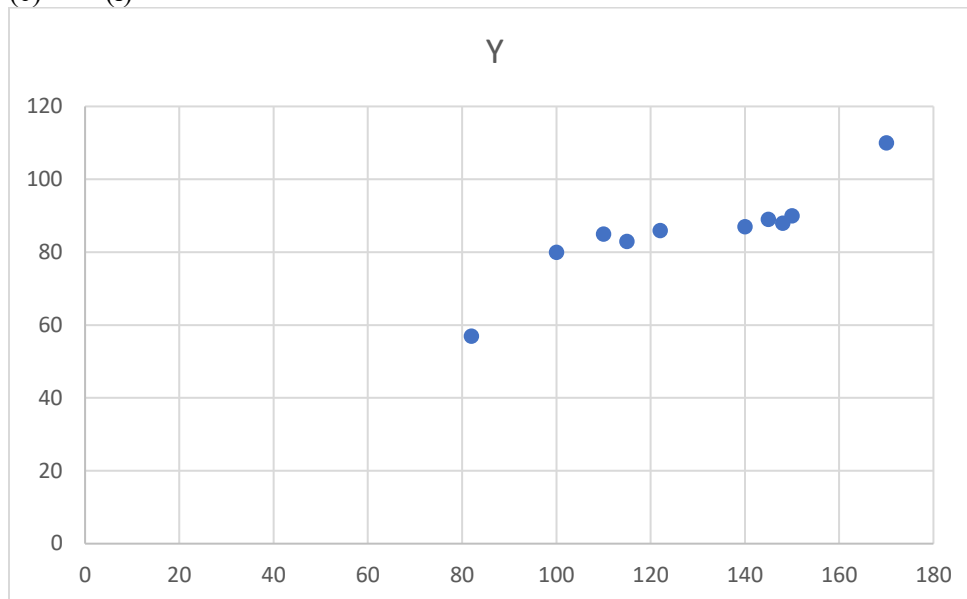
(a) Regression may be defined as the relationship which exists between two or more variables. This relationship may have to do with a change or changes which may occur to one of the variables as a result of a change or changes in the other variable. (2 marks)

(b) The uses of regression are:

- (i) to determine the relationship which may exist between two or more variables;
- (ii) to improve our knowledge on the variable of interest.
- (iii) for estimation;
- (iv) for prediction.

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

(c) (i)



(6 marks)

(ii) Let the regression line of y on x be represented by the

$$y = a + bx$$

where  $a = \frac{\sum y}{n} - \frac{b \sum x}{n}$

(1 mark)

(1½ marks)

$$\text{and } b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

(1½ marks)

X	Y	XY	X <sup>2</sup>
100	80	<b>8,000</b>	<b>10,000</b>
140	87	<b>12,180</b>	<b>19,600</b>
150	90	<b>13,500</b>	<b>22,500</b>
110	85	<b>9,350</b>	<b>12,100</b>
122	86	<b>10,492</b>	<b>14,884</b>
82	57	<b>4,674</b>	<b>6,724</b>
148	88	<b>13,024</b>	<b>21,904</b>
170	110	<b>18,700</b>	<b>28,900</b>
145	89	<b>12,905</b>	<b>21,025</b>
115	83	<b>9,545</b>	<b>13,225</b>
1,282	855	<b>112,370</b>	<b>170,862</b>

(½ mark for each bolded entry above. Total: 11 marks)

$$b = \frac{10(112,370) - (1,282)(855)}{10(170,862) - (1,282)^2} \quad (1 \text{ mark})$$

$$= \frac{1,123,700 - 1,096,110}{1,708,620 - 1,643,524} = \frac{27,590}{65,096} = 0.4238 \quad (1 \text{ mark})$$

$$a = \frac{855}{10} - \frac{0.4238(1,282)}{10} = 85.5 - 54.33 = 31.17 \quad (1 \text{ mark})$$

Therefore, the regression line,  $y = 3.17 + 0.4238x$  (2 marks)

(Sub-Total: 26 marks)

(Grand Total: 34 marks)

14. (a) What is the significance of a rating agency to an insurance company? (2 marks)

(b) Outline the procedures or stages involved in the rating process between the insurance company and rating agency. (32 marks)

**Solution**

(a) The significance of a rating agency to an insurance company is that it assists in evaluating the financial stability and risk profile of the insurance company. (2 marks)

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

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

(4 marks for each correct and completely stated procedure/stage. Sub-Total: 32 marks)

(Grand Total: 34 marks)



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A02

REINSURANCE: APPLICATION AND PRINCIPLES

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A02 - REINSURANCE: APPLICATION AND PRINCIPLES

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

The question examined on how statistical data are obtained by reinsurers. It was well attempted by almost all the candidates, with a pass rate of 90%.

### **Question 2**

The question examined the candidates' knowledge of proportional and non-proportional reinsurance programmes. Over 90% of candidates attempted the question; however, pass rate was 45%.

### **Question 3**

The question examined how individual risks are analysed by a reinsurance company. This question was well attempted, with over 90% of candidates achieving a pass.

### **Question 4**

The question assessed how the capacity of the types of proportional reinsurance treaty programme is determined. More than 90% of candidates attempted the question, with approximately 75% passing.

### **Question 5**

The question, which focused on facultative reinsurance arrangements, was attempted by about 90% of candidates, with a 70% pass rate.

### **Question 6**

The question examined investible funds and types of investment for a reinsurance company. This was attempted by 90% of candidates, with a pass rate of 75%.

### **Question 7**

The question was well answered as it tested candidates' knowledge of the appointment of a reinsurer. It recorded an 80% pass rate.

### **Question 8**

This question examined burning cost. It was attempted by less than 70% of candidates and had a pass rate of 45.75%.

### **Question 9**

A compulsory question covering NIIRA, investment of funds, and calculation of surplus treaty was attempted by over 98% of candidates, with a pass rate of 51%.

### **Question 10**

Only 30% of candidates attempted this question, with a low pass rate of 28%, indicating it was not popular among candidates.

### **Question 11**

The question examined on retrocession. Majority of those who attempted it passed, with an overall pass rate of 70%.

**Question 12**

The question, which focused on legacy reinsurance and its advantages and disadvantages, was popular, with 95% of candidates attempting it and an 80% pass rate.

**Question 13**

The question examined candidates' knowledge of investment portfolio. About 65% of candidates attempted the question, with 58% achieving a pass, indicating a fairly good performance.

**Question 14**

The question which examined reinsurance contract, was not well attempted, with only 20% of those who attempted it passing.

**Comments on Overall Performance:**

The overall performance was slightly above average, with a pass rate of 55%.

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

Candidates are encouraged to study adequately for future examinations.

## A02 – Principles and Application of Reinsurance

1. Enumerate any four (4) sources where statistical data are internally obtained by reinsurers.

### Solution

The following areas of operation records and produce their own statistical information internally in a reinsurance company:

- \* reinsurance underwriters;
- \* retrocession department;
- \* finance department;
- \* claims department;
- \* technical processing department;
- \* security department.

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

2. Explain with an example the difference between proportional and a non-proportional reinsurance programme.

### Solution

**Proportional Reinsurance Programme** is a method of reinsurance that involves sharing of risks, premium and liability according to a particular proportion. Examples include Surplus treaty, quota share treaty, facultative proportional and facultative obligatory reinsurance programmes. Proportional reinsurance allows a cedant to increase its capacity through a pro-rata sharing of exposures. All premiums and claims on risks falling within the reinsurance programme will be shared between the reinsured and the reinsurers. (3 marks)

**Non- Proportional Reinsurance** are based on a different concept; the cedant undertakes payments of all losses up to a pre-agreed figure. The balance of any loss which exceeds that agreed limit will be met by reinsurers, usually up to a contractual maximum. The amount assumed by the reinsured is usually known as deductible. Example of Non-Proportional reinsurance includes; risk excess of loss, Catastrophe Excess of Loss, Stop Loss/Aggregate Excess of Loss. (3 marks)

(Grand Total: 6 Marks)

3. Once results for individual risks and classes have been analysed, the Management of a reinsurance company can determine appropriate steps to remedy the situation. Enumerate any three (3) of those options open to a reinsurance company on the available remedy options.

### Solution

The options open to a reinsurance company once results for individual risks and classes have been analysed are:

- ceasing to write a certain class of business;
- increasing rates;
- \* not renewing certain contracts;
- \* reducing costs.

(2 marks for each correctly stated option. Maximum of 3 to be graded. Grand Total: 6 marks)

4. How is the capacity on the two (2) types of proportional reinsurance treaty programme determined?

### Solution

Capacity of a proportional reinsurance treaty programme is determined as follows:

**For Quota Share:** the capacity is determined by the percentage of the gross limit per risk which is reinsured. This is the difference between 100% and the percentage calculated by working out the desired retention in monetary terms as a percentage of the maximum limit per risk. (3 marks)

**For Surplus Treaty:** the capacity is determined by the number of lines, each line representing the reinsured's retention per risk. (3 marks)

(Grand Total: 6 marks)

5. Outline three (3) reasons why an underwriter will use facultative reinsurance arrangement.

**Solution**

The reasons why an underwriter will use facultative reinsurance arrangement are:

- when risks to be reinsured fall outside the scope of the treaty;
- when the sum insured exceeds the treaty limit;
- the risk may be of such nature that the reinsured may not want to cede to the treaty;
- for specialist class of business (e.g. satellite launches or political risks)
- for extra-hazardous risks.

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

6. (a) What are the two (2) main sources of investible funds for a reinsurance company. **(2 marks)**

(b) Enumerate any two (2) basic types of investments that are commonly open to reinsurers. **(4 marks)**

**Solution**

(a) The reinsurance company has two main sources of investible funds namely;

- capital or non-insurance funds.
- reinsurance fund generated by the business written.

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

(b) The basic types of investments that are commonly open to reinsurers are:

\* cash                      \* fixed-interest securities                      \* equities including Property

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

**(Grand Total: 6 marks)**

7. Enumerate any six (6) factors that an insurer should look for whilst choosing its reinsurer.

**Solution**

The factors an insurer should look for whilst choosing its reinsurer are:

- financial strength ratings of the reinsurers;
- whether or not the reinsurer is authorised to transact the type of business;
- strength of the reinsurers balance sheet and solvency margin;
- business philosophy of the reinsurer;
- communication;
- type of reinsurance required;
- business acceptance policy of the reinsurer selected;
- standard of security required;
- reputation of the reinsurer;
- underwriting policy and type of business written;
- experience and quality of management;
- retrocession policy of the reinsurer;
- ultimate ownership of the reinsurer.

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

8. Explain “burning cost”; how it operates and its formula.

**Solution**

This is a common method of experience rating under a non-proportional treaty arrangement. It takes the loss ratio on a portfolio into consideration in arriving at the premium rate. Burning cost

are worked out by taking the aggregate of individual losses to the layer, divided by the total ratable income on a per year basis. The burning cost calculation would then be multiplied by the loading factor; these are most commonly 100/70<sup>th</sup>, 100/75<sup>th</sup> and 100/80<sup>th</sup>. They can also be expressed as percentages.

Burning cost formula is expressed as:  $\frac{\text{incurred claim}}{\text{GNPI}} * 100 * 100/70$   
**(2 marks for each correctly stated explanation of the term;**  
**2 marks for correctly stated of how it operates;**  
**2 marks for correctly stated formula)**  
**(Grand Total: 6 marks)**

## Part II

### Compulsory Question.

**This question carries 50 marks.**

9. (a) (i) How is insurance business categorised under the Nigerian Insurance Industry Reform Act (NIIRA, 2025) in Section 3? **(4 marks)**  
 (ii) State any three (3) groups under each of the division in (i) above. **(6 marks)**  
 (b) What six (6) needs will a board of directors seek to balance when the directors identify the company's investment policy? **(6 marks)**  
 (c) ABC Insurance Plc agreed the following treaty terms with its reinsurers for Year 2025 underwriting year to cover its Property line of business:
- Maximum Retention: ₦100,000,000
  - 10-line 1<sup>st</sup> Surplus Treaty
  - 5 line 2<sup>nd</sup> Surplus Treaty

ABC Insurance purchased a non-proportional treaty programme to protect its gross retention as follows:

- 1<sup>st</sup> Layer : ₦30,000,000 Xs 20,000,000
- 2<sup>nd</sup> layer: ₦50,000,000 Xs 50,000,000

**Information:** Any risk above its underwriting capacity is managed through proportional facultative reinsurance.

The company underwrites the underlisted risks:

- Beta Manufacturing Nigeria Limited with Sum Insured of ₦2,000,000,000.00 and Premium ₦4,000,000.00
- Tango Nigeria Limited with Sum Insured of ₦1,200,000,000.00 and premium of ₦2,400,000.00.

**Required:**

- (i) Apportion the risks. **(11 marks)**  
 (ii) Allocate the liability if there was a loss on the two risks as follows:
- Beta Manufacturing: ₦1,800,000,000.00
  - Tango Nigeria Limited: ₦1,150,000,000.00 **(23 marks)**

### Solution

(a) (a) The Nigerian Insurance Industry Reform Act (NIIRA) 2025, in Section 3, categories insurance business into two main classes:

- (i) Life Insurance Business **(2 marks)**  
 (ii) Non-Life Insurance Business. **(2 marks)**

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

- (b) (i) Life Insurance Business:  
 \* Individual Life Assurance Business; \* Group Life Assurance Business

\* Annuity

\* Health Insurance Business.

(ii) Non Life Insurance Business:

\* Fire Insurance Business;

\* General Accident Insurance Business;

\* Motor Vehicle Insurance Business;

\* Marine Insurance Business

\* Energy (Oil, Gas and Power) Insurance Business;

\* Engineering Insurance Business;

\* Bonds Credit Guarantee and Suretyship Insurance Business; and

\* Agricultural Insurance business other than schemes covered by the Nigerian Agricultural Insurance Corporation Act.

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

(b) The needs that a board of directors will seek to balance when the directors identify the company's investment policy are:

- preserve and enhance the capital of the company;
- generate adequate levels of return compatible with risk;
- have adequate cash available in relation to cash flow requirements;
- match assets and liabilities as and when they are expected to fall due for payment;
- match currency assets to currency liabilities so that the effect of currency gains or losses are minimised;
- spread the holdings of investments so that there is not excessive reliance on any one institution or sector in the event of collapse or failure of that institution or sector;
- consider any differential tax implications of alternative policies;
- segregate life funds from general funds;
- fit the policy with the social policy (if any) of the company; and identify countries where local investment is a legal requirement or subject to controls.

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

(c) (i) Apportionment of the risk to the various reinsurance programmes.

	<b>Beta Manufacturing: 2,000,000,000</b>		<b>Tango Nigeria: 1,200,000,000</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Retention	100,000,000	100,000,000/ 2,000,000,000 = 5%	100,000,000	100,000,000/ 1,200,000,000 = 8.33%
10-line surplus <sup>1st</sup>	10 x 100,000,000 = <b>1,000,000,000</b>	1,000,000,000/ 2,000,000,000 = 50%	10 x 100,000,000 = <b>1,000,000,000</b>	1,000,000,000/ 1,200,000,000 = 83.33%
5-line surplus <sup>2nd</sup>	5 x 100,000,000 = <b>500,000,000</b>	500,000,000/ 2,000,000,000 = 25%	The balance of 100m is less than the capacity, hence = <b>100,000,000</b>	100,000,000/ 1,200,000,000 = 8.33%
Proportional Fac	2,000,000,000 – 100,000,000 – 1,000,000,000 – 500,000,000 = <b>400,000,000</b>	100,000,000/ 2,000,000,000 = 20%	= <b>0</b>	<b>0%</b>

Assumption: It is assumed that the company retained its maximum retention of 100,000,000 on both Beta and Tango.

Retention Amount and % = (1½ marks each for Beta & Tango = 3 marks)  
 1<sup>st</sup> surplus amount and % = (1½ marks each for Beta & Tango = 3 marks)  
 2nd surplus amount and % = (1½ marks each for Beta & Tango = 3 marks)  
 Fac amount and % = 2 marks; Beta = 2 marks

(Sub Total:11 marks)

**Note to markers: Other possibilities of retaining less than 100,000,000 on each risk is possible and should be awarded full mark provided the calculation follows through correctly.**

(ii) Allocation of losses

To allocate the losses, we would use the proportion of each risk as calculated in (i) above.

	Beta Manufacturing	Tango Nigeria
Total Loss	1,800,000,000	1,150,000,000
Retention	5% x 1,800,000,000 = <b>90,000,000</b>	8.33% x 1,150,000,000 = <b>95,833,333</b>
1st surplus	50% x 1,800,000,000 = <b>900,000,000</b>	83.33% x 1,150,000,000 = <b>958,333,333</b>
2nd surplus	25% x 1,800,000,000 = <b>450,000,000</b>	8.33% x 1,150,000,000 = <b>95,833,333</b>
Fac	20% x 1,800,000,000 = <b>360,000,000</b>	0

Reading the % correctly from (i) (1 mark) for each (Sub Total:8 marks)

Correct calculation of the share of the loss (2 marks each) but only (1 mark) for FAC under Tango (15 marks)

(Sub Total: 23 marks)

*Note to markers: The % allocated should match those from (i). As noted in (i), full mark should be given if the candidate makes an assumption of less than maximum retention on each of the risk*

(Grand Total: 50 marks)

### Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. Briefly explain the following:

- |                                      |                                      |
|--------------------------------------|--------------------------------------|
| (a) Interlocking Clause (8 marks);   | (b) Hours Clause (8 marks);          |
| (c) Two Risk Warranty (6 marks);     | (d) Event Limit (4 marks);           |
| (d) Co-Reinsurance Clause (4 marks); | (f) Applicable Law Clause (4 marks). |

#### Solution

(a) **Interlocking Clause:** This clause is incorporated into ‘policies issued or renewed’ contracts. Its effect is that if a loss falls under policies that incept in two different years, the reinsured is neither penalised nor benefits from having to run two deductibles or two limits. A loss is pro-rated over the involved policies.

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

(b) **Hours Clause:** This is inserted into catastrophe cover. Catastrophe treaties are intended to protect the reinsured against the risk of an accumulation of claims arising from a specific, unexpected, sudden and external happening which can be located in time and place and which is the proximate cause of each and every loss giving rise to the claim under the treaty. Sometimes it can be difficult to separate the circumstances which together constitute the ‘catastrophe. Reinsurers

have introduced the hours clause as definition of loss occurrence. This clause recognises the difficulties in defining the damage arising out of natural perils (e.g. earthquake). The clause serves to enable the treaty to cover all damage arising out of the same insured event within a specified number of hours, even though in reality there may be interludes when there is no activity. The number of hours varies from perils to perils; typically, 72 hours is appropriate for earthquake and weather perils.

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

(c) **Two Risk Warranty:** This are imposed in a catastrophe cover to indicate when the cover can be triggered. This means more than one risks has to be damaged by the insured peril before the catastrophe treaty will operate. Catastrophe treaties are not intended to cover the loss arising out of a large single risk, such as a multi-storey office block, which is severely damaged by an explosion, nor the underestimation of the EML for one risk. Reinsurers try to safeguard themselves by ensuring that the catastrophe deductible is substantially higher than the working deductible.

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

(d) **Co-Reinsurance Clause:** To encourage a prudent underwriting and acceptance policy on the part of the reinsured, catastrophe reinsurance contracts often contain a co-reinsurance clause, whereby the reinsured has to bear a fixed percentage, say 5% of all losses. **(4 marks)**

(e) **Event Limit:** The limit on the treaty is the extent of the reinsurer's liability. There is often an event limit written into a per risk treaty. The effect of this is that the reinsurers' liability is restricted to a specific sum; say the equivalent of four or five total losses under the treaty, arising out of a particular event such as hurricane. **(4 marks)**

(f) **Applicable Law Clause:** If there was no clear jurisdiction indication in the contract, the jurisdiction was to be the place most suitable for the contract which could again be the local jurisdiction and identifies the law(s) to which the reinsurance agreement should apply; not the subject matter of the reinsurance contract (which is governed by the acts in force clause. **(4 marks)**

**(Grand Total: 34 marks)**

11. (a) What is retrocession? What are the three (3) principal objectives for a reinsurer when designing a retrocession programme? **(10 marks)**
- (b) A portfolio of reinsurance business differs from an insurance portfolio in two main ways. Highlight these two (2) important ways. **(8 marks)**
- (c) Discuss three (3) different lines in which a retrocession programme is usually arranged. **(12 marks)**
- (d) It is more hazardous to write retrocession business than insurance or reinsurance business because the Retrocessionaire is more remote than the original business. State any effect of this statement. **(4 marks)**

### **Solution**

(a) Retrocession is a means by which reinsurers arrange cover to protects its portfolio of reinsurance business. A factor in the underwriting of reinsurance contracts is the availability to the reinsurer of reinsurance facilities to protect its own writings/exposures. **(4 marks)**

The three principal objectives for a reinsurer when designing a retrocession programme are to:

- increase acceptance capacity;
- limit the exposure to loss;
- give greater stability to the results.

**(2 marks for each correct and completely stated objective. Sub-Total: 6 marks)**

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

(b) A portfolio of reinsurance business differs from an insurance portfolio in the following important ways:

- the reinsurance receives little or no information about the individual risks re-ceded to them under a reinsurance treaty. They are only aware of the maximum limits of the treaty per risks or per event
- the reinsurer has no means of calculating precisely total exposure.

(4 marks for each correctly stated way. Sub-Total: 8 marks)

(c) The retrocession programme will usually be arranged on the following lines:

- **Facultative business:** protection is arranged either on a pro-rata basis (quota share or surplus or by an excess of loss per risk cover. (4 marks)
- **Treaty business:** A retrocession pool may be established and consists of fixed or variable shares of each inwards acceptance. This pool will be used to reduce exposure on each treaty to an acceptable level. Separate retrocession programme may be arranged for pro-rata and non-proportional business, and for each of the main classes of insurance business; property, motor, marine, liability and aviation. (4 marks)
- **Whole account protection:** once a reinsurer has arranged separate protection for each parts of its portfolio, the reinsurer may decide to take out additional excess of loss cover to protect against the accumulation of losses from different types of business arising from a single event. (4 marks)

(Sub-Total: 12 marks)

(d) It is more hazardous to write retrocession business than insurance or reinsurance business because the Retrocessionaire is more remote than the original business. The effects are:

- the premium received will have been reduced from the original premium by the deduction of commission, reinsurance commission, overriding commissions and brokerage;
- it becomes more difficult for the retrocessionaire to identify its exposures.

(2 marks for any correct and completely stated effect. Only 1 to be graded. Sub-Total: 4 marks)

(Grand Total: 34 marks)

12. (a) State and explain the two (2) main types of reinsurance. (6 marks)

(b) State four (4) advantages each of the two main types of reinsurance. (20 marks)

(c) State two (2) disadvantages each of the two main types of reinsurance. (8 marks)

### Solution

(a) The two main types of reinsurance are treaty and facultative reinsurance. (2 marks)

Treaty reinsurance is a contract that automatically accepts a large number of similar risks. Instead of having to place all risks individually with the reinsurer and having the possibility that each separate one could be accepted or rejected, the solution was to develop an obligatory contract where the insurer is bound to cede a fixed amount of its business and the reinsurer is obliged to accept. The treaty is a contract that outlines what terms and what share of risk is to be placed with a reinsurer. (2 marks)

Facultative reinsurance is an individual reinsurance of large or hazardous single risks. Facultative means optional; both parties have a choice as to whether to enter into the contract or not. Each risk is considered individually with the original insurer determining whether they wish to place it as reinsurance and the reinsurer determining whether they want to accept the risk. (3 Marks)

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

(b) **Advantages of Treaty Reinsurance are as follows:**

- the reinsured has automatic reinsurance cover;

- the reinsured receives a contribution towards costs (ceding commission) for proportional treaties;
- the reinsured can receive an additional contribution if the business is profitable (profit commission) for proportional treaties;
- administration is quicker and easier than for facultative reinsurance, particularly for proportional treaties;
- accounting procedures can be simplified by the use of quarterly accounting;
- as treaties generally deal with a large number of homogeneous risks, computer technology can be used for data storage and analytical techniques.

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

**Advantages of Facultative Reinsurance include:**

- risks are considered individually. Reinsurers can negotiate a suitable premium for the actual risk concerned rather than having to consider it as part of an overall portfolio of risk;
- facultative reinsurance increases the insurer's competitive edge within its chosen market;
- there is freedom to offer any risk (by the insurer) which may be accepted or declined (by the reinsurer). This option allows the reinsurer to select a portfolio of risks which corresponds to their underwriting policy;
- an insurer's treaty reinsurance could be protected by facultative reinsurance of particular risks to ensure better overall results and lower premiums in the long term;
- an insurer might benefit from the specific knowledge of the facultative reinsurer with regard to the nature and potential of the risk;
- there is an opportunity for both parties to develop a successful professional relationship.

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

(Grand Sub-Total: 20 marks)

(c) **Disadvantages of Facultative Reinsurance include:**

- as risks is considered individually, the cedant cannot be certain of the placement of the facultative reinsurance and this could affect their ability to underwrite the underlying risk
- the administration involved is labour intensive and expensive
- the insurer has to disclose full information regarding its underwriting of the risk. This could be a problem if the reinsurer is also seen as a competitor in the field.
- there is the possibility of the reinsurer exercising a certain amount of influence over the insurer's underwriting by asking them to improve the risk offered or influencing unduly their assessment of the premium on the original risk.
- the insurer may lose control over the handling of the risk. For example, claims control and cooperation.

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

**Disadvantages of Treaty Reinsurance includes:**

- there is no freedom since both parties are tied into the contract. hence there is so much reliance on the underwriting ability of the underlying insurer.
- too much premium can be lost to reinsurers on small good risks which an insurer would otherwise retain net for their own account.

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

(Grand Sub-Total: 8 marks)

(Grand Total: 34 marks)

13. (a) How can exposure to currency gains or losses be avoided on reinsurance transactions in currencies other than the normal accounting currency of the reinsurance company? Why is this not always practical? **(10 marks)**
- (b) How might a company alleviate the strain on liquidity of its investment portfolio? **(10 marks)**
- (c) When might a flat rate reinsurance commission be an appropriate commission to apply to a proportional treaty? **(4 marks)**
- (d) Differentiate between overriding commission and Original Gross Rate (OGR). **(10 marks)**

**Solution**

(a) Exposure to currency gains or losses is avoided by an exact match of assets and liabilities in the transaction currency. If a reinsurance company transacts business in many currencies, such a policy might be impractical. In order to reduce costs, ease administrative burdens and reduce currency exchange risk, reinsurers tend to hold relatively few but strong currencies and then link other weaker currencies and their appropriate assets and liabilities to one of those stronger currencies.

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

(b) A company can alleviate the strain on liquidity of its investment portfolio through the use of proper planning and projections. The actual amount of cash required can be determined from an analysis of the monthly cash-flow figures with some margin to allow for unforeseen contingencies. This planning should preclude having to borrow money at short notice and pay high rates of interest for that special borrowing. The balance of investments can be held longer term related to the maturity profile of anticipated liabilities. Investment will normally have regard to the average maturity profiles of the liabilities so that there should be no shortfall in cash.

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

(c) If a proportional treaty is expected to **provide stable results**, a flat rate commission might be negotiable. **(4 marks)**

(d) Overriding commission is money paid by the reinsurer to the reinsured in order to cover the reinsured's costs in administering the business and ceding it to reinsured. The amount given to the reinsured is dependent upon the profitability of the treaty and the management expenses of the reinsured. **while** **(5 marks);**

Original gross rate (OGR) is the rate of premium applied under the original business to the sum insured. The result of the original gross rate times the sum insured equals the original gross premium. No deduction is made for commission and brokerage. **(5 marks)**

**(Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**

14. After reviewing the outcome of a reinsurance contract, a number of options are usually available to the reinsured. One of these options is to arrange new or different types or combinations of facultative and treaty contracts. Discuss at least eight (8) factors that could support this decision or option.

**Solution**

The reinsured is required to note the following:

- The need of the reinsured may have altered and existing contracts may be unsuitable. For example, a quota share treaty may have been arranged when business was new and when the reinsured needed capacity, protection and guidance. As the reinsured gain more

experience and strength, it may be unnecessary to cede a fixed percentage of each and every risk, and the reinsured may therefore opt for a surplus or an excess of loss 'per risk' treaty both of which will enable it to retain more reinsurance income and provide a sharing of losses.

- The reinsured's solvency margin may be under pressure, and the cession of premiums under a quota share arrangement may provide a quick and effective short-term solution.
- **Unusually and rare risks**, previously protected by facultative covers, may be more common, and a new proportional or non-proportional treaty or a facultative obligatory arrangement may be attractive.
- The review of the reinsured's net retention under a quota share may lead to an increase, which will require a negotiation of the percentage ceded. Similarly, the number of lines under a surplus treaty may be reduced
- The reinsured may need more capacity to compete in the marketplace in order to take larger lines and, therefore, may seek more lines under a first surplus or create new second and third surplus.
- As statistical information develops, and the reinsured's financial strength is enhanced, it may consider that a surplus treaty, which requires ceding of premiums for risks over a certain value, is unnecessary and opt to bear all losses itself up to a specified amount. In this case, an excess of loss per risk may be more attractive. The commission terms under a proportional treaty also need to be considered.
- Growth in the portfolio may result in the accumulation of risks and the aggregation of liabilities in one location. In these circumstances, the reinsurer would consider effecting an excess of loss event treaty.
- The growth in the size of risks may necessitate higher units or more layers on an excess of loss programme.
- In normal circumstances, the terms of the existing contracts are not capable of being changed except at renewal or anniversary date
- Some classes of business of the reinsured may have expanded while others may have declined; the opportunity may therefore arise to combine more than one class under the same treaty
- The mix or programme of all contracts, facultative and treaty, proportional and non-proportional, may be changed to provide the most effective coverage for the reinsured's current and future needs.
- The excess of loss ratio treaty or a cover written on an aggregate deductible basis may be suitable if the reinsured wishes to protect its account against volatile or excessive loss ratios.

**(4 marks for each correctly stated and explained factors. 8 factors to be graded. 2 marks for giving examples.**

**34 marks in all)**

**(Grand Total:34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A03

FINANCE AND ACCOUNTING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A03- FINANCE AND ACCOUNTING

### INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

The question assessed candidates' knowledge of basic accounting concepts. Almost all 258 candidates attempted it, with 223 candidates (86%) achieving a pass. This reflects a very good performance.

### **Question 2**

This question tested candidates' understanding of the principles of standard costing. A total of 208 candidates (81%) passed, indicating a highly encouraging performance.

### **Question 3**

The question examined candidates' knowledge of the stakeholders interested in the published reports of an insurance company. Out of 258 candidates, 243 passed, representing a 94% pass rate—an excellent performance.

### **Question 4**

This question tested knowledge of budgeting methods and the objectives of budgeting. All candidates attempted it, and 96.5% obtained a pass mark. This strong performance suggests good preparation in this area, though candidates are still encouraged to study thoroughly for future examinations.

### **Question 5**

The question assessed candidates' knowledge of cost accounting. Nearly all 258 candidates attempted it, with 196 (76%) passing. This indicates a good performance.

### **Question 6**

This question tested knowledge of consolidation accounting under CAMA. Only 75 out of 258 candidates passed, representing a 29% pass rate, which reflects a very poor performance.

### **Question 7**

The question focused on candidates' understanding of the differences between share capital and share premium. Only 59 out of 258 candidates passed, representing a 23% pass rate, indicating poor performance despite the question being straightforward.

### **Question 8**

Candidates' knowledge of the assets and liabilities of an insurance company was assessed. All candidates attempted the question, with 245 passing, giving a 95% pass rate—an impressive performance.

### **Question 9**

This compulsory question tested knowledge of NIIRA 2025, solvency, final accounts, and IFRS 17. All candidates attempted it; however, only 125 candidates (48%) passed, while 133 (52%) failed, indicating below-average performance.

### **Question 10**

This optional question assessed knowledge of the Nigerian tax system. A total of 134 candidates (52%) attempted it, but only 22% passed, reflecting a relatively poor performance. Candidates are advised to engage more closely with their course materials.

**Question 11**

Another optional question, it tested candidates' understanding of proper financial record-keeping. Only 58 candidates (23%) attempted it, with a pass rate of 15%, indicating very poor performance.

**Question 12**

This optional question examined candidates' comprehensive understanding of stakeholders in published financial reports of an insurance company. A total of 202 candidates attempted it, but only 43 (21%) passed, reflecting poor performance.

**Question 13**

The question tested knowledge of the differences between financial accounting and management accounting, as well as reasons for budgeting. About 190 candidates attempted it, with a pass rate of 44.5%, which is below expectations. This may be attributed to inadequate preparation.

**Question 14**

This question assessed candidates' understanding of various investment terms and investment property. Approximately 190 candidates attempted it, with 54.64% achieving a pass. Despite being a familiar question, performance was not as encouraging as expected. Candidates are reminded that excellent performance requires thorough preparation.

**Comments on Overall Performance:**

The overall pass rate was 60%, representing an improvement over the previous diet. However, there remains significant room for further improvement in performance. Candidates are also encouraged to familiarise themselves with the published financial statements of quoted insurance companies.

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

Candidates are encouraged to prepare adequately and attend tutorial classes.

## A03 – Finance and Accounting –

1. Outline any three (3) of the basic concepts of accounting.

### Solution

The basic concepts of accounting are:

- \* going concern;
  - \* accruals;
  - \* consistency
  - \* prudence.
- (2 marks for each correctly stated concept. Maximum of 3 to be graded. Total: 6 marks)

2. List the three (3) classifications of standard costing.

### Solution

The classification of standard accounting are:

- \* basic cost standard;
  - \* ideal standard;
  - \* currently attainable standards.
- (2 marks for each correctly stated classification. Total: 6 marks)

3. Enumerate any four (4) parties that are interested in the audited accounts and annual reports of an insurance company.

### Solution

The parties that are interested in the audited accounts and annual reports are:

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

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

4. (a) There are three types of budgeting methods. Enumerate any two (2) of these three types. (2 marks)
- (b) Enumerate any four (4) objectives that budget enable managers to achieve. (4 marks)

### Solution

- (a) The three (3) types of budgeting are:

- \* fixed or flexible budgeting;
- \* incremental budgeting;
- \* zero-based budgeting.

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

- (b) The objectives that budget enable managers to achieve are:

- \* plan;
- \* co-ordinate;
- \* communicate;
- \* control; and
- \* evaluate.

(1 mark for each correctly stated objective. Maximum of 4 to be graded. Sub-Total: 4 marks)  
(Grand Total: 6 marks)

5. Cost accounting methods are of various types. Enumerate any three (3) of them.

### Solution

The different types of cost accounting methods are:

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

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

6. There are certain reasons that qualify subsidiary company to be excluded from being consolidated in line with the Company and Allied Matters Act. Outline three (3) of these reasons.



- (d) IFRS 17 applies to some contracts. List any four (4) of such contracts. (10 marks)

**Solution**

- (a) (i) MCR is Minimum Capital Requirement. (2 marks)

(ii) (a) The groups of business classes of a life assurance company are:

- \* individual life assurance business;
- \* group life assurance business;
- \* annuity;
- \* health insurance business.

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

(b) The groups of business classes of a non-life assurance company are:

- \* Fire Insurance Business;
- \* General Accident Insurance Business;
- \* Motor Vehicle Insurance Business;
- \* Marine Insurance Business
- \* Energy (Oil, Gas and Power) Insurance Business;
- \* Engineering Insurance Business;
- \* Bonds Credit Guarantee and Suretyship Insurance Business; and
- \* Agricultural Insurance business other than schemes covered by the Nigerian Agricultural Insurance Corporation Act.

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

(Grand Sub-Total: 10 marks)

- (b) The items that are commonly found in the statement of comprehensive income and statement of financial position are the:

- \* statement of comprehensive income;
- \* gross premium;
- \* outward reinsurance;
- \* administration expenses;
- \* reinsurance costs;
- \* statement of financial position;
- \* inventory;
- \* cash/bank;
- \* earned premium;
- \* claim incurred;
- \* technical income;
- \* acquisition costs;
- \* reinsurance commission;
- \* property plant and equipment
- \* receivables.

(Candidates are required to explain any 10 of these. 1 mark for each correctly listed item. 1 mark for correct and complete explanation. Sub-Total per term: 2 marks. Maximum of 10 to be graded. Grand Sub-Total: 20 marks)

- (c) **Solvency Margin** is the excess of the value of (an Insurer's) assets over the amount of its liabilities, that value and amount being determined in accordance with any applicable valuation regulation.

Two methods of calculation solvency margin for general business insurance are:

**Method 1 - Based on Premiums:** the starting point is to gross worldwide general business premiums for the previous financial year in order to make sure that this is an annual premium figure. The figure is divided by the number of months in the financial year and multiplied by 12 (obviously, this only alters the figure if the financial year does not cover the normal twelve months' period. The figure is then calculated being 18% of the first ten million units of the account. The calculated figures are added together and multiplied by a percentage which is normally that which claims net of reinsurance recoveries bear to gross claim incurred in the last financial year. However, the percentage must not be less than 50%

**Method 2- Based on Claims:** add together all claims incurred (gross) in the referenced period (the last three financial years for most classes but seven years of more than half the

gross premium from storm, hail or frost). Then divide this figure by the number of months in the referenced period. Multiply by 12. Thus, bringing the figure to the annual basis.

**(2 marks for each correctly stated method. 2 marks for correct and complete explanation on each.**

**Sub-Total per step: 4 marks. Grand Sub total: 8 marks) Grand Total 10 marks)**

(d) Scope IFRS 17 applies to:

- i) insurance contracts, including reinsurance contracts, an entity issues;
- ii) investment contracts with discretionary participation features entity issues provided the entity also issues insurance contracts;
- iii) fixed fee service contract;
- iv) financial guarantees;
- v) health insurance providers service providers that issue bundle products, such as a telecom services provider that attached insurance products to its services;
- vi) policyholder accounting is out of scope of IFRS 17 (except for reinsurance contracts held) initial recognition on initial recognition: an entity shall measure a group of insurance contract at the total of:

**(2½ marks for each correctly listed contract. Maximum of 4 to be graded. Sub-Total: 10 marks.**

**Grand Total: 50 marks)**

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

**Each question carries 34 marks.**

10. (a) It is the function of Inland Revenue and the custom and excise to raise taxes in accordance with the legislation from various sources. List and explain any four (4) of these sources. **(16 marks)**

(b) Briefly explain the following terms:

- |           |                     |                                    |
|-----------|---------------------|------------------------------------|
| (i) PAYE; | (ii) CIT;           | iii) Education Tax;                |
| (iv) VAT; | (v) Telcos Tax; and | (vi) Stamp Duty. <b>(18 marks)</b> |

### **Solution**

a. The sources by which Inland Revenue raise taxes in accordance with the legislation from various sources are:

- \* wages (selling labour);
- \* interest, dividends and gains from investment (selling capital);
- \* self-employment (operating a business or selling a good or service);
- \* royalties (rental of intellectual property);
- \* “other” income such as alimony, gambling winnings or prizes

**(Candidates are required to explain the listed sources. 2 marks for each source listed. 2 marks for each correct and completely stated explanation. Maximum of 4 to be graded. Sub-Total: 16 marks)**

b. (i) **PAYE:** PAYE stands for ‘Pay as you Earn’. An employee normally pays tax through PAYE. Every time the salary is paid to the employee, the employer deducts the income tax due to the government and remits the same directly to the Inland Revenue. PAYE ensures that the yearly amount payable is collected evenly on each pay day over the course of the tax year. The employee may be entitled to tax credits and to tax reliefs and exemptions to reduce the amount of tax you pay.

(ii) **CIT:** CIT stands for company income tax and is governed by the Companies’ Income Tax Act (CITA), Cap C21, LFN 2004 (as amended). It is a tax imposed on the profit of a company from all sources. Some profits are exempted from CIT provided they are not derived from trade or business activities carried out by the company e.g. Cooperative society. Every company shall pay provisional tax not later than three (3) months from the beginning of each year of assessment

which is an amount equal to the tax paid in the previous year of assessment. This is a payment on account of the year's income tax assessment. The due dates for filing returns are:

- For newly incorporated companies, within eighteen (18) months from the date of incorporation or not later than six (6) months after the end of its accounting period, whichever is earlier;
- For existing companies within six (6) months from the end of the accounting year.
- A self-assessment filer may (by application) commence payment of an instalment before due date but such instalment cannot extend beyond two months after the due date;
- Companies in operation for more than four (4) years are liable to minimum tax except those specifically exempted by the tax law;
- Minimum tax under CITA arises where:
  - a company makes a loss;
  - a company has no tax payable;
  - Tax payable is less than the minimum tax.

(iii) **Education Tax:** Tax is a tax chargeable on all companies registered in Nigeria at chargeable profits as a contribution to the Education Tax Fund. This means that all registered companies in Nigeria are required to pay a percentage of their assessable profit into an Education Tax Fund. The tax is currently charged at 2%. It is payable within two months of an assessment notice from the Federal Inland Revenue Service (FIRS). This is in reference to the assessment and collection of tax section of the Act. Generally, many companies pay the tax on a self-assessment basis along with their CIT. For companies subject to PPT, the tertiary education tax is to be treated as an allowable deduction. For other companies income profit taxes are not deductible in arriving at taxable income. However, non-resident companies and unincorporated entities are exempt from the tertiary education tax

(iv) **VAT:** Value added tax is a tax levied, basically on all supplies of services and goods. The general rule is that all supplies of goods or services are taxable at a particular standard.

(v) **Telcos Tax:** This encompasses a range of taxes and fees that telecom companies are responsible for collecting and submitting.

(vi) **Stamp Duty:** This may be described as a duty levied on the recognition of certain documents.

**(3 marks for each correct and completely stated explanation. Maximum of 1 to be graded under each term.**

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

**(Grand Total: 34 marks)**

11. (a) List and explain four (4) characteristics of a good financial statement. **(8 marks)**
- (b) With reference to The Companies and Allied Matters Act 2020, explain the new provisions compared to the previous ACT in respect of the following;
- (i) changes to share capital;
  - (ii) multiple directorship;
  - (iii) appointment of independent directors;
  - (iv) company seal;
  - (v) virtual general meetings/ virtual board meetings, **(20 marks)**
- (c) A printer is considering replacing an old machine, which he purchased for ₦1,500,000.00 three years ago, with some labour-saving equipment. The old machine is being depreciated at ₦15,000.00 a year. The following alternative equipment options are available for consideration.

**Machine A:** The purchase price of machine A is ₦2,500,000.00 and the yearly cash operating costs are ₦50,000.00.

**Machine B:** The purchase price of machine B is ₦2,800,000.00 and the yearly cash operating costs are ₦45,000.00.

- (i) What are the incremental costs, if any, in this alternative-choice situation?
- (ii) What are the sunk costs, if any, in this situation? **(6 marks)**

### Solution

(a) The characteristics of a good financial statement are:

- **understandability:** one of the most important features of a financial statement is that it should be easily understood by the user.
- **relevance:** the financial statement must contain relevant information for them to be useful to the users.
- **reliability:** the contents of the financial statement must be reliable for all users;
- **comparability:** the financial statement must be presented in such a way that it can be peer reviewed and also comparable with others in the industry, without any reinvention of the wheel.
- **Legal form:** the financial statement must conform to legal requirements.

**(1 mark for each correctly listed characteristic. listing. 1 mark for correct explanation. Sub-Total per characteristic: 2 marks. Maximum of 4 to be graded. Sub-Total: 10 marks)**

- (b) (i). **Changes to Share Capital:** There is no longer a concept of an authorised share capital. This has been replaced by a requirement that companies must have at least the minimum issued share capital required by the CAMA 2020 (₦100,000.00 for private companies and ₦2,000,000.00 for public companies, and must ensure that at least 25% of this issued share capital is paid up
- (ii) **Multiple Directorships:** No person can be a director of more than five public companies at the same time. Any person that was on the board of more than five public companies as at the date on which the CAMA 2020 came into effect has a two-year period within which to comply. CAMA 2020 also requires persons who are nominated as directors of public companies to disclose their existing positions on the boards of other public companies before taking up the new appointment.
- (iii) **Appointment of Independent Directors:** There are three major changes in relation to independent directors. The first and most significant is that every public company must now have a minimum of three independent directors. The second change is that the CAMA 2020 makes it the obligation of anyone (i.e any shareholder) that has the power to nominate the majority of the members of the Board to nominate at least three independent directors for the company. The third change is that in order to qualify appointment as an independent director, the nominee or his relatives must not, in the two years preceding the nominee's appointment to the board, have: (a) owned (directly or indirectly) more than 30% of the shares of the company; (b) been employed by the company, (c) acted as an auditor of the company; (d) paid or received from the company, sums exceeding NGN 20 million, or held up to 30% of the (or acted as a partner, director or officer) of an entity that received or made such a payment to the company.
- (iv) **Company Seal:** The use of company seals is now optional for all companies. The CAMA 2020 provides for how a company may execute certain documents in the absence of a seal.
- (v) **Virtual General Meetings/Virtual Board Meetings:** The provision in CAMA 2020 that permits private companies to hold their general meetings electronically does not extend to

public companies. This means that, absent any special dispensation from the regulators (such as those granted in 2020 as a result of COVID), public companies must continue to hold their general meetings physically. Section 289(1) of the CAMA 2020 replicates 263(1) of the repealed CAMA, and neither of these provisions make it clear that board meetings can be held virtually. Prior to the CAMA 2020, companies took the precaution of ensuring that their articles authorised the board to meet virtually, otherwise board meetings had to be held physically. Section 289(1) has been clarified by Regulation 16 titled ‘Electronic Meetings of Directors.’ Regulation 16 provides that:

- Directors may, in the exercise of their power to regulate their meeting as they think fit, hold their meetings electronically and by any means that would allow all directors to participate, speak and vote at the meeting.
- Where the meeting of the directors is held electronically, the minutes of the meeting shall indicate that fact.
- For the purpose of section 289(1), it shall be sufficient to reflect the registered office address of the company as the physical venue of the meeting, provided that a director and the company secretary (if any) shall be present at the physical venue of the meeting
- Where the registered office address of the company cannot be used due to the absence of a director and the company secretary (if any) at such address, any other address in Nigeria would suffice for purposes of recording the minutes.

**(2 marks each for each correct and completely stated point. Maximum of 2 points to be graded under each term. Sub-Total per term: 4 marks. Grand Sub-Total: 20 marks)**

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

**(Sub-Total: 6 marks.)  
(Grand Total: 34 marks)**

12. Different groups look at accounting figures for a variety of purposes and in a variety of ways. List any four (4) of these groups and explain in basic terms any three (3) areas of interest.

### **Solution**

The groups and the areas of interest are:

**Return on the investment**, i.e., profit, dividends, capital growth, etc

- Stability of the company, its solvency and whether there may be a need for it to raise extra capital
- Future profitability of the company, including the type and spread of its business.

**Policyholders:** With the following areas of interest:

- Stability of the company, including its solvency margin as a guarantee of its ability to meet its obligations to them.
- Whether they are getting value for money or are premiums including an undue profit margin
- Brand image

**Investment Analysts and Commentators:** With the following areas of interest:

- The performance of the company’s shares, which depends on market perception of the future, is influenced by the spread of business, profitability, distributable

reserves, dividend policy, management policy and ability, as well as general economic trends.

**Reinsurance Security Advisors:** With the following areas of interest

- Soundness of the company's underwriting
- Security of the company as shown in its solvency
- Durability of the company
- Strength of any group to which the company belong

**Other Insurers:** With the following area of interest

- Underwriting and profit comparisons
- Marketing policy and development

**Internal Management:** With the following area of interest

- Efficiency and profitability of the company as a whole
- Efficiency and profitability of their own department or areas of influence
- Future plans

**Staff:** With the following area of interest

- Profitability of the company (particularly where the profit sharing exist):
- Security of the company, including possibilities of takeover
- Ability of management
- Future plans

(Candidates are required to explain each focus area. 2½ marks for each correctly stated group. 2 marks for each correctly explained area of interest. Maximum of 2 to be graded under each group. Sub-total per group: 6½ marks. Maximum of 5 groups to be graded. Sub-Total: 32 marks. 2 marks for good presentation and clarity).

(Grand Total: 34 marks)

13. (a) Outline and explain any four (4) differences between “financial accounting” and “management accounting”. (30 marks)
- (b) Enumerate any two (2) reasons for budgeting. (4 marks)

### Solution

- a. The differences between “financial accounting and “management accounting are:
- Aggregation:** Financial Accounting reports on the results of an entire business. Managerial accounting almost always reports at a more detailed level, such as profits by product, product line, customer and geographic region. Financial accounting reports are more likely to be distributed to outsiders, while the results of managerial accounting are more likely to only be used by insiders
  - Efficiency:** Financial accounting reports on the profitability (and therefore the efficiency) of a business, whereas managerial accounting reports on specifically what is causing problems and how to fix them, while financial accounting report are used by outsiders to decide whether to invest in or lend to a business.
  - Proven Information:** Financial accounting requires that records be kept with considerable precision, which is needed to prove that the financial statements are correct. Outside auditors rely on this information when auditing a firm's financial statements. Conversely, managerial accounting frequently deals with estimates rather than proven and verifiable facts.
  - Reporting Focus:** Financial accounting is oriented toward the creation of financial statements, which are distributed both within and outside of a company. Managerial accounting is more concerned with operational reports which are only distributed within a company.

- v. **Standards:** Financial accounting must comply with various accounting standards when information is compiled for internal consumption.
- vi. **Systems:** Financial accounting pays no attention to the overall system that a company has for generating a profit, only its outcome. Conversely, managerial accounting is interested in the location of bottleneck operations and the various ways to enhance profits by resolving bottleneck issues.
- vii. **Time period:** Financial accounting is concerned with the financial results that a business has already achieved, so it has a historical orientation. Managerial accounting may address budgets and forecasts, and so can have a future orientation.
- viii. **Timing:** Financial accounting requires that financial statements be issued following the end of an accounting period. Managerial accounting may issue reports much more frequently, since the information it provides is of most relevance if managers can see it right away.
- ix. **Valuation:** Financial accounting addresses the proper valuation of assets and liabilities and so is involved with impairment revaluations and so forth. Managerial accounting is not concerned with the value of these items only with their productivity.
- x. **Certification:** There is also a difference in the accounting certifications typically found in each of these areas. People with the Certified Public Accounting designation have been trained in financial accounting, while those with the Certified Management Accountant designation have been trained in managerial accounting.
- xi. **Pay Levels:** Pay levels tend to be higher in the area of financial accounting and somewhat lower for managerial accounting, perhaps because there is a perception that more training is required to be fully conversant in financial accounting.

(3 marks for each correctly stated difference. 1 mark for each correct and complete comparison per term, i.e., 2 marks for each completely stated difference. Sub-Total per difference: 5 marks.

Maximum of 5 differences to be graded. Grand Sub-Total 30 marks)

b. The reasons for budgeting are to:

- \* plan;                      \* co-ordinate;                      \* communicate;
- \* control;                      \* evaluate.

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

(Grand Total 34 marks)

14. (a) Explain the following investment terms:
- (i) ordinary shares;                      (ii) preference shares;                      (iii) rights issue;
  - (iv) bonus issue;                      (v) debentures.                      (15 marks)
- (b) Define the term “investment property”. List five (5) ways by which an institutional investor can invest in property. (19 marks)

### Solution

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

(ii) **Preference Shares:** as the name suggests, this type of shares gives certain preferential rights as compared to other types of shares. The main benefits that preference shareholders have are:

- They get first preference when it comes to the payout of dividend i.e a share of the profit earned by the company;
- When the company winds up, preference shareholders have the first right in terms of getting repaid
- Further, there are three sub-types in preference shares, which are cumulative preference shares; non-cumulative preference shares and convertible preference shares

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

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

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

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

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

An institutor can invest in the property in a manner of ways:

- Purchasing properties (already existing or from a developer)
- Developing properties itself
- Financing a development and taking a share of the resultant's income
- Providing mortgage finance to a development company and also taking a share in the equity of that company
- Entering into sale and leaseback arrangements – a property owner, needing funds to other developments, sells his property to an investor for a sum of money, then leases it back at an annual rental.

(4 marks each for correctly stated and current definition as by IFRS. 3 marks each for correctly stated way by which institutional investor can invest in institutional property. Maximum of 5 ways should be graded. Sub-total under investment manner: 15 marks. Grand Sub-Total: 19 marks).

(Grand Total: 34 marks).



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A04

PRINCIPLES OF PROPERTY AND PECUNIARY INSURANCES

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A04- PRINCIPLES OF PROPERTY AND PECUNAIARY 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 on Warranty. 43 candidates attempted (All candidates), 28 passed while 15 failed. The pass rate is 65%

### **Question 2**

The question was on fire/special perils. All the candidate (43) attempted it. 77% passed it while 23 failed.

### **Question 3**

Over 98% of candidates attempted this question. Over 75% passed. The question was to examine the candidates' knowledge on indemnity period.

### **Question 4**

About 100% of candidates attempted this question and over 97% passed. The question examined candidates' knowledge on combined policies

### **Question 5**

The question was to examine candidates' knowledge on "earned premium". Out of 100% candidates attempted it, 94% passed.

### **Question 6**

The question was on who can present a risk for an underwriting purpose. Out of 42 candidates that attempted it, 39 passed and 3 failed.

### **Question 7**

The question was on "existing structure in property insurance. Out of 95% of the candidates that attempted it, 48% passed while 51% failed.

### **Question 8**

The question was on "exclusions on burglary and theft policy" 46% passed while 54 failed.

### **Question 9**

The:

- (a) was a compulsory question. Out of 100% of candidates that attempted it, 90% did not know the answer because it is based on calculations.
- (b) question was on NIIRA 2025. The questions were on what the Act planned to achieve and many candidates got it wrong.
- (c) was on Reinstatements, still, most did not get it.

### **Question 10**

The questions were on first loss blanket insurance and floating insurance. 40% got it correctly while 60% did not know it.

### **Question 11**

The question (a) was on "features of the Fire Prevention Act 1774 (b) was on calculation of claim on machinery and farm produce. 55% passed while 45% failed.

**Question 12**

The question was on combined policy. 86% did very well while 14 failed.

**Question 13**

The question was on Standard All Risk. 35 candidates attempted the questions. Only 14 passed while 21 candidates failed.

**Question 14**

The question was on Pressure System Safety Regulations 2010 and Electricity at Work Regulations 1989. 3 candidates attempted the question and failed.

**Comments on Overall Performance:**

The general overall performance was not encouraging.

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

Suggestion on improvement is for the candidates to be more committed to their studies and attend lectures.

## A04 – Principles of Property and Pecuniary Insurances

1. What is warranty?

### Solution

Warranty is either a clause requiring an insured to undertake to do or not to do some certain things or a clause relative to the existence or absence of a certain state of affairs. A warranty must be strictly complied with and if there should be a breaching warranty, the insurance is valuable at the option of the insurer.

(3 marks for any correctly stated explanation. Maximum of 2 to be graded. Grand Total: 6 marks)

2. List any three (3) categories of special perils?

### Solution

The categories of special perils are:

\* chemical                      \* social                      \* natural                      \* miscellaneous

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

3. What is:            (a) turnover?            (b) indemnity?

### Solution

(a) **Turnover:** can be defined as the money paid or payable to the insured for goods sold/delivered and for services rendered in the course of the business activity at the premises. It consists of variable charges, standing charges and real profit. (3 marks)

(b) **Indemnity period:** is the period beginning with the occurrence of the damage and ending not later than the maximum agreed (indemnity) period whereafter during which the result of the business shall be affected in consequence to the damage. (3 marks)

(Grand Total: 6 marks)

4. Enumerate any three (3) benefits of combined policies to the insured.

### Solution

The benefits of combined policies to the insured are:

- one proposal form to complete;
- a simple policy booklet/folder to retain and refer to;
- one premium payable;
- common renewal date for all covers;
- easier reference from day-to-day dealings with insurer or intermediary, particularly in time of claim;
- reduced premium levels.

(2 marks for each correctly stated situation. Maximum of 3 to be graded. Grand Total: 6 marks)

5. What in general terms are:

(a) gross premium            (b) net premium            (c) earned premium?

### Solution

(a) **Gross Premium:** is the total premium paid by the insured. (2 marks)

(b) **Net Premium:** is the gross premium less commission paid to the intermediary party. (2 marks)

(c) **Earned Premium:** is that proportion of the net premium which relates to the time which has elapsed from inception of each policy currently in force to the date to when the earned premium is required to be calculated. (2 marks)

(Grand Total: 6 marks)

6. As an underwriter, give three (3) examples of those who may present a risk for underwriting purposes to you.

### Solution

Some examples of those who may can present a risk for underwriting purposes are:

- \* proposer
- \* broker
- \* bank
- \* solicitor
- \* agent
- \* another insurance company
- \* insurance department of an organisation.

**(2 marks for each correctly stated group. Maximum of 3 to be graded. Grand Total: 6 marks)**

7. Explain the phrase “existing structure” as it relates to property insurance.

### Solution

Existing structures refers to the employer’s property already on site before the work commences. The existing structures are property forming or which has formed part of any structures prior to the commencement of the contract or works. The policy is to insure loss or damage to the contract works but not the employer’s existing properties and damage to the existing structures on site not forming part of the contract works is excluded.

**(3 marks for any correctly stated explanation. Maximum of 2 to be graded. Total: 6 marks)**

8. State the three (3) main exclusions in a theft policy.

### Solution

The three main exclusions in a theft policy are:

- unexplained disappearance and shortage and omission revealed during stock taking
- theft involving collision
- explosion.

**(2 marks each. Grand Total: 6 marks)**

## Part II

### Compulsory Question.

**This question carries 50 marks.**

9. (a) What are the two (2) main objectives of the Nigerian Insurance Industry Act (NIIRA) 2025 and in what three (3) ways does the Act set to achieve these objectives; according to Section 1 of the Act. **(10 marks)**
- (b) In the insurance year ended 31<sup>st</sup> December 2025, UDT Plc Manufacturing Company suffered a fire loss at their premises. Based on the figures below, what loss settlement would you propose in respect of the loss?

Cover is written on a sum insured basis and a 12 months’ indemnity period

	₦
Sum insured	1,360,000
Additional increase in cost of working after	400,000
Turnover in the last financial year before loss	
4,370,000	
Gross profit in the last financial year before loss	1,390,000
Standard turnover	3,360,000
Turnover achieve during indemnity period	2,400,000
Additional cost incurred during the indemnity period	
which avoid a ₦800,000 reduction in turnover	400,000
Saving made during indemnity period	80,000
	<b>(35 marks)</b>

- (c) Even though the reinstatement condition in the property insurance policy gives insurer the option to reinstate the property lost to damage, insurers rarely exercise this option. List the five (5) conditions guiding reinstatement. (5 marks)

**Solution**

(a) According to Section 1 of the Act, the two main objectives of the Nigerian Insurance Industry Reform Act (NIIRA) 2025 are to:

- (i) regulate the insurance industry in order to develop the insurance sector of the national economy; (2 marks)
- (ii) to protect the interest of policyholders, prospective policyholders and other stakeholders under insurance Policies in ways that are consistent with the continued development of a viable, competitive and innovative Insurance Industry. (2 marks)

The three ways set to achieve these objectives are by:

- (i) determining who carries on insurance business in Nigeria and requiring insurance operators, the directors and management of insurance operators to meet certain suitability requirements; (2 marks)
- (ii) imposing on insurance operators, requirements to promote prudent management, good business practice and good corporate governance; (2 marks)
- (iii) providing for an effective mechanism for settlement of insurance disputes. (2 marks)

**(Grand Total: 10 marks)**

(b) Calculating the rate of gross profit =  $\frac{\text{Gross Premium}}{\text{Turnover}} \times \frac{100}{1}$  (3 marks)

=  $\frac{1,390,000}{4,370,000} \times 100$  (1 mark)

= 32.18% (1 mark)

Reduction in Turnover = Standard Turnover- Turnover Achieved (3 marks)

= ₦3,360,000 – ₦2,400,000 (1 mark)

= ₦960,000 (1 mark)

Apply rate of gross profit to the reduction in turnover

= ₦960,000 x 32.18% (3 marks)

= ₦308,928 (1 mark)

Increase in cost of working ₦400,000 increased cost which avoided reduction in turnover of ₦800,000.00 and applying the rate of cross profit to the reduction in turnover avoided i.e.

= ₦800,000 x 32.18% (3 marks)

Giving an Economic Limit = ₦257,440 (1 mark)

Adjusted loss before the application of average=

₦308,928 + ₦257,440 = ₦566,368 (3 marks)

Less Savings ₦ 80,000 (1 mark)

₦ 486,368 (1 mark)

Application of Average =  $\frac{\text{Sum Insured} * \text{loss}}{\text{Rate of Gross Profit} * \text{turnover}}$  (3 marks)

=  $\frac{1,360,000 * 486,368}{32.18\% * 4,320,000}$  (1 mark)

= ₦475,810.60 (1 mark)

Application of the additional increase in cost of working item

Cost Incurred ₦400,000

Amount covered under gross profit item	= ₦257,400.00	(2 marks)
Difference which is not economic		
	= <del>₦400,000</del> - ₦257,400 = ₦142,560	(3 marks)
Total Adjustments:	₦475,810.60	(1 mark)
	<u>₦142,560.76</u>	(1 mark)
	<u>₦618,370.60</u> = Amount of Claim to Pay	(3 marks)
	(Sub-Total: 35 marks)	

- (c) The conditions guiding reinstatement in insurance are:
- once the insurers elect reinstatement, they cannot withdraw
  - once the insurers elect reinstatement, the insured cannot refuse reinstatement
  - during the work of reinstatement, the insurers are their own insurers
  - the insurers are liable for damages if the reinstated property is in any way unifier to the enquire property
  - the insurers are responsible for the manner of reinstatement.
- (1 mark for each correctly stated condition. Sub-Total: 5 marks)  
(Grand Total: 50 marks)

### Part III

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

Each question carries **34** marks.

10. (a) Explain what is meant by a first loss policy and identity what it may apply to in property insurance. (14 marks)
- (b) What are:  
(i) floating insurance (ii) blanket insurance. (10 marks)
- (c) How are the policy types in (b) above used and what are their benefits to the insured? (10 marks)

### Solution

a) A **first loss policy**:

- is when an insured believes that any loss, they may incur from a given peril cannot amount to more than a proportion of the value at risk.
  - therefore, the sum insured is set at a much smaller value than the full value;
  - this may apply to certain perils, such as theft, storm, impact, flood;
  - the insured insures only for the maximum they believe could be at risk;
  - but insurers charge a higher rate than they would for a full value cover as the risk of paying out the sum insured is greater.
  - Insurers may use this type of policy to control either open ended cover such as professional fees or property in a catastrophe perils area such as earthquake.
- (3½ marks for each correctly stated point. Maximum of 4 to be graded. Sub-Total: 14 marks)

(b) (i) **Floating Insurance** is the term used to describe an insurance on stock which belongs to or is the responsibility of the insured but which are at various to locations, sometimes in several countries in the case of multinational firms. (5 marks)

(ii) **Blanket Insurance** is the term used to describe buildings or machinery and plant, e.t.c., on which insurance is arranged in one sum insured to cover all such buildings and another to cover all machinery and plant in one premises. (5 marks)

(Grand Sub-Total: 10 marks)

(c) **Floating Covers** were originally designed solely for stock, where the sum insured was given to apply over a number of premises. **Blanket cover** is where the sum insured covers all buildings, machinery and plant across premises. This is without identity separate sum insured for each building or items of plant against a particular building. (5 marks)

(ii) The benefit to the insured of insuring stock on a floating basis is that they do not have to monitor stock levels at each premises in order to prevent under insurance provided the overall sum insured is adequate. (5 marks)

(Grand Sub-Total: 10 marks)

(Grand Total: 34 marks)

11. (a) Enumerate five (5) main features of the Fire Prevention Act 1774? (15 marks)  
(b) As the claims manager of Cosmopolitan Plc, explain how to calculate the claim value for: (i) machinery; (12 marks) (ii) farm produce. (7 marks)

### Solution

(a) The main features of the Fire Prevention Act 1774 are:

- the right to reinstatement does not arise until a distinct request to reinstate the property has been made to the insurer;
- the request must be made before payment for the loss;
- the insurers are not themselves obliged to carry out the reinstatement;
- the insurers cannot be compelled to spend more than the amount of the insurance;
- the insured must be entitled to maintain a claim under the policy;
- the Act is applicable to England and Wales;
- the Act does not apply to policies subscribed to by Lloyds underwriter.

(3 marks for each complete and correctly stated feature. Maximum of 5 to be graded. Sub-Total: 15 marks)

(b) To calculate the claim value for

(i) **machinery:**

- **when repair is possible**, it is the cost of repair; (4 marks)
- **when damage is extensive**, it is the cost of replacement by a second-hand machinery of some age, type, capacity and condition. This may not always be possible so the cost of new machinery of some model is used with deduction for wear and tear; (4 marks)
- **where the machinery is no longer in production**, replacement will have to be by better machinery. (4 marks)

(Sub-Total: 12 marks)

(ii) **Farm Produce:**

- **growing crops:** price at the nearest market less cost of cutting, threshing and transportation in sacks
- **hay and straw in sacks:** market price at the farm
- **hay and straw for farm use:** cost of replacement at the farm.

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

(Grand Sub-Total: 19 marks) (Grand Total: 34 marks)

12. You have been invited by a manufacturing concern to explain “combined policies” to its insurance department staff. Kindly correctly highlight the following in the paper presentation:

- (a) what combined policies are; (14 marks)  
(b) four (4) benefits of combined policies to the insured; (10 marks)  
(c) four (4) benefits of combined policies to the insurer. (10 marks)

## Solution

(a) Combined policies were introduced to cater for business risks, where more than one type of insurance is required. For example, fire, theft or burglary; or product/public liability; consequential loss/fire, e.t.c. It has evolved as a single contract policy using one proposal where previously insurers may have sought proposals for each separate class. Whilst it is written as one contract, each section or class of insurance is underwritten and rated separately and will contain its own conditions, terms, exclusions and warranties. This means in effect that the contract comprises of a number of single policies written under one “umbrella” policy.

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

(b) The benefits of combined policies to the insured are:

- one proposal to complete;
- a single policy booklet or folder to retain and refer to
- only one premium payable;
- common renewal date for all covers;
- easier reference for day-to-day dealing with insurer and/or intermediary.

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

(c) The benefits of combined policies to the insurer are:

- easier handling as regards staff resources;
- multi-disciplined expertise needed;
- simply policy only required, reduces administration costs;
- one renewal document only needed;
- ease of review for insurer and or intermediately;
- good staff relationship with client.

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

(Grand Total: 34 marks)

13. A standard “all risks” policy insures all accidental losses, destruction of or damage to the property insured except by a cause in the exclusions it contains. State the four (4) generic categories of such exclusions and list any three (3) causes under each of the categories.

## Solution

The four generic categories of such exclusions are:

(i) The causes which insurers **will not insure** in a property policy are: (2½ marks)

- |   |   |              |
|---|---|--------------|
| * Its own inherited vice, wear and tear;                    | * Sonic bangs;                          | * Pollution; |
| * Trade risk of the insured;                                | * Normal settlement of a new structure; |              |
| * Property in open;   | * Property insured by a marine policy;  |              |
| * Property insured elsewhere;                               | * War risks;                            |              |
| * Radioactive contamination and explosive nuclear assemble; |   |              |
| * Terrorism;  | * Consequential loss                    |              |

(2 marks for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 8½ marks)

(ii) The causes which insurers **may insure but only after careful attention to their underwriting** are: (2½ marks)

- \* Inventory shortages;
- \* Empty property as it relates to freezing;
- \* Empty property as it relates to escape of water and
- \* Empty property as it relates to malicious damage.

(2 marks for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 8½ marks)

- (iii) Causes which insurers **will usually allow to be added as “buy back”** are: (2½ marks)
- fraud and dishonesty of insured’s employees
  - theft
  - substance, ground heave, landslip
  - jewelry and other valuables
  - goods-in-transit
  - fixed glass
  - sanitary and similar ware, other glass
  - money and other negotiables
  - land, bridges and civil engineering works
  - crops and trees.
- (2 marks for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 8½ marks)
- (iv) Causes or property **insured on a separate specially designed policy** are: (2½ marks)
- own steam and other pressure plant
  - breakdown
  - the building’s own collapse and cracks
  - computers (if breakdown needs to be insured)
  - vehicle licensed for road use
  - buildings in course of creation
  - live stock
  - consequential loss
- (2 marks for each correctly stated cause. Maximum of 3 to be graded. Sub-Total: 6 marks. Grand Sub-Total: 9½ marks)  
(Grand Total: 34 marks)

14. What are the objectives of the following regulations on the requirements that they apply to; and the duties imposed on owners and users of the affected plants?
- (a) Pressure System Safety Regulations 2010 (18 marks)
- (b) Electricity at Work Regulation 1989 (16 marks)

**Solution**

(a) **Pressure System Safety Regulations 2010**

**Objectives**

- To prevent the risk of serious injury from the sudden and uncontrolled release of stored energy in a pressure system resulting from the failure of the system or any part of it. (6 marks)

The regulations define a pressure system in two parts:

- First, a system with pressure vessel(s) associated with pipe work or a pipeline, all which contains or can contain a relevant fluid; (2 marks)
- Second, the relevant fluid being steam, a fluid above a given pressure, a gas or liquid in a given state (2 marks)

**Duties** - there are four main duties and they apply to users of fixed plant and owner in case of mobile plant:

- to establish and use plant within safe operating limit;
  - to establish a writer scheme for periodic examination by a competent person;
  - to conduct an examination in accordance with the written scheme;
  - action in case of imminent danger, either immediate repairs or written report.
- (2 marks for each correctly stated duty. Maximum of 3 to be graded. Sub-Total: 6 marks)

(Grand Sub-Total: 16 marks)

**(b) Electricity at Work Regulation 1989**

**Objectives**

- To require precautions to be taken against the risk of death or personal injury from electricity in work activities having a bearing on electricity safety. **(6 marks)**

**Duties** - duties are imposed on both employers or employees; which are:

- construction, maintenance and use of electrical system;
- strength and capacity of electrical equipment;
- advertise or hazardous environment;
- earthing or other suitable precautions;
- insulation, protection and placing of conduction;
- integrity of referred conductor;
- work on or near live conductor;
- working space, access and lightning;
- electrical connection;
- means of cutting of supply;
- persons to be competent to the prevention of danger and injury.

**(2 marks for each correctly stated duty. Maximum of 6 to be graded. Sub-Total: 12 marks)**

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

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A05

LIFE ASSURANCE

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- Do not write on the question paper.
- The answer booklet should be handed over personally by you to the invigilator before you leave the Examination Hall.
- Insert your candidate's number as given on your admission permit and any other particulars required on the cover and flap of the answer booklet.
- Ensure that you write the full and correct candidate's number.
- No name should be written on any leaf of the book, or on any supplementary leaves that may be issued to the candidates.
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- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A05- LIFE ASSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I 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**

This question assessed candidates' understanding of the types of covers available under universal life policies. Although all candidates attempted it, only about 27% achieved a pass mark, indicating a weak grasp of the concept, likely due to inadequate preparation.

### **Question 2**

The question tested candidates' understanding of free cover limits and reassurance. While most candidates attempted it, performance was below average, with only 29.66% obtaining a pass. Candidates are advised to study more extensively and cover the syllabus thoroughly.

### **Question 3**

This question examined candidates' knowledge of the differences between life assurance and annuity. All candidates attempted it, with an impressive pass rate of about 89%. However, some candidates failed to highlight key points required in the question.

### **Question 4**

The question assessed understanding of retention and original terms reassurance. While about 70% of candidates performed well in part (a), only about 50% demonstrated adequate understanding overall. This may be attributed to insufficient preparation.

### **Question 5**

This question tested knowledge of the types of alterations applicable to life assurance policies. About 85% of candidates passed, reflecting an encouraging performance. Candidates are encouraged to maintain this standard.

### **Question 6**

Candidates were required to identify Acts of Parliament governing the conduct of life assurance. The question was poorly answered by nearly 90% of candidates, many of whom confused it with provisions of the NIIRA Act 2025. Greater attention to the coursebook and syllabus is required.

### **Question 7**

The question required candidates to list documents needed to substantiate life assurance claims by trustees. About 50% passed. Many candidates misunderstood the requirements and provided incorrect responses, highlighting gaps in understanding.

### **Question 8**

This question examined the application of insurable interest in life assurance. It was well answered, with over 95% of candidates passing. This strong performance suggests good preparation in this area.

### **Question 9**

The question focused on the newly enacted NIIRA 2025, including repealed Acts, office operations and key documentation. Performance was poor, with only about 30% passing, indicating limited familiarity with the new legislation.

### **Question 10**

This question assessed understanding of the duties of a life office's claims department in settling valid claims. Although about 92% attempted it, only 23% passed, reflecting poor performance on a standard coursebook topic.

**Question 11**

The question examined knowledge of life assurance contracts and their features. It was largely avoided, and those who attempted it struggled to provide acceptable answers, suggesting inadequate preparation.

**Question 12**

This question examined the understanding of money laundering and the role of life offices in combating it. Of the candidates who attempted it (96%), nearly all passed, likely due to the relevance of the topic in the Nigerian economy.

**Question 13**

The question examined the understanding of “acceptance” and its categories in life assurance contracts. About 69% attempted it, with 51% passing. Many candidates were unable to provide accurate responses.

**Question 14**

This coursebook question assessed the merits and demerits of natural and level premium systems. It was not popular among candidates, but those who attempted it performed well.

**Comments on Overall Performance:**

The overall performance, with a pass rate of 39.5%, was below expectations for this course. The poor performance in Question 9, which focused on the newly enacted NIIRA 2025, significantly affected overall results. Candidates’ responses generally reflected inadequate preparation.

**Suggestions on Improvements (if any)**

Candidates are advised to study all aspects of the coursebook comprehensively, including addenda and current legislation relevant to the course.

## A05 – Life Assurance

1. List any six (6) ranges of covers available under universal life policies.

### Solution

The range of covers available under universal life policies are:

- \* death benefit
- \* annual indexation option
- \* guaranteed insurability options
- \* regular income options
- \* waiver of contribution benefit during disability
- \* facility to suspend premium payment
- \* unemployment
- \* income protection benefits
- \* sum assured payable on disability
- \* hospital income benefits
- \* accidental death benefits
- \* option to add a further life assured on marriage, critical illness, e.t.c.

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

2. (a) Define the “free cover limit” in life underwriting. (2 marks)

(b) Life offices make use of facultative reinsurance. Enumerate any four (4) disadvantages of this type of reinsurance arrangement to the life office. (4 marks)

### Solution

(a) Free cover limit in life underwriting is the level of sum assured which does not require a medical examination in a group life business. (2 marks)

(b) The disadvantages of facultative reinsurance to the life offices are:

- there is no certainty as to risk acceptance since the risks are considered individually
- it is very time consuming
- it is also very cumbersome
- it is usually more expensive than the treaty
- there may be leakages of vital information to competitors.
- It attracts lower reinsurance commission when compared to a treaty reinsurance.

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

(Grand Total: 6 marks)

3. (a) Describe the main differences between Life Assurance and Annuity contracts. (4 marks)

(b) Explain the features of “Annuity Certain”. (2 marks)

### Solution

(a) Annuity deals with survival rather than death benefits the premature death of an annuitant is therefore to the advantage of the life office; while in life assurance, the individual pays small contributions (premium) to receive a lump sum later, whereas in Annuity the individual pays lumps sum in order to receive smaller amounts called Annuities for as long as the contractual agreement permits.

(2 marks for each correctly stated point. 1 point per term. Sub-Total: 4 marks)

(b) An annuity is a contract to pay an annuity for a specified period regardless of whether or not the annuitant survives. It does not depend on the age of the annuitant as payment is guaranteed for a set period whatever happens. (2 marks)

(Grand Total: 6 marks)

4. Define the following terms:

- (a) retention (b) original terms reinsurance.

**Solution**

(a) **Retention:** is the maximum sum assured a life office will hold before seeking reinsurance or the maximum amount of liability which a life office is prepared to pay per any loss. (3 marks)

(b) **Original Terms Reinsurance:** is the reinsurance of a proportion of the original sum assured. It is also when the reinsurers cover the same risks covered by the life office and the premium shared on the basis in which the risk was shared. (3 marks)

(Grand Total: 6 marks)

5. Usually, life offices have alterations department whose job it is to alter policies if requested by the policyholder. List six (6) of such common alterations that policyholder usually ask for.

**Solution**

The most common alterations are:

- \* increase in the sum assured
- \* decrease in the sum assured
- \* conversion of policy
- \* extension of term
- \* reduction of term on an endowment
- \* addition of life assured
- \* removal of life assured
- \* removal of life assured
- \* fund switch

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

6. In the UK, the jurisdiction that Nigeria follows in insurance practice, before the Life Assurance Companies Act 1870 was enacted, life offices could conduct their business in whatever way they liked. List any other three (3) Acts enacted in order to give the Government more control over the conduct of life assurance particularly as it relates to the financial status and solvency of insurers.

**Solution**

The other enabling Acts that give the government more control over the conduct of life assurance particularly as it relates to the financial status and solvency of insurers are:

- Friendly Societies Acts 1896 and 1992
- Assurance Companies Act 1909
- Industrial Assurance Act 1923
- Companies Act 1967
- Insurance Companies Acts 1974 and 1981.

(2 marks for each correctly stated Act. Maximum of 3 to be graded. Grand Total: 6 marks)

7. In making a claim by trustees of a life policy, some documents are required to be submitted in order to assist the life office to examine the titles of the trustees. Enumerate any three (3) of these documents.

**Solution**

The documents required to be submitted in making a claim by trustees of a life policy are:

- the policy
- the deed of appointment of trustees
- any deeds of appointment of new trustees
- any deeds of retirement of trustees
- the death certificate of any trustees who have died.

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

8. List three (3) specific examples of how insurable interest may occur as it relates to life assurance.

**Solution**

Examples of insurable interest as it relates to life assurance are:

- a creditor on the life of the debtor for the amount of the debt
- an employer on an employee
- an employer on a key employee
- a partner in business has an insurable interest on their other partners
- the donee of a life-time gift has an interest in the life of the donor
- a man on his/her own life
- a man on the life of his wife
- a woman on the life of her husband

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

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) (i) What is the full name of the legal framework enacted by the Nigeria's National Assembly on the 31st day of July, 2025, to regulate the insurance industry in Nigeria? **(2 marks)**
- (ii) List any four (4) of the five Acts of Parliament that the legal framework repealed? **(8 marks)**
- (b) A life office is allowed to be able to appoint as many representatives as is required who can also refer the company's client to an intermediate intermediary. State the three (3) instances where a company representative can refer a client to an intermediate representative. **(12 marks)**
- (c) A company representative selling a contract must give a "key features document" before the proposal form is signed.
- (i) What is a "key feature document"? **(3 marks)**
- (ii) Concisely state any five (5) client-specific basis information must be contained in the "key features document". **(25 marks)**

**Solution**

9. (a) (i) The name is The Nigerian Insurance Industry Reform Act No. 14 of 2025 i.e. NIIRA 2025. **(2 marks)**
- (ii) The Act repealed the following insurance Acts:
- i. The Insurance Act, Cap I17, Laws of the Federation of Nigeria, (LFN), 2004,
  - ii. The Marine Insurance Act, Cap M2, LFN, 2004
  - iii. The Motor (Vehicle) Third Party Insurance Act, Cap.M22, LFN, 2004
  - iv. The Nigerian Insurance Corporation Act, Cap N54, LFN, 2004
  - v. The Nigerian Reinsurance Corporation Act, Cap N131 LFN, 2004. 5Mks
- (2 marks for each correctly stated Act. Maximum of 4 to be graded. Sub-Total: 8 marks)**  
**(Grand Total: 10 marks)**
- (b) The instances where a company representative can refer a client to an intermediate representative are only if the client:
- wants a contract of a class which the representative does not have
  - wants advice on the open market option of a pension contract

- wishes to invest a lump sum and the representative feels that part of the investment should be spread to other offices to avoid all the investor's eggs being in one basket.

**(4 marks for each correct and completely stated instance. Sub-Total: 12 marks)**

(c) (i) A “key feature document” is a stand-alone document produced to a standard commensurate with the life office’s product brochures. **(3 marks)**

(ii) The client-specific basis information that must be contained in the “key features document” are:

- an explanation of the contract and its risk factors
- the premiums and benefits
- an illustration of benefits using the standard growth rates but the office’s own charges
- projected surrender values for the first five years and each fifth year thereafter as compared with total premiums paid
- expiration of the charges and their effect in reducing the yield
- details of any commission paid to an independent intermediary
- details of any remuneration paid to a company representative
- name and address of the life office
- means of payment of premiums
- means of terminating the contract
- explanation of the with-profits system or unit-linked fund if applicable
- explanation of the cancellation rights
- explanation of the taxation of the policy
- explanation of the complaints system
- law applicable to the contract.

**(5 marks for each correctly stated information type. Maximum of 5 to be graded. Sub-Total: 25 marks)**

**(Grand Total: 50 marks)**

### **Part III**

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

**Each question carries 34 marks.**

10. The duty of the claims department of a life office is to pay valid claims efficiently and promptly.

(a) Enumerate any four (4) requirements that need to be available for claims payment **(10 marks)**

(b) What procedures are taken by the life office to settle a claim where the life assured has been declared to have disappeared? Commence your response with a strong and all-encompassing opening statement. **(10 marks)**

(c) When processing a life claim, enumerate any four (4) alternative documents to prove one’s evidence of age when one is unable to provide an original Birth Certificate. **(14 marks)**

### **Solution**

(a) The requirements that need to be available for claims payment under life assurance contract are subject to:

- payment of all due premiums
- production of policy document
- the claimant must produce proof of title

- proof of death in the case of death claim
- proof of age for death claim.

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

(b) Disappearance is not the same as death, hence life offices are usually cautious about such a claim, especially where no human body is found and no death certificate is issued **(4 marks)**. Therefore, the procedures taken by the life office to settle a claim where the life assured has been declared to have disappeared are dependent on the circumstances surrounding the disappearance.

For instance,

- death may be difficult to prove where the life assured died in an airliner that crashed into the sea, unless through a written confirmation that the aircraft that crashed may be adduced as evidence;
- it is also possible for the claimant to apply to the court for an order presuming death if life assured has disappeared and not found for 7 years;
- the court must be satisfied that all necessary measures have been taken to check if the life assured was not alive;
- it may not be necessary to wait for 7 years before making a claim after the court has given them leave to swear to the death - presumption of death.

**(4 marks for a strong opening sentence. 3 marks for any other complete and correctly stated point. Maximum of 2 points to be graded. Sub-Total: 10 marks)**

(c) The life office may accept copy of any of the following documents as an alternative to prove the evidence of age in such an instance, while noting that the original copy will be required for sighting:

- \* baptismal certificate
- \* adoption certificate
- \* naturalisation certificate
- \* international travel passport
- \* school record if they contain evidence of age
- \* statutory declaration of age.

**(3½ marks for each correctly stated document. Maximum of 4 to be graded. Sub-Total: 14 marks)**  
**(Grand Total: 34 marks)**

11. (a) Define a “life assurance contract”? **(2 marks)**
- (b) Life assurance contracts have unique provisions and advantages; and can also be written under trust. Enumerate any six (6) of the combined unique and advantages of writing a life assurance contract under trust. **(18 marks)**
- (c) Describe the implications of the following on Life Assurance Contracts:
- (i) three certainties of trust (ii) surrender of policies. **(14 marks)**

### **Solution**

(a) A life assurance contract is an insurance contract set up on the life of a person for agreed reasons by the life assured/assured and the insurance company. **OR** it is an agreement between two (2) parties (the life office and assured) whereby upon the payment of the applicable premium, the life office promises to pay the assured a certain sum known as the sum assured when the event(s) assured against occurs. **(2 marks)**

- (b) The combined unique and advantages of writing a life assurance contract under trust are:
- a covenant by the settler to pay premium
  - a covenant by the settler to restore the policy if it becomes void.
  - a covenant by the settler to revive or effect a new policy if the original policy lapses

- a power for the trustee to pay premiums out of the trust property.
- a power for the trustee to borrow to pay premiums
- a power for the trustee to surrender the policy, to convert it or to exercise any option in it.
- a wide power for the trustee to deal with the policy in any manner they think fit.
- the policy is not part of the life assureds' estate
- the life assured can maintain control by appointment as trustee
- there is no need to wait for grant of representative and death, hence payment is quicker.
- trust provide flexibility as to how the proceeds are paid out
- some degree of protection is afforded against the life assured's creditor.

**(3 marks for each correctly stated provisions/advantage. Maximum of 6 to be graded. Total: 18 marks)**

(c) The implications of the following on Life Assurance Contracts are:

(i) **Three Certainties of Trust:** whatever method used to create a trust, the following three (3) certainties must be present:

- the words used must show clearly what the trust intended. No special form of words is necessary while noting that the use of the words "on trust for" will make the trust certain.
- the subject matter must be certain i.e. the property to be the subject of the trust must be specified.
- the object of the trust i.e. the beneficiaries must be certain. This can be achieved simply by naming. The beneficiaries for example: on trust for John, Sarah and Buraimoh absolutely. This can also be achieved by describing the beneficiaries as a class. For example: on trust for the employees for the time being, of Zebra Co. Limited. Whatever words are used to specify who are the beneficiaries, it must be possible to ascertain with certainty at any time exactly who are the beneficiaries.

**(3½ marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 7 marks)**

(ii) **Surrenders of Policies:**

- when a policy has fallen into arrears of premium and the outstanding cannot be paid by the assured, the policyholder may request for the payment of the surrender value if the policy has run for specified period and has acquired a minimum number of instalments
- the request for payment of surrender value is not strictly a claim, but it is usually treated the same way with regards to proof of title.
- the surrender value will be quoted, subject to the payment of the minimum number of instalments and the submission of proof of title.
- also requested is the duly completed and signed discharge from the policyholder, singular to that used for maturity claims except that it will indicate that the policy is being surrendered.
- if the policy is being surrendered by a mortgagee the counter signature of the mortgagor will be required unless the mortgagee confirms it is being surrendered under power of sale.
- trustees surrendering a policy will have to use the surrender proceeds for the benefits of the beneficiaries.

**(3½ marks for each correctly stated point. Maximum of 2 points to be graded. Sub-Total: 7 marks)**

**(Grand Sub-Total: 14 marks)**

**(Grand Total: 34 marks)**

12. (a) What is money laundering? **(6 marks)**
- (b) Explain seven (7) roles of life offices to combat the effect of money laundering. **(28 marks)**

### Solution

(a) Money laundering is the process by which any one (whether individual or corporate) convert money obtained illegally into legitimate funds. This enables them to enjoy the fruits of organised crime.

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

(b) The roles/duties of life office to combat the effects of money laundering are:

- life offices must appoint a senior employee as a money laundering authorities
- it must secure full internal compliance with money laundering regulations
- the MLRO, preferable a legal officer must be given sufficient authority to enforce compliance with the regulations
- the MLRO must establish internal procedures to identifying and reporting any person suspected of attempting to launder money
- staffs and advisers must be well trained in anti-money laundering issues as stated below:
  - Recognising the symptoms of money laundering
  - The procedure of reporting suspicions
  - The conduct of continued business dealings with clients suspected of money laundering activities.
- The office must obtain evidence of the identity of clients where a business relation is formed.
- If business is introduced by an independent intermediary the life office may rely on the intermediary to comply with the identification rules.
- Where proof of identity is required, it must be obtained as soon as it is practically possible before the contract is complete.
- If proof of identity cannot be obtained when required, then the transaction should not proceed.
- Record of transactions should be kept for 5 years
- Any suspicious transactions e.g. large amount of cash (in line with regulatory limits) should be reported to the money laundering reporting officer who will report to the relevant authorities where necessary.

**(4 marks for any correctly stated role/duty. Maximum of 7 roles/duties to be graded. Sub-Total: 28 marks)**

**(Grand Total: 34 marks)**

13. (a) As a life underwriter, what considerations must be taken into account when deciding the acceptance terms of a term assurance life policy? **(28 marks)**

(b) Enumerate any two (2) of the three different categories of acceptance terms that can be offered under (a) above. **(6 marks)**

### Solution

(a) The considerations that must be taken into account by an underwriter when deciding the acceptance terms of a term assurance life policy are:

- **size of the sum assured proposed:** it may be necessary to arrange for reinsurance where it exceeds the retention limit of the office
- **age of the proposer:** the higher the age at entry, the higher the risk of death
- **medical factor:** the underwriter will look out for medical factors affecting

longevity i.e. any condition that can reduce the expectation of life. For example, heart diseases, cancer, kidney failure, e.t.c.

- **occupational factors:** to check the occupation whether it presents greater than average risk of death by disease and/or accident e.g. bomb disposal worker or miners (lung diseases), e.t.c.
- **residential factors:** like climate risks, political instability, war, diseases, e.t.c. Some places may present extra risk that are life threatening
- **sports and pastimes:** unusually hazardous sports or pastimes should be of concern to the underwriter because of the high risk of accidental death e.g. boxing, motorcycle racing, e.t.c.
- **financial factors:** the size of the sum assured proposed must be noted in line with the circumstances of the proposer. If the sum assured and/or premiums are not consistent with the life assured's situation, it could be a case of overselling with the attendant risks. In addition, when a policy is sold on a "life of another basis", the insurable interest position must be checked.

**(5 marks for mentioning the consideration. 2 marks for explaining the mentioned point. Sub-Total: 7 marks for each correct point. Maximum of 4 points to be graded. Grand Sub-Total: 28 marks)**

(b) The three different categories of acceptance terms that can be offered under (a) above are:

- acceptance at ordinary rates of premium
- acceptance at special terms if found to be substandard (medically, hazardous occupation, sports/pastime, e.t.c.)
- alternative contract or policy may be offered.

**(3 marks for each correctly stated acceptance category. Maximum of 2 to be graded. Sub-Total: 6 marks)  
(Grand Total: 34 marks)**

14. Enumerate two (2) merits and two (2) demerits of natural and level premium systems in life assurance contracts.

### **Solution**

#### **Natural Premium**

The merits of the natural premium system of premium payment are:

- net or pure premium is derived from the mortality rate applicable to a particular age multiplied by the same assured requested.
- the sum provided represents the premium required just to meet the death claim during the particular year.

**(5 marks for any correctly stated merit. Maximum of 2 to be graded. Sub-Total: 10 marks)**

The demerits of the natural premium system of premium payment are:

- People may become unable to afford cover when needed
- Best and fit lives may not be able to renew their policies
- May lead the increase in the number of inferior or unfit lives with increased mortality rate
- Premiums would then be inadequate to meet claims

**(5 marks for any correctly stated demerit. Maximum of 2 to be graded. Sub-Total: 10 marks)**

#### **Level Premium:**

The merits and demerits of the level premium system of premium payment are stated below:

- Mortality tables are based on the fact that the risk of death increases with age, so if a level premium is charged, throughout the term of the policy

- The premium in the early years is higher than it is needed to meet current claims cost. Hence, there will be excess money left as a reserve to meet the cost of greater risk in future when the premium will be less than the cost of risk
- The reserve will be invested and a substantial amount of interest can be earned over a period of term of cover
- The interest on the premiums expected to be earned is usually always taken into consideration by the Actuaries in calculating the rate to reduce the natural premium to the level premium
- The expected interest yield on the premium depends on the duration of the contract. The longer the term of the contract, the better the interest yield.

**(3½ marks for any correctly stated point. Maximum of 4 points to be graded. Sub-Total: 14 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A06

MOTOR INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A06- MOTOR INSURANCE

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I 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' understanding of the VAT status of insurance, details of cover relating to legal personal representatives, and the liability section of a private motor policy. Performance was poor, with less than 20% achieving a pass mark.

### **Question 2**

This question focused on the maximum amount an insurer will pay for vehicle damage and the category of persons covered under the third-party section of a motor policy. Candidates' performance was average.

### **Question 3**

The question examined key underwriting considerations relating to vehicle users. It was well attempted; however, the performance was below average.

### **Question 4**

This question centred on the principle of uberrimae fidei (utmost good faith). Although widely attempted, performance was extremely poor.

### **Question 5**

The question examined knowledge of the components of a motor insurance premium. While it was well attempted, the performance was not encouraging.

### **Question 6**

This question assessed candidates' understanding of a cover note. Performance was slightly above average.

### **Question 7**

The question tested knowledge of the ECOWAS Brown Card Scheme. About 98% of candidates attempted it, and performance was above average.

### **Question 8**

This question examined understanding of the Medical Expenses Clause in a motor policy. Almost all candidates attempted it; however, performance was below average, with less than 50% scoring up to 40% in Part A.

### **Question 9**

Part (a), which related to the NIIRA 2025, recorded average performance, although over 99% of candidates could not define the Service Charter. Part (b) was well answered, while Part (c) recorded below-average performance, with slightly over 30% passing.

### **Question 10**

This question assessed knowledge of the role of an insurance engineer, as well as special and general damages in personal injury claims. It was well attempted, with an above-average performance of about 65%.

**Question 11**

The question examined knowledge of general motor claims and underwriting. Although well attempted, the performance was below average. Candidates need to strengthen their understanding of motor claims.

**Question 12**

This question examined understanding of general insurance terms. Performance was fairly good.

**Question 13**

Part (a) tested knowledge of comprehensive motorcycle insurance. About 41% of candidates attempted it, with approximately 70% passing.

Part (b) examined the application of days of grace in motor insurance; performance was average.

**Question 14**

This question related to the Road Traffic Act (RTA) 1988, particularly regarding police requests for a certificate of insurance. It was not well attempted, and performance was not encouraging.

**Comments on Overall Performance:**

Overall performance was below expectation, indicating the need for greater commitment and improved study habits among candidates.

**Suggestions on Improvement (if any)**

Candidates are encouraged to adopt a more serious and disciplined approach to their studies by thoroughly engaging with their coursebooks and preparing adequately for examinations.

## A06 – Motor Insurance

1. (a) Why is the VAT status of the insured important when settling an own damage claim in Motor Insurance? **(4 marks)**
- (b) Outline the details of cover provided for “legal personal representatives” under the Liability to Others Section of a Private Motor Policy. **(2 marks)**

### Solution

- (a) If the insured is VAT registered, they are liable for VAT element of any own damage claim payment and can offset this when completing their own VAT returns. **(4 marks)**
- (b) In the event of the death of any one Insured under the Policy, the Insurers will transfer to his Estate, the protection provided by the Policy against any liability he had incurred. **(2 marks)**

**(Grand Total: 6 marks)**

2. (a) What is the maximum basis of determining the amount an insurer will pay for damage to a vehicle with effective cover as at date of loss?
- (b) List any three (3) categories of persons (other than the policyholder) that cover is provided under the Third-Party Section of a Motor Policy?

### Solution

- (a) The maximum amount an insurer will pay for damages to a vehicle at the date of loss is: the Market Value – unless the car is less than six months old, when the cost of a new replacement vehicle will be paid **(3 marks)**

- (b) The categories of person (other than the policyholder) that cover is provided under the Third-Party Section of a Motor Policy include:

- \* the driver;                      \* user (for pleasure purpose);                      \* any passenger;
- \* the policyholder’s employer (provided that the user is permitted by the policy);
- \* in the event of death of any one insured, the legal personal representative.

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

**(Grand Total: 6 marks)**

3. Enumerate any four (4) key features that an underwriter considers in relation to users of a vehicle when underwriting it for motor insurance.

### Solution

The key features which will be taken into account are:

- \* age;                                      \* occupation;                      \* claims history;                      \* conviction record;
- \* physical or mental disability,                      and                      \* country of origin.

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

4. What is the importance of the principle of “Uberima Fides” – Utmost Good Faith in a motor insurance contract on the part of the insured?

### Solution

The importance of the principle of Uberima Fides is that ***Insurance contracts are entered into on the basis of Utmost Good Faith (Uberima Fides.)*** While both parties to the contract are bound by such a principle, its application was felt to be important because the precise details of an individual, insured risk are far more likely to be known by the prospective insured. Recognition of the unending position of each party has resulted in the requirement of Utmost Good Faith.

**(3 marks for each correctly stated point. Maximum of 2 to be graded)**

**(Grand Total: 6 marks)**

5. Explain any two (2) group of elements that make up a Motor Insurance premium.

**Solution**

The elements that make up a motor insurance premium are:

- (i) firstly, there is the amount that is required to pay claims – expressed in percentage terms, this is known as the “claim ratio”;
- (ii) on top of this, an allowance has been made for both fixed and variable cost. the main variable cost is that of agent commission and is a relatively straight forward calculation. other expenses are generally either fixed or variable only in the long term;
- (iii) these are operating costs of the company such as staffing, premises, it’s equipment e.t.c. and have to be paid for irrespective of the number of policies sold, though advertising costs represent a substantial outlay, particularly for “direct” written.

**(3 marks for each correct and completely explained group. Maximum of 3 to be graded. Total: 6 marks)**

6. What are the two (2) main functions of the “cover note”?

**Solution**

The two main functions of a cover note are:

- i. To provide the Policyholder with the main details of the cover granted whilst awaiting the permanent documents including the Policy itself, and
- ii. to act as a temporary Certificate of Insurance which complies with the RTA

**(3 marks for each correctly stated function. Total: 6 marks)**

7. What is the ECOWAS Brown Card Scheme? Enumerate any of its objectives.

**Solution**

The ECOWAS Brown Card is a Certificate of Insurance adopted by member countries of ECOWAS to enable motors move about freely within the region. Principally, it relates to Motor Vehicle Third Party Liability Insurance. **(4 marks)**

The objectives of the scheme are:

- to guarantee for road accident victims, fair and prompt compensation for damage they may have sustained as a result of such accident
- to facilitate for nationals driving their vehicles within the member state, payment of compensation due from them as a result of accident they may have caused and to enable them comply with their obligations under local law and regulations on the subject.

**(2 marks for each correctly stated objective. Only 1 to be graded)**

**(Grand Total: 6 marks)**

8. (a) State a typical wording of a “Medical Expenses Clause” **(2 marks)**

(b) Enumerate the two (2) usual additional benefits normally included in a motor policy. **(4 marks)**

**Solution**

(a) The following is a typical wording of a “Medical Expenses Clause”:

“if you, your driver or any of your passengers are injured in an accident, involving your car, we will pay you the medical expenses incurred for each injured person up to the amount specified in your schedule”. **(2 marks)**

(b) The main additional benefits included are personal accident cover for the policyholder and spouse (usually capital benefit only) and medical expenses of up to an amount.

**(2 marks for each correctly stated benefit. Sub-Total: 4 marks).**

**(Grand Total: 6 marks)**

**Part II**  
**Compulsory Question.**

**This question carries 50 marks.**

9. (a) Using the provision of the Nigerian Insurance Industry Reform Act (NIIRA) 2025, define the following:
- |                           |   |
|---------------------------|---|
| (i) Service Charter;      | (ii) Health Insurance Business                |
| (iii) Insurance Operator; | (iv) Credit Life Insurance. <b>(10 marks)</b> |
- (b) Alhaji Hassan insured his Lexus Saloon Car with Immaculate Insurance Company Limited on a Value of ₦2,700,000.00. The vehicle was involved in a ghastly motor accident while driving along Shagamu-Benin Express Road, resulting in the following:
- extensive damage to the insured's vehicle;
  - injury to occupants of the insured's vehicle;
  - damage to electricity pole;
  - fire damage to a third-party vehicle – a Peugeot saloon car;
  - loss of Alhaji's wrist watch, pair of shoes and wearing apparels;
  - sample of detergent sachets;
  - cash of ₦100,000.00 completely burnt in the third party's vehicle.
- As the claims processor of Immaculate Insurance Company Limited, how would you make recommendations, with five (5) justifications/reasons, on each of the losses stated above if Alhaji Hassan's vehicle was insured on:
- (i) comprehensive basis **(20 marks)**; (ii) third party only basis. **(15 marks)**
- N.B:-** Please note that the Police discovered during investigation that the Third Party's vehicle had no insurance cover at the time of the accident, in addition to the fact that Plate Number on the vehicle was fake.
- (c) What is the position of the law on the discovery by the Police on the third-party's vehicle? **(5 marks)**

**Solution**

- (a) NIIRA 2025 provides for the meaning of these as follows:
- (i) **Service Charter:** a document indicating timelines fees and other features of the products and services to be offered by the Commission to the stakeholders in the insurance industry to be published by the Commission and made available to the public in accordance with Section 5(4) of the Act. **(2½ marks)**
- (ii) **Health Insurance Business:** health insurance business not covered under the National Health Insurance Act 2022 or any amendment or replacement to it. **(2½ marks)**
- (iii) **An Insurance Operator:** an insurer, reinsurer, insurance brokers, insurance agent, loss adjuster and insurance pool as the case may be. **(2½ marks)**
- (iv) **Credit Life Insurance:** means a type of life insurance policy where the policyholder is a credit provider, and the insurer is obligated to meet the insurance requirements in case of the death of the debtors, who is the person insured under the policy and the policy may cover one or more lives insured and all of them shall be debtors of the credit provider. **(2½ marks)**

**(Grand Total: 10 marks)**

- (b)
1. **Comprehensive**
    - i. Extensive damage to Insured's vehicle is covered
    - ii. Injury to occupant of the Insured vehicle – not covered except in respect of Emergency treatment
    - iii. Damage to electricity pole – covered subject to Third Party Property Damage Limit
    - iv. Fire damage to Third Party's vehicle – covered subject to Third Party Property Damage Limit

- v. Loss of wrist watch, e.t.c. – covered by the comprehensive policy provided such policy is extended to cover personal effects, e.t.c.
- vi. Sample of Detergent sachets – Not covered
- vii. Cash of ₦100,000.00 completely burnt in Third Party’s vehicle – Not covered it is better insured more appropriately under money policy.

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

**2. Thirty Party Only Cover**

- i. Extensive damage to the Insured’s vehicle – Not covers as policy covers only Third Party Liability Risks
- ii. Injury to occupants of Insured’s vehicle – Not covered except in respect of Emergency Treatment
- iii. Damage to electricity pole – covered subject to Thirty Party Property Damage Limit of the Policy
- iv. Fire damage to Thirty Party’s vehicle; a Peugeot saloon car – covered subject to Third Party Property Damage Limit of the Policy
- v. Loss of Alhaji’s Hassan wrist watch etc – covered under Third Party only Policy
- vi. Sample of Detergent – Not covered
- vii. Cash of ₦100,000.00 burnt in a Third Party’s vehicle – not covered. It is better insured more appropriately under a money policy.

**(3 marks for each correctly stated justification. Maximum of 5 to be graded. (Sub-Total: 15 marks)**

**(Grand Sub-Total: 35 marks)**

(c) In consonance with the RTA provisions that no person should drive his vehicle, or cause his vehicle to be used on the road without value insurance cover or security, the third party could be taken to court to face criminal charges. Notwithstanding, the claims settlement positions stated above would remain in consonance with relevant policy provisions. The Third Party should also be charged for using fake plate number on his vehicle.

**(5 marks for any correct and completely stated point. Sub-Total: 5 marks)**

**(Grand Total: 50 marks)**

**Part III**

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

**Each question carries 34 marks.**

- 10. (a) (i) Who are Insurance Engineers? **(4 marks)**
- (ii) With at least four (4) justifications, extol the role of the “insurance engineer”? **(16 marks)**
- (b) In relation to Personal Injury Awards, distinguish between “Special Damages” and “General Damages”. Give an example on each term. **(14 marks)**

**Solution**

(a) (i) Insurance Engineers are usually recruited from amongst garage employees and have invariably worked for a number of years as a body requires and/or estimators. They will have seen it all “the other side of the fence” and are therefore, ideal for controlling the actions of the repair trade. On a day-to-day basis, the cost of repairs is controlled by Insurance Engineers. Engineers are often used in Accidental Damage Claims.

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

(ii) Engineers will agree method and cost of repairs with garage estimators and will provide repair authority. They will then be available for consideration should something change during the course of repair and will “sign off” the final invoice. The cost calculated by Engineers will determine whether or not any particular

repair is worthwhile, taking into consideration the overall value of the damaged car. They control the cost of repairs – to a very large extent.

If the repair is not economically viable, then the Engineer will declare the vehicle Insurance Write-Off. They will then go on to calculate the pre-loss value of the vehicle and, in some cases, will agree this with the vehicle owners.

**(4 marks for each correctly stated point. Maximum of 3 points to be graded Sub-total: 12 marks).**

(b) “**Special Damages**” are those damages, awarded by the courts, which are in respect of quantifiable financial loss, such as loss of earnings, both present and future, and medical expenses and others, “out of pocket” expenses, including the cost of services rendered to the plaintiff. While “**General Damages**” are those damages awarded by the courts that are related to non-financial losses and are less easily assessed, for example, pain and suffering, and loss of expectation of life.

**(7 marks for each correct and completely stated explanation. Sub-Total: 14 marks)**

**Grand Total: 34 marks.**

11. (a) Okeke Investment Limited insured a brand-new Siena Space Car with Excellence Insurance Company Limited on Comprehensive Basic. Six (6) months thereafter, the vehicle was hijacked by a students’ mob along Lagos-Badagry Express Road. The Insured vehicle was later found towards the Seme Border badly damaged as the vehicle somersaulted several times as a result of over speeding. The corpse of a young man was found in the damaged car. The matter was reported to the Police. The relations of the dead young man insisted that the Insured and/or the Insurance Company would be held responsible for the necessary compensation to the dead.

As the claims manager of Excellence Insurance Company Limited, how should the claim be professionally handled?

### **Solution**

The Insured Sienna Space Car must have been insured on comprehensive basis. The Policy too must have been extended to cover Strike, Riot and Civil Commotion (SRCC).

The Insurer - EXCELLENCE INSURANCE COMPANY LIMITED is thus liable to meet the material damage claim i.e damage to the Insured’s vehicle, since the Policy had been extended to cover the risk of Strike, Riot and Civil Commotion (SRCC), otherwise, the damage to the vehicle would not be covered.

Since the matter was reported to the Police and death of an unknown young man was involved, Police Report must be obtained.

As for the dead young man, we need to find out his identity. Is he a student? Is he a Police Officer? Is he a staff of the Insured? Or, is he an outsider? Who is he and how did he get into the vehicle? Was he also hijacked by the students and put into the car before the accident? Whatever angle we look at it, the dead man is a third party and we may have to look at it from the angle of the Road Traffic Act (RTA)’s provision in respect of death and injury to third party.

**(7 marks for each correctly stated explanation. Maximum of 2 points. Sub-Total: 14 marks).**

**Material Damage Aspect of the Vehicle:** since the Policy was issued on Comprehensive Basis and extended to cover the risk of Strike, Riot and Civil Commotion, damage to the vehicle is covered. Please note that the loss would not be covered if the Policy was not extended to cover SRCC.

**(4 marks for correctly stated explanation. Sub-Total: 4 marks).**

**The young man as a student:** The Insurer may not be liable to compensate such dead student taking into consideration, the circumstances that the Insured vehicle was hijacked from the driver

by force. The students use of the vehicle was illegal and so, legal right cannot result from an illegal action.

**(4 marks for correctly stated explanation. Sub-Total: 4 marks)**

**Police Officer:** The Police Officer died on duty and in course of employment which should be a subject of Workmen's Compensation Insurance or Employers Liability Insurance. His employer should take care of his compensation.

**(4 marks for correctly stated explanation. Sub-Total: 4 marks)**

**Staff of the insured:** Private Car Policy excluded "Liability for death of or injury to any person arising out of and in course of employment, by any person insured under this policy" The staff died in course of employment and should be compensated by the Employer's Liability Insurance Policy, or better still, by his Employers.

**(4 marks for correctly stated explanation. Total: 4 marks)**

**As a Passenger:** A passenger could be for hire or rewards or for gratuitous purposes. Whichever way, the passenger is a third party who deserves compensation by the Insured's Motor Policy. In this instance, the dead young man as a passenger, who constitutes a third party, should be compensated by the Insured's Motor vehicle Insurer.

**(4 marks for correctly stated point. Sub-Total: 4 marks)**

**(Grand Total: 34 marks)**

12. Write short notes on each of the following:

- |  |   |
|--|---|
| (a) agreed valued policies; <b>(8 marks)</b> | (b) subrogation; <b>(8 marks)</b>       |
| (c) arbitration; <b>(9 marks)</b>            | (d) ex gratia payment. <b>(9 marks)</b> |

**Solution**

(a) **Agreed Valued Policies:** these will have been issued in the main for vintage or "classic" cars. First, there is usually a need to re-agree a value for the forthcoming year. An Insurer is unlikely to be prepared to continue with the same fixed figure. Secondly, the Insurer may wish to review the claims experience either individually, or if statics allow, by comparison with the rest of the portfolio insured on similar risks.

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

(b) **subrogation:** Subrogation is another corollary of indemnity. In common law, the right to subrogation does not attach until indemnity has been provided, but at that time the Insurer can then stand in the shoes of the policyholders in exercising any right that the policyholder has of recovery from a negligent party.

However, in common with other types of Insurance, the motor policy will contain a subrogation clause which will give the Insurer the right to exercise subrogation as soon as a claim has been intimated. This gives control of the claim to the Insurer and in particular, enables the Insurers to pursue recovery before an actual outlay has been incurred.

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

© **arbitration:** the Policy calls for any dispute over quantum, ie. The amount of claim to be referred to arbitration before any legal action can be taken against the Insurer. In private motor policies, the arbitration is seldom invoked, bearing in mind that most disputes are resolved and if necessary, the ombudsman can be involved.

**(4½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 9 marks)**

(d) **ex gratia payment:** this is a claim settlement to the Insured out of favour and **NOT** by right. The claimant/insured might have breached a warranty or condition of the Policy such that, ordinarily, his claim should not have been paid and perhaps because of the longstanding relationship or their vital considerations, the claim is paid.

**(4½ marks for each correct and completely stated explanation. Maximum of 2 to be graded. Sub-Total: 9 marks)**

**(Grand Total: 34 marks).**

13. (a) Dr. Anthony has sojourned in Canada for over 15 years. He recently returned to this country and approaches M/S Mercy Insurance Company Limited to insure his Honda Motorcycle on Comprehensive Basis and specifically requested that their Policy should cover, amongst others, the following:  
 (i) accessories and spare parts; (ii) personal effects; (iii) personal accident.

As a Prudent Underwriting Manager of Mercy Insurance Company Limited, how should these requests be professionally handled? **(18 marks)**

- (b) How is “days of grace” applied, as at date, in Motor Insurance:  
 (i) globally; **(10 marks)** (ii) in Nigeria. **(6 marks)** **(16 marks)**

**Solution**

(a) (i) **accessories and spare parts** will only be covered for loss or damage whilst they are attached to the Motorcycle itself. **(6 marks)**

(ii) **personal effects:** these are enhanced benefits normally granted to Private Car Policyholders but not granted to Motor-Cycle Policyholders for the simple reason(s) that Motor-Cycle riders are usually unprotected and exposed easily to the risk of serious personal injury as a result of accident. So, these should only be covered on the basis as earlier above stated; **(6 marks)**

(iii) **personal accident:** these are also enhanced benefits normally granted to Private Car Policyholders but not granted to Motor-Cycle Policyholders for the simple reason(s) that Motor-Cycle riders are usually unprotected and exposed easily to the risk of serious personal injury as a result of accident. So, these should only be covered on the basis as earlier stated above. Similarly, the chances of loss of Personal Effect are very high due to the fact that such items would be exposed, and not protected on a Motorcycle hence such cover would not be provided. **(6 marks)**

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

(b) An insurance policy is usually issued to last a period of one year after which it becomes renewable. Take for example, a Policy issued effective 1<sup>st</sup> January, 2020 would expire by 31<sup>st</sup> December, 2020, and renewable effective from 1<sup>st</sup> January, 2021. For one reason or the other, the insured may not be able to renew. This may be due to oversight, forgetfulness or non-receipt of the Renewal Notice. To take care of these lapses, insurers usually grant Days of Grace within which, Insurers could still come to renew their policies and should a claim arise during the period, the Policy would pay. Such Days of Grace varies depending on the insurer concerned, but 15 to 30 days are not unusual. Please note that Days of Grace does not apply to Motor compared to other Classes of Insurance

(bi) Day of Grace is not allowed in Motor Insurance. To this end, when Renewal Notices are sent, usually a 15 days Cover Note is attached. This provides only the RTA cover and it takes care of the situation whereby the insured could forget to renew at the right time.

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

(bii) In Nigeria, as at date, days of grace principle is not applicable to Motor Insurance in Nigeria As a result of statutory provision that a certificate of insurance must be carried at all times and in addition, cover cannot be backdated (no premium, no cover rule). **(6 marks)**

**(Sub-Total: 14 marks)**

**(Grand Total: 34 marks)**

14. (a) Whilst driving along Sagamu-Benin Express Road, Engineer Abdulsalam ran into a Police check point, where the Police demanded for his vehicle particulars. A lot of argument ensued as to why the Police should demand for his Motor Certificate of Insurance, accusing the Police of high handedness. Justify the position of the Police for

demanding for the Certificate of Insurance of Engineer Abdulsalam in relation to the provisions of the RTA. **(14 marks)**

- (b) What is Alternative Dispute Resolution (ADR)? Explain in details the modus operandi of ADR (i.e. how ADR operates). **(20 marks)**

### **Solution**

(a) Section 165 of Part VII of the RTA 1988 gives the Police the power to request the production of a Certificate of Insurance or Security from a motorist. If the Certificate cannot be produced immediately, then it might be produced at a Police Station within Seven (7) days, unless this is not reasonably practicable.

The Police therefore has the legal right to stop any motorist and demand for the production of his vehicle particulars (particularly the Certificate of Insurance) in consonance with the provisions of the TRA.

**(7 marks for each correctly stated point. Maximum of 2 to be graded. Total: 14 marks)**

(b) **Alternative Dispute Resolution (ADR)** is a method that has been formulated primarily to lighten the case-load of court of law. It is a less formal procedure where the ultimate solution is determined by the parties themselves through mediation rather than by any judge or arbitration.

**(5 marks for correctly stated definition)**

### **Modus Operandi**

A Mediator is appointed by mutual consent. It is the job of the Mediator to facilitate discussion through a series of meetings and to encourage the parties to bring various aspects of the dispute to a point where there exist mutual understanding and acceptance. The solution is often a compromise which is acceptable to both parties. ADR can be used to assist in all manner of disputes including complaint to insurers. It perhaps can have a particular benefit in disputes between insurer and Commercial Policyholder where otherwise there is nothing available before full arbitration and/or court action.

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

**(Grand Sub-Total: 20 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A07

LIABILITY INSURANCE

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

# CHARTERED INSURANCE INSTITUTE OF NIGERIA

## A07- LIABILITY 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 examined candidates' knowledge of exclusions under Directors' and Officers' Liability Insurance and the objectives of product liability insurance. Out of 79 candidates, 40 (50.63%) passed, while 37 (46.84%) failed, with only two candidates not attempting the question. Overall performance was above average.

### **Question 2**

This question assessed knowledge of product recall policies and premium rating factors in professional indemnity insurance. It recorded an 86.08% attempt rate, with only 9 candidates (11.39%) failing, indicating excellent performance.

### **Question 3**

The question examined the understanding of the manifestation trigger and losses discovered. A total of 47 candidates (39.49%) passed, while 24 (30.38%) failed, reflecting below average performance.

### **Question 4**

Candidates were assessed on the components of general and punitive damages. A total of 62 candidates (78.48%) passed, while 17 (21.51%) failed, indicating good performance.

### **Question 5**

This question assessed knowledge of risk management. The attempt rate was satisfactory, with a performance level of about 70%.

### **Question 6**

The question focused on limitation of actions. It recorded a 70% attempt rate and a 65% pass rate, reflecting good performance.

### **Question 7**

This question tested knowledge of defenses in liability insurance. It was well attempted, with a performance level of approximately 70%.

### **Question 8**

The question examined general defenses to actions in tort. It had an 80% attempt rate and a 75% pass rate, indicating excellent performance.

### **Question 9**

This compulsory Part II question tested various aspects of liability insurance. It was attempted by all candidates (100%), but only 41% passed. Candidates generally performed poorly in industry knowledge relating to NIIRA. Many candidates showed weak understanding of the requirements of employers' liability insurance. In addition, there was limited knowledge of defenses under *Rylands v. Fletcher* (1869), reflecting inadequate preparation.

### **Question 10**

This elective question assessed knowledge of various liability terms. It was attempted by 65% of candidates (51 candidates), with 35 (69%) passing, indicating good performance.

**Question 11**

The question examined knowledge of liability terms such as trespass, housekeeping, and statutory liability. A total of 63 candidates (86.08%) passed, while 5 (6.33%) failed, reflecting an excellent performance.

**Question 12**

Candidates were examined on various liability terms. A total of 71 candidates (89.87%) passed, while 5 (6.33%) failed, indicating excellent performance.

**Question 13**

This question assessed knowledge of liability terms. It had a low attempt rate of 30%, with very poor performance among those who attempted it.

**Question 14**

The question assessed knowledge of liability policies. It was attempted by only 10% of candidates, with a very low pass rate of 5%, indicating poor performance.

**Comments on Overall Performance:**

Overall performance was very good. Out of 79 candidates, 60 passed, representing a pass rate of 75.94%.

**Suggestion on Improvement (if any)**

Candidates are encouraged to undertake more comprehensive preparation to achieve even better performance in future examinations.

## A07 – Liability Insurances

1. (a) List any two (2) specific exclusions of Directors' & Officers' Insurance policy. (4 marks)  
(b) What is the object of a product liability insurance policy? (2 marks)

### Solution

(a) Specific exclusions of Directors' & Officers' Insurance Policy are:

- Improper personal gain, fraud and dishonesty.
- Prior notification i.e. circumstances which existed prior to the inception of the policy.
- Prior of pending litigation.
- Liability of directors for any environmental pollution.
- Bodily injury or damage to tangible property.

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

(b) The object of a product liability insurance policy is to indemnify the insured against some of the risks which are not covered under a standard product liability policy and, in particular, those which relate to the failure of the product to fulfil its intended purpose. (2 marks)

(Grand Total: 6 marks)

2. Enumerate any:

- (a) two (2) risks covered by product recall policy;  
(b) two (2) premium rating factors in Professional Indemnity Insurance.

### Solution

(a) Risks covered by product recall policy are:

- costs incurred in recalling the defective product;
- expenses of recalling e.g. advertisement, transportation, e.t.c.
- cost of destroying the recalled product.

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

(b) Premium rating factors in a Professional Indemnity policy are:

- gross fees of the firm;
- more than one office;
- age of partners or experience of the business; and
- ratio of partners to staff.

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

(Grand Total: 6 marks)

3. Briefly explain the meaning of the following trigger events used in liability policies:

- (a) manifestation trigger; (b) losses discovered;

### Solution

(a) **Manifestation** trigger means that the policy will respond to an event that becomes manifest to the insured during the period of insurance. (3 marks)

(b) **Losses discovered:** this is in respect of losses discovered during the period of insurance. Losses mean the consequence of an insured event e.g. negligent act, breach of status, breach of contract, e.t.c.

(3 marks).

(Grand Total: 6 marks)

4. (a) Enumerate any three (3) components of general damages.  
(b) Explain the term "punitive damage".

### Solution

(a) The components of general damages consist of the following:

- \* pain and suffering;
- \* future loss of earnings;
- \* loss of amenities;
- \* loss of earning capacity

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

(b) **Punitive Damage:** is damage awarded in addition to real damages to express the court's view that the defendant's conduct is deplorable or outrageous. Punitive damages are intended as punishment and not compensatory. (3 marks)

(Grand Total: 6 marks)

5. Enumerate and briefly explain the three-fold approach of risk management.

**Solution**

The three-fold approach to risk management are:

- **Identification:** risk must first be identified before they are measured or analysed;
- **Analysis:** risk identified must be analysed or measured in term of frequency of occurrence and severity impact;
- **Control:** after the impact of the risk has been analysed or measured, then control measures will be put in place to litigate them.

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

6. (a) Briefly explain the term "Limitation of Actions".  
 (b) Enumerate any two (2) defences to an action in defamation.

**Solution**

(a) **Limitation of Actions:** Limitation of action imposes a time limit within which a plaintiff must bring his action. This is to avoid the court having to deal with stale claims where the parties' memory of the event is vague and witnesses are unreliable. It is also to safeguard the defendant from the problem associated with defending a claim based on an incident which occurred a long time ago.

(3 marks)

- (b) Defences in an action in defamation are:  
 \* justification; \* consent; \* fair comment  
 \* privilege; \* innocent dissemination

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

7. (a) Explain the meaning of the following defences:  
 (i) emergency; (ii) accord and satisfaction. (4 marks)  
 (b) What is the rule of Ryland vs. Fletcher 1868? (2 marks)

**Solution**

(a) (i) **Emergency:** In certain situation, a person action should not be considered negligent because they acted quickly in an attempt to prevent a dangerous occurrence. The standard of care on which the defendant will be judged takes into account what a reasonable person would have done in similar circumstances. (2 marks)

(ii) **Accord and Satisfaction:** this is related to liability claims that are settled out of court before the commencement of the proceedings. The settlement of these claims forms a binding contract between the parties and the defendant is release from any further liability. (2 marks)

(b) The rule of Ryland vs. Fletcher is that an occupier who brings and keeps on their land anything which is likely to cause damage if it escapes is under a strict obligation to prevent its escape and is liable for any damage cause as a result of its escape. (2 marks)

(Grand Total: 6 marks)

8. Enumerate any six (6) general defences to an action in tort.

**Solution**

General defences to an action in tort are:

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

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

## Part II

### Compulsory Question

This question carries 50 marks.

9. (a) Using the provision of the Nigerian Insurance Industry Reform Act (NIIRA) 2025, define the following:
- (i) Service Charter;
  - (ii) Health Insurance Business
  - (iii) Insurance Operator;
  - (iii) Credit Life Insurance. **(10 marks)**
- (b) All employers of labour are required to insure their legal liability to their employees against occupational hazards. They must comply with the provision of Employers' Liability (Compulsory Insurance) Act 1969.
- (i) List any four (4) requirements of the above legislation. **(8 marks)**
  - (ii) What is the significance of Blyth v. Birmingham Waterworks Co. 1856. **(4 marks)**
  - (iii) The rule of Ryland v. Fletcher 1868 established the legal principle of 'strict liability'. Explain any four (4) major defences of available on this rule. **(12 marks)**
- (c) Explain the following terms:
- (i) excess of loss reinsurance;
  - (ii) layer programme;
  - (iii) right of recovery;
  - (iv) nominal damage. **(16 marks)**

### Solution

- (a) NIIRA 2025 provides for the meaning of these as follows:
- (i) **Service Charter:** a document indicating timelines fees and other features of the products and services to be offered by the Commission to the stakeholders in the insurance industry to be published by the Commission and made available to the public in accordance with Section 5(4) of the Act. **(2½ marks)**
  - (ii) **Health Insurance Business:** health insurance business not covered under the National Health Insurance Act 2022 or any amendment or replacement to it. **(2½ marks)**
  - (iii) **An Insurance Operator:** an insurer, reinsurer, insurance brokers, insurance agent, loss adjuster and insurance pool as the case may be. **(2½ marks)**
  - (iv) **Credit Life Insurance:** means a type of life insurance policy where the policyholder is a credit provider, and the insurer is obligated to meet the insurance requirements in case of the death of the debtors, who is the person insured under the policy and the policy may cover one or more lives insured and all of them shall be debtors of the credit provider. **(2½ marks)**
- (Grand Total: 10 marks)**

- (b) (i) The requirements of Employers' liability (Compulsory Insurance) Act 1969 are:
- introduce compulsory insurance;
  - all employers are to insure their legal liability for bodily injury, death or disease of their employees;
  - the limit of liability must be at least two million pounds (£2 million) any one occurrence;
  - certificate of insurance to be displayed at each place of work;
  - the policy must be issued by authorize insurers;
  - the policy must be approved policy not subject to any prohibition conditions.
- (2 marks each for each correctly stated requirement. Maximum of 4 to be graded. Sub-Total: 8 marks)**

- (ii) The significance of Blyth V. Birmingham Waterworks Co. 1856 is that the case provided a classical definition of negligence, which is as follows: "negligence is omission to do something which a reasonable

man, guided upon those considerations which ordinarily regulate the conduct of human affairs, would do, or the doing something which a prudent and reasonable man would not do”. (4 marks)

(iii) The defences available under Rylands V. Fletcher 1868 are:

- **Statutory Authority:** if a dangerous thing is accumulated under statutory authority the rule does not apply.
- **Consent:** it is a defence that the plaintiff has accepted the risk of escape. However, the consent must be real and not coerced.
- **Common Benefit:** it is a defence if it can be established that the accumulation of the dangerous thing is for the common benefit of the plaintiff and the defendant.
- **Contributory Negligence:** this defence is available if it can be shown that the escape was contributed to the carelessness of the plaintiff.
- **Act of Stranger:** this will be a defence so long as the defendant had no control over the stranger.

(2 marks for correctly stated defence. 1 mark for each correct and completely stated explanation. Sub-total per defence: 3 marks. Maximum of 4 to be graded. Sub-Total: 12 marks)

(c) (i) **Excess of Loss Reinsurance:** this is a form of reinsurance that is most suitable for liability insurance. It is non-proportional form of reinsurance. The ceding company assistances a level of loss and losses within the agreed level of loss are paid by the ceding company. The excess of loss above the ceding company figure is reinsured with another reinsurance company.

(ii) **Layer Programme:** reinsurance is arranged in layer. The ceding company takes the primary layer and then different insurers take the cover for layers in excess of the primary insurer. An example of layers is:

- 1<sup>st</sup> layer excess of 50,000 to 100,000
- 2<sup>nd</sup> layer excess of 100,000 to 200,000
- 3<sup>rd</sup> layer excess of 200,000 to 300,000

(iii) **Right of Recovery:** in Employers' liability insurance, a breach of a policy condition by the employer is a good ground for the insurer to repudiate liability. However, because it is a compulsory insurance repudiating liability by insurer will prejudice the employee to receive compensation for the injury suffered. Therefore, all claims are met i.e. the insured (employer) is indemnified and the act gives the insurer the right of recovery i.e. the right to recover from the insured if the insurer would not have been liable to pay a claim but for the provision of the legislation.

(iv) **Nominal Damage:** there are damages that are intended to compensate and are usually small. They are recognition that a tort has been committed against the plaintiff. Nominal damages are awarded as a token of the plaintiff's legal right.

(2 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-total per term: 4 marks. Grand Sub-Total: 16 marks)

(Grand Total: 50 marks)

### Part III

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

Each question carries **34** marks.

10. (a) Discuss the following liability terms:
- (i) custody or control of property;
  - (ii) liability of a pharmacist;
  - (iii) joint tortfeasor;
  - (iv) risk frequency. (24 marks)
- (b) List four (4) prohibited conditions in an employers' liability policy. (10 marks)

### Solution

(i) **Custody or Control of Property:** this is one of the underwriting factors that will be considered for accepting a public liability risk. The insured may have third party property in his/her custody or control.

Public liability policy will indemnify the insured for loss or damage to third party property through their negligence. It is therefore important to ascertain the nature of the property in the insureds' control and custody

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

(ii) **Liability of a Pharmacist:** a pharmacist may incur liability for professional negligence for error in treatment and in making up (wrong) prescription of drugs. They may also incur liability for negligent preparation of their medicament resulting from wrong formulae.

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

(iii) **Joint Tortfeasor:** joint tortfeasor are persons who collaborate to commit a tort i.e. by common design they inflict or cause bodily injury or damage to the third party. Joint tortfeasors are severally and jointly liable for their tort. At common law, a third party could sue any of the tortfeasors and recover in full.

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

(iv) **Risk Frequency:** frequency is one of the ways by which risk can be measured. Frequency is concerned with how often a risk identified can happen i.e. the number of times the risk operates. Some risks occur very frequently while some risk occur very rarely. Experience has shown that where the frequency is low, the severity is high and where the frequency is high, the severity is low.

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

**(Grand Sub-Total: 24 marks)**

(b) The prohibited conditions in Employers' Liability Insurance are:

- failure in claim notification;
- delay in claim notification;
- lack of reasonable care by the employer;
- breach of statutory regulation by the employer;
- failure by the employer to keep proper record.

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

**Grand Total: 34 marks.**

11. (a) In relation to liability insurance, explain the following terms:

- |                          |                           |                   |
|--------------------------|---------------------------|-------------------|
| (i) vicarious liability; | (ii) housekeeping;        |                   |
| (iii) trespass;          | (iv) statutory liability. | <b>(24 marks)</b> |

(b) Explain the following in relation to employers' liability insurance:

- |                          |                          |                   |
|--------------------------|--------------------------|-------------------|
| (i) protective clothing; | (ii) premium adjustment. | <b>(10 marks)</b> |
|--------------------------|--------------------------|-------------------|

### **Solution**

(a) (i) **Vicarious Liability:** vicarious liability means a person is liable for the tort of another i.e. a person will be assume responsibility for the tort (wrong doing) by another. There are occasions when a person is held liable for the tort committed by other person(s). this type of liability is known as 'vicarious liability'. This type of liability is common in the following areas between:

- |                          |   |
|--------------------------|---|
| * employer and employee; | * parent and children;                  |
| * principal and agent;   | * principal and independent contractor; |
| * partners in business.  |   |

(ii) **Housekeeping:** housekeeping involves good management of the insured premises and proper training of employees. It also involves training and education of staff on safety procedure. Good housekeeping involves cleanliness of office premises, good maintenance culture, good communication of employees.

(iii) **Trespass:** trespass is old form of tort which involve direct and deliberate interference. Trespass involve trespass to land and good trespass to land involve direct interference with law e.g. straying onto

land of another either deliberately or accidentally, allowing one's animal to stray into land, placing subject on land, e.t.c. Trespass to good is the direct physical interference in possession of another person good with lawful authority.

(iv) **Statutory Liability:** in employers' liability insurance statutory liabilities are laws created by Act of parliament for the protection and welfare of employees. They provide a remedy to workers in civil law for damages. For every Act of parliament, regulation will be issued which explain the details of the law that must be complied with and failure to comply with regulation makes the employer liable under the Act.

**(3 marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-total per term: 6 marks. Grand Sub-Total: 24 marks)**

(b) (i) **Protective Clothing:** in employers' liability insurance, the employer must provide safe place of work to prevent accident to the employers. Also, there is a duty upon the employer to provide protective clothing and other facilities that reduce the risk of injury or disease to employees.

(ii) **Premium Adjustment:** this is a premium adjustment cause in employers' liability insurance policy. The premium charge on the policy at inception is based on the estimated salaries and wages of employees which produce provisional or deposit premium.

At the end of the period, the insured is required to declare the actual salaries paid and the premium will then be adjusted by the insurer. The premium adjustment may require the insured to pay additional premium or the insurer may be required to make a refund subject to minimum premium chargeable for the risk.

**(2½ marks for each correct and completely stated explanation. Maximum of 2 explanations to be graded per term. Sub-total per term: 5 marks. Grand Sub-Total: 10 marks)**

**(Grand Total: 34 marks)**

12. Write short notes on the following:

- (a) physical hazard (7 marks); (b) territorial limit (7 marks);  
(c) common law (7 marks); (d) libel (7 marks); (e) a bailee (6 marks).

#### **Solution**

(i) **Physical Hazard:** Physical hazard relates to the physical or tangible aspect of the subject matter of insurance. Physical hazards are agents which are likely to influence the occurrence and/or severity of loss. In liability insurance example of physical hazard are the place of work and safety measures in place to prevent injury to employees, tools of trade provided. How safe are they for employees to work

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

(ii) **Territorial Limit:** territorial limit refers to the geographical area where cover on liability policy will operate. All liability policies issued in Nigeria are intended to protect the insured against claims occurring within the Federal Republic of Nigeria.

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

(iii) **Common Law:** this is the main source of English civil law. It is based upon the doctrine of binding precedent in which the decisions of past counts bind present courts. Courts decisions are recorded in various published land report and most common law particularly relating to contract and tort is found by reference to the law report.

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

(iv) **Libel:** libel is one of the torts of defamation which is designed to protect a person reputation. A statement is defamatory if it injures the reputation of the plain tiff and subject him/her to hatred and public ridicule. When such statement is in writing or from radio and television, it is referred to as libel because they are in permanent form.

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

(v) **A Bailee:** a bailee is a person who has the custody of the property of another on the understanding that it will be eventually returned to that person. Example of a bailee are watch repairer, motor garages, dry cleaner etc.

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

13. (a) Explain the following liability insurance terms:
- |                        |  |
|------------------------|--|
| (i) uberrima fides;    | (ii) claim made basis;                 |
| (iii) onus of proof;   | (iv) common duty of care to a visitor; |
| (v) accrual of action. | <b>(30 marks)</b>                      |
- (b) Explain the significance of the Rehabilitation of Offenders Act 1974 to liability insurances.  
**(4 marks)**

### **Solution**

(a) (i) **uberrima fides:** means ‘utmost good faith’ and is one of the insurance principles upon which all insurance contracts are built. Uberrima fides requires parties to insurance contract to exhibit utmost good faith toward each other i.e. they are under duty to disclose all material information (facts) about the contract they intend to enter. The duty to disclose material information is heavy on the proposer because he/she possesses all information (facts) about the risk offered for insurance.

(ii) **claim made basis:** claim made basis is the most commonly used in public and product liability insurances and also in professional indemnity insurance. With the claim made wordings, the policy will indemnify the insured against claims that are made against the insured during the period of insurance. Claim made basis is commonly used by underwriters who wish to limit their exposure to latency losses.

(iii) **onus of proof:** in an action in negligence and in most civil claims, it is necessary for the plaintiff to prove the facts upon which the claim is based. The main principle is that he who asserts must prove’. If the plaintiff wishes to transfer their loss to the defendant, they must establish sufficient evidence to show that their injury or damage has been caused by the defendant negligence. Accordingly, the onus of proof is on the plaintiff throughout the trial to show on the balance of probabilities that the defendant was negligent.

(iv) **common duty of care to a visitor:** in relation to the Occupier’s Liability Act 1957, a visitor is any person who is invited into the premises i.e. he/she has authority to be on the premises. Any person who are lawfully on the premises is a visitor. For example, a police officer with a warrant has authority to be on the premises so also is a postman. Common duty of care to a visitor is a duty to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purpose for which he/she was invited or permitted by the occupier to be there.

(v) **accrual of action:** accrual of action relates to limitation of action which is the time limit which the law imposes within which a plaintiff must bring his action. The general rule is that the limitation period commences from the date of accrual of the action. The date of accrual in contract is the date of the breach and in tort the date the injury or damage occurred

**(3 marks for correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total per term: 6 marks)**  
**(Grand Sub-Total: 30 marks)**

(b) The significance of the Rehabilitation of Offenders Act 1974 to liability insurances is to ease the rehabilitation into the society of persons convicted of crime. Convictions are defined as to be ‘spent’ after a certain period. A spent conviction means the person convicted has not committed the offence and no reference should or publish about it. Anybody who publish the fact of the conviction after it is spent could be liable in defamation.

**(2 marks for correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total: 4 marks.)**  
**(Grand Sub-Total: 34 marks)**

14. (a) All liability insurance policies have claims notification condition and liability claim may be repudiated due to late notification. Briefly discuss. **(6 marks)**

- (b) In relation to Professional Indemnity Insurance, answer the following:
- (i) State the operative clause. **(4 marks)**
  - (ii) Explain any two (2) policy exclusions. **(6 marks)**
  - (iii) Discuss the renewal procedure. **(6 marks)**
  - (iv) Explain what “discovery period” and “more than one office” mean. **(12 marks)**

**Solution**

(a) **Notification of Claim Condition:** all liability policies carry claim notification condition which expressly required the insured to notify the insurer within a specified period (say 30days) to any event that may give rise to a claim.

Early notification of claim is very important for the following reasons:

- It assists the insurer to conduct investigation when the matter is fresh and when eye witness account will readily available.
- It helps the insurer to reserve adequately for the claim.
- It helps the insurer to notify their reinsurers or co-insurers accordingly
- It enables quick processing and settlement of the claim.

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

(b) (i) The operative clause of Professional indemnity insurance state thus: “the company will indemnify the insured against liability as law for damages and claimant’s costs and expenses in respect of claims arising out of the conduct of the business made against the insured and notified to the company during the period of insurance”. **(4 marks)**

(ii) Some exclusions of professional indemnity insurance are:

- any liability for death disease or illness of or bodily injury to an employee. Cover for this is provided by employers’ liability policy;
- any liability for third party bodily injured or damage to property unless arising out of advice, design, specification or omission perform a professional duty;
- radioactive contamination and some bangs
- pollution or contamination of any kind;
- War.

**(2 marks for correctly stated exclusion. I mark for correct explanation of the stated exclusion. Sub-Total per exclusion: 3 marks. Maximum of 2 to be graded. Grand Sub-Total: 6 marks)**

(iii) **The renewal procedure of professional indemnity insurance is this:** it is usual for insurers in this class of business to negotiate a new contract each year. Prior to the renewal date a fresh proposal from (including a declaration regarding claims) is completed by the insured giving up-to-date details of the staff so that the premium may be recalculated. At renewal date an insured is also obliged to report (if they have not already done so) any occurrence likely to give risk to a claim.

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

(iv) In professional indemnity insurance, insurer will usually grant an extension after the policy has lapsed. The extension period may be three or six months and is meant discover claims which arise due to the negligent act during the period of insurance but which do not come to light until after the policy had lapsed. This is the **discovery period**.

In professional indemnity insurance, supervision of the business is an important premium consideration and where there is **more than one office** the risk may be increased having regard to the circumstances and with particular reference to systems for control monitoring and communication between the different locations.

**(2 marks for correctly stated explanation. Maximum of 2 explanations to be graded. Sub-Total per term: 6 marks. Grand Sub-Total: 12 marks)**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A08

RISK MANAGEMENT

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A08- RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I 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 knowledge of risk tolerance policy. Out of 95 candidates, 87 attempted it, with 39 passing and 48 failing, indicating below average performance.

### **Question 2**

This question assessed understanding of the responsibilities of a Risk Manager. All 95 candidates attempted it, with 92% passing and only 8% scoring below the pass mark, reflecting excellent performance.

### **Question 3**

Over 98% of candidates attempted the question, which focused on factors guiding a Risk Manager and what the Risk Manager needs to guide. However, only 45% passed, indicating moderate performance.

### **Question 4**

The question covered (a) risk modelling and (b) development of a risk model by a Risk Manager. About 76% of candidates passed part (a), while performance in part (b) was weak.

### **Question 5**

This question assessed knowledge of the key headings in a Risk Manager's physical risk survey report. About 97% of candidates attempted it, with 80% passing, indicating strong performance.

### **Question 6**

The question examined the difference between risk retention and risk transfer. A total of 92 candidates attempted it, with 88 passing and only 4 failing, reflecting excellent performance.

### **Question 7**

This question tested knowledge of the principles of business continuity. Of those who attempted it, 44% passed, 42% failed, and 14% did not attempt the question, indicating weak performance.

### **Question 8**

The question focused on CATEX, its full meaning, and its application. Performance was evenly split, with 48% passing and 52% failing.

### **Question 9**

This compulsory question covered (a) NIIRA 2025, (b) risk management process, (c) risk management structure, and (d) cadres of directors required as permanent members of the Group Risk Committee. Overall performance was satisfactory, with at least 50% of candidates passing.

### **Question 10**

Part (a) examined issues to be considered between a Risk Manager and building engineers in developing models and assessing fire consequences, while part (b) focused on fire safety. Performance was good in part (a), with about 65% passing, but weaker in part (b), with a 40% pass rate.

### **Question 11**

This question examined knowledge of risk management procedures. Only 34% of candidates who attempted it passed, indicating poor performance.

**Question 12**

The question assessed knowledge of organisational assets and risk routines. Performance was poor, with only 21% passing and 79% failing.

**Question 13**

This question focused on Information Technology. A total of 42 candidates attempted it, with 32 passing and 10 failing, resulting in a strong pass rate of 76%.

**Question 14**

The question examined the importance of questionnaires. About 55% of candidates attempted it, with 56% passing and 44% failing, indicating average performance.

**Comments on Overall Performance:**

Overall performance was slightly above average at 51.58%. There is room for improvement and enhanced preparation.

**Suggestions on Improvement (if any)**

Candidates are encouraged to study more rigorously and attend classes regularly to enhance their understanding and improve future performance.

## A08 – Risk Management

1. List three (3) levels that will influence an organisation to determine and regard risk as unacceptable under the adoption of the risk tolerance policy.

### Solution

The levels that will influence an organisation to determine and regard risk as unacceptable under the adoption of the risk tolerance policy are the levels of:

- individual mission and vision statements of each organisation;
- pressures within the services the organisation being offered;
- needs of its stakeholders;
- strength and resilience of the organisation itself.

**(2 marks for each complete and correctly stated levels. Maximum of 3 to be graded. Total: 6 marks)**

2. Enumerate three (3) reasons why a risk manager in a new job (company) can spend time usefully touring the organisation.

### Solution

The reasons why a risk manager in a new job (company) can spend time usefully touring the organisation are to:

- conduct interviews with the key operational and possibly facility managers;
- know what each unit does;
- know how each unit do what they do to know areas of risk exposures;
- allow for provision of organization charts and possibly flow charts where none existed or the one in existence need review;
- appreciate or begin to understand any interdependencies across these individual operational units;
- enable risk manager take or have helicopter view;
- be able to identify department or personnel whose inaction or error can result in the organization losing the approval of regulator(s);
- help bring out organization through recommendation that will safe such from death or killer risk.

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

3. (a) List two (2) things that will guide “risk managers” while analysing a risk concern. **(4 marks)**  
(b) Why do risk managers need the guide? **(2 marks)**

### Solution

(a) Things that will guide “risk managers” while analysing a risk concern are that they need to:

- understand what all input criteria are;
- check the input criteria in terms of qualities;
- take precise view on their value in relation to the actual objective in mind.

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

(b) Risk managers need the guide because slight inaccuracies or variables in input data when subjected to statistical processes can produce output that has huge inaccuracies or variables that will grossly affect the decisions to be made with it. **(2 marks)**

**(Grand Total: 6 marks)**

4. (a) Define risk modelling. (2 marks)  
(b) Enumerate any two (2) circumstances of how risk managers are likely to develop risk models that best meet what is wished to be achieved. (4 marks)

**Solution**

(a) Risk modelling is a way of creating a picture of the risk in a way that help the organisation to prioritize risks for attention. (2 marks)

(b) The circumstances of how risk managers are likely to develop risk models that best meet what is wished to be achieved are:

- having the knowledge that there are many unpredictable (in terms of occurrence, nature and cost);
- knowing that impact of an incident can vary by time of day;
- by having knowledge of different points of time (example in production cycle or periods most renewal falls for insurance companies and brokers);
- by having knowledge of different times of the year (example; Christmas period, Easter session or school resumption time).

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

(Grand Total: 6 marks)

5. Enumerate any three (3) headings you will expect to see in the report as a risk manager going through a typical physical risk survey report.

**Solution**

The headings expected to be seen in the report as a risk manager going through a typical physical risk survey report are:

- location surveyed/risk address; \* date of survey;
- when resurvey is recommended or due; \* name of surveyor;
- person interviewed/conducted surveyor round risk location;
- action required and agreed;
- risk improvement recommended date compliance expected;
- compliance with minimum safety or group risk standard;
- additional comment.

(2 marks for each correctly stated heading. Maximum of 3 to be graded. Grand Total: 6 marks)

6. Differentiate between risk retention and risk transfer.

**Solution**

**Risk retention** is the formal acceptance of a risk with the hope of keeping same for future (2 marks); while **risk transfer** is either the sharing of the consequence of the risk when it happens or moving the risk to another party the consequences of the risk incidents (2 marks). In differentiating, one is exclusive of the other any risk transferred is no longer retained whilst risk retained is not transferred. (2 marks).

(Grand Total: 6 marks)

7. The Business Continuity Institute gave ten principles of business continuity. List any six (6) of them.

**Solution**

The following are the principles of business continuity given by the Business Continuity Institute:

- developing strategies

- emergency response and operations
- business impact analysis
- risk evaluation and control
- project initiation and management
- awareness and training
- public relations and crisis co-ordination
- co-ordination with public authorities
- maintaining and exercising business continuity plans
- developing and implementing business continuity plans

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

8. (a) What is the full meaning of CATEX in the alternative risk transfer technique which is uniquely different from insurance? **(2 marks)**
- (b) Briefly explain how CATEX works. **(4 marks)**

**Solution**

- (a) The full meaning of CATEX is Catastrophic Risk Exchange. **(2 marks)**
- (b) CATEX works as follows:
- It is electronically applied to various types of risks exchange;
  - It is used to protect individual/single insurer been over exposed to one type of risk;
  - It allows for efficient use of own capital.

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

**(Grand Total: 6 marks)**

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. (a) Dr. Ademola, MBBS and Professor Nelson are interested in setting up an insurance company in Nigeria and have contacted you for guidance on how to secure the requisite licence from the Regulatory authorities. Provide them with four (4) guides as stipulated by the Nigerian Insurance Industry Act, No. 14, 2025. (NIIRA 2025). **(10 marks)**
- (b) Through a diagram only, draw and complete the steps for creating effective risk management in any organisation as a process of risk management. **(18 marks)**
- (c) Using Springfield Limited Risk Management structure/channel as benchmark, draw the channel/orgnogram out with correct label/position. **(16 marks)**
- (d) Enumerate any three (3) cadres of directors that are required to be permanent members of the Group Risk Committee of a risk conscious company/ establishment. **(6 marks)**

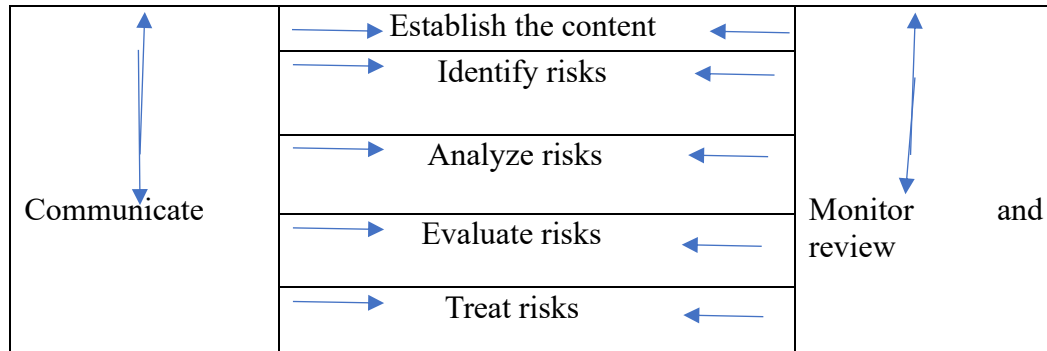
**Solution**

9. (a) NIIRA 2025, Section 5, provides for conditions for licensing a person to commence or carry on insurance business in Nigeria in its Section 5. Steps to be taken are as follows:
- (a) Application for Licence as an insurer in a prescribed form accompanied by such other documents or information as the Commission may require.
- (b) The applicant must be:
- (i) incorporated limited liability company under Companies and Other Allied Matters Act, 2020 or any other law;

- (ii) such company to have or maintain while carrying on business, the required minimum capital requirements as may be required by the Commission.
  - (iii) the company has paid and maintained such statutory deposit with the Central Bank of Nigeria (CBN) as may be prescribed by the Commission.
  - (iv) the company has met all other requirements specified by the Commission which shall include submission of business plan that identifies the niche market the applicant will address.
- (c) The Commission shall publish and make available to the general public, a Service Charter which shall provide for products and services of the Commission and the complete list of requirements to obtain the products and services.
- (d) Where the Commission is satisfied that all requirements for licensing have been met, it shall license the company within the relevant timeline for the type of license being applied for in accordance with the Commission's Service Charter.

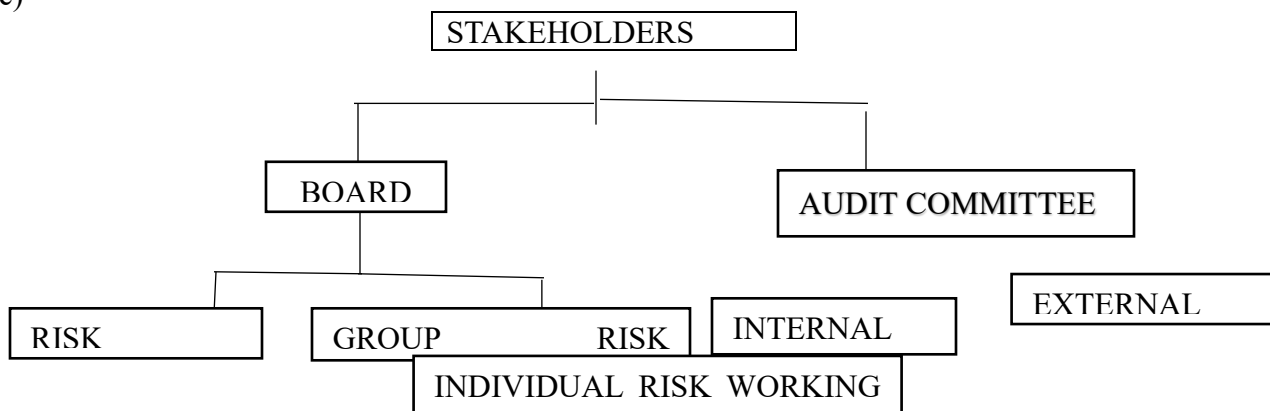
**(Candidates need not provide the Section verbatim but must respond with related points. 2½ marks for each correct and completely stated guide. Maximum of 4 to be graded. Grand Total: 10 marks)**

(b)



**(3 marks for each correctly drawn and labelled charts. Sub-Total: 18 marks)**

(c)



**(2 marks for each correctly drawn and labelled charts. Sub-Total: 16 marks)**

(d) The cadres of directors that are required to be permanent members of the Group Risk Committee of a risk conscious company/ establishment are:

- \* risk director;
- \* compliance director;
- \* legal director;
- \* group internal auditor;
- \* public affairs director;
- \* finance director
- \* any other director as approved by the board and based on organisation line of business.

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

**(Grand Total: 50 marks)**

**Part III**

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

**Each question carries 34 marks.**

10. (a) List any seven (7) important issues that a risk manager and building engineer will consider in setting out to model the consequences of a fire. **(14 marks)**
- (b) Fire can cause real danger to people who are within building, vessels, roads, vehicles and other workplace organisation. In its booklet: fire safety – an employer’s guide, the Health and Safety Executive seeks to guide those who are setting out to assess fire risk, particularly for a risk manager. Represent the five (5) steps in a paraphrased table as a risk management scholar. **(20 marks)**

**Solution**

(a) The important issues that a risk manager and building engineer will consider in setting out to model the consequences of a fire are:

- \* ignition and fire source;
- \* heat transfer to neighbouring structures and materials;
- \* the behavior of those materials and structures in a fire;
- \* detection;
- \* the way humans behave and how they will exit the premises.
- \* smoke movement;
- \* active fire safety features;
- \* waste and run off;
- \* toxicity; and

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

(b)

<b>Approach</b>	<b>The risk manager is to:</b>	<b>Appoint a person to carry out assessment plan and prepare for carrying out the assessment</b>
Step 1	Location	Identify the locations of people and assets that are at significant risk in case of fire.
Step 2	Identify fire hazards	Sources of ignition. Sources of fuel. Work processes.
Step 3	Evaluate the risks	Are existing fire measures adequate? Are ignition and fueling sources adequately controlled? Is the fire detection adequate for the likely needs at peak times? Is fire fighting equipment in place of the right kind and adequate? Are fire precautions maintained and tested regularly? Are employees trained as necessary in fire safety?
Step 4	Record	Record findings and the actions taken. Prepare emergency plans and Inform, instruct and train employees in fire precautions and fire responses.
Step 5	Update	Keep assessment under renew Revise as necessary Ensure new employees are inducted continually

**(Candidates are required to provide the correct answers in a table. 4 marks for each correctly completed row. Sub-Total: 20 marks)  
(Grand Total: 34 marks)**

11. (a) As the risk manager of one of the television stations in Lagos State, Nigeria destroyed in the wake of the civil unrest/disturbances that accompanied the peaceful

EndSars project, enumerate and explain any six (6) risk management procedures that you will ensure are in place immediately to get the confidence of stakeholders. **(24 marks)**

(b) Explain prior preparation to staff of safety units in four (4) different scenarios. **(10 marks)**

### **Solution**

(a) The risk management procedures that one will ensure are in place immediately to get the confidence of stakeholders are to ensure that:

- good continuity/contingency plan in place
- there is a fast, authorised and visible control of the incident and its aftermath;
- if possible, further damage is contained as far and as fast as possible;
- security and safety are reinstated by getting security forces station informed or take position with adequate encouragement/incentives;
- damage assessments are received with confidence and acted upon;
- financial and operational controls remain in place;
- the brand value is protected;
- immediate responsibilities are met and
- the return to business as usual is accelerated or ensured there is alternative premises or equipment for continuing operations, if possible, on- line.

**(2 marks for a summarised procedure. 2 marks for any explanation on the procedure. Sub-Total per procedure: 4 marks. Maximum of 6 procedures to be graded. Sub-Total: 24 marks)**

(b) Prior preparation to staff of safety units in different scenarios are:

- having major tools that help organization/risk manager respond to an incident;
- in case of fire, provision of fire extinguishers and evacuation are good starting points;
- in case of a large organisation, having accredited fire brigade on site;
- adequate staff training and fire drill;
- preparation of emergency succession planning, particularly for key employee;
- setting money aside, contingency fund.

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

**(Grand Total: 34 marks)**

12. (a) You were interviewed by a journalist to mention the assets that are important to an organisation as a risk manager. List and explain any three (3) of these assets. **(12 marks)**

(b) Do you accept the fact that taking carefully considered risk is a routine and in fact an essential ingredient of business and other organisation strategies. Discuss any six (6) benefits of this to the organisation. **(22 marks)**

### **Solution**

(a) Three important assets to organisation are:

- \* human assets;
- \* physical assets;
- \* intellectual assets/goodwill
- \* capital or financial including money cash in all its forms.

**(2 marks for each correctly stated asset. Candidates are required to explain any 3 of the stated assets. 2 marks for each correct explanation. Sub-total per asset: 4 marks. Maximum of 3 assets to be graded. Sub-Total: 12 marks)**

(b) Yes; taking carefully considered risk is a routine and in fact an essential ingredient of business and other organisation strategies. **(4 marks)**

The benefits of this to the organisation are:

- it will allow for regular risk identification;
- it will allow for risks to be analysed and handled appropriately;
- it will allow for understanding of risks and adoption of risk management procedures;
- it can guarantee good profits to organisations and can allow organisations to take new/additional risk without negative consequences;
- it will remove fear, hence, good decisions can be made that will generate valuable opportunity;
- it has been proved that taking carefully considered risk is risk management;
- it will promote good business practice;
- it allows laws to be obeyed, regulations followed (example risk management guidelines/rules as rolled out by the regulatory authority) and fines/penalties will be avoided as possible;
- it will make it easy to comply with regulations requiring organisations to have in place visible risk management structure and strategy.

(3 marks for each correct and completely stated benefit. Maximum of 6 to be graded. Sub-Total: 18 marks. Grand Sub-Total: 22 marks)

(Grand Total: 34 marks)

13. The Information Technology (IT) team lead in your company recently issued a memo that all payments to the company must either be online, point of sales or transfer. He also stated that customers must transact business with the company by use of open networks within and outside the (your) company.

The MD/CEO has requested for your reaction to the memo in the form of an internal memo through the MD/CEO's office to the Chairman, Board Risk Management Committee of the Company. In the memo (strictly written by you in a memo format), enumerate and explain six (6) of some of the new risks that are envisaged and the impact of traditional risks arising through the contents of the memo on exchange of perceived value between your company and clients/stakeholders because of the use of open networks.

**Solution**

**From: Risk Manager/CEO**

**To: Chairman (4 marks)**

**Board Risk Management Committee**

**Thru': MD/CEO (1 mark)**

**Reference:**

**cc: Company Secretary/ Legal Advisor**

**Date:**

**REPORT ON NEW & POSSIBLE EMSCRITING RISKS ON THE TOTAL EXCHANGE OF PERCEIVED VALUE WITH OUR CLIENTS AND OTHER STAKEHOLDERS BY THE USE OF OPEN NETWORKS (10 MARKS)**

**Security:** Customers need to be confident that credit card details and other personal information is secure. Overtime information including personal bank statements and fun were insecure

**Global:** Cut across boundaries not new risk. Tax law and other regulations of customer country may unknowingly be contravened

**Hacking and Viruses:** Open networks have viruses and hacking attack causing embarrassment, can destroy an organization's operations and credibility

**Legality:** Concerns remain about the legality of electronic signatures USA has e-signatures Act 2000 that makes the same legal standing but not yet law in other countries.

**Scale of Impact:** Millions of customers and users can be affected at the same time because when something goes wrong it goes wrong wholesale. Many times, cost of getting the infrastructure and strategy wrong, is very costly.

**Extremely costly:** Average operational cost particularly when branch is involved on insurance transaction in USA was very high US \$19.00 to ordinary or use of call center that cost US \$0.45.

**Speed of evolution:** The race and advantage of being the first mover is enormous but the reward for the winner may not be censurable.

**Miscellaneous:** This is a range of other new risks. Example: domain name registration, ownership of intellectual property.

**(1 mark for each coloured phrase. Sub-Total: 11 marks – i.e. for the memo format and cc) Candidates are required to develop the memo using the inserted areas of specification. 3 Marks for each explanation on any of the points above. Only one explanation per specification area. Maximum of 4 to be graded. Sub-total: 12 marks. 1 mark for correct sign-off/ending. Grand Total: 34 marks)**

14. You have moved round various units and departments in the company as the risk manager and thereafter developed questionnaires to be administered by your colleagues in the risk management department to all other departments and staff members except the team lead (Administration and Human Resources – (A&HR)), who does not see the need for the use and respond to the questionnaire

(a) Write a memo to the team lead (A&HR), copying the group risk director on six (6) important ways that the use of questionnaires has in the successful management of risks in a company. **(24 marks)**

(b) As a professional risk manager, explain five (5) issues that must have put doubt in the mind of the team lead (A&HR) on the use of questionnaires, the shortcomings or likely problems. **(10 marks)**

#### **Solution**

(a) Memo Format + copy: **(11 marks)**

The important ways that the use of questionnaires has in the successful management of risks in a company are:

- useful as an aide memoir to the risk manager directly;
- assist risk managers in gathering information through delegation and for wider areas;
- format will allow comparison and analyses of information gathered;
- completed questionnaire can be added to what the risk manager already knows about the activities of the units;
- it can be pointers to previous loss history or recovery;
- it is a cheap and efficient way of collating large amounts of information;
- questionnaires are simple and easy to use;
- it is a way of updating information for current use and for monitoring trends against previous surveys;
- it is easily adaptable to individual areas of risk interest;
- it is used for putting diverse sources of information into a common format.

**(1 mark for each coloured phrase. Sub-Total: 11 marks – i.e. for the memo format and cc) Candidates are required to develop the memo using the stated important ways above. 3 Marks for each explanation on any of the points above. Only one explanation per specification area. Maximum of 4 to be graded. Sub-total: 12 marks. 1 mark for correct sign-off/ending. Grand Total: 24 marks)**

(b) The issues/shortcomings/likely problems that must have put doubt in the mind of the team lead (A&HR) on the use of questionnaires are:

- could be completed by someone who may not be skilled in the subject of the questionnaire;

- could be completed by someone who may not understand precisely the objectives and ultimate use of the answers;
- could focus the users' attention simply on answering the questions themselves without keeping the overall reason for the questions in mind;
- it could be treated as just let me rest or just let me fill in anything and go, defeating the purpose and objectives for which it was meant for, hence becoming wrong collation or total of no use to risk management dept.
- no matter how carefully design, some people will find the content, the question ambiguous
- the risk management department could be at risk of getting it completed quickly without much thought on the importance
- could be completed by people who may have reasons for suppressing risk information.

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

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A09

MARKETING

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A09- MARKETING

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

You should answer all questions in Part I 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**

This was a compulsory question attempted by all 108 candidates, with a pass rate of 88%. It was well answered, reflecting strong understanding.

### **Question 2**

All 108 candidates attempted the question, achieving a 76% pass rate. Most candidates correctly enumerated the two main structures for managing international marketing operations.

### **Question 3**

A total of 91 out of 108 candidates attempted the question, with an impressive pass rate of 84.3%.

### **Question 4**

This compulsory question examined knowledge of a perfect market. All candidates attempted it, with an 84% pass rate, indicating good performance.

### **Question 5**

The question assessed understanding of how advertising helps break barriers in communication. Although all candidates attempted it, only 29% passed, reflecting poor performance.

### **Question 6**

This question assessed knowledge of the four components involved in formulating a marketing strategy. The pass rate was 62%, indicating a fair performance.

### **Question 7**

The question examined core marketing concepts. All 108 candidates attempted it, but only 24 passed, resulting in a high failure rate of 77.2%.

### **Question 8**

This question focused on strategy and tactics, as well as customer service as a competitive tool. The pass rate was 32.4%, indicating below-average performance.

### **Question 9**

This compulsory question, which carried 50 marks, was passed by only 41 out of 108 candidates. Notably, several candidates incorrectly interpreted key industry acronyms such as NIA, NCRIB, and ILAN, which contributed to poor performance.

### **Question 10**

The question explored direct marketing strategies for improving insurance services. Approximately 53% of candidates attempted it, with a pass rate of about 34%, reflecting performance below expectations.

### **Question 11**

This elective question examined knowledge of market research and value chain analysis. About 53% of candidates attempted it, with a pass rate of 34%, indicating an unsatisfactory performance.

**Question 12**

This elective question was attempted by 77 candidates, out of which 33 passed, resulting in a pass rate of 42.3%. Some candidates provided irrelevant responses.

**Question 13**

An elective question attempted by 58 candidates, with a pass rate of 64%. Responses were generally well structured.

**Question 14**

This question examined application and critical thinking. It was attempted by 65 candidates, of which only 21 passed, indicating a low success rate.

**Comments on Overall Performance:**

The overall pass rate was 30%, which was significantly lower compared to the previous diet.

**Suggestion on Improvement (if any)**

Candidates are advised to devote more time and attention to their studies. In addition, they should attend tutorial classes to better assist their preparation.

## A09 – Marketing

1. To bring about an exchange of goods and services, the seller must perform five acts. Enumerate any three (3) of those acts.

**Solution**

The acts that the seller must do in order to bring about an exchange of goods and services are:

- identifying the potential buyers
- developing appropriate solutions to their needs, whether products or services
- communicating information to those potential buyers about these solutions
- making the exchange
- delivering the offering.

(2 marks for each correctly stated act. Maximum of 3 to be graded. Grand Total: 6 marks)

2. There are two main structures for managing international marketing operations. Enumerate the two (2) main structures.

**Solution**

The two (2) main structures for managing international marketing operation are:

- centralised marketing and
- decentralised marketing.

(3 marks for each correctly stated structure type. Grand Total: 6 marks)

3. The evaluation of insurance services is in two folds. Enumerate these two (2) folds.

**Solution**

The two folds that the evaluation of insurance services are:

- when disaster strikes, the service must meet or exceed the customer’s expectation
- if disaster never strikes, the customer must feel pleased that they have bought the insurance, even though all they have experienced is peace of mind.

(3 marks for each correctly stated fold. Grand Total: 6 marks)

4. Where perfect competition exists in a market, there are certain conditions that prevail. Enumerate three (3) of these conditions.

**Solution**

The conditions for perfect competition in a market are:

- large number of both buyers and sellers in the market;
- no single buyer or seller is large enough to influence the market prices;
- all products and services offerings are identical;
- there are no barriers to entering and leaving the market;
- all buyers and sellers have full knowledge of the market conditions.

(2 marks for each correctly stated condition. Maximum of 3 to be graded. Grand Total: 6 marks)

5. Advertising can be very effective in breaking down barriers in the communication process overtime. Enumerate three (3) ways by which advertising helps in this process.

**Solution**

Unawareness	Make impact Fly the flag Inform about product/service Overcome forgetfulness
Awareness	Convey specificity Inform about what the product/service does

	Provide assurance
Comprehension	Establish credibility Reduce hostility Emphasise benefits Demonstrate fitness
Conviction	Overcome apathy Get customer to take action Encourage ownership Generate demand
Action	Get customer to take action

(1 mark for each correctly stated “means” and 1 mark for any correctly stated action by which the “means” is done. Sub-Total per “means”: 2 marks. Maximum of 3 “means” to be graded. Grand Total: 6 marks)

6. There are four components involved in formulating a marketing strategy for services. State any three (3) of these four components.

**Solution**

The four components involved in formulating a marketing strategy for services are:

- establishing the corporate concept
- analysing both the external and internal environments
- formulation of a marketing strategy
- implementation, control and evaluation of the whole process

(2 marks for each correctly stated component. Maximum of 3 to be graded. Grand Total: 6 marks)

7. A number of factors influence the amount of competition affecting a given product or service. Enumerate two (2) of such factors.

**Solution**

The factors that influence the amount of competition affecting a given product or service are:

- organisations operating in the market
- consumers interest in buying products and services in the market
- factors external to the market.

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

8. When an organisation recognises the importance of customer service as a device for developing new business and preserving existing business. It is essential that the marketing manager is clear about how it will be created and used. There are four main steps in creating a customer service strategy. List, in the correct arrangement, these four (4) steps.

**Solution**

The customer service strategy steps that will be created and used are:

- identify a service mission
- set the customer objectives
- decide on the customer service strategy
- implement the strategy.

(1 mark for each correctly identified step. 2 marks for correct arrangement of the steps. Total: 6 marks)

**Part II Compulsory Question. This question carries 50 marks.**

9. (a) ABXZ a newly incorporated and licensed insurance company with 70% foreign interest, is seeking your guidance and advice as a cute and experienced practitioner in the arms of trade associations that that that that is available in the Nigeria insurance industry. Advise the new company on any five (5) arms of trade

associations that are available in the Nigerian Insurance Industry and their relevance. (10 marks)

(b) List, explain and give an example on each of the five (5) conditions that must be met before a successful marketing exchange transaction can be said to have occurred. (25 marks)

(c) From a seller's perspective, the conditions necessary for an exchange can only be met after the seller or some exchange specialist acting on the seller's behalf – has successfully performed several risks. Enumerate and explain any five (5) of those risks. (15 marks)

### Solution

(a) The arms of trade associations that are available in the Nigerian Insurance Industry and their relevancies are:

- **The Nigerian Insurers Association:** a primary trade group for registered insurance companies in Nigeria.
- **Nigerian Council of Registered Insurance Brokers:** a primary trade group for the interest and protection of their members, who are registered with them as Brokers.
- **Institute of Loss Adjusters of Nigeria:** a primary trade group for the interest of loss adjusters in the industry.
- **Association of Registered Insurance Agents of Nigeria:** represents the interest of all insurance agents in Nigeria. They moderate and monitor the activities of their members.
- **National Association of Insurance Consumers in Nigeria:** the association focuses on consumers' interests.
- **Nigerian Actuarial Society:** a primary trade group for the interest of actuaries in Nigeria.
- **Professional Reinsurers Association:** a primary trade group for the interest of reinsurers in Nigeria.

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

(b) The five (5) conditions that must be met before a successful marketing exchange transaction can be said to have occurred are:

- i. there must be at least two parties
- ii. both parties must offer something of value (e.g. money, goods, services, an idea)
- iii. both parties must be aware of each other's existence
- iv. both parties must be capable of communication and delivery
- v. both parties must be free to accept or reject the other party's offer
- vi. both parties must be willing and able to negotiate terms of exchange that they find acceptable.

(2 marks for each correctly listed condition; 2 marks for each correct explanation of the listed condition. 1 mark for each completely and correctly stated example. Sub-total per condition = 5 marks. Grand Sub-Total: 25 marks)

(c) Those risks from a seller's perspective that the seller or its representative needs to perform are:

- i. identify potential buyers;
- ii. develop appropriate solutions to the buyers' needs;
- iii. communicate information to those buyers about the available solutions;
- iv. make the exchange;
- v. deliver the offering.

(2 marks for each correctly listed risk; 1 mark for each correct explanation of the listed risk. Sub-total per risk = 3 marks. Grand Sub-Total: 15 marks)

(Grand Total: 50 marks)

### Part III

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

Each question carries **34** marks.

10. (a) Direct marketing encompasses a number of media and is one of the most popular forms of advertising for insurance organisations. It comprises of four main methods. Enumerate and explain these four (4) methods. **(12 marks)**
- (b) There are four (4) main strategies for improving the insurance service process so as to improve the effects of marketing. List and explain these four (4) strategies. **(12 marks)**
- (c) The insurance organisation must strive to match its offering to groups whose needs it can best satisfy, and these groups will differ according to certain factors. Enumerate and give examples of each of the four (4) factors used in stratifying these groups. **(10 marks)**

#### Solution

(a) The four (4) main methods used in direct marketing as a form of advertising for insurance organisations are:

- i. **Direct Mail:** unsolicited letters are sent to a list of potential customers whether these are already policyholders or those who have not yet bought from the organisation.
- ii. **Direct Response Advertising:** advertising which invites interested people to contact the insurer for more information, often about a special offer.
- iii. **Telemarketing/Telesales:** unsolicited telephone calls are made to a list of potential customers.
- iv. **Internet Marketing:** emails are sent to a list of potential customers.  
**(2 marks for each correctly listed method; 1 mark for each correct explanation of the listed method. Sub-Total per method = 3 marks. Grand Sub-Total: 12 marks)**

(b) The four (4) main strategies for improving the insurance service process as it relates to improving the effects of marketing are:

- i. **Reducing Divergence:** by standardising the service and limiting the extent to which it might be customised to individuals. While this offers the prospects of reducing costs and improving productivity, it can also alienate those customers who should benefit from customisation.
- ii. **Increasing Divergence:** by allowing for greater customisation and flexibility for which it might be possible to charge premium prices, this may be a suitable strategy for niche positioning of the insurance market.
- iii. **Reducing Complexity:** by omitting steps and activities from the process. This has the effect of making control easier since some peripheral activities disappear.
- iv. **Increasing Complexity:** by adding more services to the core insurance offering. These additional services are intended to be for the customers' benefit but they can also make the process so complicated that customers are reluctant to waste the effort they have already made by moving to a competitor.  
**(2 marks for each correctly listed strategy; 1 mark for each correct explanation of the listed strategy. Sub-total per strategy = 3 marks. Grand Sub-Total: 12 marks)**

(c) The four (4) factors used in stratifying the groups that insurance organization strives to match its offering to, in order to best satisfy their need are:

- i. **demographic factors:** i.e. age, gender, education, occupation;
- ii. **buying behavior:** i.e. heavy/light users of insurance;
- iii. **geographical location:** i.e. where the customers are based or where they are working or where they located their businesses;
- iv. **behavioural factors:** i.e. do customers take or avoid risks?

**(1½ marks for each correctly listed factor; 1 mark for each correct explanation of the listed factor. Sub-total per factor = 2½ marks. Grand Sub-Total: 10 marks)**  
**(Grand Total: 34 marks)**

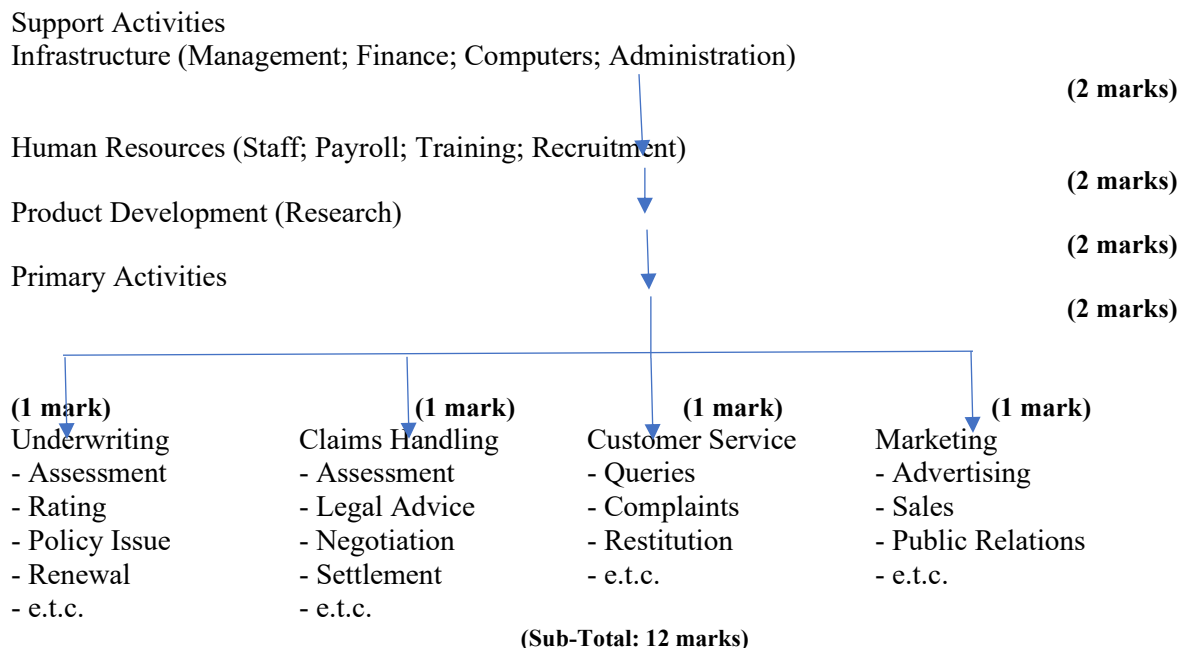
11. (a) Market research is methodical and typically follows an ordered series of six (6) steps or stages. List and fully explain these six (6) stages. **(12 marks)**
- (b) With the aid of diagram, articulate the value chain analysis for an insurance company. **(12 marks)**
- (c) New product development is best done as a series of steps. List and briefly explain the five (5) stages of new product development. **(10 marks)**

**Solution**

(a) Market research is methodical and typically follows an ordered series of six (6) steps or stages. These steps are:

- **Identifying the Missing Information:** this is done by identifying the information required by the organisation and the questions for which the market research will provide answers.
  - **Determining the Data Needs and Sources:** researcher need to identify what kind of data they need and the likely sources of such data e.g. historical record to show the trend, street interviews to determine public perception and awareness of organisation’s products and services.
  - **Research Design:** questions which will produce the unambiguous answers need to be formulated. Quantitative and unequivocal factual answers can be recorded in a number referenced way.
  - **Design of Sample Size and Characteristics:** need to identify a target group from whom the information will be gathered. Selecting a sample that represents a wide cross-section of types within the group will minimise the risks of bias answers.
  - **Data Collection:** data can be collected in a variety of ways. Data collection can be distorted by the following:
    - interviewee who does not respond at all;
    - interviewers who ask questions incorrectly;
    - interviewers who record answers incorrectly.
  - **Tabulation and Analysis:** the raw data need to be tabulated to make it easier to draw inferences about inferences about needs and average behavior from the aggravated answers
- (1 mark for each correctly stated step. 1 mark for any correctly stated explanation. Sub-Total per step = 2 marks. Total: 12 marks)**

(b) The value chain analysis for an insurance company in diagram is:



(c) The five (5) stages of new product development are:

- **Objectives and Strategies for New Products:** this is aimed at securing future volume and profit growth for the organisation. It may also aim at maintaining its position in the market as an innovator or at defending its current market share.
- **Idea Generation and Processing:** this is focused on new ideas on how to exploit the market opportunities and it could come from any source e.g. customers, organisation’s own staff, competitors, government, academia, e.t.c. The new ideas need to be thoroughly screened before taking a final decision on them.
- **New Product Design:** the process is to first have an initial “rough” idea of the product to be developed, then identify the key benefits in the products for the customer, the key product features, determine how to position the product within the existing market, evaluate the product within the existing market and then redesign the “rough” idea to incorporate the developmental work done on it.
- **Testing:** this is aimed at using panels of experts drawn from the industry to carry out consumer tests and also testing the effectiveness of the proposed marketing mix.
- **Commercialisation:** this is when significant financial investment is made on the new product for marketing, production and physical distribution of the product.

(1 mark for correctly stated stage. 1 mark for correct explanation on each correctly stated stage. Sub-Total per stage – 2 marks. Grand Sub-Total: 10 marks) (Grand Total: 34 marks)

12. (a) With the aid of a table/diagram, explain SWOT (Strength, Weakness, Opportunities and Threat) analysis. (12 marks)
- (b) As far as competitive strategies are concerned, Miles and Snow classify businesses into four strategic types. List and explain these four (4) types. (12 marks)
- (c) (i) Define the term “action plan” with reference to marketing. (2 marks)
- (ii) An action plan for marketing should be worked out for each separate project, campaign or area and should include certain points. List four (4) of these points. (8 marks)

**Solution**

a) SWOT analysis.

<p><b>Strengths</b></p> <p>Size and status of the organisation          Experience and track record          National coverage          Quality of service provided          Quality of staff          Willingness to innovate          Close relationship with customers          Advances in technology deployment</p>	<p><b>Weakness</b></p> <p>Poor coordination between regional/branch offices          Shortage of some key skills          Inconsistency of quality standards across departments          Existence of too many mismatched clients          Inexperience new recruits to the workforce</p>
<p><b>Opportunities</b></p> <p>Increase in home ownership by young people          Use of other non-insurance services to attract more insurance clients          Extension of regional coverages in places where not currently operating          Deployment of the IT facilities to more effective and better usage</p>	<p><b>Threats</b></p> <p>Economic downtown          Loss of key personnel          Challenges of recruiting the right calibre of people          Deregulation of insurance services leading to stiffer and more competition          If expansion is not curtailed, it could lead to stretched resources and consequent inefficiencies</p>

(1½ marks for each correctly listed point under each term. Maximum of 2 to be graded under each term. Sub-Total per quadrant/term: 3 marks. Grand Sub-Total: 12 marks)

- (b) As far as competitive strategies are concerned, Miles and Snow classify businesses into four (4) strategic types. These are:
- i. **prospectors:** these pursue growth through the early development of new products and services. In new markets, they operate on a broad market that is occasionally redefined. They compete

- by stimulating and meeting new market opportunities. They may not maintain strength over time in all the markets. They are suitable for volatile and/or unstable environments.
- ii. **defenders:** these attempt to locate and maintain a secure position in relatively stable service or product areas while paying less attention to new product development. They offer a limited range of services compared to their competitors and try to protect their domain.
  - iii. **Analysers:** these attempt to maintain a strong position in their markets but seek to expand into new product markets. They try to sustain a stable, limited line of products and services; and also follow a selected set of promising new developments in their industry
  - iv. **Reactors:** these are the businesses with no clearly defined business strategy. They tend not to have as consistent a customer-orientation focus unlike their competitors; and are not as willing to assume the risks of new products development as other competitors.
- (2 marks for each correctly stated type; 1 mark for each correct explanation of the stated method. Sub-total per method = 3 marks. Grand Sub-Total: 12 marks)**

(c) (i) An action plan, with reference to marketing, is the document on the marketing strategy, that shows the measures and projects which has been adopted, a timetable, an allocation of responsibility and how resources are to be allocated. **(2 marks)**

- (ii) The following are the points that an action plan for marketing should include:
- objectives of the plan which must be specific, measurable, achievable, relevant and time-defined;
  - strategy for achieving these objectives;
  - specific activities which will be undertaken;
  - allocation in specific responsibility for carrying out each activity;
  - dates for starting and finishing each activity;
  - specific estimated resource requirement (based on time estimates) for the period of implementation;
  - expected cost of the activities;
  - expected result (sometimes called milestones) on completion of each activity.
- (2 marks for each correctly stated point. Maximum of 4 to be graded. Sub-Total: 8 marks)**  
**(Grand Sub-Total: 10 marks)**  
**(Grand Total: 34 marks)**

13. (a) Outline five (5) main objectives why organisations design marketing distribution channels. **(10 marks)**
- (b) (i) What is “franchising”? **(4 marks)**  
(ii) Enumerate and give examples of four (4) main franchise systems. **(8 marks)**
- (c) With reference to the operations and involvement of intermediaries in distribution of insurance services, explain the following terms:  
(i) functional efficiency; (ii) scale efficiency; and  
(iii) transactional efficiency. **(12 marks)**

**Solution**

- (a) The five (5) main objectives why organisations design marketing distribution channels
- to make the product or service available to customers
  - to ensure that promotional effort is devoted to the product or service as close as possible to the customer
  - to provide the highest level of customer service
  - to gather feedback from customer/intermediaries
  - to take advantage of economies of scale.
- (2 marks for each correct and completely stated objective. Grand Sub-Total: 10 marks)**

(b) (i) “Franchising” is a method of distribution that gives third parties the right to participate in the organisation’s business provided they accept the terms of the franchise and of the franchise fee.

(4 marks)

(ii) The four (4) main franchise systems are:

- Manufacturer-Retailer Franchise Systems e.g. car dealer
- Manufacturer-Wholesaler Franchise Systems e.g. soft-drink bottling franchise
- Wholesaler-Retailer Franchise Systems e.g. franchised pharmacies
- Service Sponsor-Retailer Franchise Systems e.g. car-drive, fast food, hotel chains.

(1 mark for each correctly stated system. 1 mark for any correctly stated example. Sub-Total per System = 2

marks. Grand Sub-Total: 8 marks)

(Grand Sub-Total: 12 marks)

(c) (i) **Functional Efficiency:** intermediaries may perform one or more marketing activities more efficiently than manufacturers or their customers because of their specialization and greater economies of scale. For example, an insurance broker can spread costs across different insurers and perform selling functions at lower cost per insurer.

(ii) **Scale Efficiency:** by purchasing large quantities of goods from manufacturers, storing them and then breaking them down into smaller quantities that their customers prefer to purchase, wholesalers and retailers enable manufacturers and their customers to operate at the most efficient scale.

(iii) **Transactional Efficiency:** by purchasing goods from a variety of suppliers and then storing, promoting and selling them, wholesalers and retailers make it possible for customers to acquire wide assortments of products from a single source with one transaction. It reduces time and effort that would have been expended at sourcing for the products individually.

(2 marks for each correctly stated explanation. Maximum of two explanations to be graded under each term. Sub-Total

per term = 4 marks. Grand Sub-Total: 12 marks)

(Grand Total: 34 marks)

14. (a) Owing to advances in technology, many products and services are delivered without the customer and supplier ever meeting. Enumerate and explain any two (2) examples of these distribution channels. (12 marks)

(b) Broadly speaking, the internet presents four distinct distribution features. Outline these four (4) features. (12 marks)

(c) Outline five (5) different components of foreign market. (10 marks)

### Solution

(a) The examples of the distribution channels where owing to advances in technology, many products and services are delivered without the customer and supplier ever meeting are:

- **Telecommunications and Call Centres:** development in database management systems combined with advances in communication technology have led to the growth of call centres. These are groups of telephone agents who are also computer operators linked sometimes electronically as well as vocally by telephone lines.
- **Television Shopping and Direct Response:** television can also be used as a medium of distribution and sales of goods and services. Television shopping channels have also been developed over the years. It allows viewers to see and buy the products and services.
- **Internet and E-Commerce:** the net allows computer users to communicate cheaply, quickly and internationally. E-commerce is the conduct of business electronically using the internet. Businesses are carried out swiftly and efficiently, with instant payment for goods electronically.

(4 marks for each correctly stated channel. 2 marks for any correctly stated explanation. Maximum of 2 complete explanations to be graded per channel. Sub-Total per System = 6 marks. Grand Sub-Total: 12 marks)

b) The four (4) distinct distribution features of the internet are:

- a direct link between customers and businesses to complete transactions or swap information more easily
- technology that lets companies bypass traditional distributors
- a way for organisations to develop and deliver new products and services for customers

- a way for organisations to become the dominant player in their field e.g. by controlling access to customers and setting new business rules.

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

c) The different components of foreign market are:

- \* physical and geographical environment;
- \* political environment;
- \* competitive environment;
- \* legal environment;
- \* cultural environment;
- \* local infrastructure.

**(2 marks for each correctly stated component. Sub-Total: 10 marks).**

**(Grand Total: 34 marks)**



CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

APRIL 2026 DIET EXAMINATION PAPER

SUBJECT A10

INSURANCE BROKING PRACTICE II

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

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

**FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL)  
WILL ATTRACT STATED SANCTIONS AS STATED IN THE APRIL 2026  
DIET CANDIDATES' INSTRUCTIONS.**

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A10- INSURANCE BROKING PRACTICE II

INSTRUCTIONS TO CANDIDATES

Three hours are allowed for this paper.

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

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

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

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

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

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

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

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

## **Chief Examiner's Comments**

### **Question 1**

This question assessed candidates' understanding of fluctuations in business flow and, by extension, brokers' income. Although it was compulsory and recorded a 100% attempt rate, performance was very poor, with less than 20% achieving a pass. Candidates need to improve their ability to interpret questions effectively.

### **Question 2**

This was a coursebook question; however, about 80% of candidates did not demonstrate adequate understanding. The poor performance may be attributed to insufficient preparation. Candidates are advised to study more thoroughly.

### **Question 3**

Although straightforward, the question was not well answered, with about 70% of candidates performing poorly. Greater exposure to past questions may help improve performance.

### **Question 4**

The question was well attempted, with a success rate of about 65%, particularly in parts (a) and (b). Overall, performance was encouraging.

### **Question 5**

Performance was poor, with a pass rate of about 20%. This may be due to limited familiarity with NAICOM's supervisory model, despite its inclusion in the syllabus. Increased industry-led training and seminars could enhance understanding.

### **Question 6**

This question on whistleblowing was well answered, with performance above 70%, likely due to its relevance in combating corruption in Nigeria. However, part (b), which relates to dismissal, posed challenges despite being a practical issue for brokers.

### **Question 7**

The question recorded about a 70% attempt rate. However, some candidates incorrectly included bodies such as NIA and NCRIB, indicating gaps in knowledge. Candidates should familiarise themselves with the structure and composition of insurance industry institutions.

### **Question 8**

This question was poorly answered, with about 95% of candidates demonstrating little understanding. It appears to be a difficult or less engaging aspect of the syllabus, which may require better presentation or study focus.

### **Question 9**

Part (a) was well attempted, as candidates could relate to brokers' roles within the industry value chain. Part (b) also recorded over 50% pass. However, parts (c) and (d) were poorly answered, possibly due to their theoretical nature.

### **Question 10**

This practical question was very well answered, with about 95% of candidates passing. Its real-life relevance made it easier for candidates to understand and respond effectively.

**Question 11**

The question was well attempted, with over 60% pass rate. Candidates performed better in areas related to disciplinary measures. However, part (b), which addressed internet-related issues, was less well answered due to its emerging nature in insurance practice.

**Question 12**

The low pass rate may be attributed to poor preparation. The question tested knowledge of NAICOM's roles and functions. Candidates are encouraged to engage more with current industry developments.

**Question 13**

Part (a) recorded a pass rate of about 53%, with many candidates unable to adequately explain the required steps. Part (b) was well answered, with over 85% pass rate, while part (c) also recorded strong performance above 80%.

**Question 14**

The overall pass rate was above 65%, reflecting good performance on what was a straightforward question. However, part (c) posed difficulties due to poor understanding of the required approach.

**Comments on Overall Performance:**

Overall performance was below expectation with 27% pass rate. Candidates are to study adequately to enhance future performance.

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

Stakeholders within the insurance value chain, including regulatory bodies and professional associations, should organise regular workshops and training sessions to expose candidates to industry practices. In particular, tutorial classes, both physical and online, would significantly improve candidates' understanding and performance.

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

1. State three (3) impact of market cycle on Insurance Brokers in Nigeria.

**Solution**

The impacts of market cycle on Insurance Brokers include:

- The most obvious impact of the market cycle is on the broker's income. Hard markets tend to be short-lived and the broker may see a long period of declining income as rates fall.
- Market cycle can cause severe stress on brokers business.
- Market cycle can cause losses to exceed the investment returns
- Losses become unsustainable as they exceed earnings
- Insurers either stop writing some particular loss-making business or drive rates up (known as the hard phase)
- Increased rates lead to increased profits
- More capital is then attracted back to the market and the resulting increased competition leads to a soft market, and so the cycle continues.

**(2 marks each for each correctly stated impact. Maximum of three (3) to be graded. Total: 6 marks)**

2. (a) Define the term "fair market analysis". **(2 marks)**  
 (b) State any two (2) management challenges faced by Brokers in carrying out market analysis. **(4 marks)**

**Solution**

- (a) According to Insurance Conduct of Business Sourcebook (ICOBS), fair market analysis is the use of a sufficiently large number of insurance contracts available in the market by a Broker to make a recommendation, in accordance with professional criteria.

**(2 marks for a correctly stated explanation)**

- (b) The challenges faced by brokers in carrying fair market analysis include, the challenge of:
- i. Choosing the most acceptable '*sufficiently large number of insurers*' to be used for the FMA.
  - ii. Choosing the 'professional criteria' to be used for the FMA.
  - iii. How is the process of fair market analysis managed and evidenced?
  - iv. How do staff maintain knowledge of the market?

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

**(Grand Total: 6 marks)**

3. State any three (3) essential requirements for new business development.

**Solution**

The essential requirements are:

- Choosing an effective business strategy
- Consistent execution and persistence
- Realistic matching of the skills and resources of your business to the needs of the prospect
- Regular monitoring of the processes

- Balancing the mix of dedicated salespeople and client services
- The right incentivisation of staff
- Allowing staff to focus on their key objectives
- Senior management support and engagement
- The creation of a sales culture.

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

4. Briefly explain the following terms in relation to distribution methods:  
 (a) white label; (b) affinity; (c) delegated authority.

**Solution**

- (i) **White label** is a distribution method where an insurer provides an insurance product and associated services that is branded with the name of another party, e.g. a retailer, broker, newspaper, and so on.
- (ii) **Affinity:** a generic description of the distribution of insurance to individual clients (consumer and commercial) that have some connection with a common organisation or interest. Examples include classic car owners, gun clubs, bank business customers, franchise operators, clubs, federations and associations.
- (iii) **Delegated Authority:** the delegation to brokers by insurers for the authority to underwrite and/or handle claims on behalf of the insurer.

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

(Grand Total: 6marks)

5. NAICOM supervision model is based on three (3) pillars. State and briefly explain any two (2) of these three pillars.

**Solution**

The supervision model is based on three pillars, which are:

- The Firm Systematic Framework
  - Event-Driven Work
  - Issues and Products
- **The Firm Systematic Framework:** preventative work through structured conduct assessment of firms.
  - **Event-Driven Work:** dealing with problems that are emerging or have crystallized, and securing customer redress or other remedial work (e.g. to secure the integrity of the market) where necessary.
  - **Issues and Products:** thematic work on sectors of the market or products within the sector that are putting or may put consumers at risk.

(3 marks for each correctly explained model. Maximum of 2 to be graded. Total: 6 marks)

6. (a) Explain the term 'whistleblowing';  
 (b) All brokers shall, on a quarterly basis, file with the Commission a statement in respect of the operation of the clients' bank accounts. State any two (2) pieces of information contained in the account

**Solution**

- (a) Whistleblowing is raising a concern, either within the workplace or externally, about a danger, risk, malpractice or wrongdoing. Regulation provides that an employee of a public company shall have the right to disclose any information connected with the activities of his work place which tends to show that a criminal offence has been, is being or is likely to be committed, or that a person has failed,

is failing, is likely to fail or otherwise omitted to comply with any legal obligation in respect to the performance of his duties

**(2 marks for a correctly stated explanation)**

- (b) The details contained in the account are:
- An unaudited balance sheet of clients' accounts;
  - Statement of balances in clients' bank accounts for each month in the quarter.
  - Statement of movement in the clients' bank accounts detailing
    - Total premium received;
    - Total Commission Paid;
    - Total Premium Paid and
  - Any other relevant information.

**(2 marks for each correctly stated piece of information. Maximum of 2 to be graded. Total:4 marks)**

**(Grand Total:6 marks)**

7. State any three (3) ministries/agencies/institutes/quasi-agencies that are statutory members of the Governing Board of NAICOM.

**Solution**

The four agencies that are represented on the board of NAICOM are representative of each of:

- the Federal Ministry of Finance, not below the rank of a director
- the Central Bank of Nigeria, not below the rank of a director
- the Chartered Insurance Institute of Nigeria,
- the Federal Ministry of Commerce and Tourism.

**(2 marks each for each correctly stated agency step. Maximum of three (3) to be graded. Total:6 marks)**

8. State three (3) reasons why large brokers and global insurers build a dedicated IT system.

**Solutions**

(a) The reasons are:

- Gather and collect underwriting information
- Manage and monitor claims
- Hold details of local policies
- Allocate premiums and calculate insurance policy taxes
- Arrange the rapid transfer of local premiums to where it is required
- Monitor the performance of local insurers

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

**Part II**

**Compulsory Question.**

**This question carries 50 marks.**

9. ABXZ a newly incorporated and licensed insurance company with 70% foreign interest, is seeking your guidance and advice as a cute and experienced practitioner in the arms of trade associations that that that that is available in the Nigeria insurance industry. Advise the new company on any five (5) arms of trade associations that are available in the Nigerian Insurance Industry and their relevance.

(b) State five (5) reportable misconducts under whistleblowing. **(10 marks)**

- (c) According to NIIRA 2025, state seven (7) assets that will not be included in the capital available computation or be used for the purpose of determining the insurer's capital adequacy. **(14 marks)**
- (d) (i) Explain the term 'distribution cost'. **(2 marks)**  
(ii) State seven (7) costs insurers consider in choosing a distribution method aside from brokerage costs. **(14 marks)**

### Solution

(a) The arms of trade associations that are available in the Nigerian Insurance Industry and their relevance are:

- **The Nigerian Insurers Association:** a primary trade group for registered insurance companies in Nigeria.
- **Nigerian Council of Registered Insurance Brokers:** a primary trade group for the interest and protection of their members, who are registered with them as Brokers.
- **Institute of Loss Adjusters of Nigeria:** a primary trade group for the interests of loss adjusters in the industry.
- **Association of Registered Insurance Agents of Nigeria:** represents the interests of all insurance agents in Nigeria. They moderate and monitor the activities of their members.
- **National Association of Insurance Consumers in Nigeria:** the association focuses on consumers' interests.
- **Nigerian Actuarial Society:** a primary trade group for the interest of actuaries in Nigeria.
- **Professional Reinsurers Association:** a primary trade group for the interest of reinsurers in Nigeria.

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

(b) The reportable misconducts are:

- all forms of financial malpractices or impropriety such as fraud, theft, facilitation payments, bribery and corruption;
- crime or any form of criminal activity;
- concealment or an attempt to conceal any of the above-listed acts.
- sexual or physical abuse of any staff, policy holder, applicant, vendor, service provider and other relevant stakeholders;
- improper conduct or unethical behavior; that undermines universal and score ethical values such as integrity, respect, honesty, accountability, fairness, e,t.c.;
- compromise or actions detrimental to the environment, health and safety;
- non-compliance with legal obligations, statutes, regulatory directives, administrative or internal policy and other forms of corporate governance;
- contravention of company policies such as non-disclosure, insider dealing or abuse, conflict of interest, connected transactions etc.

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

(c) NIIRA, 2025 Sec. 24 (3). The following assets shall neither be included in the capital available computation nor be used for the purposes of determining the insurer's capital adequacy under this section —

- goodwill and other intangible assets that exceed 5 per cent of total assets;
- deferred tax income or expenses and deferred tax assets;
- assets pledged to support credit facilities obtained by an insurer or for other specific purposes;

- assets over their concentration limits;
  - all credit facilities granted by an insurer and secured by its own shares;
  - prepayments;
  - 100 per cent of fixed assets and computer equipment;
  - unsecured loans;
  - receivables from insurers;
  - merchandise inventory; and
  - such other assets as may be prescribed by the Commission from time to time.
- (2 marks each for each correctly stated misconduct. Maximum of 7 to be graded. Sub Total: 14 marks)**

- (d) (i) Distribution cost is all those costs that an insurer incurs in moving the product or service from the point of origination to the end users.  
**(2 marks each for each correctly stated explanation)**
- (ii) The costs insurers consider in choosing a distribution method aside from brokerage are:
- Commission and other incentives paid to brokers/other intermediaries.
  - Frontline underwriting.
  - The branch network.
  - Field staff managing the relationship with brokers.
  - Staff managing the relationship with large customers, e.g. banks, supermarkets etc
  - Staff managing relationships with key individual large customers
  - Call centres supporting sales and customer service.
  - Advertising and marketing
  - Website development and maintenance costs.
- (2 marks each for each correctly stated misconduct. Maximum of 7 to be graded. Sub Total: 14 marks)**  
**(Grand Total: 50 marks)**

### Part III

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

Each question carries **34** marks.

10. (a) Mr. Ade is the owner of a commercial bus which he insured through an insurance broker. While operating on the Lagos–Ibadan Expressway, the bus was involved in a road traffic accident that caused damage to the vehicle and resulted in bodily injury to a third party. The insurer appointed Max Adjusters Nigeria to investigate and adjust the claim. However, Mr. Ade has complained that the insurer is unduly delaying the settlement of his claim.
- (i) As the broker managing this account, state three (3) actions to be taken in assisting your client in the processing and settlement of the claim. **(9 marks)**
- (ii) List three (3) documents required to support a motor insurance claim in Nigeria. **(9 marks)**
- (iii) State two (2) reasons why insurers may delay the settlement of claims. **(6 marks)**
- (b) Explain two (2) key factors that a Broker should consider in selecting a Director to its Governing Board. **(10 marks)**

### Solution

- (a) (i) The steps a broker will take to assist the client in processing the claim

- Prompt notification of loss to the insurer and Max Adjusters Nigeria, and formal registration of the claim.
- Guide the insured on claims procedure and ensure accurate completion of the claim form.
- Facilitate inspection and loss assessment by Max Adjusters Nigeria, including access to the damaged vehicle and relevant parties.
- Follow up and liaise with the insurer and loss adjuster to hasten documentation review, approval, and settlement of the claim.

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

(ii) The documents required to support a motor insurance claim in Nigeria

- Duly completed claim form.
- Police accident report.
- Repair estimate/quotation from an approved garage.
- Copy of insurance policy certificate or cover note.
- Driver's license of the driver at the time of accident
- medical report may be required where third-party injury is involved.

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

(iii) Three reasons why claims may be delayed by insurers

- Incomplete or inconsistent claim documentation submitted by the insured.
- Ongoing investigation or loss adjustment process, especially where liability or third-party injury is involved.
- Breach of policy terms or delayed notification of loss by the insured

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

(b) In selecting a director, the following factors shall be considered:

- relevance of the candidate's experience and knowledge in the insurance industry. A minimum of one of the firm's board members must personally hold the Associate, Council of Registered Insurance Brokers (ACIB)
- record of diligence, integrity, willingness and ability to be independent and objective as well as to serve actively as a director. One of the firm's board (who must personally hold the Associate, Council of Registered Insurance Brokers (ACIB) title), must take on the role of Responsible Member. This person is the principal point of contact on Chartered status with the responsibility for the application, renewal and for any related issues at any stage
- the entire board, together with a minimum of 90% of customer-facing staff, must be have knowledge of relevant special issues related to insurance business as well as environmental factors.
- a track record of success in business with familiarity and experience in performing the role of a board Member in consonance with CIIN Code of Ethics and NAICOM's Code of Good Corporate Governance for the Insurance Industry in Nigeria.
- relevant training of the Board Members on issues pertaining to their oversight functions shall be put in place and implemented. The Commission shall arrange relevant training on insurance principles and practice, Director's responsibilities and liabilities, and update on the insurance market at periodic intervals, to which attendance by members of the Board shall be mandatory.

**(5 marks each for each correctly stated factor. Maximum of two (2) to be graded. Sub Total: 10 marks)**

(Grand Total: 34 marks)

11. (a) State and explain any three (3) disciplinary measures available to NAICOM for Insurance regulated entities (such as Brokers) who defaults at obeying any of its issued circulars/directives/the insurance law. (15 marks)
- (b) State five (5) advantages a broker can gain by using the internet and electronic trading systems when dealing with insurers. (15 marks)
- (c) State two (2) major steps required in building a good sales culture. (4 marks)

**Solution**

- (a) The disciplinary measures available to NAICOM are:
- Public Censure and Public Statements
  - Prosecution for Criminal Offences
  - Suspension and Restriction
  - Private Warning

**A. Public Censure and Public Statements:** NAICOM may issue a public censure on a firm where it believes that the firm has contravened a requirement imposed on it by regulation, but that the conduct does not warrant the more serious penalty of a fine or prosecution.

- Financial Penalties: NAICOM can also impose a financial penalty on a firm or an approved person. This can be assessed by evaluating the following five steps that will assist in arriving at the size of the penalty, namely:
- Disgorgement; • seriousness of the breach; • mitigating and aggravating factors; • adjustment for deterrence; and • early payment discount.

**B. Prosecution for Criminal Offences:** NAICOM has the power to prosecute for a wide range of offences. The following are examples (this list is not exhaustive):

- Carrying on or purporting to carry on a regulated activity without authorisation or exemption.
- Making false claims to be authorised or exempt.
- Communicating an invitation or inducement to engage in investment activity in breach of certain restrictions.
- Performing or agreeing to perform functions in breach of a prohibition order.
- Failing to cooperate with, or giving false information to NAICOM-appointed investigators.
- Failing to comply with provisions about control over authorised persons.
- Providing false or misleading information to an auditor.
- Misleading the regulator. NAICOM's general approach is to pursue through the criminal justice system all those cases where criminal prosecution is appropriate, although this is very rare as at date. In cases where criminal proceedings have commenced or will be commenced, NAICOM may consider whether also to take civil or regulatory action. The action may include:
  - injunctions; • restitution; • own-initiative action; • withdrawal of approval or cancellation of permission and withdrawal of authorisation; and/or • prohibition of individuals from carrying out functions in connection with regulated activities.

**C. Suspension and Restriction:** other measures are available to deal with such circumstances; for example, where there are questions concerning a firm's continuing ability to meet minimum standards, or where there are doubts about an approved person's fitness and propriety to perform the controlled function to which the NAICOM's approval relates.

These measures include the:

- variation or cancellation of permission and withdrawal of the terms of authorisation;
- withdrawal of an individual's status as an approved person; and

- prohibition of an individual from performing a specified function in relation to a regulated activity.

**D. Private Warning:** In particular cases, despite having concerns regarding the behaviour of a firm or approved persons, NAICOM may decide that it is not appropriate, having regard to all the circumstances of the case, to bring formal disciplinary action. In such cases, NAICOM considers that it will be helpful for a firm or an approved person to be made aware that they came close to being subject to formal disciplinary action. To this end NAICOM may, if appropriate, give a private warning. For the larger firms, one of the benefits of maintaining close relationships with NAICOM, despite the cost and time, is that issues can be resolved as they arise without recourse to the panoply of enforcement available to the regulator. This enables firms to manage change in an orderly way rather than it being imposed by the regulator.

**(5 marks each for each correctly stated area. Maximum of three (3) to be graded. Sub Total: 15 marks)**

(b) The advantages are:

- Improved efficiency through the elimination of paper, processes and 'double keying', whereby data is entered into one system, transmitted conventionally often by paper and then rekeyed, increasing costs and the chance of errors.
- Responds to client demand for online and electronic trading, such as the elimination of paper invoices and instant policy issue.
- Meets environmental concerns by, e.g., reducing the use of paper.
- Facilitates the outsourcing and offshoring of tasks and processes.
- Improves management information.
- Image systems remove the need for paper files and enable paperless offices.
- Provides access to clients and markets worldwide.
- Facilitates 'self-serve' by clients to reduce costs and errors in the process.

**(3 marks each for each correctly stated advantage. Maximum of 5 to be graded. Sub Total: 15 marks)**

(c) The steps are:

- ensuring all staff understand the strategy of the firm, where it wants to grow and focus its activities and resources;
- making sure that all staff are engaged, even if they do not have the specific job of developing business, this can be done by regular communication of activity and progress and the celebration of success;
- adopting a methodical and structured approach to the sales process as described above. More importantly, ensuring that the process is adhered to and that there is a reward for good compliance as well as success. The converse is to ensure that where there is non-compliance, action is taken. senior-level commitment and participation and support in terms of resources; monitoring of activity is vital; and
- ensuring that the people directly engaged in the sales process can and do focus on sales and are not distracted by other tasks or management responsibilities. Explicit targets are essential.

**(2 marks each for each stated step. Maximum of 2 to be graded. Total: 4 marks)**

**(Grand Total: 34 marks)**

12. (a) Explain two (2) basic approaches adopted by NAICOM in the regulation of Insurance Brokers. **(10 marks)**
- (b) Explain two (2) major sources of conflict in risk transfer. **(6 marks)**

- (c) State four (4) relevant issues to be considered by an insurance broker in establishing policies and procedures. **(8 marks)**
- (d) Differentiate between the Chief Operating Officer (COO) and the Chief Risk Officer in an organisation. **(10 marks)**

**Solution**

(a) **NAICOM's Approach to Broker Regulation is centred on the following areas:**

- **Nomenclature of Insurance Brokers.** The insurance brokers shall have the word 'Insurance Broker'/'Insurance Brokers'/'Insurance Broking' in the name of the Insurance Broker to reflect their line of activity and to enable the public to differentiate NAICOM licensed insurance brokers from other non-licensed insurance-related entities such as consultants, risk managers and alike. The application of the new applicants seeking the broking license shall not be considered in the absence of compliance with the nomenclature requirement.
- **Financial Penalty for Certain Violations/Breaches:** a. Where a licensed insurance broker violates any of the provisions of the Insurance Act, 2025 (NIIRA), NAICOM Act, 1999 and Rules and Guidelines made there under, any circular/guidelines/orders issued by the Commission from time to time, the Commission may issue such an order imposing appropriate penalty depending on the nature/gravity of the violation.
- **Insurance Premium Collection.** All insurance brokers shall, within 48 hours of receiving an insurance premium on behalf of any insurer, notify the insurer in writing in each case of the receipt of such insurance premium. All such notifications shall be accompanied by the broker's credit notes acknowledging indebtedness to the insurer (or insurers in the case of co-insurance). Upon the receipt of such credit notes, the insurer shall issue cover and forward the policy documents along with the related debit notes to the insurance broker. An insurance broker who fails to notify the insurer of any premium received on his behalf shall be liable to a penalty of not less than ₦250,000.00 in each case of failure to notify.
- **Notification of Unremitted Premium.** All Insurance brokers shall, not later than 30 days from the end of every quarter, render to the Commission returns of premiums received and unremitted to the insurers on a quarterly basis. Any insurance broker who fails to render this return shall be liable to a penalty in the sum of ₦5,000.00 for each day of default.

**(5 marks for each correctly stated approach. Sub Total: 10 marks)**

(b) The sources of conflict are.

- When a premium financier attempts to cancel the policies for non-payment, the potential for conflict between the client's interests and the broker's obligations is clear. Similarly, if the financier attempts to recover risk transfer premiums from the broker, the money belongs to the insurer and cannot be returned. There is a conflict between the broker, who will have received a commission based upon the amounts funded, and the financier.
- Where clients pay using premium financing from a third-party provider, the finance provider will either seek a lien over the financed policies or agreement from the broker to repay premiums that the broker has been paid for onward transmission to the insurer. The lien will enable the finance provider to cancel the policies and collect the return premiums.
- If an insurer goes into administration, becomes insolvent or is otherwise unable to meet its obligations, premiums held by the broker on the risk transfer basis are the property of the insurer and become part of the estate. This is an obvious potential source of conflict between the broker and the client who will want the premium back.

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

(c) The relevant issues are:

- Disclosure of significant benefit/interests
- Training of its personnel in respect of conflict

- Disqualification from facilitation or participation in all or a portion of the insurance placement
- Divestiture of significant interest
- Severance of relationships that create actual or potential conflicts.

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

- (d) **Chief Operating Officer (COO)** in some companies, the board may take the view that the organisation is so large and complex that the role of the CEO should be split between two individuals. The senior position, occupied by the CEO, would concentrate on long-term and strategic matters supported by a chief operating officer (COO) who takes responsibility for the day-to-day activities and operations management. Clearly, the balance of responsibilities between these two roles may vary between companies. Often, the CEO and COO will have contrasting personalities and skill sets.

**Chief Risk Officer (CRO)** is a newer role that would normally report through the CEO, CFO or company secretary, although it is now emerging as a specific board-level discipline in its own right. The CRO is responsible for the coordination and management of the business-wide processes to identify, manage, monitor and report on the risks faced by the organisation. They may also have responsibility for compliance with corporate governance risk management rules and with regulatory and legal risk management requirements. The CRO would help the board establish risk management policy and provide education and support for management in implementing effective risk management processes.

(10 marks for correctly stated distinction. Sub Total:10 marks)

(Grand Total: 34 marks)

13. (a) State four steps in the Risk Management Methodology and explain any two (2) of these steps. (18 marks)
- (b) State five (5) key factors that insurers consider when selecting Brokers to distribute their policies. (10 marks)
- (c) State the two (2) reasons why organisations outsource any of its functions. (6 marks)

### Solution

- (a) To effectively deal with the problems of risk the following six (6) steps are usually undertaken by the risk manager, which follow a chronological order, namely:
- Determination of Objectives
  - Identification of the Risks
  - Evaluation of the Risks
  - Selection of Methods of Handling Risks
  - Implementation of the Decision
  - Evaluation and Review.
- **Determination of Objectives:** The policy of every organisation would state clearly what the goals and objectives it seeks to achieve. The risk manager's objectives, therefore, will be focused to this goal to look for such things or risks that may hinder the attainment of these goals.
  - **Discovery of Risk (Identification):** Having therefore determined the operational goals of an organisation, the next step is to identify those risks that may prejudice the attainment of such goals or objectives. This is concerned with knowing those risks that the organisation is exposed to and as well as possible causes of loss. In

identifying risk, one may need to determine the type of losses, the immediate causes of loss, the underlying cause and consequences. This can be likened to the activities of the doctor to diagnose a patient to discover the cause or causes of the ailment.

- **Evaluation of Risks:** Once the risk is identified, the next step is that of evaluation, i.e. to assess the potential size and cost or value of the loss if it occurs on the organisation. In other words, it means to determine the possibility and the effects of the risk occurring. For example, the risk manager has to determine whether the risk is a critical risk which occurrence may lead the organisation into liquidation, or an important risks which if results into losses may not lead to liquidation but may require external finance or loan to sustain the organisation, and/or an unimportant risks which losses may not put the organisation out of business and can be met within the financial resources of the firm without any financial stress. Furthermore, the frequency and severity of the loss occurring have to be measured.
- **Selection of Method of Handling Risk:** Once the risks has been identified and evaluated the next stage is to select the most appropriate tool for dealing with such risks. This is where the risk manager will decide among the risk management tools available for handling risk to be used. There are four major ways of handling risk they are:
  - Risk avoidance,
  - Risk reduction/prevention,
  - Risk retention and
  - Risk transfer/insurance,
  - A fifth method similar to risk transfer is captive insurance.
- **Implementing and Monitoring the Decision:** A decision remains a decision except implemented. If the decision is to transfer the risk by the method of insurance. Then, a choice of the insurer should be made, cover required, and the premium paid. If on the other hand, the decision is risk reduction or prevention, adequate preventive methods and safety devices are to be put in place.
- **Evaluation and Review:** Depending on the prevailing circumstances at the time a decision is made, the decision might be perfectly sound and defensible. However, by the next week for instance, conditions might change (i.e. new risks arise and old ones disappear, or a mistake along the line) so much that the decision, if put into effect, would be quite inconsistent with objectives, the need for re-evaluation and review.

**(2 marks each for each correctly stated step. Maxum of 4 to be graded. Five marks for each correct explanation. Maximum of two to be graded. Sub Total: 18 marks)**

(b)

- Competence
- Qualifications
- Experience
- Knowledge of the Market
- Clientele Base
- Integrity
- Professionalism

**(2 marks for correctly stated factor. Maximum of 5 to be graded. Sub Total: 10 marks)**

(c) They outsource because:

- the tasks are carried out in low-cost locations, particularly overseas, where salaries and benefits are relatively low compared with the UK and there is an availability of suitable skills; and/or
- the contractor gains efficiency from specialisation and economy of scale, e.g. a catering contractor will be able to source food far more economically, or an outsourcing contractor may have a number of similar contracts with different phasing of demand that enables the work to be done with fewer people.

(3 marks for each correctly explained reason. Sub Total: 6 marks)

(Grand Total: 34 marks)

14. (a) Explain the following terms:
- |                          |                   |            |
|--------------------------|-------------------|------------|
| (i) offshoring;          | (ii) outsourcing; |            |
| (iii) core competencies. |                   | (15 marks) |
- (b) State five (5) disadvantages of outsourcing. (15 marks)
- (c) Explain the term “errors and omissions”. (4 marks)

**Solution:**

- (a)
- (i) **Offshoring** is where a selected function, such as payment and accounts, is performed in an overseas and presumably lower cost location, where the relevant skills are available. Don't forget, many businesses already centralise certain functions within the UK.
- (ii) **Outsourcing** is the contracting out of a service or function that was previously performed by in-house employees. Traditionally, many businesses and public sector organisations have outsourced functions such as office cleaning, security and catering. Now, many large companies outsource so called 'non-core functions' such as call centre services, IT support, accounting and so-called 'back office' functions like payroll. These functions are passed to specialist outsourcing contractors that may be based in the same country as the principal or are often located overseas, typically in India, the Philippines and Eastern Europe.
- (iii) **Core competencies** are those capabilities and most significant skills within the corporation that are distinctive to the company and are critical to a business achieving long-term competitive advantage. A company's core competencies are the things that it can do better than its competitors in the critical, central areas of the company where the most value is added to its products and services. These areas of expertise may be in any area from product development to employee dedication. A competence which is central to a business's operations but which is not exceptional in some way should not be considered as a core competence, as it will not generate a differentiated advantage over rival businesses. It follows from the concept of core competencies that resources that are standardised or easily available will not enable a business to achieve a competitive advantage over rivals.
- (5 marks for each correctly stated explanation. Sub Total: 15 marks)

(b) The potential disadvantages of outsourcing are:

- **Loss of Managerial Control:** When a function is outsourced, a contract is signed with another company to perform the function within certain parameters (and as a consequence, some of the management and control of that function is also outsourced). Despite the presence of the contract and, no doubt, a range of key

performance indicators (KPIs) and service standards, the outsourcing company may not be driven by the same ethos and standards as your own.

- **Loss of Personal Support:** When a given function (e.g. the IT helpdesk) is retained in-house, the business can rely on a personal and dedicated service, particularly when a problem needs a fast solution. Once this type of function is outsourced, the contractor will often only provide service within the strict parameters of the contract and the service standards specified.
- **Hidden Costs:** Anything not covered in the outsourcing contract will be the basis for additional charges. There will be legal fees to review the contracts and of course, the management time required to negotiate the contract. This is the outsourcing company's business and they will often drive the drafting of the contract, although the benefit of experience has led to a greater tendency for the source company to control contract drafting.
- **Threat To Intellectual Property Security and Confidentiality:** When a function is outsourced, inevitably, intellectual property and confidential data have to be given to the outsourcing contractor. Although the contract will contain strict confidentiality conditions, the fact that people outside the business will have access to this vital data increases the risk that it will be stolen. Extremely careful vetting of outsourcing contractors and their internal security is required when any contract involves sensitive information. In fact, there is now a trend for the outsourcing of particularly sensitive functions of, for example, the manufacturing of a product with valuable patented components, being withdrawn from foreign contract manufacturing locations in view of the risk of theft of intellectual property.
- **Quality:** The outsourcing contractor is naturally motivated by profit. Since the contract will often fix the price of a service or product, if the price is set too low, they may attempt to redress the balance by reducing quality. This was certainly a problem in the early days of outsourcing when some of the promised cost reductions were exaggerated, particularly in cases where the outsourcing of the function meant the transfer of employees to the outsourcing contractor. Obviously, this can lead to severe problems with the contract. Today this problem is recognised by a reduced focus on extreme cost savings in comparison with the wider benefits of outsourcing such as improved focus on the core business.
- **Exposure to the Solvency of the Outsourcing Contractor:** Outsourcing exposes the company to the failure of the outsourcing contractor. This requires attention to be paid to the contractor's financials at the beginning of a contract and throughout its duration. The risk of the contractor's failure also needs to be built into the company's enterprise risk process and business continuity planning.
- **Bad Publicity:** The word 'outsourcing' brings to mind different things to different people. Where jobs are lost as a result of outsourcing or offshoring (and they often are) this may lead to local and national resentment, reduced morale in the remaining workforce and risks attracting bad publicity. Outsourcing has also seen bad publicity from allegations of bad working conditions and the use of child labour.
- **Client Relationships:** Outsourcing can involve direct communication between the outsourcing contractor and the company's clients. This presents an increased risk of poor service from the contractor adversely affecting client relationships. This has been a particular issue with the outsourcing of call centre work to India where, despite the long tradition of the use of English, there are undoubted communication problems. As a result, most 'face and voice' outsourcing is now done in the same

country with foreign outsourcing contractors limited to other so-called 'back office' functions.

**(3 marks for each correctly stated feature. Maximum of eight (8) to be graded. Sub Total: 16 marks)**

(c) **Errors and Omissions:** One of the key objectives of a quality system is to reduce and eliminate errors. Making mistakes is a fact of life. If this were not true, then insurance need not exist. No business can prosper without taking risks and that means occasionally making mistakes. However, for the broker, mistakes may lead to a dissatisfied or lost client, or worse, a claim for negligence. In the language of insurance these are known as errors and omissions (E&O).

**(4 marks for correctly stated explanation. Sub Total: 4 marks)**

**(Grand Total: 34 marks)**