

Chartered Insurance Institute of Nigeria

Chief Examiners' Report

October 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 instruction s 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.

CANDIDATES SHOULD VISIT & 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)

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).

STOP WORKING HARD TO FAIL!!! START WORKING EFFORTLESSLY TO PASS OUTSTANDINGLY!!!

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 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 if 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 assessed candidates' knowledge of the features of the normal distribution. A total of 162 candidates, representing 52%, obtained a pass mark. The performance was slightly above average, indicating that a considerable number of candidates lacked a clear understanding of the fundamental characteristics of the normal distribution.

Question 2
The question examined candidates' understanding of the factors influencing individuals' perception of risk. All candidates attempted the question, with 204 candidates, representing 66%, achieving a pass mark. The performance was satisfactory and demonstrated a reasonable understanding of the factors affecting individual risk perception. Candidates are encouraged to sustain and improve upon this performance in future examinations.

Question 3
The question examined candidates' knowledge of the empirical relationship between the mean, median and mode, as well as the definition of risk. All candidates attempted the question, with 148 candidates, representing 48%, obtaining a pass mark.

Question 4
The question assessed candidates' understanding of the generic risk treatment options available to organisations in managing identified risks. A pass rate of 48% was recorded, indicating a below-average performance.

Question 5
This compulsory question assessed candidates' knowledge of the calculation of class midpoints from class limits. All 309 candidates attempted the question, with 71% achieving a pass mark. The performance was commendable, particularly as the question tested a fundamental statistical concept.

Question 6
The question examined candidates' knowledge and application of probability concepts. All candidates attempted the question, with 172 candidates, representing a 56% pass rate. The performance was slightly above average, indicating a fair understanding of probability principles.

Question 7
The question examined candidates' knowledge of the components of life assurance premiums and their application in premium calculations. All candidates attempted the question, with 236 candidates, representing 76%, achieving a pass mark.

Question 8
The question assessed candidates' knowledge of insurance operations and regulatory functions performed using computer systems. A pass rate of 32% was recorded, indicating a below average performance. The result suggested that many candidates lacked adequate understanding of the application of computer systems in insurance administration and regulatory activities.

Question 9
The question examined candidates' knowledge of the Minimum Capital Requirement (MCR) under the Nigerian Insurance Industry Reform Act (NIIRA) 2025, financial ratings of insurance and reinsurance companies, and probability concepts. All candidates attempted the question, but

only 74 candidates, representing 24%, achieved a pass mark. This poor performance indicated significant knowledge gaps in the relevant regulatory, financial and statistical concepts.

Question 10
The question assessed candidates' understanding of risk reinsurance and excess of loss reinsurance. A total of 155 candidates, representing 50.2%, attempted the question, with 110 candidates, representing 71% of those who attempted it, achieving a pass mark.

Question 11
The question assessed candidates' knowledge and understanding of regression analysis. A total of 178 candidates, representing 57.6%, attempted the question, with 110 candidates, representing 62% of those who attempted it, obtaining a pass mark. The performance was satisfactory, indicating a reasonable understanding of regression concepts among the candidates who attempted the question.

Question 12
The question assessed candidates' knowledge of retrocession, reinsurance security, the differences between quota share and surplus treaty reinsurance, and the distinguishing characteristics of fundamental and particular risks. A total of 245 candidates, representing 79.3%, attempted the question, with 115 candidates, representing 47% of those who attempted it, achieved a pass mark.

Question 13
The question examined candidates' knowledge of the characteristics of the mean and median, methods of data collection, and types of correlation. A total of 169 candidates, representing 55%, attempted the question, with 58% of those who attempted it achieving a pass mark. The performance was slightly above average, indicating a fair understanding of the statistical concepts tested.

Question 14
The question assessed candidates' knowledge of regulatory capital, the procedures and stages involved in the financial rating process, and the meanings of acronyms associated with different types of ratings. A total of 174 candidates, representing 56%, attempted the question, with 121 candidates, representing approximately 70% of those who attempted it, achieving a pass mark.

Comment(s) on Overall Performance
The overall pass rate of 55% indicated an average performance, which is below the desired standard. Although candidates demonstrated a satisfactory understanding of certain topics, particularly life assurance premium calculations, class midpoint calculations, risk reinsurance and financial ratings, significant weaknesses were observed in other areas.

Suggestions for Improvement
Candidates are encouraged to study the prescribed coursebook comprehensively, practice examination questions and participate actively in tutorial sessions.

Part I

Answer ALL questions in Part I.

Each question carries six (6) marks.

1. Outline any four (4) features of the normal distribution

Solution

The features of the normal distribution are:

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

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

2. As an individual that perceived a risk, enumerate any four (4) factors which may influence the decision of that individual person regarding how (s)he can perceive a risk.

Solution

The factors which may influence the decision of that individual person regarding how (s)he can perceive a risk are:

* familiarity; * level of control;
* personal or societal consequences; * frequency; * severity.

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

3. (a) State the empirical relationship between the mean, median and mode. **(2 marks)**
(b) Give any two (2) definitions of risk. **(4 marks)**

Solution

(a) The empirical relationship between the mean, median and mode is:

* Mean – Mode = 3(Mean – Median)

(1 mark for each correct and completely stated side of the equation. Sub-Total: 2 marks)

(b) Definitions of risk are:

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

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

(Grand Total: 6 marks)

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4. As a risk consultant, an organisation reached out to you to tell it the four generic options that can be considered by the organisation to attend to any identified risk. Enumerate these four (4) generic options.

Solution

The four generic options available to attend to any identified risk are:

(i) risk avoidance; (ii) risk control;
(iii) risk transfer; and (iv) risk financing

(1½ mark for each correctly stated option. Total: 6 marks)

5. Outline the class mid-point for each of the class limits given in the data below:

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

Solution

Class Limits	1-5	6-10	11-15	16-20	21-25	26-30
Frequency	4	6	6	8	12	14
Mid-Point	3	8	13	18	23	28

(1 mark for each correctly stated mid-point. Total: 6 marks)

6. If two unbiased coins are tossed once, what is the probability of obtaining:
   (a) head all through. (b) at least one head.
   (c) a head and a tail.

Solution

(a) P(Head all Through) = 1/4 = 0.25 **(2 marks)**
(b) P(At least one head) = 3/4 = 0.75 **(2 marks)**
(c) P(A head and a tail) = 2/4 = 0.5. **(2 marks)**

(Grand Total: 6 marks)

7. Life assurance premium has four essential components that are assumed as the basis during the calculation of the premium. State and explain any three (3) of these components.

Solution

The essential components that are assumed as basis during the calculation of the premium are:
* mortality; * expenses; * investment; * contingencies.

(Candidates are required to also explain the terms. 1 mark for each correctly stated component. 1 mark for each correct and completely stated explanation. Sub-Total per term: 2 marks. Maximum of 3 to be graded. Total: 6 marks)

8. In these days and age, insurance companies adopt the use of computer systems (not information technology broadly) to perform various functions, inclusive of regulatory requirements) in the organisation. Enumerate any six (6) of such regulatory requirements.

Solution:

The functions are:

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

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

Part II
Compulsory Question.
Each question carries 50 marks.

9. (a) In N.I.I.R.A. 2025,
   (i) What is MCR? **(1 mark)**
   (ii) What is the MCR for non-life insurance business? **(3 marks)**
   (iii) What is the MCR for life assurance business? **(3 marks)**
   (iii) What is the MCR for reinsurance business? **(3 marks)**

   (b) Outline any two (2) reasons why insurance and reinsurance companies prefer to have financial ratings. **(6 marks)**

   (c) State and explain any five (5) analytical frameworks commonly used by the rating agencies when rating insurance and reinsurance companies. **(20 marks)**

   (d) A bag contains 3 brown and 7 purple balls, all identical both in size and shape, except in colours. If two balls were picked randomly (one after the other with replacement). Calculate the probability that:
   (i) the first ball picked was brown; **(2 marks)**
   (ii) the second ball picked was purple; **(2 marks)**
   (iii) both balls picked were of the same colour; **(5 marks)**
   (iv) both balls picked were of different colours. **(5 marks)**

Solution

(a) (i) MCR is Minimum Capital Requirement. **(1 mark)**

(ii) The MCR for **non-life insurance business:** the higher of ₦15,000,000,000.00 (i.e. NGN 15 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(iii) The MCR for **life assurance business:** the higher of ₦10,000,000,000.00 (i.e. NGN 10 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(iv) The MCR for **reinsurance business:** the higher of ₦35,000,000,000.00 (i.e. NGN 35 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(Sub-Total: 9 marks)
(Grand Total: 10 marks)

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

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

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

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

- **Industry Risk:** The environment framework in which insurance/reinsurance companies operate in. Typical points would be to look at the threat of new entrants, the strength of regulatory and accounting frameworks, and so on.
- **The Business Review:** The profile of the business mix in terms of the competitive strengths and weaknesses. This is particularly relevant in terms of the insurance company's strategy.
- **Management and Corporate Strategy:** This is the quality and credibility of an insurer's senior management team.
- **Enterprise Risk Management:** The effectiveness of the risk management process across the whole enterprise.
- **Operating Performance:** Simply looking at the performance ratios, loss ratio, expense ratio, combined ratio, ROE etc
- **Investments:** This is dependent on the insurer's investment portfolio performance and the extent to which the investment results contribute to the company's total profits.
- **Capital Adequacy:** This looks at the quality and level of capital required to run the business.
- **Liquidity:** The ability to manage cash flows efficiently and easily borrow money if required.
- **Financial Flexibility:** This looks at the insurer's potential need for additional capital or liquidity in the future.

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

(d) 3 brown balls and 7 purple balls (two balls were drawn randomly without replacement); giving a total of 10 balls.

(i) P(1st ball was Brown) = 3/10 = 0.3 **(2 marks)**

(ii) P(2nd ball was Purple) = 7/10 = 0.7 **(2 marks)**

(iii) P(both balls were of the same colour)

= 1st Brown and 2nd Brown or 1st Purple and 2nd Purple

= 3/10 * 3/10 **OR** 7/10 * 7/10 **(1 mark)**

= 9/100 + 49/100 **(2 marks)**

= 0.09 + 0.49 **(1 mark)**

= 0.58 **(1 mark)**

(Sub-Total: 5 marks)

(iv) P(both balls were of different colours)

= 1st Brown and 2nd Purple or 1st Purple and 2nd Brown

= 3/10 * 7/10 **OR** 7/10 * 3/10 **(1 mark)**

= 21/100 + 21/100 **(2 marks)**

= 0.21 + 0.21 **(1 mark)**

= 0.42 **(1 mark)**

(Sub-Total: 5 marks)

(Grand Total: 50 marks)

Part III

Each question carries 34 marks.

10. **(**a) Enumerate any four (4) ways in which underwriters might be offered risks by prospective clients. **(10 marks)**

(b) Abuja Insurance Company Plc has arranged an excess of loss reinsurance programme with Lagos Reinsurance Limited to protect its Engineering All Risks portfolio in four layers as below:

1st Layer: ₦1,000,000.00 XS ₦1,000,000.00
2nd Layer: ₦2,500,000.00 XS ₦2,000,000.00
3rd layer: ₦2,000,000.00 XS ₦4,500,000.00
4th layer: ₦1,500,000.00 XS ₦6,500,000.00

As the Chief Reinsurance Officer of Abuja Insurance Company Plc, you are required to apportion the following different losses between your company and Lagos Reinsurance Ltd taken into consideration the appropriate layers responsible for each of the losses:

(i) ₦1,500,000.00 (ii) ₦990,000.00 (iii) ₦4,000,000.00
(iv) ₦6,500,000.00 (v) ₦8,000,000.00 (vi) ₦10,000,000.00

(24 marks)

Solution

(a) The ways in which underwriters might be offered risks by prospective clients are:

(i) direct telephone call from the customer; (ii) a written proposal form
(iii) via a broker (iv) an online holiday insurance proposal via e-channel
(v) a broker slip in the Lloyd's market;
(vi) a formal presentation of a large commercial liability risk by a broker.

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

(b) (i) ₦1,500,000.00 – Abuja Insurance Company Plc bears ₦1,000,000.00 **(2 marks)** and the first layer bears ₦500,000.00 **(2 marks).** **(4 marks)**

(ii) ₦990,000.00 – Abuja Insurance Company Plc bears the whole loss amount. **(2 marks)**

(iii) ₦4,000,000.00 – Abuja Insurance Company Plc bears ₦1,000,000.00 **(1 mark)**, the first layer bears ₦1,000,000, **(1 mark)** the second layer bears ₦2,000,000 **(1 mark)**. **(3 marks)**

(iv) ₦6,500,000.00 – Abuja Insurance Company Plc bears ₦1,000,000.00 **(1 mark)**, the first layer bears ₦1,000,000.00 **(1 mark)**, the second layer bears ₦2,500,000.00 **(1 mark)** and the third layer bears ₦2,000,000.00 **(1 mark)**. **(4 marks)**

(v) ₦8,000,000.00 – Abuja Insurance Company Plc bears ₦1,000,000.00 **(1 mark)**, the first layer bears ₦1,000,000.00 **(1 mark)**, the second layer bears ₦2,500,000.00 **(1 mark)**, the third layer bears ₦2,000,000.00 **(1 mark)** and the fourth layer bears ₦1,500,000.00 **(1 mark)** **(5 marks)**

(vi) ₦10,000,000.00 – Abuja Insurance Company Plc bears ₦1,000,000.00 **(1 mark)** plus ₦2,000,000 (i.e. ₦3,000,000) (**(1 mark)** , the first layer bears ₦1,000,000 **(1 mark)** , the second layer bears ₦2,500,000 **(1 mark)**, the third layer bears ₦2,000,000 **(1 mark)** and the fourth layer bears ₦1,500,000.00 **(1 mark)**. **(6 marks)**

(Sub-Total: 24 marks) **(Grand Total: 34 marks)**

11. Edo Insurance Limited Company sells Trauma Illness Insurance Cover. The company has monitored the length of time it takes its numerous policyholders to recover from a trauma illness. The table below was obtained from Edo Insurance Limited Company over the last five years:

Policyholders' Age Next Birthday (x)	40	25	32	20	25	35	55	60
Recovery time in months (y)	8.5	5.5	7.5	4.0	6.5	9.0	12.0	15.5

Find the regression line of y on x.

Solution

x	y	x^2	y^2	xy
40	8.5	1,600	72.25	340
25	5.5	625	30.25	137.5
32	7.5	1,024	56.25	240
20	4.0	400	16.00	80
25	6.5	625	42.25	162.5
35	9.0	1,225	81.00	315
55	12.0	3,025	144.00	660
60	15.5	3,600	240.25	930
∑	68.5	12,124	682.25	2,865

(½ mark for each correctly computed x^2, y^2 and xy. Sub-Total: 12 marks)

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

$y = a + bx$ **(3 marks)**

where $a = \frac{\sum Y - b\sum X}{n}$ **(3 marks)**

and $b = \frac{n\sum xy - \sum x\sum y}{n\sum x^2 - (\sum x)^2}$ **(3 marks)**

Therefore, $b = \frac{(8 * 2{,}865) - (292 * 68.5)}{(8 * 12{,}124) - (292)^2}$ **(2 marks)**

(2 marks)

$= 0.24881$ **(2 marks)**

$a = \frac{68.5}{8} - \frac{0.24881 * 292}{8}$ **(2 marks)**

$= -0.51907$ **(2 marks)**

Thus,

$y = -0.51907 + 0.24881x$ **(3 marks)**

(Grand Total: 34 marks)

12. (a) Describe the term "retrocession. **(4 marks)**

(b) State and explain any three (3) purposes or benefits reinsurance security may serve to the underwriters. **(12 marks)**

(c) Distinguish between a quota share and surplus treaty. **(6 marks)**

(d) Enumerate with two (2) distinct characteristics of how fundamental risks differ from particular risks. State an example of each type of risk under each term. **(12 marks)**

Solution

(a) Retrocession may be described as the practice whereby a reinsurer (the party which provides reinsurance to an insurer) transfers some or all of the risks it has assumed under its various reinsurance contracts to another reinsurer (known as a retrocessionaire) as the business of

insurance across the boundaries of two or more countries. In this case, reinsurance business is regarded as an international business. **(4 marks)**

(b) The purposes or benefits reinsurance security may serve to the underwriters are:

- **Security:** One of the reasons for the purpose of insurance is that the insured wants to be relieved from the uncertainty of loss – buying insurance provides peace of mind. The primary insurance company seeks the same kind of security and peace of mind, and achieves this by purchasing reinsurance.
- **Stability:** the insurer can also avoid fluctuations in claims costs from year to year and within a year, by the purchase of reinsurance. Once more, this is a very similar motive to that which drives the insured to purchase primary insurance in the first place.
- **Capacity:** The insurer may have a financial limit on the size of risk (or accumulation of a number of risks) which it can accept. This will almost certainly be the case, no matter how large the company is, and could mean that business may have to be turned down or only partly accepted. By purchasing reinsurance, the primary insurer can increase the capacity it has to accept business.
- **Catastrophe:** The primary insurer is not immune from the possibility of a complete catastrophe (e.g. a major storm, flood e.t.c. affecting a large number of its customers at the same time). This could cause financial problems which the insurer wants to avoid and by purchasing reinsurance, it can transfer some of that risk to the reinsurer.

(2 marks for each correctly stated purpose. 2 marks for each correct and correctly stated explanation. Sub-Total per purpose: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) **Quota Share Treaty:** Under a quota share treaty, a fixed proportion of every risk defined in the treaty is reinsured. For example, a primary insurer may agree to reinsure 80% of all risks of a certain type. Then if the sum insured for such a risk is ₦100,000.00, the primary insurer retains ₦20,000.00 and reinsures ₦80,000.00. **While Surplus Treaty:** The alternative to ceding a fixed proportion of every risk is for the primary insurer to decide how much of each risk it wants to retain for its own account. This amount is termed retention and is calculated on the expected financial loss. In most cases, the primary insurer will have calculated its maximum probable loss. The primary insurer can then arrange a reinsurance facility which will be measured in terms of lines. A line is equal to the primary insurer's retention and the reinsurance arrangement will be in multiples of this line. **(5 marks)**

(3 marks for each correct and completely stated explanation. Sub-Total per term: 3 marks. Grand Sub-Total: 6 marks)

(d) **Characteristics of Fundamental Risks**

- They arise from causes outside the control of any individual or a group of individuals
- The effect of fundamental risk is felt by a large number of people.
- The examples are: earthquakes, floods, famine, volcanoes and other natural disasters.
- Social change, political intervention, terrorism and war are also examples of fundamental risks.

Characteristics of Particular Risks

- They are more personal in their cause and effect
- Examples are: fire, theft, work related injury and motor accidents.
- These risks arise from individual causes and affect individuals in their consequences
- Risk is a dynamic concept and a particular classification of risk can move to fundamental. An example is unemployment.

(2 marks for each correct and completely stated characteristic. Maximum of 2 characteristics to be graded. 2 marks for each correctly stated example. Sub-Total per term: 6 marks. Grand Sub-Total: 12 marks)
(Grand Total: 34 marks)

13. (a) (i) State three (3) features of the median. **(6 marks)**
(ii) State three (3) features of the mean. **(6 marks)**
(b) Describe, with three (3) descriptions each, direct observation and interviews as methods of collecting data. **(12 marks)**
(c) State and explain any four (4) types of correlation. **(10 marks)**

Solution

(a) (i) The features of the median are:

- it splits a distribution into two equal parts;
- it is not easily influenced by outliers;
- it cannot be used for further mathematical processes;
- it can be found where all the data is not known.

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

(ii) The features of the mean are:

- it makes use of all the variables given in the data;
- it is the best known of all the averages;
- it can be used for further mathematical processes;
- it may be affected by extreme values.

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

(b) **Direct Observation:** One of the most accurate methods of collecting data, and ensuring its relevance for your purpose, is to observe a phenomenon with your eyes. There can be limited ambiguity, and you do not have to rely on the interpretation put on a set of circumstances by someone else. In insurance, it is more difficult to see application for direct observation, although we could imagine some scope for observation in the area of loss control. For example, we could ask field personnel to observe the use of protective headgear and report back, pr we could observe the number of times that goods were stacked on shelves too close to sprinkler heads. The scope of direct observation is limited, but it is worthwhile to include it in our list, nevertheless.

Interviews: Interviews are appropriate where we are engaged in a form of attitude study, such as the attitude of customers towards the service they obtain from call centres. It is a very similar technique to the method of direct observation. One potential problem with the interview method is that there is the possibility that some errors may creep in.

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

(c) Types of correlation are:

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

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

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

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

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

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

(Grand Total: 34 marks)

14. (a) State any four (4) options available to insurance companies in case of shortfall regarding their regulatory capital. **(10 marks)**

(b) Enumerate any four (4) procedures or stages involved in the rating process between the insurance company and rating agency. **(16 marks)**

(c) Explain what the following ratings stand for:
(i) AAA (ii) AA (iii) A (iv) BBB. **(8 marks)**

Solution

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

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

(2½ marks for any correct and completely stated option. Maximum of 4 options to be graded. Sub-Total: 10 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 any correct and completely stated explanation. Maximum of 4 to be graded. Sub-Total: 16 marks)

(c) (i) AAA: Extremely strong financial security and it is the highest rating. **(2 marks)**

(ii) AA: Very strong financial security – differing only slightly from those rated higher. **(2 marks)**

(iii) A: Strong financial security – but it is somewhat more likely to be affected by adverse business conditions. **(2 marks)**

(v) BBB: Good financial security – but it is more likely to be affected by adverse business conditions. **(2 marks)**

(Sub-Total: 8 marks)
(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 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 if 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 45minites 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 reinsurance and the distinction between risk transfer and risk financing. Approximately 90% of candidates attempted the question, but only 7% achieved a pass mark. This extremely poor performance indicated a significant lack of understanding of these fundamental risk management concepts. Candidates are advised to study the coursebook thoroughly.

Question 2
This compulsory question assessed candidates' understanding of the key differences between facultative and treaty reinsurance. Over 90% of candidates attempted the question, recording an impressive pass rate of 85%. This commendable performance demonstrated a sound understanding of the topic.

Question 3
The question assessed candidates' knowledge of the follow-the-fortunes clause in reinsurance contracts. A total of 260 candidates attempted the question, with 85% pass mark recorded. This excellent performance suggested that most candidates who attempted the question demonstrated a good understanding of the concept.

Question 4
The question assessed candidates' understanding of the differences between quota share and surplus treaties, particularly their respective approaches to risk sharing. A total of 347 candidates attempted the question, recording a pass rate of 66%. However, candidates are encouraged to strengthen their knowledge of the practical applications of these treaties.

Question 5
The question assessed candidates' knowledge of retrocession and its application in reinsurance arrangements. Approximately 50% of candidates attempted the question, with a pass rate of 50%. The performance was average, suggesting that some candidates lacked adequate understanding of the concept and its significance in the reinsurance market. Candidates are advised to devote more attention to all aspects of the syllabus.

Question 6
This compulsory question assessed candidates' understanding of sliding scale commission in reinsurance arrangements. Despite its compulsory nature, only 40% of candidates attempted the question, with a pass rate below 20%. This unsatisfactory performance indicated a significant knowledge gap in the application and calculation of sliding scale commissions.

Question 7
The question examined candidates' understanding of event definitions in catastrophe reinsurance and the operation of reinstatements under excess of loss contracts. Only 30% of candidates attempted the question, with a pass rate of 18.91%. This very poor performance suggested inadequate familiarity with these aspects of reinsurance. Candidates are advised to study the relevant concepts thoroughly and develop a better understanding of their applications.

Question 8
The question assessed candidates' knowledge of the roles of rating agencies in the reinsurance market and their influence on counterparties. Over 90% of candidates attempted the question, recording an impressive pass rate of 85%. This excellent performance indicated a sound understanding of the concept. Candidates are encouraged to sustain this level of performance in future examinations.

Question 9
The question assessed candidates' knowledge of trade associations operating within the insurance and reinsurance markets, as well as the functions of an underwriter. A total of 339 candidates attempted the question, with only 98 candidates, representing 28.91% pass mark achieved. Many candidates demonstrated inadequate knowledge of relevant trade associations and the basic responsibilities of an underwriter.

Question 10
The question assessed candidates' understanding of finite reinsurance solutions and their applications in risk management. Approximately 90% of candidates attempted the question, recording a pass rate of 61.25%. The performance was satisfactory, indicating a reasonable understanding of the subject matter. However, candidates are encouraged to deepen their knowledge of the features, benefits and practical applications of finite reinsurance arrangements.

Question 11
The question assessed candidates' knowledge of the establishment of an international financial centre and the principal structures of the Lloyd's insurance market. A total of 129 candidates attempted the question, with 44% pass mark recorded. This below-average performance suggested that many candidates lacked adequate understanding of the organisational and operational structures of international insurance markets.

Question 12
The question assessed candidates' ability to perform calculations involving excess of loss treaties, quota share recoveries and quota share retentions. Approximately 50% of candidates attempted the question, with fewer than 30% pass mark achieved. This poor performance indicated significant weaknesses in candidates' understanding and application of reinsurance calculations.

Question 13
The question assessed candidates' understanding of surplus treaty reinsurance and its application in risk sharing. Approximately 23% of candidates attempted the question, with about 50% pass mark recorded from those who attempted it.

Question 14
The question examined candidates' knowledge of claims management and the processes involved in handling insurance and reinsurance claims. Approximately 85% of candidates attempted the question, recording a pass rate of 55%. The performance was slightly above average, indicating a fair understanding of claims management.

Comments on Overall Performance
The overall pass rate of 51% was below average and significantly below expectations. Performance was particularly poor in questions relating to risk transfer and risk financing, sliding scale commissions, catastrophe reinsurance, excess of loss reinstatements, reinsurance calculations and the functions of key insurance market. Greater commitment to cover all the syllabus coverage, regular revision and practical problem-solving is necessary to improve performance in future examinations.

Suggestions for Improvement
Candidates are strongly advised to undertake adequate preparation before registering and sitting for the examination. They should ensure they adequately study the prescribed coursebook and examination syllabus, rather than concentrating on selected topics.

Part I

1. (a) Define reinsurance. **(2 marks)**
   (b) Distinguish between risk transfer and risk financing. **(4 marks)**

Solution

(a) **Reinsurance** is insurance purchased by an insurer to transfer part of its risk portfolio. **(2 marks)**

(b) Risk transfer: is the genuine transfer of underwriting risk to a reinsurer **(2 marks)**; while risk financing is an arrangement primarily for capital relief or earnings smoothing without significant risk transfer **(2 marks)**. **(4 marks)**

(Grand Total: 6 marks)

2. Explain the key difference between facultative and treaty reinsurance.

Solution

Facultative Reinsurance is the case-by-case underwriting, optional participation where the insurer has to obtain the separate agreement of reinsurers to accept each individual risk it wishes to reinsure. It can be a time-consuming and administratively expensive way of placing reinsurance **(3 marks)**; while **Treaty Reinsurance** is such that provide automatic coverage for a defined portfolio provided the risks to be ceded meet a pre-defined set of criteria **(3 marks)**.

(Grand Total: 6 marks)

3. There are various clauses that govern reinsurance contracts between a reinsurer and a cedant.
   (a) What is a "follow-the-fortunes" clause?
   (b) State the purpose of a "follow-the-fortunes" clause.

Solution

(a) A follow-the-fortunes clause is a reinsurance clause that requires the reinsurer to accept cedant's good-faith underwriting and claims decisions. **(3 marks)**

(b) This means that the fortunes of the reinsurer depend largely on the outcome of the underwriting performed by the cedant. **(3 marks)**

(Grand Total: 6 marks)

4. All underwriters understand that quota share treaty and surplus treaty differ in various ways. State how quota share and surplus treaties differ in risk sharing.

Solution

Quota Share Treaty: in quota share, a fixed percentage of all risks is ceded to the reinsurer irrespective of the size. This percentage is used to split the premium and claims relating to the reinsured portfolio **(3 marks)**; **while Surplus Treaty:** here, a reinsured selects a retention and cession to the reinsurers is based on risk size above retention. The retained amount and the ceded amount are then expressed as a percentage of the whole value. The percentages derived are used to allocate the premiums and claims for each of the ceded risk in the portfolio **(3 marks)**.

(Grand Total: 6 marks)

5. (a) What is retrocession? **(2 marks)**
   (b) State two (2) objectives of buying a retrocession. **(4 marks)**

Solution

(a) Retrocession is a reinsurance purchased by reinsurers to manage their own risk exposure. **(2 marks)**

(b) The main objectives of buying a retrocession are:

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

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

(Grand Total: 6 marks)

6. (a) What is a sliding scale commission? **(2 marks)**
   (b) How does it align incentives? **(4 marks)**

Solution

(a) A sliding scale commission is one that pays different ceding commissions to the cedants depending on the loss ratio of the ceded portfolio. **(2 marks)**

(b) It aligns incentives in the way that the commission rate increases as the loss ratio reduces, thereby encouraging the reinsured to achieve a better underwriting result for the reinsurer. It works to improve the alignment of the interests of the reinsured and the reinsurers.

(4 marks)

(6 marks)

7. (a) Explain the concept of event definition in catastrophe reinsurance.
   (b) Explain how reinstatements work in excess of loss contracts.

Solution

(a) The event definition clause in a non-proportional treaty defines how losses are aggregated into a single occurrence through the use of hours and other attributes of the loss. It removes ambiguity as to what constitutes an event under a catastrophe excess of loss cover. It may require that more than one insured risk must be affected before a claim can be made. This is known as two-risks warranty.

(b) Reinstatement allows for the restoration of excess of loss cover after limit exhaustion following a loss. It usually requires the payment of additional premium. It can be made pro rata to amount only or pro rata to amount and time.

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

8. State any three (3) roles of rating agencies in reinsurance and their impact on counterparties.

Solution

The roles of rating agencies in reinsurance and their impact on counterparties are:

- they provide an overall assessment of the financial strength and security of the rated entities;
- they are used extensively to support insurance company's reinsurers selection and placement decisions;
- the awarded rating could influence counterparty selection and pricing;
- regulators are increasingly incorporating ratings into their rules.

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

PART II

9. (a) Messrs. Omnisure, a newly incorporated and licensed insurance organisation in Nigeria, is seeking your guidance and advice as a student of the insurance professional examination in Nigeria on the various arms of trade associations that

are available in the Nigerian insurance industry. Advise the new company on any five (5) arms of trade associations that are available in the Nigerian Insurance Industry and the relevance of the associations. **(10 marks)**

(b) State any four (4) responsibilities of a reinsurance underwriter. **(10 marks)**

(c) An excess of loss treaty has the following pricing structure:

Layer	Cover (₦)	Deductible (₦)	To-Earn Premium (₦)
1	5m	5m	1m
2	15m	10m	1.5m

The Expected Gross Net Premium Income (EGNPI) is 10m. Calculate the:

(i) "rate on line" and "adjustable rate" for each layer and the whole programme **(12 marks)**

(ii) Using an actual GNPI was ₦8.5m and deposit premium that was set at 90% of the to-earn premium. Calculate the actual reinsurance premium and determine whether there will be additional or refund premium for each layer and programme. **(12 marks)**

(iii) In addition to (ii) above, there is a minimum premium set at 8% of the to-earn premium. Calculate additional or refund premium if any. **(6 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 its 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 interests of actuaries in Nigeria.
- **Professional Reinsurers Association Nigeria**: a primary trade group for the interests 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 responsibilities of a reinsurance underwriter are:

- deciding whether to accept a proposal of reinsurance;
- deciding whether not to accept a proposal of reinsurance;
- set the terms and conditions;
- decide on the proportion of the risk to accept/underwrite
- perform pricing/rating of the reinsurance offering.

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

(c) (i) Rate on line and Adjustable rate

Layer	Cover	Deductible	To Earn Premium	Rate on Line	Adjustable Rate

1	5m	5m	1m	1/5 = 20% **(2 marks)**	1/10 = 10% **(2 marks)**
2	15m	10m	1.5m	1.5/15 = 10% **(2 marks)**	1.5/10 = 15% **(2 marks)**
	20m	**5m**	**2.5m**	**2.5/20 = 12.5%** **(2 marks)**	**2.5/10 = 25%** **(2 marks)**

(12 marks)

(ii)

Layer	Cover	Deductible	Deposit Premium	Actual Reinsurance Premium	Additional/ (Return) Premium
1	5m	5m	0.9m	10%*8.5 = 0.85m **(2 marks)**	0.85-0.9 = -0.05m **(2 marks)**
2	15m	10m	1.35m	15%*8.5 = 1.275m **(2 marks)**	1.275-1.35 = -0.075m **(2 marks)**
	20m	**5m**	**2.25m**	**25%*8.5 = 2.125m** **(2 marks)**	**2.125-2.25 = -0.125m** **(2 marks)**

(12 marks)

(iii)

Layer	Cover	Deductible	Deposit Premium	Minimum Premium	Actual Premium	Additional/ (Return) Premium
1	5m	5m	0.90m	0.80m	10%*8.5 = 0.85	0.85-0.9 = -0.05 **(2 marks)**
2	15m	10m	1.35m	1.20m	15%*8.5 = 1.275	1.275-1.35 = -0.075 **(2 marks)**
	20m	**5m**	**2.25m**	**2.00m**	**25%*8.5 = 2.125**	**2.125-2.25 = -0.125** **(2 marks)**

(6 marks)
(Grand Sub-Total: 30 marks)
(Grand Total: 50 marks)

PART III

10. A non-executive director with extensive experience in the capital market recently joined the Board of the company where you work as the Executive Director (Technical). He has asked you, as the Executive Director (Technical) if the company is considering the use of finite reinsurance solutions in place of traditional reinsurance for certain risks and perils. You are being asked to prepare a draft paper here in response to this clarification under the following headings:

(a) brief description of finite reinsurance solutions. **(6 marks)**

(b) any four (4) typical characteristics of finite reinsurance transactions. **(16 marks)**

(c) three (3) forms of finite reinsurance and their suitability. **(12 marks)**

Solution

(b) (i) A finite reinsurance is also known as a funded cover. Its main purpose is to use a multi-year framework to provide protection against certain risks so that the financial impact of any adverse experience can be smoothed over a number of years. It usually lends itself to achieving greater levels of retained risk. It is also used to manage risks that traditional reinsurance may prove inappropriate or too expensive. The timing of the cash flow is also a critical advantage of many finite reinsurance solutions. In some cases, finite reinsurance solutions transfer the reinsurance risk to the capital markets through the sale of bonds and other securities. The potential cash flow from claims are therefore securitized, a similar concept to technical reserves in traditional reinsurance. This feature reduces the counterparty risks associated with the future cash flow under the contract.

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

(ii) The typical characteristics of finite reinsurance transactions are:

- meaningful but limited level of risk transfer involving a high premium to limit ratio;
- recognition of investment returns in pricing;
- the pricing mechanism gives a close link between the cost of the cover and the loss experience;
- it is usually arranged on a multi-year basis with 3 to 5 years being common;
- it is a form of blended cover incorporating traditionally insurable risks along with risks that may be more difficult to transfer;
- the funds are usually retained offshore so that the investment returns are accrued in tax advantageous environment;
- it may be written on a rolling basis with option dates to review and extend the contract terms.

(4 marks for each correct and completely stated explanation. Maximum of 4 to be graded. Sub-Total: 16 marks)

(iii) The following are forms of finite reinsurance, with due explanations:

- **Fully Funded One-Off Premium:**
  - Suitable for a company that has an existing funded balance sheet provision
  - Limits are set to reflect the level of funding
  - There is no primary credit risk for the reinsured
- **Fully funded one-off premium partially withheld by the reinsured**
  - Suitable for a company that has an existing funded balance sheet provision but wishes to use some of the fund for other purposes
  - Limits are set to reflect the level of funding
  - Letter of credit or similar instruments may be used to eliminate credit risk
  - There is an increased potential for challenge on accounting or fiscal grounds
- **Fully funded regular premium**
  - Suitable for a company that does not have existing funded provision but has a strong cashflow
  - Limits would be set to reflect funding level in line with cashflow experience
  - Credit risk is minimised
- **Continent capital structure (part funded)**
  - Suitable for a company with no existing funded provision and wishes to minimize the cash tied up in the arrangement
  - Limits are set to reflect the contracted level of funding which would vary inversely with the period of the deal and funding commitment
  - There is credit exposure to contracted premiums following loss in early years
- **Partially funded, regular premium**
  - Suitable for a company with no existing funded provision and wishes to minimize the cash tied up in the arrangement
  - Limits are set to reflect the contracted level of funding which increases as the level of funding increases
  - There is credit exposure to future contracted premiums following loss in early years, though lower than under contingent capital structure

(2 marks for each correctly stated form type. 2 marks for each correctly stated suitability. Sub-Total per form type: 4 marks. Maximum of 4 to be graded. Sub-Total: 16 marks)
(Grand Total: 34 marks)

11. Your country's minister of finance has announced the intention of the country to create an international financial Centre in the capital city. Among other things, the international financial centre will house the international insurance and reinsurance centre. Your head

of department has asked for your opinion on the suitability of the country for such a financial centre, especially as it relates to reinsurance.

(a) State and explain any ten (10) factors that are required for the establishment of an international financial centre. **(20 marks)**

(b) Lloyd's is an international financial centre for insurance and reinsurance. Highlight any seven (7) of the main structures of the Lloyd's market. **(14 marks)**

Solution

(a) The factors that are required for the establishment of an international financial centre are:

i) **Political Stability:** Reinsurance is a long-term business. Both buyers and sellers of reinsurance would want to be sure that there would not be indiscriminate changes to how business operate in the future.

ii) **Geographical Location:** The location should be easily accessible from other countries and should have efficient customs and other travel controls.

iii) **Quality Transport System:** such as well functioning airport, good transport within the city/country where the market operates.

iv) **Developed Communication Systems:** Business relies on good communication to thrive. There should be good internet service given the considerable amount of data and document that are exchanged in the process of transacting reinsurance.

v) **Highly Qualified Personnel:** Reinsurance is in a service sector with reliance on highly skilled and specialized staff such as underwriters, actuaries, claims experts and so on. The location should be able to attract these professionals.

vi) **Office Space at Competitive Prices:** Office spaces in major cities may come at exorbitant prices, which will add to the cost of doing business. Some companies have outsourced their back-office resources outside the main financial centre.

vii) **Stable Legal and Regulatory Environment:** The courts and regulatory authorities must be acceptable to the clients of the reinsurance markets and this includes the need for a legal framework adapted to the sector. The regulatory authorities must be recognized as being sound and not allowing reinsurers to set up without sufficient resources to provide security

viii) **Liberal Attitude by Authorities:** The authorities must allow for the growth of the sector without imposing too many restrictions in terms of bureaucracy and taxation.

ix) **Quality Family Life:** Good quality of family living would attract qualified personnel to the financial centre and would boost their performance

x) **Time Zone:** This may be important during renewal time when timely decision is usually required. An extreme time zone may not augur well for decision-making.

xi) **Presence of Foreign Reinsurers:** A strong presence of foreign reinsurers signals a developed reinsurance market.

xii) **Stable Currency:** A stable currency would ensure that the value of transactions do not fall or fluctuate widely which may hinder investment.

xiii) **Good Arbitration Arrangements:** This ensures that the location has an efficient system resolve disputes in a reinsurance transaction when they arise.

(1 mark for each correctly stated factor. I mark for each correct and completely stated explanation. Sub-total per factor: 2 marks. Maximum of 10 to be graded. Grand Sub-Total: 20 marks)

(b) The main structure of the Lloyd's market are:

i) The Lloyds market is based in London and has operated for over 300 years.

ii) The Lloyd's is not itself an insurance company but a regulator of the members (names), both corporate and individual.

iii) The members organise themselves into syndicates on whose behalf underwriters accept risks. A syndicate may have one or many members.

iv) The members provide the capital
v) Each syndicate is an annual venture but the performance is monitored for at least 3 years.
vi) The Lloyds is a subscription market where a number of syndicates often participates on a risk, sharing the premium and claims according to their respective share.
vii) From 2003, the Lloyds has operated as a franchise with the managing agents being the franchisees.
viii) The Corporation of Lloyds is itself regulated by the Financial Services Authority (FSA).
ix) Each syndicate is expected to close after 3 years with the payment of Reinsurance to Close (RITC), representing the value of unextinguished liabilities, to the following syndicate year. However, where it is impracticable to estimate the liabilities, the syndicate may be allowed to run for another year.

(2 marks for each correct and completely stated explanation. Maximum of 7 to be graded. Grand Sub-Total: 14 marks)
(Grand Total: 34 marks)

12. (a) Tiger Insurance Company has the following reinsurance programmes for the year 2025. A 25% quota share treaty while retention under the QS is protected by an excess of loss treaty with the following layers.
Layer 1: $10m xs $5m; Layer 2: $20m xs $15m
Layer 3: $30m xs $35m

You are given the following losses that occurred during the year
Loss 1: 50m Loss 2: 40m
Loss 3: 85m Loss 4: 12.5m
Required are for you to calculate the following on each loss:
(i) Total Loss **(4 marks)**
(ii) Quota Share Recovery and Quota Share Retention **(16 marks)**
(iii) Calculate final net losses per loss to the insurer. **(8 marks)**

(b) With four (4) distinct features, differentiate between proportional and non-proportional reinsurance. **(6 marks)**

Solution

Loss	Total Loss (m)	QS recovery	QS Retention	Layer 1	Layer 2	Layer 3	Net Loss
Loss 1: 50m	50	12.500	37.500	10.000	20.000	2.500	5.000
Loss 2: 40m	40	10.000	30.000	10.000	15.000	0.000	5.000
Loss 3: 85m	85	21.250	63.750	10.000	20.000	28.750	5.000
Loss 4: 12.5m	12.5	3.125	9.375	4.375	0.000	0.000	5.000

(1 mark for each correctly computed figure. Sub-Total: 24 marks)

(b) The differences between proportional and non-proportional reinsurance are that:

- in proportional reinsurance, the risk is shared between the reinsurer and reinsured in a specified proportion. This proportion is then used to allocate the premium and claims that emanate from the risk;
- in non-proportional reinsurance, losses below a certain threshold are borne entirely by the reinsured while the excess above this threshold is borne by the reinsurer, subject to the limit of the cover;
- the reinsurance premium under proportional reinsurance is therefore a proportion of the original premium charged by the reinsured;

- the premium under non-proportional is determined by the reinsurer after taking into account the potential losses that may exceed the set threshold;
- ceding commission is usually payable to the reinsured under proportional reinsurance but this is not the case in non-proportional reinsurance;
- the ceding commission is the main negotiation item in proportional reinsurance while the rate on line and/or adjustable rate are the negotiation item for non-proportional reinsurance;
- non-proportional reinsurance may require premium adjustment at the end of the coverage period but this is non-existent in proportional reinsurance.

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

(Grand Total: 34 marks)

13. (a) Your company has a mixture of reinsurance programmes (Quota share, surplus and excess of loss) protecting different portfolios of business written by the company. A director has queried why the company did not maintain just one type of reinsurance especially quota share, since it is very easy to administer.
    (i) Explain the operation of a surplus treaty. **(6 marks)**
    (ii) Enumerate any three (3) advantages of using a surplus treaty. **(9 marks)**
    (iii) Enumerate any four (4) disadvantages of using a surplus treaty. **(12 marks]**

    (b) Your fire portfolio is protected by a 10-line surplus treaty with a line of 10million.
    (i) What is the maximum retention for fire? **(2 marks)**
    (ii) What is the maximum sum insured that can be ceded to the surplus treaty? **(2 marks)**
    (iii) A risk with sum insured of 85m is written. Allocate this between the company and surplus treaty. **(3 marks)**

Solution

(a) (i) The surplus treaty was introduced to remedy the disadvantage of ceding away a fixed proportion of small and large risks. Surplus allows an insurer to retain all risks that fall below a specified threshold while ceding risks above this threshold proportionately. The insurer selects a retention which is also called a line; the reinsurer avails the insurer with surplus capacity, usually a multiple of the chosen retention. The capacity represents the maximum that can be ceded to the surplus treaty. For every risk, the insurer retains the retention while the excess is then ceded to the surplus treaty. The shares of the risk between the insurer and the reinsurer are then expressed as a percentage of the whole. The percentages derived are then used to split the premium and claims emanating from each ceded risk.

For example, an insurer has a 9-line surplus treaty with a retention of 5million. The insurer accepted a risk with sum insured of 40million with a premium of 800,000. This would be shared between the insurer and surplus reinsurer as follows:

Retention = 5 million or 5/40 = 12.5%

Surplus treaty = 40million – 5million subject to being lower that 45million (9 x 5 million)

= 35million or 35/40 = 87.5%

The premium of 800,000 would be shared in the same proportion as 100,000 retained and 700,00 ceded to the surplus treaty reinsurer.

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

(ii) The advantages of using a survey treaty are:

- A surplus treaty allows the insurer to vary its retention on a particular risk
- There is automatic capacity available upon a particular class and size of risk that meet the treaty conditions
- The insurer is allowed to retain a greater proportion of its premium income unlike under quota share
- The insurer receives a ceding commission towards its incurred acquisition expenses and may even participate in share of profit through profit commission.

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

(iii) The disadvantages of using a survey treaty are:

- The insurer stands or falls by the chosen retention, as this is a decision of the insurer
- The results of the insurer and those of the reinsurer may be different as not all risks are ceded in the same proportion
- The insurer must still resort to facultative reinsurance if a risk falls outside the scope of the treaty
- Where a risk falls within the scope of the treaty, the insurer is bound to cede to the treaty irrespective of whether the insurer wishes to cede or not.
- From a reinsurer's point of view, the surplus treaty can result in a widely fluctuating loss experience and less desirable business if the treaty is unbalanced.

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

(Sub-Total: 27 marks)

(b) (i) The maximum retention is the same as a line = 10million **(2 marks)**

(ii) The maximum sum insured that can be ceded to the surplus treaty is a line multiplied by the number of lines = 10 million x 10 = 100 million. **(2 marks)**

(iii) Sum insured of 85m

Retention = 10m **(1 mark)**

Ceded to surplus treaty = 85m – 10m = 75m < 100m. **(2 marks)**

(Grand Sub-Total: 7 marks)

(Grand Total: 34 marks)

14. (a) You work for a reinsurance company and a new claims management and procedural manual has been drafted and submitted for your review. Enumerate any eight (8) important practical considerations that a reinsurer would check when assessing the claims submitted. **(20 marks)**

(b) A section of the manual discusses the data fields that must be captured in the administration system when registering a claim. State any seven (7) of the main data points. **(14 marks)**

Solution

(a) The important practical considerations that a reinsurer would check when assessing the claims submitted are:

i) Was an original insurance policy actually in force?
ii) What is the limit of indemnity under the original policy?
iii) If the original policy covers legal liability, are legal and other investigative costs included within the original policy limit or are they additional to it?
iv) Coverage, terms, conditions and exclusions of the original policy
v) Insured period of the original policy
vi) Are there any amendments or extensions to the original policy?

vii) Was the peril giving rise to the reinsurance claim covered under the original policy?
viii) Did any policy deductible apply to the peril insured against in the original policy?
ix) Does the reinsured have other reinsurance agreements that inure to the benefit of this reinsurance?
x) Did the claim fall within the coverage of the reinsurance?

(2½ marks for each correct and completely stated consideration. Maximum of 8 to be graded. Sub-Total: 20 marks)

(b) The data fields that must be captured in the administration system when registering a claim are:

i) data fields to be captured when registering claim
ii) date the claim was received and first recorded by the reinsurer
iii) type and method of reinsurance
iv) class of business
v) perils or coverage giving rise to the claim
vi) date of loss
vii) circumstances of the loss including any contributory or mitigating factors
viii) names and addresses of the claimants or location of the subject matter damaged
ix) details and extent of bodily injuries or physical damage involved
x) location of loss
xi) intimated claim amount
xii) verification of loss and any other supporting details

(2 marks for each correct and completely stated field. Maximum of 7 to be graded. Sub-Total: 14 marks)
(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 of more parts, this instruction do not apply to the separate parts.
- Write in the ruled margin the number and question attempted.
- Leave no blank pages among your answers.
- Where supplementary leaves are used, the candidate's number should be written in the space provided on them and fastened at the end of the book inside the cover.

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 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 if 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 45minites 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

This compulsory question examined candidates' knowledge of the Nigerian Insurance Industry Reform Act (NIIRA) 2025. Almost all candidates attempted the question, but only 47 candidates, representing 19%, achieved a pass mark. This poor performance indicated inadequate familiarity with the provisions of the new legislation. Candidates are advised to study the prescribed coursebook thoroughly.

Question 2

The question examined candidates' understanding of the double-entry principle of bookkeeping. Most candidates demonstrated a good understanding of the principle, with 214 candidates, representing 83% of those who attempted the question, achieved a pass mark. This commendable performance indicated a sound knowledge of fundamental accounting principles.

Question 3

This question examined candidates' knowledge of the Nigeria Tax System and operations of stock market. Only 189 out of 270 candidates attempted the question. 90 candidates representing 47.6% rate. The performance was not encouraging. Candidates need to study more.

Question 4

The question examined the candidate's knowledge of the entries in the final accounts. Over 99% of them attempted the question while 224 candidates representing 83% passed. This was a good performance.

Question 5

The question examined candidates' understanding of the interpretation of financial statements, particularly the calculation and significance of Earnings per Share (EPS). A total of 195 candidates attempted the question, with 125 candidates, representing approximately 64%, achieved a pass mark.

Question 6

The question examined candidates' knowledge of the classification of landed properties held by an organisation in accordance with International Accounting Standard (IAS) 40. Of the 270 candidates, 254 attempted the question, with 173 candidates, representing 68% of those who attempted it, achieving a pass mark.

Question 7

The question examined candidates' knowledge of responsibility accounting, particularly the concepts of cost centres, profit centres and investment centres. All candidates attempted the question, recording an impressive pass rate of 90%. Although the overall performance was excellent, some responses revealed gaps in candidates' understanding of certain aspects of responsibility accounting.

Question 8

The question examined candidates' understanding of basic accounting procedures, particularly the preparation of simple accounts. Almost all candidates attempted the question, with a pass rate of 52%. The performance was slightly above average, despite the relatively straightforward nature of the question. The result suggests that some candidates lacked adequate understanding of fundamental accounting procedures. Candidates are advised to study the prescribed course materials thoroughly

Question 9
This compulsory question, which accounted for 25% of the total examination marks, examined candidates' knowledge of selected provisions of the Nigerian Insurance Industry Reform Act (NIIRA) 2025, the presentation of financial statements and other fundamental accounting principles. Although the question was drawn directly from the prescribed coursebook, only 14 candidates, representing approximately 5%, achieved a pass mark. This extremely poor performance suggested that many candidates were not familiar with the course material and the relevant regulatory and accounting principles.

Question 10
This optional question examined candidates' knowledge of the business planning process and the major rating symbols used by international credit rating agencies. A total of 204 candidates, representing approximately 76% of the 270 candidates, attempted the question, with 106 candidates, representing 52% of those who attempted it, achieved a pass mark.

Question 11
The question examined candidates' knowledge of the differences between Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS), as well as the benefits of adopting IFRS. Only 132 candidates, representing approximately 49%, attempted the question, with 19 candidates, representing 14% of those who attempted it, achieved a pass mark.

Question 12
The question examined candidates' understanding and application of break-even analysis, including basic calculations and graphical illustrations. It was the least attempted question, attracting only 96 candidates, of whom 38, representing approximately 40%, achieved a pass mark. The low attempt rate and below-average performance suggested that many candidates were not adequately prepared

Question 13
This optional question examined candidates' knowledge of International Financial Reporting Standards (IFRS) 4 and 17, financial ratios and the principles of budgeting. A total of 166 candidates, representing 61.4%, attempted the question, with approximately 16% of those who attempted it passed. Considering that the question was from the prescribed coursebook, candidates are advised to familiarise themselves with the relevant accounting standards, financial analysis techniques and budgeting principles to improve their performance in future examinations.

Question 14
The question examined candidates' knowledge of the types of errors affecting trial balances and the factors to be considered before appointing a company director. Only approximately 14% of candidates attempted the question, with a pass rate of 38%. Candidates are advised to study the prescribed course materials thoroughly rather than relying solely on general knowledge or previously acquired information. A comprehensive understanding of the prescribed materials is essential for improved performance in future examinations.

Comment(s) on Overall Performance
The overall pass rate of 14% was extremely poor and significantly below expectations. The poor overall performance may be partly attributed to the introduction of the domesticated course material, which was being examined for the first time during this examination diet. As over 90% of the examination questions were drawn from the prescribed coursebook, the results suggested that many candidates had not sufficiently familiarised themselves with the revised learning materials. It is anticipated that candidates' performance will improve in subsequent examination diets as they become more conversant with the content, structure and requirements of the new coursebook.

Suggestion(s) for Improvement
Candidates are strongly advised to undertake a comprehensive study of the prescribed coursebook and ensure adequate coverage of all topics in the examination syllabus. Candidates should avoid excessive reliance on general knowledge or previously acquired materials, as the examination questions are substantially based on the revised coursebook.

Part 1

1. Enumerate any four (4) "inadmissible assets" as it relates to capital computations of an insurance company in Nigeria.

Solution

"Inadmissible assets" as it relates to capital computations of an insurance company in Nigeria, are:

* goodwill/intangibles; * deferred tax; * pledged assets;
* prepayments; * unsecured loans; * certain receivables/inventories;
* assets above concentration limits

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

2. (a) What is Double Entry Principle? **(2 marks)**
   (b) Apply double entry principles to the following transactions:
   (i) Bakudi Enterprises Paid Rent of ₦12,000,000.00 by cheque. **(2 marks)**
   (ii) Bakudi was paid ₦7,500,000 cash for disposal of used motor vehicles. **(2 marks)**

Solution

(a) Double entry can be defined as a system where a single transaction is recorded twice in a book of account. Once in the book of the receiving entity and the other in the book of the giving entity. Every transaction must have both Debit and Credit Entry. **(2 marks)**

(b) (i) Bakudi Enterprises Paid Rent of ₦12,000,000.00 by cheque.
DR. Rent Account
CR. Bank Account **(2 marks)**

(ii) Bakudi was paid ₦7,500,000.00 cash for disposal of used motor vehicles.
DR. Cash Account
CR. Motor Vehicle (Assets) Account. **(2 marks)**

(Grand Total: 6 marks)

3. (a) There are common acronyms that are used in Tax Assessment. One of such is "BOJ" as studied in the course. What is BOJ in connection with Tax Assessment? **(2 marks)**
   (b) Briefly differentiate between a "bearish" market and a "bullish" market with reference to stock exchange operations. **(4 marks)**

Solution

(a) Best of Judgment (BOJ) is the way in which tax is assessed by the relevant tax authority in a situation where the tax payable does not have any financial record or returns submitted to the tax authority to base the assessment on. It is used when the financial records are not readily available or are not available at all **(2 marks)**

(b) **Bear Market:** This is a market that is falling. A bear market has a downward trend, and someone who believes the market is headed for a drop is often referred to as a "bear." **(2 marks),** while **Bull Market:** This is a market that is trending higher, likely to gain. If you think that the market is going to go up, you are considered a "bull." Additionally, the term, like bear, can be applied to how you feel about an individual investment. If you are "bullish" on a specific company, it means you think the stock price will rise. **(2 marks)**

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

4. Categorise the following items to where they should belong to as either in (i) statement of financial position or (ii) statement of profit or loss and comprehensive income.
   (a) Cash; (b) Investment Income; (c) Investments
   (d) Gross Premium Written; (e) Maintenance Cost;
   (f) Trade & Other Payables

Solution

(a) **Cash:** Statement of financial position (SFP) **(1 mark)**
(b) **Investment Income:** Statement of Profit and Loss (SP&L) **(1 mark)**
(c) **Investments**: Statement of financial position (SFP) **(1 mark)**
(d) **Gross Premium Written:** Statement of Profit and Loss (SP&L) **(1 mark)**
(e) **Maintenance Cost**: Statement of Profit and Loss (SP&L) **(1 mark)**
(f) **Trade & Other Payables:** Statement of financial position (SFP) **(1 mark)**

(Grand Total: 6 marks)

5. What is EPS? And how is it calculated?

Solution

Earnings per Share (EPS): This is a key financial metric calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period (IAS 33: Earnings per Share). Diluted EPS considers the effect of potential ordinary shares (e.g., convertible bonds, share options). **(3 marks)**

$$EPS = \frac{\{Profit\ attributable\ to\ ordinary\ holders\}}{\{No.of\ shares\ outstanding\ during\ the\ period\}}$$ (**3 marks**)

(Grand Total: 6 marks)

6. With focus on IAS 40, differentiate between:
   (a) investment property; and (b) property, plant & equipment.

Solution

(a) **Investment Property:** this refers to land or a building (or part of a building, or both) held by the owner (or by the lessee under a finance lease) to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of business. **(3 marks)**

(b) **Property, Plant and Equipment (PPE):** these are tangible assets held for use in the production or supply of goods or services, for rental to others, or administrative purposes, and are expected to be used for more than one accounting period. This includes items like office buildings (owner-occupied), computer equipment, furniture, and vehicles. **(3 marks)**

(Grand Total: 6 marks)

7. In Responsibility Accounting, write short notes on:
   (a) cost centre; (b) profit centre; (c) investment centre.

Solution

(a) **Cost Centre**: where the least authority is delegated and the manager is responsible for costs only (accountability measured by cost containment and effectiveness). A typical example would be a service function. **(2 marks)**

(b) **Profit Centre**: where the manager is responsible for the profits obtained from utilising the fixed assets assigned to them by central management (accountability measured by profit). Typically, this would apply to underwriting divisions. **(2 marks)**

(c) **Investment Centre:** where most authority has been delegated and the divisional manager is responsible for decisions up to the investment of capital (accountability measured by return on capital). This is typical for subsidiaries. **(2 marks)**

(Grand Total: 6 marks)

8. Rearrange the following to show the relationship between them as it relates to "accounts preparation":

* Net Profit; * Revenue; * Cost of Sales;
* Operating Expenses; * Gross Profit.

Solution

Revenue		XX
less	Cost of Sales	(XX)
Gross Profit		XX
Less Operating Expenses		(XX)
	Net Profit	XX

(1 mark for each correctly stated and arranged term. ½ mark for each correctly inscribed underline. Grand Total: 6 marks)

Part II

9. (a) (i) State the two (2) main objectives of the Nigerian Insurance Industry Act (NIIRA) 2025. **(4 marks)**

(ii) State the three (3) ways that the Act set to achieve these objectives in (a) above; according to Section 1 of the Act. **(6 marks)**

(b) Ogban Insurance Limited, your company has not been having good times recently because of unencouraging performances. You were coincidentally in the office of the MD/CEO recently when a technical argument ensued between him and the CFO on the fact that the company recorded operational losses while there are huge bank balances in the company's banks. As a newly qualified chartered insurer with good performance in the Finance and Accounting Course (A03), intervene between them so as to make the MD/CEO see reasons with three (3) justifications. **(12 marks)**

(c) The following key headings are common to statements of profit or loss or other comprehensive income of an insurance company: Re-arrange them as they should appear in accordance with IFRS 17 reporting standard:

* Profit for the year; * Other comprehensive Income Net of Tax;
* Earnings per share: Diluted; * Total Comprehensive Income for the year;
* Earnings per share: Basic; * Profit before Tax;
* Total income due to the owners; Net of Tax;
* Insurance Service Results; * Net Investment Income. **(18 marks)**

(d) Write notes on the following investment terms:

(i) Hedge Funds; (ii) Trust Funds; (iii) Mutual Funds;
(iv) Assets Management Company; (v) Real Estate Investment Trust. **(10 marks)**

Solution

(a) (i) 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 interests 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)**

(Sub-Total: 4 marks)

(ii) 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)**

(Sub-Total: 6 marks)

(Grand Sub-Total: 10 marks)

(b) The justifications to convince the MD/CEO will be the following:

i) Cash is not profit and its availability does not necessarily translate to Profit.

ii) Profit or Loss is a result of financial performance, while Cash balance is a result of Cash transactions or Cash Flow.

iii) Profit or loss is prepared on an Accrual basis, while Cash Balance results from Cash flows.

iv) Both Profit and Cash flow are crucial to the survival of the company.

v) Profit or Loss could substantially result from items that do not involve Cash Flow or Cash transactions such as Depreciation, Provisions, Unrealized Gains or Losses e.t.c.

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

(c) The correct rearrangement in line with the IFRS 17 reporting standard is:

(i) Insurance Service Result;

(ii) Net Investment Income.

(iii) Profit before Tax;

(iv) Profit for the year Net of Tax.

(v) Other Comprehensive income net of tax

(vi) Total Comprehensive Income for the year.

(vii) Total Income due to Owner; Net of Tax

(viii) Earnings per share; Basic;

(ix) Earnings per share; Diluted.

(2 marks each for all items well positioned. Sub-Total: 18 marks)

(d) (i) **Hedge Funds:** a hedge fund is a type of investment partnership. Often, it's formally listed as a limited partnership or limited liability company, and the partners will pool money from investors and engage in a wide range of investing activities. Commonly, hedge funds engage in investment activity that is riskier than typical investments. Hedge funds will often use leverage, borrowed money, to amplify their returns, but can also place bets against the market to make money even if the market goes down. There are a variety of different hedge fund structures, but it's common for fund managers to charge investors 20 percent of profits plus 2 percent of assets as a management fee each year. This is controversial because managers of large funds can make millions of dollars in management fees even if investments perform poorly. Due to government regulations meant to protect the inexperienced investor, investing in hedge funds can be difficult for most ordinary investors.

(ii) **Trust Funds:** a trust fund is a special type of legal entity that allows a person or organisation to hold assets that they will eventually give to another. For example, a grandparent could hold ₦100,000.00 in a stock to a grandchild, with the stipulation that the grandchild gets that money when they turn 18. Trust funds offer tremendous asset protection benefits and, sometimes, tax benefits, if intelligently structured. Trust funds can hold almost any asset imaginable, from stocks, bonds, and real estate to mutual funds, hedge funds, or art. There is a

perception that trust funds are only used by the wealthy, but they are available to anyone who wants to smartly transfer assets to another person. **(4 marks)**

(iii) **Mutual Funds:** a mutual fund is a pooled portfolio. Investors buy shares or units in a trust and the money is invested by a professional portfolio manager. The fund itself holds the individual stocks, in the case of *equity funds*, or bonds, in the case of bond funds. Mutual funds are a great way to get exposure to groups of stocks or bonds, freeing the investor from the need to research and purchase shares of each company individually. For example, if you want your portfolio to include more investments in smaller companies, you can purchase shares of a small-cap *mutual fund*. Mutual funds do not trade throughout the day to avoid allowing people to take advantage of the underlying change in *net asset value*. Instead, buy and sell orders are collected throughout the day and, once the market has closed, executed based on the final calculated value for that trading day.

(iv) **Asset Management Company:** an asset management company is a business that invests capital on behalf of clients, shareholders, or partners. The asset management business inside of Vanguard is the one buying and selling the underlying holdings of its mutual funds and ETFs. The asset management business at J.P. Morgan's private client division is building portfolios for individuals and institutions.

(v) **Real Estate Investment Trusts:** some investors prefer to buy real estate through real estate investment trusts (REITS), which trade as if they were stocks and have special tax treatment. There are different types of REITs specializing in various types of real estate. For example, if you wanted to invest in hotel properties, you could consider investing in a hotel REIT. REITs allow you to invest in real estate without having to buy or maintain actual buildings or land.

(2 marks for each correct and completely stated explanation. Sub-total per term: 2 marks. Grand Sub-Total: 10 marks

(Grand Total: 50 marks)

Part III

10. (a) In organisations, decisions determine outcomes most of the time. State and discuss the four (4) key stages involved in a planning process. **(20 marks)**

(b) Business globalisation has necessitated financial ratings of insurance companies. State and explain any seven (7) of such financial ratings derivatives. **(14 marks)**

Solution

(a) The four key stages involved in a planning process are:

(i) **identify objectives:** The objectives must be:

* specific; * measurable; * attainable;
* relevant; * time-related.

(ii) **search for alternative courses of action:** Management must decide the following:

* Where is the company now? * Where does it want to be?
* How does it get there?

This can only be done by undertaking an internal position audit and by relating this to the environment in which the company currently operates and will operate in the future (e.g. the single European Community, changing weather patterns, demographic trends, etc.).

(iii) **Gather data about alternatives and measure pay-offs:** Management should choose those activities that have the greatest potential for achieving the company's objectives. As most of

these objectives will be financially orientated, this will involve a financial assessment of the costs and benefits attached to the various options.

(iv) **Select course of action:** At this point, the strategic plan is formally constructed. Its characteristics should include the following:

* Financial targets, for a three to ten-year period (e.g. profits, cash flow, Statement of Financial Position forecasts etc.);
* It should be at a high level, i.e. refrain from being unnecessarily detailed, particularly from a financial point of view;
* Its narrative should give a clear and concise indication of the company's future direction and should act as a map of activities over the period in question.

(3 marks for each correctly stated stage. 2 marks for each correct and completely stated explanation. Sub-Total per stage: 5 marks. Grand Total: 20 marks)

(b) The financial rating derivatives are:

i) **AAA:** An insurer rated 'AAA' has extremely strong financial characteristics.
ii) **AA:** An insurer rated 'AA' has very strong financial security characteristics, differing only slightly from those rated higher.
iii) **A:** An insurer rated 'A' has strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.
iv) **BBB:** An insurer with this rating has good financial security characteristics, but is more likely to be affected by adverse business conditions than are higher rated insurers.
v) **BB:** An insurer so rated has marginal financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.
vi) **B:** This rating means that the insurer has weak financial security characteristics, and adverse business conditions will likely impair its ability to meet financial commitments.
vii) **CCC:** If an insurer is allocated this rating, it is considered to have very weak financial security characteristics and is dependent on favourable business conditions to meet financial commitments.
viii) **CC:** Here, the insurer is considered to have extremely weak financial security characteristics and is likely not to meet some of its financial commitments.
ix) **R:** An insurer rated 'R' has experienced a regulatory action regarding insolvency. This rating does not apply to insurers subject only to non-financial actions such as market conduct breaches.
x) **NR:** Such a rating means that the insurer has not been rated, which implies there is no opinion available about the insurer's financial security.

(1 mark for each correctly stated derivative. 1 mark for each correct and completely stated explanation. Sub-Total per derivative: 2 marks. Maximum of 7 to be graded. Grand Sub-Total: 14 marks)
(Grand Total: 34 marks)

11. (a) Prior to Year 2012, Companies operating in Nigeria prepared their Financial Statements, based on the Generally Accepted Accounting Principles (GAAP) issued by the Nigerian Accounting Standard Board. Subsequently, adoption of IFRS generated a fast departure from the status quo. Highlight and explain any six (6) key areas of such differences. **(18 marks)**

(b) Enumerate any four (4) benefits of the adoption of the International Financial Reporting Standard. **(16 marks)**

Solution

(a) The key areas of difference between GAAP and IFRS are:

i) **Fair Value Measurement**: IFRS promotes broader use of fair value measurement, particularly for financial instruments (IFRS 9) and investment property (IAS 40), and allows revaluation for Property, Plant, and Equipment (IAS 16). Previous Nigerian GAAP relied more heavily on historical cost. This shift can introduce more volatility into financial statements but aims to provide more relevant information.

ii) **Impairment Model for Financial Assets**: IFRS 9's forward-looking Expected Credit Loss (ECL) model is a significant departure from the incurred loss model previously used. This requires earlier recognition of potential credit losses based on future expectations, leading to more prudent provisioning.

iii) **Consolidation (IFRS 10, 11, 12)**: IFRS introduced a more principles-based definition of control for consolidation (IFRS 10), new guidance for joint arrangements (IFRS 11), and extensive disclosure requirements for interests in other entities (IFRS 12). These standards clarify when an entity must consolidate another, potentially changing the scope of consolidated financial statements compared to older local rules.

iv) **Leases (IFRS 16)**: As discussed in earlier, IFRS 16 effectively eliminated off-balance sheet financing for most leases from the lessee's perspective, recognising a Right-of-Use (ROU) asset and a lease liability. This was a significant change from IAS 17, under which many operating leases were not capitalised.

v) **Business Combinations (IFRS 3)**: The emphasis on fair valuing all identifiable assets (including intangibles like customer relationships in insurance) and liabilities at acquisition date, and the non-amortisation of goodwill (subject to impairment testing), marked a substantial shift from previous local practices that might have amortised goodwill over a period.

vi) **Insurance Contracts (IFRS 17)**: The most profound change for insurers, moving from various legacy accounting practices (often under IFRS 4) to a consistent current measurement model. This requires a complete re-evaluation of how insurance liabilities and revenue (via the Contractual Service Margin) are recognised.

vii) **Presentation of Profit or Loss and OCI (IAS 1)**: The introduction of Other Comprehensive Income (OCI) as a component of financial performance separate from profit or loss, and the specific items required to be presented within it (e.g., revaluation gains, certain actuarial gains/losses on defined benefit plans, fair value changes on FVOCI instruments), was a key change for financial statement presentation.

viii) **Reversals of Impairment**: IFRS generally allows for the reversal of impairment losses for most assets (excluding goodwill) if the conditions that caused the impairment no longer exist, up to the original carrying amount. Some older GAAPs did not permit such reversals or were more restrictive.

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

(b) The benefits of the adoption of the International Financial Reporting Standard are:

- **Enhanced Transparency and Comparability**: IFRS provides a common, high-quality accounting language that makes Nigerian financial statements more comparable with those from other IFRS-adopting countries.[14] This significantly aids cross-border investment analysis and reduces information asymmetry.
- **Improved Access to Capital**: Greater transparency builds confidence among international investors and lenders, potentially reducing the cost of capital for Nigerian

insurance companies seeking funding from global markets. This can lead to increased foreign direct investment into the sector.

- **Stronger Corporate Governance**: The rigor required by IFRS, particularly concerning disclosures and fair value measurements, often necessitates improved internal controls and more robust financial reporting systems. This contributes to better corporate governance practices within Nigerian insurers.
- **Facilitates M&A Activities**: A common accounting framework simplifies due diligence and valuation processes in cross-border mergers and acquisitions, fostering consolidation and growth within the industry.
- **Global Integration**: It positions the Nigerian financial sector as a more attractive and understandable market for global players, facilitating its integration into the global financial system.

(2 marks for each correctly stated benefit. 1 mark for each correct and completely stated explanation. Sub-Total per benefit: marks. Maximum mentioning, 3 marks for explanation of any 4 points)

12. Evergreen Insurance Limited was noted for success in the introduction of retail insurance products. Its track record was quite encouraging. The company was planning to introduce a new retail product called "Family Support" insurance policy, with strategic planning and due diligence, which revealed that:

- Projected selling price per policy is ₦5,000.00;
- Aggregate Direct expenses that vary with output is ₦3,000.00 per policy.
- Fixed Cost for the expected level of operations is ₦2,000,000.00.

(a) How many policies must Evergreen sell to break even. **(10 marks)**

(b) What profits or losses are made by Evergreen on the Family Support policy at the following level of sales? (i) 950 policies (ii) 1,350 policies; (iii) 2,450 policies **(16 marks)**

(c) With a simple Diagram of "Break-Even Analysis", show the following:
(i) Break Even Point; (ii) Region of Losses
(iii) Region of Profits; (iv) Safety Margin. **(8 marks)**

Solution

(a) Break Even Point = $\frac{Total\ Fixed\ Cost}{(Selling\ Price\ per\ Unit - Variable\ Cost\ per\ Unit)}$ or $\frac{Total\ Fixed\ Cost}{Contribution\ Margin\ Ratio}$ **(5 marks)**

$= \frac{2{,}000{,}000}{(5{,}000 - 3{,}000)}$ **(2 marks)**

$= \frac{2{,}000{,}000}{(2{,}000)}$ **(2 marks)**

= 1000 policies **(1 mark)**

(10 marks)

(b) Profit or Loss = Sales Revenue – Total Cost **(4 marks)**

(i) For 950 policies: $(5{,}000 \times 950) - ((3{,}000 \times 950) + 2{,}000{,}0000)$ **(3 marks)**

=₦100,000.00 loss. **(1 mark)**

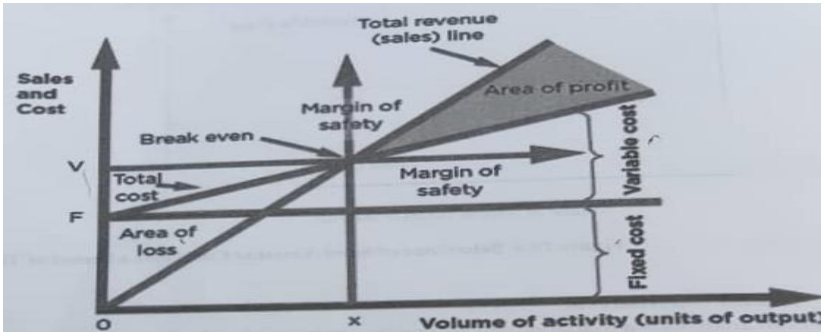
(ii) For 1,350 policies: (5,000 × 1350) – ((3,000 × 1350) + 2,000,0000) **(3 marks)**

=₦700,000.00 profit. **(1 mark)**

(iii) For 2,450 policies: (5,000 × 2450) – ((3,000 × 2450) + 2,000,0000) **(3 marks)**

=₦2,900,000.00 loss. **(1 mark)**

(c)



(2 marks for each correctly shown point as required. Sub-Total: 8 marks)
(Grand Total: 34 marks)

13. (a) Advise and explain the three (3) key or major points of interest of the Financial Ratios to an average stakeholder of the financials of an insurance company. **(15 marks)**

(b) Using a table, state any three (3) areas of difference between IFRS 4 and IFRS 17 with concise explanation of each difference under each term. **(15 marks)**

(c) Enumerate any two (2) types of budgeting that can be deployed for use in a forward looking organisation. **(4 marks)**

Solution

(a) The three key or major points of interest of the Financial Ratios to an average stakeholder of the financials of an insurance company are:

- **Security:** including solvency, liquidity, and capital adequacy, which are significantly impacted by how insurance liabilities are measured under IFRS 17 and how regulatory capital (e.g., NAICOM's requirements) aligns with accounting capital.
- **Profitability:** including management efficiency, underwriting performance (now represented by the "Insurance Service Result" under IFRS 17), value for money, dividends, and investment policy and yields.
- **Future Plans and Prospects:** This increasingly includes an insurer's strategy regarding Environmental, Social, and Governance (ESG) factors, as well as the sustainable generation of the Contractual Service Margin (CSM), which represents future unearned profits from insurance contracts under IFRS 17.

(3 marks for each correctly stated "point of interest". 2 marks for each correct and completely stated explanation. Sub-Total per "point of interest": 5 marks. Grand Sub-Total: 15 marks)

(b) Key Distinctions Between IFRS 17 & IFRS 4 are:

Area	**IFRS 4**	**IFRS 17**
Consistency	Allowed different methods	One consistent framework

Profit recognition	May allow upfront profit	Recognised over time via CSM
Transparency	Limited disclosures	Enhanced disclosures
Comparability	Low	High

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

(c) The types of budgeting that can be deployed for use in a forward looking organisation are:
* fixed; * flexible; * incremental; * zero-based.

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

14. (a) In spite of the seemingly flawless presentation of the trial balance of your company, Ajole Insurance Limited for the month of April 2026. As a current student member of CIIN, you are of the opinion that the trial balance may not be error-proof after all; enumerate and explain any (6) of the potential areas of such errors. **(24 marks)**

(b) Good Corporate Governance hinges upon the competence and integrity of directors and the Board members. Therefore, in selecting a director in an insurance organisation, some factors are required to be considered. Enumerate any five (5) of these factors. **(10 marks)**

Solution

(a) Even though the trial balance agrees arithmetically (meaning total debits equal total credits), errors may still be present within the book-keeping system. These errors are not revealed by the trial balance because they do not cause an imbalance. Such errors include one or more of the following:

i) **Errors of Commission:** Where the correct amount has been posted to the correct side (debit/credit) but in the wrong personal account (e.g., an invoice from supplier A is debited to supplier B's account).
ii) **Errors of Omission:** Where a transaction has been completely omitted from the books. Neither the debit nor the credit entry was made.
iii) **Errors of Principle:** Where the correct amount has been posted to the correct side but in the wrong class of account (e.g., purchase of furniture is debited to the purchases (expense) account instead of the furniture (asset) account).
iv) **Errors of Original Entry:** Where an incorrect amount has been posted to both the debit and credit side of the correct accounts (e.g., a cash sale of ₦5,000 was recorded as ₦500 in both cash and sales accounts).
v) **Reversed Entries:** Where debit entries have been credited and vice versa (e.g., cash received from a debtor was debited to the debtor's account and credited to the cash account).
vi) **Compensating Errors:** Where two or more errors cancel each other out, leading to a balanced trial balance (e.g., an over-debit in one account is exactly offset by an over-credit in another account).
vii) **Posting errors** where an entry in one record is incorrectly posted to another or is omitted completely.
viii) **Trial balance** entries where a balance is omitted or incorrectly extracted in preparing the trial balance
ix) **Addition errors** where figures are incorrectly added in a ledger account.

(2 marks for each correctly stated error type. 2 marks for each correct and completely stated explanation. Sub-Total per error: 4 marks. Maximum of 6 to be graded. Sub-Total: 24 marks)

(b) The factors required to be considered in selecting a director are:

i Relevance of the candidate's experience and knowledge in the insurance industry.

ii Record of diligence, integrity, willingness and ability to be independent and objective as well as to serve actively as a director.

iii Limited insider relationships and links with competitors.

iv Knowledge of relevant special issues related to insurance business, as well as environmental factors.

v Relevant training of the Board Members on issues pertaining to their oversight functions shall be put in place and implemented.

vi A track record of success in business with familiarity and experience in performing the role of a Board Member

vii Directors whose track records show a lack of competence in discharging their duties of directorship shall not be re-elected.

viii The Commission shall arrange relevant training on insurance principles and practice, directors' responsibilities and liabilities and update on the insurance market at periodic intervals, to which attendance by members of the Board shall be mandatory.

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

(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 2026 DIET CANDIDATES' INSTRUCTIONS.

CHARTERED INSURANCE INSTITUTE OF NIGERIA

A04- PRINCIPLES OF PROPERTY AND PECUNIARY 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 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.

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 which examined the candidates' knowledge of the principle of indemnity was well attempted, with about 98% of the candidates attempting it and an over 95% pass rate. This impressive performance demonstrated a strong understanding of the subject matter.

Question 2
The question focused on the conditions that must be satisfied before a valid property insurance claim can be admitted. It was well attempted by the majority of candidates, with a commendable level of performance recorded. The results suggested that candidates demonstrated a good understanding of the subject matter.

Question 3
The question examined candidates' knowledge of the common clauses found in property damage insurance policies. Majority of the candidates attempted the question, with a pass rate of 75% recorded. Although the overall performance was satisfactory, some candidates provided responses not related to the question. Candidates are advised to pay closer attention to the specific requirements of examination questions.

Question 4
The question focused on important underwriting factors considered during property risk assessment. It was straightforward and well understood by most candidates, with a pass rate exceeding 80%. This reflected a good understanding of the subject matter. Candidates are encouraged to broaden their knowledge through regular reading of relevant professional journals and industry publications.

Question 5
The question assessed candidates' knowledge of the functions of a Loss Adjuster in the settlement of property insurance claims. About 85% of the candidates attempted the question, with a pass rate of 90% of those who attempted it. This represented an excellent performance and demonstrated a strong understanding of the subject matter.

Question 6
The question focused on combined policy and was well attempted, with 95% of the candidates attempting it and about 90% pass rate. This commendable performance indicated a good understanding of the subject matter.

Question 7
The question assessed candidates' understanding of property covered under fidelity insurance. A total of 58 candidates attempted the question, with a 45% pass rate and a reported failure rate of 52%. This indicated a below-average performance, suggesting that some candidates experienced difficulty understanding or adequately addressing the requirements of the question.

Question 8
The question assessed candidates' knowledge of Engineering Insurance. Out of the 60 candidates that attempted the question, 67% passed, while 28% failed.

Question 9
The question was compulsory and was attempted by all candidates. About 70% scored more than 25 marks out of the 50 marks allocated. This indicated a satisfactory performance and demonstrated a reasonable understanding of the subject matter.

Question 10
The question comprised four parts and was attempted by over 70% of the candidates. About 75% of those who attempted it passed, indicating a good understanding and a satisfactory ability to address the various components of the question.

Question 11
The question recorded an attempt rate of 72.7%, with about a 56% pass rate. This reflected a slightly above average level of performance, indicating that while some candidates demonstrated an adequate understanding of the subject matter, there was room for improvement.

Question 12
The question was optional and was attempted by 25 candidates. About 48% passed, while 51% failed. This indicated a below-average performance, suggesting that many candidates experienced difficulty providing satisfactory responses.

Question 13
The question was attempted by 35 candidates, of whom 32 passed and three failed. This represented a pass rate of approximately 91.43%, demonstrating an excellent understanding of the subject matter among those who attempted the question.

Question 14
The question was attempted by 17 out of the 60 candidates registered for the examination. Of these, 15 passed, while two failed, representing a pass rate of approximately 88.24% among those who attempted it.

Comment(s) on Overall Performance:
The overall performance was generally commendable, with high pass rates recorded in several questions and an overall pass rate of 78%.

Suggestion(s) on Improvement(s):
Candidates are encouraged to maintain a consistent and comprehensive approach to examination preparation by studying the prescribed course materials and regularly consulting relevant professional journals and industry publications.

A04 – Principles of Property and Pecuniary Insurances

PART I

Answer ALL Questions

Each Question Carries Six (6) Marks

1. Explain the principle of indemnity and state two (2) reasons why it is fundamental to property insurance.

Solution

The principle of indemnity requires that, following an insured loss, the insured should be restored, as nearly as possible, to the same financial position occupied immediately before the loss, without making a profit from the occurrence of the loss.

The principle is fundamental to property insurance because:

i) it prevents the insured from profiting from insurance claims;
ii) it discourages moral hazard and deliberate destruction of insured property for financial gain;
iii) it ensures that insurance remains a contract of compensation rather than enrichment.

(3 marks for the correct definition and 1½ marks each for any correct and completely stated reason. Maximum of 2 to be graded. Grand total: 6 marks)

2. State any three (3) conditions that must be satisfied before a valid property insurance claim can be admitted.

Solution

The conditions that must be satisfied before a valid property insurance claim can be admitted are:

i) the loss or damage was caused by an insured peril;
ii) the loss occurred during the currency of the policy;
iii) the insured possessed an insurable interest in the property at the time of loss;
iv) the policy terms, conditions and warranties have been complied with.

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

3. State and explain any three (3) common clauses found in property damage insurance m policies.

Solution

The common clauses found in property damage insurance are:

i) **Reinstatement Clause** – provides that damaged property is reinstated or replaced instead of paying its depreciated value;
ii) **Removal of Debris Clause** – covers the reasonable cost of removing debris following an insured loss;
iii) **Escalation Clause** – automatically increases the sum insured to accommodate inflation during the policy period;
iv) **Temporary Removal Clause** – extends cover to insured property temporarily removed from the insured premises for repair or other approved purposes.

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

4. Explain three (3) important underwriting factors considered during property risk assessment.

Solution

The important underwriting factors considered during property risk assessment are:

i. **Construction of the Building** – Fire-resistant construction normally attracts lower premiums than combustible construction;
ii. **Occupancy** – The nature of the business conducted determines the degree of hazard presented;
iii. **Fire Protection** – Availability of fire extinguishers, sprinklers, alarms and hydrants reduces the probability and severity of losses;
iv. **Housekeeping Standards** – Good housekeeping reduces fire and theft hazards.

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

5. Enumerate any three (3) functions of a Loss Adjuster in the settlement of property insurance claims.

Solution

The functions of a Loss Adjuster in the settlement of property insurance claims are:
i. investigates the cause and circumstances of the loss;
ii. determines whether policy liability exists;
iii. measures the amount of indemnity payable;
iv. recommends appropriate settlement based on policy terms and conditions;
v. assists in fraud detection and claims negotiation where necessary.

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

6. Enumerate any four (4) advantages of a combined policy to an insured.

Solution

The advantages of advantages of a combined policy to an insured are:
i. the insured completes only **one proposal form** for several classes of insurance;
ii. the insured receives **one policy document** covering all insured risks;
iii. only **one premium** is payable, which may be lower than purchasing separate policies;
iv. there is **one renewal date**, making administration easier;
v. claims administration is simplified because all covers are handled under one policy.

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

7. State and explain any three (3) types of property covered under fidelity insurance.

Solution

Fidelity Insurance provides indemnity against losses arising from fraud or dishonesty of employees involving:
i) **Money:** cash or negotiable instruments belonging to the employer.
ii) **Stock:** goods held for sale or production that are fraudulently misappropriated.
iii) **Equipment and Machinery:** business equipment stolen or dishonestly converted by employees.
iv) **Work in Progress:** Materials or partially completed products dishonestly removed by employees.

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

8. (a) State any two (2) objectives/aims of engineering insurance. **(4 marks)**
(b) In engineering insurance, inspection is critically necessary, State any situation in which inspection is necessary in engineering insurance – whether before, during or after policy inception. **(2 marks)**

Solution

(a) The objectives/aims of engineering insurance are to:

i. provide indemnity against damage to plant and machinery arising from insured events;
ii. provide engineering inspection services to ensure machinery operates safely and complies with statutory requirements;
iii. protect the insured against legal liability arising from injury or property damage caused by insured engineering equipment;
iv. assist in preventing losses through periodic engineering inspections and recommendations.

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

(b) Inspection is necessary in engineering insurance – whether before, during or after policy inception as explained below:

i. before machinery is first put into operation to ensure safe installation;
ii. after relocation of machinery to a new site where operating conditions may differ;
iii. following extensive repairs or alterations to verify continued safe operation;
iv. where exceptional circumstances may affect safety, including accidental damage or deterioration.

(2 marks for each correct and complete situation. Sub-Total: 2 marks)
(Grand Total: 6 marks)

PART II

9. (a) (i) State the full name of the legal framework enacted by the Nigeria's National Assembly on the 31st day of July, 2025 to regulate insurance industry in Nigeria. **(2 marks)**

(ii) Enumerate any four (4) of the five Acts of Parliament that the legal framework in (a) above repealed. **(8 marks)**

(b) Grand Harvest Industries Limited is a medium-sized manufacturing company located in Ogun State. The company manufactures plastic household products and owns production buildings, warehouses, office blocks, machinery, raw materials and finished goods.

To protect its assets, the company purchased the following insurance policies from ABC Insurance Plc:

- Fire and Special Perils Insurance
- Burglary Insurance
- Machinery Breakdown Insurance
- Consequential Loss (Business Interruption) Insurance
- Money Insurance

Six months after inception of the policies, the following events occurred during a weekend:

- An electrical fault in the production section caused a major fire that destroyed part of the factory building, machinery and finished products.
- Firefighters extinguished the fire, but large quantities of water caused additional damage to raw materials stored nearby.
- During the confusion, unknown persons broke into the administrative office and stole cash kept in an unlocked drawer.

- Production activities ceased completely for four months while repairs were carried out, resulting in substantial loss of profit and continuing overhead expenses.
- Investigation also revealed that one of the damaged production machines had shown signs of mechanical defects several weeks before the fire, but management ignored maintenance recommendations.

The Managing Director has requested advice on the company's insurance protection and the likely response of its insurers.

(i) Identify any four (4) insurance policies that will respond to each of the losses suffered by Grand Harvest Industries Limited and justify your answers. **(20 marks)**

(ii) State and explain any three (3) insurance principles that will govern the settlement of the claims arising from the above incident. **(12 marks)**

(iii) Enumerate any four (4) duties of the insured immediately after the occurrence of the losses. **(8 marks)**

Solution

(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 Sub-Total: 10 marks)

(b) (i) The insurance policies that will respond to each of the losses suffered by Grand Harvest Industries Limited, with justification are:

- **Fire and Special Perils Insurance:** this policy will indemnify the insured for damage to the factory building, finished products and other insured property directly damaged by fire.
- **Fire Policy (Fire Brigade Damage Extension):** damage caused by water used in extinguishing the fire is regarded as part of the insured fire loss and is recoverable under the Fire Policy.
- **Machinery Breakdown Insurance:** if investigation establishes that the machinery suffered insured mechanical breakdown independent of fire, Machinery Breakdown Insurance may respond subject to the policy terms. Also, it is useful where the damage results solely from fire, the Fire Policy normally responds.
- **Consequential Loss (Business Interruption) Insurance:** This policy indemnifies the insured for (i) Loss of Gross Profit; (ii) Increased Cost of Working; (iii) Standing Charges during interruption of business.
- **Money Insurance**: The theft of cash from an unlocked drawer may **not** be recoverable because the insured failed to comply with policy conditions relating to safe custody of money.

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

(ii) The insurance principles that will govern the settlement of the claims arising from the above incident are:

(i) **Principle of Indemnity:** the insured will be restored to the financial position occupied immediately before the loss without making a profit.

(ii) **Proximate Cause:** the insurer determines whether fire was the dominant and effective cause of the losses.

(iii) **Contribution:** if two or more policies cover the same property against the same peril, each insurer contributes proportionately.

(iv) **Subrogation:** after indemnifying the insured, the insurer acquires the right to recover from any negligent third party responsible for the loss.

(2 marks for each correctly stated principle. 2 marks for each correct and completely stated explanation. Sub-Total per principle: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(iii**)** The duties of the insured immediately after the occurrence of the losses are:

i) notify the insurer without unnecessary delay;

ii) take all reasonable steps to minimise further loss or damage;

iii) preserve damaged property for inspection by the insurer or loss adjuster;

iv) notify the Police regarding the burglary and cooperate fully with investigations;

v) submit completed claim forms together with all supporting documents required by the insurer.

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

(Grand Total: 50 marks)

PART III

10. Crown Beverages Nigeria Limited is engaged in the manufacture of bottled soft drinks and fruit juices. The company owns factory buildings, warehouses, production machinery, raw materials, finished products and office facilities.

The company arranged the following insurance covers with Apex Insurance Plc:

- Fire and Special Perils Insurance
- Machinery Breakdown Insurance
- Consequential Loss (Business Interruption) Insurance

One night, an electrical fault developed inside one of the bottling machines. The machine caught fire and the fire spread rapidly to the production hall, destroying machinery, finished products and part of the factory building. Water used by the Fire Service to extinguish the fire also damaged raw materials stored in the adjoining warehouse. Production was suspended for five months while repairs were carried out, resulting in substantial loss of gross profit and continuing operating expenses.

During the investigation, it was discovered that the damaged bottling machine had shown signs of electrical defects several weeks before the incident, but management failed to carry out the recommended repairs.

As the Claims Manager of Apex Insurance Plc, you have been requested to advise the Insurer on the various claims arising from the incident.

(a) Identify any two (2) insurance policies that are likely to respond to each of the losses suffered by Crown Beverages Nigeria Limited and justify your answers.

(10 marks)

(b) State and discuss any three (3) insurance principles that will govern the settlement of the claims arising from the incident. **(12 marks)**

(c) State and discuss any two (2) important underwriting considerations that should have been assessed before accepting this risk. **(10 marks)**

(d) Recommend a practical risk management measures that can reduce the likelihood of similar losses in future. **(2 marks)**

Solution

(a) The insurance policies that are likely to respond to each of the losses suffered by Crown Beverages Nigeria Limited, with justification are:

(i) **Fire and Special Perils Insurance**

This policy will indemnify the insured for physical loss or damage to:

- the factory building;
- finished products;
- raw materials damaged by water used in extinguishing the fire;
- other insured property damaged directly by the fire.

Fire damage and damage caused by reasonable firefighting measures form part of the insured loss.

(ii) **Machinery Breakdown Insurance**

This policy may respond to the sudden and unforeseen mechanical or electrical damage to the bottling machine, provided the proximate cause falls within the Machinery Breakdown policy and all policy conditions have been complied with.

If the damage is solely attributable to the ensuing fire, the Fire Policy will normally respond to the fire damage.

(iii) **Consequential Loss (Business Interruption) Insurance**

The interruption of production resulting from the insured property damage may give rise to recovery for:

- loss of gross profit;
- increased cost of working;
- continuing standing charges,

subject to the indemnity period and policy conditions.

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

(b) The insurance principles that will govern the settlement of the claims arising from the above incident are:

(i) **Principle of Indemnity:** the insured is entitled to be restored, as nearly as possible, to the same financial position occupied immediately before the loss, without making a profit.

(ii) **Proximate Cause:** the insurer must determine the dominant and effective cause of the loss in deciding policy liability.

(iii) **Subrogation:** after indemnifying the insured, the insurer acquires the right to recover from any responsible third party where appropriate.

(iv) **Contribution:** where another policy provides concurrent cover for the same property and peril, each insurer contributes proportionately to the loss.

(2 marks for each correctly stated principle. 2 marks for each correct and completely stated explanation. Sub-Total per principle: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The important underwriting considerations that should have been assessed before accepting this risk:

(i) **Construction of the Building:** fire-resistant construction generally presents a lower hazard than combustible construction.
(ii) **Nature of Occupancy:** food and beverage manufacturing presents fire and machinery hazards associated with continuous production processes.
(iii) **Fire Protection Measures:** availability of automatic fire detection systems, extinguishers, hydrants and sprinkler systems reduces risk.
(iv) **Maintenance of Machinery:** regular inspection, preventive maintenance and servicing of production machinery reduce the probability of fire and machinery breakdown.

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

(d) The practical risk management measures that can reduce the likelihood of similar losses in future are:
(i) Implement a documented preventive maintenance programme for all production machinery and electrical installations.
(ii) Strengthen fire protection systems by conducting regular inspections, employee fire safety training and periodic emergency drills.

(2 marks for any correct and completely stated measure. Sub-Total: 2 marks)
(Grand Total: 34 marks)

11. Prime Textile Manufacturing Company Limited operates a large textile factory in Kano State. The company manufactures fabrics for both local and export markets. Its assets include factory buildings, warehouses, raw materials, finished goods, office equipment and production machinery.

The company arranged the following insurance policies with Reliable Insurance Plc:

- Fire and Special Perils Insurance
- Burglary Insurance
- Consequential Loss (Business Interruption) Insurance
- Money Insurance

One weekend, the following incidents occurred:

- Armed burglars gained entry into the administrative block by forcing open the main security door and stole computers, office equipment and cash kept in a locked safe.
- While the burglary was in progress, the intruders deliberately set fire to one section of the warehouse to conceal evidence.
- The fire destroyed finished textile products and severely damaged part of the warehouse.
- Production was suspended for three months while the damaged warehouse was reconstructed, resulting in loss of gross profit and continuing overhead expenses.
- During the claims' investigation, it was discovered that the warehouse stock records had not been updated for several weeks before the incident.

As the Claims Superintendent of Reliable Insurance Plc, you have been requested to advise the insurer on the claims arising from the incident.

(a) Identify any two (2) insurance policies that will respond to each of the losses suffered by Prime Textile Manufacturing Company Limited and justify your answers. **(10 marks)**

(b) Explain any three (3) documents and evidences that should be produced by the insured to support the various claims. **(12 marks)**

(c) Discuss any two (2) important claim settlement considerations that the insurer should evaluate before admitting liability. **(10 marks)**

(d) Recommend a practical loss prevention measures that can reduce similar losses in future. **(2 marks)**

Solution

(a) The insurance policies that are likely to respond to each of the losses suffered by Prime Textile Manufacturing Company Limited, with justification are:

(i) **Burglary Insurance**

The Burglary Policy will respond to the loss of office equipment and computers resulting from forcible and violent entry into the premises, subject to the policy terms and conditions.

(ii) **Money Insurance**

The Money Policy will indemnify the insured for the loss of cash stolen from the locked safe, provided the amount stolen falls within the policy limits and all security conditions have been complied with.

(iii) **Fire and Special Perils Insurance**

This policy will respond to the destruction of the warehouse and finished textile products caused by fire. The policy also covers damage directly resulting from the insured peril of fire.

(iv) **Consequential Loss (Business Interruption) Insurance**

The Business Interruption Policy will indemnify the insured for:

- Loss of Gross Profit;
- Increased Cost of Working;
- Standing Charges,

arising from interruption of the business following insured fire damage.

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

(b) The documents and evidences that should be produced by the insured to support the various claims are:

(i) **Completed Claim Form:** a properly completed claim form providing full details of the incident.

(ii) **Police Report:** evidence that the burglary and theft were officially reported to the Police.

(iii) **Inventory and Stock Record:** stock registers, inventory records and valuation schedules showing the quantity and value of damaged or stolen property.

(iv) **Purchase Invoices and Asset Register:** invoices, receipts and fixed asset records establishing ownership and value of the damaged or stolen property.

(v) **Financial Record:** trading accounts and financial statements required to assess the Business Interruption claim.

(2 marks for each correctly stated document/evidence. 2 marks for each correct and completely stated explanation. Sub-Total per document/evidence: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The important claim settlement considerations that the insurer should evaluate before admitting are:

(i) **Policy Validity:** that the policy was in force and premiums had been paid.

(ii) **Cause of Loss:** that the losses resulted from insured perils covered under the relevant policies.

(iii) **Compliance with Policy Conditions:** that the insured complied with warranties, conditions precedent and security requirements.

(iv) **Quantum of Loss:** that the value of the damaged or stolen property has been accurately established and supported by documentary evidence.

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

(d) The practical risk management measures that can reduce the likelihood of similar losses in future are:

(i) Install modern electronic security systems, including CCTV surveillance, intrusion alarms and access control systems.

(ii) Maintain accurate and up-to-date stock records and carry out regular inventory verification to facilitate claims assessment and reduce fraud.

(2 marks for any correct and completely stated measure. Sub-Total: 2 marks)
(Grand Total: 34 marks)

12. Golden Grain Flour Mills Limited is one of Nigeria's leading flour milling companies. The company owns production buildings, grain silos, milling machines, packaging equipment, cold storage facilities and finished product warehouses.

The company arranged the following insurance policies with Heritage Insurance Plc:

- Fire and Special Perils Insurance
- Machinery Breakdown Insurance
- Deterioration of Stock Insurance
- Consequential Loss (Business Interruption) Insurance

During the peak production season, the following events occurred:

- The main electrical motor driving the milling plant suddenly suffered a mechanical breakdown, bringing production to a complete halt.
- During the repair process, an electrical short circuit ignited a fire that damaged part of the production building and packaging section.
- The prolonged power interruption caused large quantities of flour additives and temperature-sensitive baking improvers stored in the cold room to deteriorate and become unfit for use.
- Production activities remained suspended for four months, resulting in significant loss of gross profit and continuing standing charges.
- Investigation revealed that the damaged motor had exceeded the manufacturer's recommended maintenance interval, despite repeated recommendations from the company's maintenance engineers.

As the Claims Manager of Heritage Insurance Plc, advise the insurer on the claims arising from the incident.

(a) Identify any three (3) insurance policies that are likely to respond to each of the losses suffered by Golden Grain Flour Mills Limited and justify your answers. **(12 marks)**

(b) State and explain any three (3) insurance principles that will govern the settlement of the claims arising from the incident. **(12 marks)**

(c) State and explain any two (2) underwriting considerations that should have been evaluated before accepting this risk. **(8 marks)**

(d) Recommend any practical risk management measures that can reduce the likelihood of similar losses in future. **(2 marks)**

Solution

(a) The insurance policies that are likely to respond to each of the losses suffered by

Golden Grain Flour Mills Limited, with justification are:

(i) **Machinery Breakdown Insurance:** the Machinery Breakdown Policy will indemnify the insured for sudden and unforeseen physical damage to the milling motor arising from mechanical or electrical breakdown, subject to the policy terms, conditions and exclusions.

(ii) **Fire and Special Perils Insurance:** the Fire and Special Perils Policy will indemnify the insured for damage to the production building, packaging section and other insured property destroyed by fire. The policy also covers damage resulting from reasonable fire-fighting measures.

(iii) **Deterioration of Stock Insurance:** the Deterioration of Stock Policy will respond to the loss of temperature-sensitive flour additives and baking improvers resulting from the interruption of refrigeration caused by the machinery breakdown or insured event, subject to the policy conditions.

(iv) **Consequential Loss (Business Interruption) Insurance:** this policy will indemnify the insured for:

- Loss of Gross Profit;
- Increased Cost of Working;
- Standing Charges,

(2 marks for each correctly stated policy. 2 marks for each correct and completely stated explanation. Sub-Total per policy: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The insurance principles that will govern the settlement of the claims arising from the incident are:

(i) **Indemnity:** the insured is entitled to recover only the amount necessary to restore it to the financial position occupied immediately before the loss occurred.

(ii) **Proximate Cause:** the insurer must determine the dominant and effective cause of each loss in deciding which policy is liable.

(iii) **Subrogation:** after indemnifying the insured, the insurer acquires the right to recover from any negligent third party responsible for the loss where applicable.

(iv) **Contribution:** where another policy provides concurrent cover for the same subject matter and peril, each insurer contributes proportionately.

(2 marks for each correctly stated principle. 2 marks for each correct and completely stated explanation. Sub-Total per principle: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The underwriting considerations that should have been evaluated before accepting this risk are:

(i) **Nature of Manufacturing Operations:** flour milling involves continuous mechanical operations with significant machinery, fire and business interruption exposures.

(ii) **Preventive Maintenance Programme:** the frequency and quality of machinery servicing and maintenance should be evaluated.

(iii) **Fire Protection Arrangements:** the adequacy of fire alarms, sprinklers, extinguishers and emergency response procedures should be considered.

(iv) **Cold Storage and Refrigeration Systems:** the reliability of refrigeration equipment, standby power supply and temperature monitoring systems should be assessed because deterioration of stock depends on continuous temperature control.

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

(d) The practical risk management measures that can reduce the likelihood of similar losses in future are to:

(i) introduce a comprehensive preventive maintenance programme covering all machinery, refrigeration equipment and electrical installations, with strict adherence to manufacturers' maintenance schedules.

(ii) install standby power generation, automatic temperature monitoring systems and fire detection equipment to minimise deterioration of stock and reduce fire losses.

(2 marks for any correct and completely stated measure. Sub-Total: 2 marks)

(Grand Total: 34 marks)

13. Excel Superstores Limited operates a chain of supermarkets across Nigeria, dealing in groceries, household appliances, electronics and consumer goods. The company owns several warehouses, regional distribution centres and retail outlets.

To safeguard its business, Excel Superstores Limited arranged the following insurance policies with Dominion Insurance Plc:

- Burglary Insurance
- Money Insurance
- Fidelity Guarantee Insurance
- Fire and Special Perils Insurance

Following the annual festive season, the company experienced the following incidents:

- During the close of business, armed robbers attacked one of the company's cash collection vehicles while transporting the day's sales from a branch to the bank and escaped with ₦38million.
- Investigation subsequently revealed that the Cash Supervisor had deliberately disclosed the collection route and movement schedule to the robbers in return for financial reward.
- Three days later, unknown persons forcibly entered one of the regional warehouses and stole electronics and household appliances valued at over ₦120million.
- In an attempt to destroy evidence, the burglars set fire to part of the warehouse, damaging additional stock and warehouse fittings.
- Police investigations confirmed the employee's involvement in the robbery and established that all policy premiums had been fully paid before the incidents occurred.

As the Claims Manager of Dominion Insurance Plc, you have been requested to advise the insurer on the claims arising from the various incidents.

(a) Identify any three (3) insurance policies that are likely to respond to each of the losses suffered by Excel Superstores Limited and justify your answers. **(12 marks)**

(b) State and explain any three (3) documents/evidences that should be produced by the insured in support of the various claims. **(12 marks)**

(c) Discuss any four (4) underwriting considerations that should be applied before accepting the risk. **(8 marks)**

(d) Recommend any practical loss prevention measures that Excel Superstores Limited should implement to minimise similar losses in future. **(2 marks)**

Solution

(a) The insurance policies that are likely to respond to each of the losses suffered by Excel Superstores Limited, with justification, are:

(i) **Money Insurance:** the Money Insurance Policy will respond to the loss of cash stolen while in transit to the bank, provided the circumstances fall within the scope of the policy and the limits of indemnity have not been exceeded.

(ii) **Fidelity Guarantee Insurance:** the financial loss arising from the dishonest act of the Cash Supervisor is recoverable under the Fidelity Guarantee Policy because the employee deliberately acted fraudulently in the course of employment, subject to policy terms and discovery conditions.

(iii) **Burglary Insurance:** the Burglary Policy will indemnify the insured for the loss of electronics and household appliances stolen following forcible and violent entry into the warehouse.

(iv) **Fire and Special Perils Insurance:** the Fire and Special Perils Policy will respond to the fire damage to the warehouse structure, warehouse fittings and stock destroyed by the fire intentionally set by the burglars.

(2 marks for each correctly stated policy. 2 marks for each correct and completely stated explanation. Sub-Total per policy: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The documents/evidences that should be produced by the insured in support of the various claims are:

(i) **Completed Claim Forms:** completed claim forms for each class of insurance involved.

(ii) **Police Investigation Report:** the official Police report confirming the robbery, burglary, employee fraud and fire incidents.

(iii) **Inventory and Stock Record:** warehouse inventory records, stock registers and valuation schedules showing the quantity and value of the stolen and damaged goods.

(iv) **Cash Records and Accounting Documents: c**ash books, daily cash summaries, bank deposit schedules and reconciliation statements establishing the amount of money stolen.

(v) **Purchase Invoices and Asset Registers:** invoices, receipts and asset registers proving ownership and value of the damaged or stolen property.

(2 marks for each correctly stated document/evidence. 2 marks for each correct and completely stated explanation. Sub-Total per document/evidence: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The underwriting considerations that should be applied before accepting the risk are:

(i) **Cash Handling Procedures:** the adequacy of procedures for collecting, transporting and banking cash, including dual control arrangements.

(ii) **Physical Security Measures:** the effectiveness of vaults, safes, burglar alarms, CCTV surveillance systems, perimeter fencing and security guards.

(iii) **Internal Control Systems:** the strength of internal controls, staff supervision, segregation of duties and audit procedures to reduce employee dishonesty.

(iv) **Previous Claims History:** the frequency and severity of previous robbery, burglary and fidelity claims experienced by the insured.

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

(d) The practical risk management measures that can reduce the likelihood of similar losses in future are to:

(i) strengthen internal control systems through staff rotation, mandatory annual leave, segregation of duties and regular internal audits to reduce opportunities for employee fraud.

(ii) enhance physical security by using armoured cash-in-transit vehicles, GPS tracking, CCTV surveillance, electronic access control systems and professionally trained security personnel.

(2 marks for any correct and completely stated measure. Sub-Total: 2 marks)
(Grand Total: 34 marks)

14. Oceanic Petrochemical Industries Limited is a manufacturer of industrial chemicals and petroleum-based products. The company owns production plants, storage tanks, warehouses, laboratories, administrative offices and specialised processing equipment.

To safeguard its assets and business operations, the company arranged the following insurance policies with Summit Insurance Plc:

- Fire and Special Perils Insurance
- Machinery Breakdown Insurance
- Consequential Loss (Business Interruption) Insurance
- Contractors' Plant and Machinery Insurance

During the annual maintenance shutdown, the following incidents occurred:

- While carrying out maintenance on one of the production lines, a hydraulic crane used to remove a reactor vessel suddenly overturned due to ground instability, extensively damaging the crane and the reactor vessel.
- During the recovery operation, a welding spark ignited flammable vapours within the processing area, causing a major fire that destroyed part of the production plant, warehouses and finished products awaiting distribution.
- Production was suspended for six months while repairs and replacement of equipment were undertaken, resulting in substantial loss of gross profit and continuing standing charges.
- Investigation revealed that the crane operator was properly certified, but the crane had not undergone its scheduled engineering inspection before being deployed.
- It was also established that combustible materials had been stored too close to the maintenance area contrary to the company's own safety procedures.

As the Claims Manager of Summit Insurance Plc, you have been requested to advise the insurer on the various claims arising from the incident.

(a) Identify any three (3) insurance policies that are likely to respond to each of the losses suffered by Oceanic Petrochemical Industries Limited and justify your answers. **(12 marks)**

(b) State and explain any three (3) insurance principles that will govern the settlement of the various claims arising from the incident. **(12 marks)**

(c) Discuss any two (2) underwriting considerations that the insurer should evaluate before accepting the risk. **(8 marks)**

(d) Recommend a practical loss prevention and risk management measure that can be implemented to reduce similar losses in future. **(2 marks)**

Solution

(a) The insurance policies that are likely to respond to each of the losses suffered by Oceanic Petrochemical Industries Limited, with justification are:

(i) **Fire and Special Perils Insurance:** will indemnify the insured for physical loss or damage to the production plant, warehouses, buildings and finished products resulting directly from the fire.

(ii) **Contractors' Plant and Machinery Insurance:** will indemnify the insured for accidental physical loss or damage to the hydraulic crane arising during its operation, subject to the terms and conditions of the policy.

(iii) **Machinery Breakdown Insurance:** where the reactor vessel or associated machinery suffers accidental mechanical damage covered under the Machinery Breakdown Policy, indemnity may be provided, subject to the applicable policy conditions and exclusions.

(iv) **Consequential Loss (Business Interruption) Insurance:** will indemnify the insured for:

- Loss of Gross Profit;
- Increased Cost of Working;
- Continuing Standing Charges;

resulting from interruption of business following insured physical damage. **(3 marks)**

(2 marks for each correctly stated policy. 2 marks for each correct and completely stated explanation. Sub-Total per policy: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The documents and evidence that should be produced by the insured to support the various claims are:

(i) **Indemnity:** the insured is entitled only to compensation sufficient to restore it to substantially the same financial position occupied immediately before the occurrence of the loss.

(ii) **Proximate Cause:** the insurer must determine the dominant, effective and nearest cause of each category of loss before deciding liability.

(iii) **Subrogation:** upon settlement of the claim, the insurer acquires the legal right to recover from any negligent third party responsible for the loss where appropriate.

(iv) **Contribution:** where another insurer also covers the same subject matter against the same peril, liability is shared proportionately.

(2 marks for each correctly stated principle. 2 marks for each correct and completely stated explanation. Sub-Total per principle: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The important underwriting considerations that the insurer should evaluate before accepting the risk are:

(i) **Nature of Industrial Operations:** petrochemical manufacturing involves high fire, explosion and machinery hazards requiring careful assessment.

(ii) **Construction and Fire Protection:** the construction of the buildings, fire-resistant materials, sprinkler systems, hydrants, extinguishers and automatic fire detection systems should be evaluated.

(iii) **Inspection and Maintenance Programme:** the adequacy of preventive maintenance, statutory engineering inspections and servicing schedules for machinery and lifting equipment should be assessed.

(iv) **Housekeeping and Hazard Control:** storage of combustible materials, compliance with hot-work permit procedures and adherence to safety regulations should be evaluated.

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

(d) The practical loss prevention and risk management measure that can be implemented to reduce similar losses in future are to:

(i) implement a comprehensive preventive maintenance and statutory inspection programme for all cranes, lifting equipment, pressure vessels and production machinery, ensuring that inspection certificates remain current.

(ii) strengthen fire safety management through strict hot-work permit procedures, proper storage of combustible materials, routine fire drills and regular inspection of fire protection systems.

(2 marks for any correct and completely stated measure. Sub-Total: 2 marks)

(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 2026 DIET EXAMINATION PAPER

SUBJECT A05

LIFE ASSURANCE

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

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

FAILURE TO ADHERE TO INSTRUCTIONS (WRITTEN AND VERBAL) WILL ATTRACT STATED SANCTIONS AS STATED IN THE OCTOBER 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

The question assessed candidates' knowledge of the benefits provided by the social security system. All candidates attempted the question, with a pass rate of 65.3%. Although the performance was above average, there is room for improvement. Candidates are advised to study their coursebook thoroughly for future examinations.

Question 2

The question assessed candidates' knowledge of circumstances in which evidence of health may not be required for Group Life Assurance cover. Almost all candidates attempted the question, with approximately 50% achieving a pass mark. The average performance suggested that some candidates did not adequately understand the concept. Candidates are encouraged to devote more attention to this aspect of the syllabus.

Question 3

The question assessed candidates' understanding of the circumstances under which ownership of a life assurance policy may be transferred or changed. Almost all candidates attempted the question, recording a pass rate of 66.9%.

Question 4

The question examined candidates' knowledge of the provisions contained in a life assurance trust deed. Almost all candidates attempted the question, but only 37.7% achieved a pass mark. This below-average performance indicates an inadequate understanding of the provisions, possibly due to insufficient preparation. Candidates are encouraged to pay greater attention to this aspect of the syllabus.

Question 5

The question assessed candidates' knowledge of two methods of reinsurance. Of the candidates who attempted the question, only 21, representing 16.15%, obtained a pass mark. This performance was unsatisfactory and suggested a significant knowledge gap in this area. Candidates are advised to ensure comprehensive coverage of the syllabus when preparing for future examinations.

Question 6

The question assessed candidates' knowledge of the various types of life assurance policies and the information contained in an endorsement letter at maturity. The performance was highly commendable, with 93.8% of candidates achieving a pass mark and only eight candidates failing. This impressive result suggested that candidates were familiar with the topic and had adequately prepared for this aspect of the examination.

Question 7

The question examined candidates' knowledge of assets on which chargeable gains or allowable losses may arise. All candidates attempted the question, recording a pass rate of 55.4%. The performance was slightly above average. Candidates are encouraged to improve their knowledge of the relevant taxation principles to achieve better results in future examinations.

Question 8

The question assessed candidates' knowledge of the various applications of computer systems in life assurance claims administration. All candidates attempted the question, achieving an outstanding pass rate of 100%. This excellent performance demonstrated a strong understanding of the subject matter.

Question 9
This compulsory question assessed candidates' knowledge of the National Insurance Commission (NAICOM) Prudential Guidelines and the application of ethical principles to society, business and insurance practice. All candidates attempted the question, recording an impressive pass rate of 93%.

Question 10
The question assessed candidates' understanding of fundamental terms used in life assurance contracts and the disclosure of material facts. Although the question attracted a high level of participation, only 44.7% of candidates achieved a pass mark. Candidates are advised to ensure that they cover every aspect of the syllabus while preparing for their examinations.

Question 11
The question assessed candidates' understanding of fundamental terms used in life assurance contracts and the disclosure of material facts. Although the question attracted a high level of participation, only 44.7% of candidates achieved a pass mark.

Question 12
The question assessed candidates' knowledge of the three main players in the reinsurance market, two types of reinsurance and the provisions of the Suicide Act 1961. Only 44% of candidates who attempted the question achieved a pass mark. This performance was below expectations and this suggested inadequate understanding of the relevant concepts.

Question 13
The question assessed candidates' knowledge of the three main players in the reinsurance market, two types of reinsurance and the provisions of the Suicide Act 1961. Only 44% of candidates who attempted the question achieved a pass mark. Candidates are advised to intensify their preparation and ensure adequate coverage of these topics in future examinations.

Question 14
The question examined candidates' knowledge of total income for taxation purposes and the principal deductions allowable in tax computations. Only 53.3% of candidates who attempted the question obtained a pass mark. The question also recorded a relatively low attempt rate, suggesting that many candidates may not have been sufficiently familiar with this aspect of the syllabus.

Comment(s) on Overall Performance
The overall performance of candidates was encouraging, with 78% pass rate recorded. Candidates are advised to achieve more consistent and improved performance in future examinations.

Suggestion(s) for Improvement
Candidates are advised to undertake a thorough study of all topics covered in the prescribed coursebook and examination syllabus. Particular attention should be given to areas in which performance was relatively poor.

A05 – Life Assurance

1. In any country, the social security system provides benefits in times of need, much like insurance. List any four (4) of those benefits.

Solution

The social security system does provide the following benefits in times of need, much like insurance:

* retirement pension; * statutory sick pay; * incapacity benefit;
* bereavement allowance; * bereavement payment;
* widowed parent's allowance.

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

2. In practice, cover may be provided without evidence of health in Group Life Assurance. State any four (4) instances in which evidence of health may however be required.

Solution

The instances in which evidence of health may however be required in Group Life Assurance cover are where there is/are:

- a stated minimum percentage of those eligible joins the scheme at its inception, the percentage varying according to the number of lives eligible (e.g. at least 75% of 100 eligible employees);
- groups of advanced ages;
- individuals for whom an exceptionally high sum assured, that is perhaps disproportionate to the others, is required;
- individual employees are actually at work on the day when they become eligible for membership; or all lives are physically and mentally capable of working, which would also cover those on annual leave;
- individuals who were ill when the scheme started but who now want to join;
- all individuals where the group is small, e.g. less than 20.

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

3. Once a life policy has been issued, its ownership can be changed in number of ways. Enumerate and explain any three (3) ways in which ownership of life policy can be changed.

Solution

The ways in which ownership of life policy can be changed are through:

* absolute assignment; * mortgage; * trust; * bankruptcy.

(Candidates are required to explain how the stated way can change the ownership. 1 mark for each correctly stated way. 1 mark for each correct and completely stated explanation. Sub-total per way: 2 marks. Maximum of 3 to be graded. Grand Total: 6 marks)

4. If trust includes life assurance policy, the trust deed will often include some provisions. Enumerate any four (4) of such provisions.

Solution

The provisions that a trust deed on a life assurance policy will include are:

- a covenant by the settlor to pay premiums;
- a covenant by the settlor to restore the policy if it becomes void;
- a covenant by the settlor to revive, or effect, a new policy if the original policy lapses;
- a power for the trustees to pay premiums out of the trust property;

- a power for the trustees to borrow to pay premiums;
- powers for the trustees to surrender the policy, to convert it, or to exercise any option in it;
- a wide power for the trustees to deal with the policy in any manner they think fit.

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

5. Reassurance can generally be provided by two different methods. Enumerate and explain these two (2) methods.

Solution

Reassurance can be provided by two different methods, which are: original terms or risk premium.

- **Original Terms Reassurance:** the reassurance of a proportion of the original sum assured can be accepted on whatever terms are agreed by the offices concerned. However, it is usual for the reassurance to be effected at the same rate of premium and subject to the same policy conditions as those of the principal office, hence the expression 'original terms' reassurance. Most original terms reassurance is term assurance. The reassurer is liable for a proportion of the original policy throughout its duration and pays its due share of any claim or surrender value. Under a with-profits contract, the reassurer follows the rate of bonus declared by the principal office, although with-profits business is not usually now reassured on an original terms basis.
- **Risk Premium Reassurance:** under the level premium system, a reserve builds up under a policy year by year. The death strain, which is the difference between the sum assured and the reserve, thus reduces each year. Under a risk premium reassurance, it is the death strain which is reassured and not a fixed proportion of the original sum assured.

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

6. (a) Enumerate the three (3) basic types of life assurance policy.
   (b) When an endowment policy matures, it becomes the subject of a maturity claim. This is usually initiated by the life office writing to the policyholder a month or two before the maturity date. Enumerate any three (3) main items that the letter will contain.

Solution

(a) The three basic types of life assurance policy:
* term assurance; * whole life assurance; * endowment assurance.

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

(b) The main items that the letter will contain are:
- remind the policyholder of the maturity date;
- state the amount payable;
- list the requirements for payment;
- enclose the relevant form of discharge.

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

7. There are many exemptions from the tax, inclusive of some insurance policies. Enumerate any six (6) most important assets on which no chargeable gain or allowable loss can be made.

Solution
There are many exemptions from tax. The most important exempt assets, on which no chargeable gain or allowable loss can be made, are:

- private motor vehicles;
- an individual's principal private residence;
- National Savings certificates and premium bonds;
- cashbacks given by providers of goods or services as an inducement to purchase those goods or services, e.g. by mortgage lenders;
- Government or Government-guaranteed securities held by individuals;
- most life policies;
- tangible movable property if the value at disposal does not exceed £6,000;
- Politically Exposed Persons (PEP)s
- Individual Savings Accounts (ISA)s.

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

8. Enumerate any six (6) ways in which computer systems are used in life assurance claims administration.

Solution
Computer systems are used in life assurance claims administration to:

- produce and issue letters on death claims and issue cheques in settlement;
- calculate surrender values and issue letters and cheques when required;
- process policy loan applications, including calculating loan values and issuing cheques;
- pay regular withdrawals under unit-linked policies;
- pay regular instalments of capital under family income benefit policies;
- pay annuity instalments to policyholders' bank accounts;
- pay monthly benefit Income Protection Insurance (IPI) claims;
- produce death claims and IPI claims statistics to aid underwriters and actuaries.
- produce and issue key features documents, particularly those parts setting out client specific details;
- produce and issue "Reason Why letters";
- produce and issue "Execution Only Confirmations".

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

PART II

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) Explain, in two (2) clear sentences, the term "ethics" in relation to: (i) society; (ii) business; (iii) insurance practice. **(15 marks)**
   (c) There are a number of practices which are unethical. Some are explicitly prohibited by the rules, others are prohibited by implications. List and explain any two (2) unethical practices in life assurance operations. **(10 marks)**
   (d) Enumerate any three (3) ways by which ethical behavior by insurance professionals contributes to consumer confidence and industry reputation. **(15 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) (i) Ethics in Society: the word 'ethics' literally means the science of morals or rules of conduct generally. Human societies need moral principles in order for people to live together harmoniously. All societies have laws governing human conduct but more is needed for people to be happy and businesses to be run for the general good of the people as a whole. Laws can be precise and thus it is usually easy to separate what is legal and what is not legal. However, it is not the same with ethics. Ethics is more a matter of guiding principles than strict laws. It might even be said to reside in a person's conscience rather than on paper. There is much room for doubt as to what is ethical and what is not. What one person regards as unethical another may not. For example, virtually everyone would agree that stealing from an individual is wrong. However, there are a number of people today who do not seem to think it is wrong to effectively steal from a 'faceless' institution with lots of money, by exaggerating an insurance claim to recover more than is due.

(ii) Ethics in Business: business has not been immune from this decline in morality. This is not surprising as all businesses are made up of individuals and so business morality can only reflect morality in general. All businesses these days have a huge amount of laws with which they must comply. Life assurance businesses in most countries also have bulky rulebooks they must adhere to. However, that is not all there is to it. For the general good there is also a need for businesses to conduct themselves ethically. In this connection, the Chairman of the Bank of Montreal has said: Ethics in a business context means more than just remaining within the law; everything which is legal is not necessarily ethical. The business which hopes to earn the trust of the public must aim for higher standards than this. We must ensure, therefore, that ethical principles and concern for the well-being of our customers, employees and shareholders, as well as of the public, are integral components of every business relationship.

(iii) Ethics in Insurance Practice: insurance companies and intermediaries have to be businesslike and competitive to survive. There is nothing unethical about that. A life office cannot continue to provide protection for its customers if it fails through being inefficient or uncompetitive. There is nothing unethical about sticking to the terms of a contract. If a company declines to pay a claim that is not truly valid, it might be criticised in the press and some members of the public might think: 'That is harsh and unfair, I will not insure with them'. On the other hand, others might think: 'Quite right, why should he get money he is not entitled to. That company carefully looks after the premiums paid by its honest customers so I will insure with them.' Paying claims which are not due might also be detrimental to the interests of shareholders and with profit policyholders. **Integrity and transparency** are crucial in building trust with customers and maintaining the ethical reputation of the insurance company. Clients rely on honest information to make informed decisions, and transparency ensures that all terms, fees, and conditions are clear, reducing the potential for conflicts and legal issues. **Ethical behavior** fosters trust between

insurance professionals and clients. When professionals act ethically, they demonstrate respect for clients' needs and rights, which enhances consumer confidence. A reputation for ethical practices attracts clients, promotes loyalty, and contributes to a positive industry image. **Misrepresentation** in insurance refers to providing false or misleading information about a policy or its terms. It is unethical because it deceives clients, preventing them from making informed decisions. It can also be illegal if it violates regulatory laws and leads to financial harm or legal consequences.

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

(c) Unethical Practices in life assurance operations are:

- **Over-Charging:** if a client is to be charged a fee, this should be explained in advance, so that the client knows the cost of the services provided. This applies particularly to mortgage arrangement fees if they are charged only if a life policy is not effected via the mortgage broker. There is nothing wrong with this, provided the client has signed an agreement to this effect and understands the matter. Any agreement which says that a mortgage fee becomes payable if a life policy is cancelled in the first few years must not fetter the client's rights under the cancellation rules.
- **Overselling:** selling more insurance than the client really needs.
- **Buy Now Whilst Stocks Last:** selling something that is not really suitable, simply because it will be withdrawn in the near future.

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

(c) The ways by which ethical behavior by insurance professionals contributes to consumer confidence and industry reputation are that:

i) ethical behavior foster trust between insurance professionals and the clients;
ii) when professionals act ethically, they demonstrate respect for clients' needs and rights, which enhances consumer confidence;
iii) a reputation for ethical practices attracts clients;
iv) it promotes loyalty;
v) it contributes to a positive industry image.

(5 marks for each correct and completely stated way. Maximum of 3 to be graded. Sub-Total: 15 marks) (Grand Total: 50 marks)

PART III

10. (a) Define the following terms in relation to life assurance practice.
(i) life assured; (ii) assured; (iii) life office;
(iv) sum assured; (v) premium; (vi) underwriting;
(vii) proposer. **(14 marks)**

(b) The proposer must disclose all material facts known by the proposer to the insurer as required by the requisite regulation. Enumerate and explain any four (4) material information which insurer must include in its proposal form for the proposer to disclose while prospecting for life insurance business. **(14 marks)**

(c) Clearly state any three (3) groups of facts that the proposer has no duty to disclose while entering into a life assurance contract. **(6 marks)**

Solution

(a) (i) **Life Assured:** The person on whose life the policy depends.

(ii) **Assured:** The original owner of the policy, who will receive the benefits of it. Often also called the 'insured'.

(iii) **Life Office:** The insurer issuing the policy.

(iv) **Sum Assured:** The amount payable on a claim, whether by death or maturity.

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

(vi) **Underwriting:** The process of deciding whether to accept a life risk and what premium to charge.

(vii) **Proposer:** A person who applies for a life policy.

(2 marks for each correct and correctly explained term. Sub-Total: 14marks)

(b) The material information which the insurer must include in its proposal form for the proposer to disclose while prospecting for life insurance business are:

i) drawing attention to the consequences of failure to disclose all material facts and explaining that these are facts that an insurer would regard as likely to influence the assessment and acceptance of a proposal;
ii) warning that if the signatory is in any doubt about whether certain facts are material, these facts should be disclosed;
iii) stating that neither the proposal nor the policy shall contain any provision converting the statements as to past or present fact in the proposal form into warranties, except where the warranty relates to a statement of fact concerning the life to be assured under a life of another policy. Insurers may, however, require specific warranties about matters which are material to the risk.
iv) those matters which insurers have commonly found to be material should be the subject of clear questions in proposal forms.
v) insurers should avoid asking questions which would require knowledge beyond that which the signatory could reasonably be expected to possess.
vi) the proposal form or a supporting document should include a statement that a copy of the policy form or of the policy conditions is available on request.
vii) the proposal form or a supporting document should include a statement that a copy of the completed proposal form is available on request.

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

(c) The groups of facts that the proposer has no duty to disclose while entering into a life assurance contract are:

- facts which the insurer already knows;
- facts which the insurer ought to know;
- facts about which the insurer waives information;
- facts possible of discovery, where enough information has been given to provoke enquiry by the insurer;
- facts which lessen the risk.

(2 marks for each correct point stated. maximum of 3 to be graded. Sub-Total: 6 marks)
(Grand Total: 34 marks)

11. (a) Most life offices offer a variety of funds to which a policy can be linked. Enumerate and explain any five (5) of such funds. **(10 marks)**

(b) Adopting global best practices for managing unit-linked funds is essential. It sets out how insurers should manage their unit-linked funds. List and explain any six (6) of those best practices. **(24 marks)**

Solution

Most life offices offer a variety of funds to which a policy can be linked. The most usual funds are as follows:

- **Equity (or Ordinary Share) Fund:** Invested in ordinary shares quoted on the Stock Exchange.
- **Fixed Interest (or Gilt) Fund:** Invested in securities which carry a fixed rate of interest, normally government securities and local authority issues.
- **Property Fund:** Invested in real property, usually commercial and industrial premises. As a result of the high capital cost of a single building, this fund will invest in other media while it builds up enough capital to purchase a further building.
- **International Fund:** Assets abroad, usually shares on foreign stock markets.
- **Cash Fund:** Short-term money markets such as bank deposits and Treasury bills, usually to provide a temporary refuge for the investor who requires a high degree of security.
- **Index-Linked Gilt Fund:** Government index-linked securities.
- **Building Society Fund:** Building Society deposits.

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

(b) The global best practices for managing unit-linked funds are:

- policy conditions should explain how funds are managed;
- where discretion is exercised, the primary requirement is treating customers fairly;
- unit prices should be calculated in a fair and transparent manner;
- the pricing basis of the fund must be kept under regular review to protect continuing policyholders;
- transactions should be processed and settled in a timely manner;
- rounding should be kept to a minimum and should not normally exceed 0.5% of the unit price;
- all charges should be clearly defined and disclosed to policyholders;
- errors should be quickly identified and rectified.
- Significant or persistent pricing errors (0.5% or greater) should be reported to the Regulator.

(3 marks for each correct and completely stated practice. Maximum of 6 to be graded. Sub-Total: 24 marks. (Ground Total: 34 marks)

12. (a) Policy documents usually consist of pre-printed terms and conditions which are consistently applied to all contracts of that particular type, together with a personalised policy schedule, which is often computer produced and which also usually bear a copy of the signature of one of the directors of the life office. List and explain any five (5) sections in a life assurance policy document. **(20 marks)**

(b) (i) Define the term "trustee" in relation to life assurance contract? **(2 marks)**

(ii) Under the Trustee Act in Nigeria, a trustee can be appointed to replace another trustee under some certain circumstances. List any four (4) of such circumstances. **(12 marks)**

Solution

(a) Policy documents usually consist of pre-printed terms and conditions applied to all contracts of that type, along with a personalized policy schedule. They usually contain the following sections:

- **Heading:** Includes the type of policy, name of assured, and policy number.
- **Preamble:** Explains the purpose of the document and defines the parts of the policy that constitute the entire contract.
- **Operative Clause:** States that the benefit will be payable by the life office subject to payment of premiums, proof of claim, and proof of ownership.
- **Schedule:** Contains individual details for the contract, such as policy number, life assured, sum assured, and fund selected.
- **Conditions:** Detailed terms relating to that type of policy, including unit allocation/valuation procedures, surrender provisions, and charging structures.
- **Standard Exclusions:** Includes events such as suicide, intentional self-inflicted injury, HIV/AIDS, war, and criminal acts.
- **Definitions:** Provided for terms like life assured, sum assured, bid price, offer price and valuation date.

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

(b) (ii) A trustee is the owner at law of the trust property although bound to use it for the benefit of the beneficiaries. **(2 marks)**

(ii) Under the Trustee Act in Nigeria, a new trustee can be appointed to replace a trustee who is:

* dead; * remains out of Nigeria for more than a year;
* desires to be discharged; * refuses to act; * is an infant;
* is unfit or incapable of acting (e.g. has become bankrupt or insane),

(3 marks for each correctly stated circumstance. Maximum of 4 to be graded. Sub-Total: 12 marks)
(Grand Total: 34 marks)

13. (a) (i) The market place for reassurance, no matter where it is bought or sold, is very much the same. Outline the three (3) main players in the reassurance market place and provide any two (2) examples under each group of main players. **(15 marks)**

(ii) If an office needs to reassure a risk, there are two ways in which this can be accomplished. Enumerate and explain the two (2) types of reassurance of life assurance risks. **(10 marks)**

(b) In practice, special consideration is usually given to claims where it appears that the cause of death is suicide. Before the Suicide Act 1961, suicide committed voluntarily by a person of sound mind was a crime. After then, the application of the Act is governed by some principles. State and explain any three (3) of these distinct principles/ways in relation to life assurance contract. **(9 marks)**

Solution

(a) (i) The Reassurance Market Place consist of:

(i) **Buyers:** Direct Insurers; Captive Insurers; Lloyd's Syndicates; Reinsurers.
(ii) **Intermediaries:** Reinsurance Brokers; Management Companies.
(iii) **Sellers:** Reinsurers; Direct Insurers; Lloyd's Syndicates; Pools.

(3 mark for each correctly stated main group. 1 mark for each correctly stated example. Maximum of 2 to be graded under each group. Sub-Total for each group: 5 marks. Sub-Total: 15 marks)

(ii) If an office needs to reassure a risk, there are two ways in which this can be done and these are:

- **Facultative Reassurance:** under this system, each risk is dealt with individually. The principal office makes a proposal to the guaranteeing office, which it is free to accept or reject. The guaranteeing office will prepare a guarantee which will be held by the principal office as evidence of the contract. This method has been used for a long time, but does have some disadvantages. The offering of individual risks is time-consuming and expensive. This is especially so where a life is to be reassured with a number of guaranteeing offices. Copies of the medical evidence and other relevant details will need to be shown to each reassure. In addition, the principal office cannot confirm acceptance to the proposer until it has received acceptances from all its reassurers.
- **Treaty Reassurance:** under a reassurance treaty, the element of discretion is removed. With a fully automatic treaty, all amounts over the retention limit of the principal office up to a specified maximum figure must be offered to, and be accepted by, the reassured. Any excess over the treaty's maximum limit would have to be reassured facultatively. A variation of this is the facultative/obligatory treaty. Under this arrangement, the principal office may reassure with the guaranteeing office at its option, but the reassurer is then obliged to accept the risk within the limits set by the treaty.

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

(b) The application of application of this Act in relation to life assurance contract is governed by the following principles:

- **Fundamental Principle:** It is a widely held principle of insurance law that an insured cannot recover if, by their own deliberate act, they cause the event insured against.
- **Mental Capacity Exception:** This principle does not apply if the life assured commits suicide while insane, as they do not have the mental capacity to appreciate what they are doing.
- **Suicide Clause:** Most policies include a clause stating that if suicide occurs within a specified period, benefits are forfeited. If it occurs after that period, the office is liable.
- **Third Party Interests:** Suicide clauses typically protect the interests of a third party who has acquired interest in the policy for valuable consideration.
- **Burden of Proof:** The burden of proving suicide as the cause of death is on the life office. A coroner's verdict is not conclusive proof of suicide in a legal claim.

(2 marks for each correctly stated principle. 1 mark for each correct explanation. Sub-Total per principle: 3 marks. Maximum of 3 principles to be graded. Sub-Total:9 marks)

(Grand Total: 34 marks)

14. The first step in assessing an individual's taxable income is to determine total income for the year.

(a) (i) Define total income. **(3 marks)**

(ii) Enumerate any eight (8) items to be considered when determining total income for tax purposes. **(16 marks)**

(b) Once the income of a person for the tax year has been calculated, certain allowances can be deducted in order to arrive at the taxable income.

(i) list any three (3) main deductions. **(9 marks)**

(ii) in certain cases, loan interest is deductible. List three (3) of such loans. **(6 marks)**

Solution

(a) (i) Total income is the total personal income from all sources. **(3 marks)**

(ii) The items to be considered when determining total income for tax purposes are:

- salaries, wages, bonus, commissions and other remuneration from employment;
- certain fringe benefits received from employment, such as cheap loans and company cars;
- directors' fees;
- professional fees and business profits;
- pensions and annuities;
- some social security benefits;
- share dividends, interest and other forms of investment income;
- rent from land or property;
- profits from any trade.

(2 marks each for correctly stated item. Maximum of 8 to be graded. Sub-Total: 16 marks)

(b) Once a person's income for the tax year has been calculated, certain allowances can be deducted in order to arrive at the taxable income. The main deductions are as follows:

- Payments under a deed of covenant or Gift Aid to a charity are deductible.
- Business losses and capital allowances are fully deductible. Capital allowances are given for certain assets purchased for business purposes, such as plant, machinery, factories and mines.
- Premiums on registered personal pension policies get full tax relief, as do contributions to a registered pension scheme and stakeholder pension contributions.
- Relief for personal and stakeholder pensions is given by deduction from premiums (at the basic rate) and extension of the basic rate band (for higher rate relief).
- Contributions to an occupational pension scheme receive tax relief by adjustment of the PAYE code.

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

(ii) In certain cases, loan interest is deductible. These include the following loans. Loans:

i) to buy plant and machinery for use in a business;
ii) to buy a share of a close company or partnership;
iii) to lend on to a close company
iv) or partnership for use in the business;
v) to pay inheritance tax on death.

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

(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 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 assessed candidates' knowledge of the objectives of Motor Insurance. An excellent performance was recorded, demonstrating a strong understanding of the subject matter. Candidates provided satisfactory responses, reflecting their familiarity with the fundamental objectives of Motor Insurance.

Question 2
The question focused on candidates' understanding of the role of endorsements in Motor Insurance underwriting. It was well attempted, with an above-average performance recorded. This encouraging result indicated a good understanding of the purpose and application of endorsements in Motor Insurance policies.

Question 3
The question assessed candidates' knowledge of Motor Trade Insurance, particularly the Road Risks Policy. It was well attempted, with a pass rate exceeding 70%. This commendable performance demonstrated a good understanding of the subject matter.

Question 4
The question focused on the contents of a Motor Insurance Renewal Notice. Candidates demonstrated a strong understanding of the subject matter, with an excellent performance recorded. Their responses reflected good knowledge of the essential information contained in a renewal notice.

Question 5
The question assessed candidates' understanding of the hazardous nature of motorcycle insurance cover. Candidates demonstrated good knowledge of the associated risks, with an above-average performance recorded. This indicated a satisfactory understanding of the subject matter.

Question 6
The question examined candidates' ability to distinguish between Mission and Vision Statements in the context of Claims Management. An above-average performance was recorded, indicating a satisfactory understanding of the concepts and their relevance to claims management operations.

Question 7
The question assessed candidates' knowledge of the characteristics of Buses and Coaches. Candidates demonstrated a good understanding of the subject matter, with an above-average performance recorded. This reflected their familiarity with the distinguishing features of these categories of vehicles.

Question 8
The question focused on the application of pro-rata and short-period premium calculations, particularly in relation to the cancellation of Motor Insurance policies. Candidates demonstrated a satisfactory understanding of the relevant principles, with an above-average performance recorded.

Question 9
The question assessed candidates' knowledge of the Law of Negligence and the principle of Contributory Negligence. Being a compulsory question, it was well attempted, with a pass rate

exceeding 60%. This indicated a satisfactory understanding of the relevant legal principles and their application to Motor Insurance.

Question 10
The question examined candidates' understanding of the application of reinsurance in the insurance industry. Many candidates demonstrated difficulty explaining the relevant concepts and their practical applications. However, the overall performance was average, indicating that further study was required to improve their understanding.

Question 11
The question focused on the distinction between Payment for Hospital Treatment and Payment for Emergency Treatment under Motor Insurance. Candidates demonstrated a limited understanding of the differences between the two provisions, resulting in a below-average performance. Greater attention should be given to the relevant policy provisions and their applications.

Question 12
The question assessed candidates' knowledge of motorcycle insurance cover and the risks associated with loading and unloading under Commercial Vehicle policies. The question was avoided by almost all candidates, resulting in a very poor performance. This suggests inadequate familiarity with the subject matter. The topic may be revisited in future examinations to assess candidates' understanding and encourage more comprehensive preparation.

Question 13
The question examined the differences between a standard Motor Vehicle Insurance Policy and a Motor Trade Policy. Candidates demonstrated a limited understanding of the distinguishing features of the two policies, resulting in a below-average performance. The topic may be revisited in future examinations to reinforce candidates' understanding of the relevant concepts.

Question 14
The question assessed candidates' knowledge of the scope of cover under the four levels of Motor Insurance and the Fleet Rating System. Candidates performed excellently in Part (a), which focused on the scope of cover, but demonstrated a limited understanding of the Fleet Rating System in the other part of the question. Nevertheless, the overall performance was above average, reflecting a good understanding of the various levels of Motor Insurance cover.

Comment(s) on Overall Performance:
The overall performance was exceptional, with a pass rate of 81%. This represented a significant achievement, being the first time such a high pass rate has been recorded in the course.

Suggestion(s) on Improvement(s):
Candidates are encouraged to sustain the commendable performance recorded by adopting a more diligent and consistent approach to their studies.

PART I

1. As far as Motor Insurance is concerned, state any three (3) objectives that the Motor Policy must satisfy.

Solution

The objectives that the Motor Policy must satisfy:

- the needs of the customer; * RTA liabilities; * the rules of fairness
- the Terms, Exceptions and Conditions of the cover must be clearly defined;
- re-insurance – proper re-insurance arrangement must be in place

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

2. Explain, with three (3) statements, the roles of endorsements in "Motor Insurance" understanding.

Solution

Endorsements are wordings which vary the main policy wording and apply if the schedule states that they are operative. An example would be the exclusion of drivers under 25, the applicability of which to an 'any authorized driver' policy would be activated by the schedule. Some insurers print the most commonly used endorsement wordings at the back of the policy booklet with a reference number while other print the applicable wording on the schedule itself. Note that the 'Endorsement' is sometimes also used to describe mid-term change to policies – this is covered in later in this course.

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

3. (a) Outline the typical wording of a Road Risk Policy.
   (b) Enumerate the details of covers for a Road Risk Motor Trade Policy.

Solution

(a) A typical wording might be 'Any vehicle on a road or temporarily garaged in the course of a journey but not on any business premises owned or occupied by the insured'. Note, however, that the change to the RTA description of a 'road' to 'road or other public place' could have the effect of involving the road risks insurer in RTA liability for incidents on garage forecourts if they are deemed to be public places.

(3 marks)

(b) "Road Risk Motor Trade Policy" provides cover for vehicles either belonging to or in the custody or control of the motor trader when being driven on a road or while in the course of a journey on premises not owned by or occupied by the insured (e.g. temporary overnight garaging). There is no cover for an accident occurring on the insured's own premises. **(3 marks)**

(Grand Total: 6 marks)

4. State any six (6) contents of a "renewal notice".

Solution

A "renewal notice" will include the following:

- the insurer's details including its registered office address;
- the name and address of the policyholder;
- the name and address of agent (if applicable);
- policy number;
- renewal date and period of insurance;
- registration details of the insured vehicle(s);
- the renewal premium (including amount of IPT (Insurance Premium Tax), if applicable);
- the no-claim-discount entitlement for each insured vehicle, usually expressed in the number of years claim free, together with notification of whether the policyholder is now eligible to protect their NCD (No-Claim-Discount). where the customer is eligible for protected NCD, the same

information that is provided at the new business quotation stage must be provided to comply with the CMA order.

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

5. Enumerate any three (3) hazardous nature of the motorcycle cover which make it unattractive to underwriters compared to the motor car.

Solution

- Motorcycles present a fundamentally different risk from motor cars, although driver characteristics in regard to age, experience and behaviour broadly follow the same trend.
- The most prominent difference is the construction of the vehicle and the relatively greater vulnerability of passengers to death and bodily injury. This is inherent in all conventional motorcycles except those not equipped to carry passengers. The passenger risk is increased where a passenger carrying sidecar is attached, although the fitting of a sidecar actually gives the motorcycle greater stability and is, therefore, to some extent a compensating feature.
- There is, of course, no obligation on the insurer to provide personal accident benefits to the driver or passengers and it has been customary for motorcycle policies to exclude this benefit, together with loss of personal effects, although at least one major insurer now offers these benefits as an option.
- Motorcycles are particularly vulnerable to theft and some insurers require those the higher rated districts to be garaged in a locked and secure building. Loss of or damage to accessories applies only if they are on the vehicle and, in the case of theft, if they are stolen with the vehicle itself. Policies usually exclude loss of - damage to helmets and protective clothing although cover is available for additional premium where the equipment is damaged at the same time as the vehicle or while stored in locked panniers.

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

6. In the context of claims management, objective and philosophy, differentiate between a "mission statement" and a "vision statement".

Solution

A "vision statement" could be described as a vivid idealized description of a desired outcome that inspires (and possibly energizes) the staff within the claims department and helps to create a mental picture of a goal or target. That target may not necessarily be a tangible one. For example, an insurance company may have a claims vision statement which states that:

"*We will handle all claims promptly, and be fair and courteous to all in our approach".*

There may also be reference to assessing the claim: at the earliest opportunity, and taking into account the policyholder's rights, while handling valid claims swiftly. **(3 marks)** However, a "mission statement" reflects what the organization does: its core purpose, identity, values and principal business aim, whereas a vision statement reflects as aspiration. **(3 marks)**

(Candidates do not need to give any example. Grand Total: 6 marks)

7. State any two (2) characteristics of the types of vehicles that are classified as "Buses and Coaches".

Solution

Vehicles with a seating capacity exceeding eight, including the driver's seat are classed as buses or coaches. These are treated as public service vehicles, are subject to PSV regulations and are insured for hire and reward. Small buses (defined as buses with 9-16 seats) not used for hire and reward are not subject to those regulations by virtue of the Transport Act 1985, provided they have been granted a special small bus permit**.** These permits may be issued to organisations using such vehicles for education, religion, charity, social welfare or other activities of benefit to the community (e.g. scout groups). The permit allows the organisation to charge individual fares to passengers provided there is no profit involved. Purpose of use definitions for all policies would exclude use for racing, pace making, reliability trial or speed testing.

(2 marks for any correct and correctly stated characteristic. Maximum of 2 to be graded. Grand Total: 6 marks)

8. With two (2) concise explanations, explain why short period scale premium calculation are used instead of pro-rata premium calculation in the event of cancellation of motor policy by the insured.

Solution

Short Period rate for the first-year cancellations to recognise the cost of acquiring and issuing the policy, whereas some apply short period rates to cancellations in renewed years. For instance, the insurer would charge one-fifth of the annual premium instead of the pro-rata of one-twelfth if the policy is cancelled within the first month.

As an alternative to the short period scale, some insurers apply a flat fee in addition to the pro-rata charge for first year cancellations and, in some cases, subsequent years.

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

PART II

9. (a) (i) State the two categorisations of insurance business from Section 3 of the Nigerian Insurance Industry Reform Act (NIIRA 2025). **(4 marks)**

(ii) State any three (3) groups under each of the division in (a) above. **(6 marks)**

(b) (i) Define "negligence". **(5 marks)**

(iii) State the decided case law that the definition in "a" was derived from. **(3 marks)**

(iii) State the three (3) essentials necessary to support a successful action in "negligence". **(12 marks)**

(c) How does the "law of negligence" apply to the drivers of a "motor vehicle"? Also explain your response with an explained example. **(10 marks)**

(d) What is "contributory negligence" in relation to Motor Insurance with particular relevance to the case of *O' Connell v. Jackson (1972)*. **(10 marks)**

Solution

(a) (i) The Nigerian Insurance Industry Reform Act (NIIRA) 2025, in Section 3, categories insurance business into two main classes which are Life Insurance Business **(2 marks)** and Non-Life Insurance Business. **(2 marks)**

(Sub-Total: 4 marks)

(ii) **Life Insurance Business:**

* Individual Life Assurance Business; * Group Life Assurance Business
* Annuity * Health Insurance Business.

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) (i) Negligence has been defined as 'the omission to do something which is reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs, would do, or doing somethings which a prudent and reasonable man would not do. **(5 marks)**

(ii) Blyth v. Birmingham Waterworks Company (1856). **(3 marks)**

(iii) The essentials necessary to support a successful action are that:

- a duty is owned to the injured party by the person who is responsible for the negligent act;
- there is a breach of that duty and foreseeability of loss;
- the loss/damage must have been from the breach of that duty which has led to suffering by the claimant for the action to succeed.

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

(c) The "law of negligence" apply to the drivers of a "motor vehicle" in that there is a duty on the driver of a motor vehicle to observe ordinary care or skill towards others using the road, whom they could reasonably foresee as likely to be affected as a result of a breach of that duty of care. Thus, the driver of a car A, travelling too fast and failing to pay sufficient attention, in applying its brakes too late to avoid a collision with the preceding vehicle B, would be legally liable in negligence for the damage to vehicle B and injury to its occupants, together with costs flowing from the loss of use of vehicle B, for example, reimbursement of the cost of hire pf alternative transport.

(6 marks for the correct and completely stated application. 4 marks for correct and completely stated explanation. Sub-Total: 10 marks)

(d) Of particular importance in motor cases is the defence of contributory negligence, whereby damaged awarded to the claimant are reduced to the extent they were themselves to blame for them. This is illustrated in the case of a motorcyclist not wearing a crash helmet; in *O' Connell v. Jackson* (1972) the claimant suffered severe head injuries upon being thrown off his motorcycle while travelling along a main road, following impact from the defendant's car emerging from a side road. He was not wearing a crash helmet and there was evidence from three doctors that the injury would have been less serious had he been wearing one. The defendant was held solely to blame for the collision between the vehicles but the plaintiff was held contributorily negligent in that he was partly to blame for the additional injury he sustained by not wearing a helmet and damages were reduced by 15%.

(4 marks for the correct and completely stated importance. 6 marks for correct and completely stated explanation of the cited case. Sub-Total: 10 marks)

(Grand Total: 50 marks)

PART III

10. (a) (i) Reinsurance applies to Motor Insurance, what then is the purpose of reinsurance? **(4 marks)**

(ii) State any four (4) needs for "reinsurance" in Motor Insurance. **(16 marks)**

(b) Distinguish between "Treaty Reinsurance" and "Facultative Reinsurance". **(6 marks)**

(c) State and explain the two (2) types of treaty reinsurance available. **(8 marks)**

Solution

(a) (i) Essentially, it is the means by which an insurer limits its ultimate direct Exposure by 'ceding' part of it (i.e. its liability to indemnify policyholders and meet statutory third-party liabilities under the policies it issues) in exchange for paying a portion of its premium income to the reinsurer. In turn, the reinsurer may retrocede part of its own exposure, thereby ensuring that very large losses are distributed over a broad range of risk carriers - the veritable 'ripple across the pond' compared with a huge splash in it.

(4 marks for correct and completely stated explanation. Sub-Total: 4 marks)

(ii) The needs for "reinsurance" in Motor Insurance are:

- the need to protect the portfolio from abnormal catastrophic loss which might seriously impact the insurer's reserves, thereby seriously undermining the business;
- the need to reduce the impact of an abnormal incidence of large claims in a relatively short period;
- the ability to set a limit on outstanding liabilities for large claims notified but not settled, to enable adequate reserves to be set aside without freezing too much of the insurer's long-term reserves;

- to even out experience from year to year, thereby facilitating investment plan;
- for a newly established and small portfolio, to reduce commitments to a plan level which it can bear without declining opportunities for growth, otherwise there would be a need to call upon increased capital;
- to demonstrate good risk management to shareholders, rating agencies and the regulator. details of an insurer's reinsurance arrangements are a feature of its statutory returns to the regulator.

(4 marks for each correct and completely stated need. Maximum of 4 to be graded. Sub-Total: 16 marks)
(Grand Sub-Total: 20 marks)

(b) **Treaty Reinsurance:** is an undertaking whereby the reinsurer accepts a defined responsibility for all the risks written by the insurer falling within the scope of the agreement. It is an automatic obligatory contract, binding on both parties, by which the insurer must cede all the risks coming within the scope of the treaty and the reinsurer cannot decline them. The insurer is thereby guaranteed a definite level of reinsurance protection for every risk it accepts. ***WHILE***
Facultative Reinsurance: is the method of reinsuring such risks on an individual basis. Unlike treaty reinsurance, the ceding insurer has no obligation to cede a risk and the reinsurer has the option of accepting or declining it. A particular benefit of this arrangement is that the insurer is likely to be unfamiliar with the risk and the referral to the reinsurer can allow the insurer to enjoy the benefit of sharing in the reinsurer's knowledge. The facultative cover is arranged before the insurer quotes for the risk to ensure it is available at a premium and terms which the insurer can accommodate within those it will in turn offer to its proposer.

(3 marks for any correct and completely stated explanation on each of the two terms. Sub-Total: 6 marks)

(c) The two types of reinsurance are:

- **Proportional Treaty:** Under proportional treaties the insurer decides what part of the original insurance it wishes to retain (its retention) and reinsures (cedes) the balance to a reinsurer or reinsurers. The main type of proportional reinsurance is known as the quota share facility, whereby premiums and losses are shared in the same proportion as the ceding insurer's retention and the reinsurer's cession bear to the sum insured of the original insurance. For example, a 50% quota share will cede 50% of all premiums and recover 50% of all claims. This type of reinsurance is particularly suitable for a newly established small account but is otherwise not commonly used by motor insurers. This is due to the nature and frequency of large losses common to the motor risk and the relative high cost to the insurer of such an arrangement.

- **Non-Proportional:** Non-proportional treaties do not apply to specific risks but to losses, by limiting the amount of the ceding insurer's loss for any one event. The insurer does not cede individual risks; the reinsurer agrees to pay the amount of the loss over and above (or in excess of) a defined amount (the insurer's retention).

(2 marks for any correctly stated type of reinsurance. 2 marks from each correct and completely stated explanation. Sub-Total per type: 4 marks. Grand Sub-Total: 8 marks)
(Grand Total: 34 marks)

11. (a) Distinguish between "Payment for Hospital Treatment of Traffic Casualties" and "Payment for Emergency Treatment of Traffic Casualties". **(14 marks)**
    (b) Explicitly state any four (4) reasons why some insurers ensure that approved repairers are used for the repairs of clients/third parties' vehicles. **(20 marks)**

Solution

(a) **Payment for Hospital Treatment of Traffic Casualties** deals with payment of hospital treatment of road traffic casualties. Insurers are liable to pay for hospital payment only where payment is made in respect of death or bodily injury to a third party as required by the RTA. This liability attaches even where the third-party payment is made without admission of liability; the payment of hospital fees would, therefore, attach even if the insurer's payment to the third party was subject to a reduction for contributory negligence or even made ex gratia. **Whilst, Payment for Emergency Treatment of Traffic Casualties**

applies to roadside treatment. The user of a motor vehicle involved in a road accident-causing bodily injury (including fatal injury) to a person is required to make payment for treatment or examination (referred to as 'emergency treatment') by a legally quality medical practitioner who has administered emergency treatment or examined the victim, where such action was immediately required. The fee is for each person examined or treated, plus s sum to cover mileage in excess of two miles.

(3½ marks for each correct and completely stated explanation. Maximum of 2 to be graded under each term Sub-Total per term: 7 marks. Grand Sub-Total: 14 marks)

(b) Reasons why some insurers ensure that approved repairers are used for the repairs of clients/third parties' vehicles are:

- a close working relationship which allows for agreements with regard to the collection, storage and redelivery of damaged vehicles, which makes the repair process less burdensome on all concerned parties;
- it reduces costs while enhancing customer service;
- it enables the organisation to be able to work with agreed prices and standards;
- it guarantees workshop availability;
- a garage can be trusted to start work immediately without the need for an engineer's inspection;
- it assists with having availability of courtesy cars from such approved repairers.

(5 marks for each correct and completely stated reason. Maximum of 4 to be graded. Sub-Total: 20 marks) (Grand Total: 34 marks)

12. (a) Enumerate any four (4) specific Accidental Damage, Fire and Theft Cover under a Motor-Cycle Policy. **(20 marks)**

(b) Commercial Goods Carrying Vehicle Policies cover the risks of loading and unloading. Highlight the typical exclusion wording, breaking the clause down into the four distinct portion it contains. **(14 marks)**

Solution

The Accidental Damage, Fire and Theft Cover provided under a Motor-Cycle Policy are:

- damage to accessories and spare parts applies only if they are on the vehicle;
- in the case of theft, if the accessories and spare parts are stolen with the vehicle itself;
- loss of accessories and spare parts applies only if they are on the vehicle;
- policies are usually subject to a minimum excess as stated in the policy;
- policies usually specifically excluded loss or damage to helmets and protective clothing;
- cover is often available for an additional premium where the equipment is damaged at the same time as the vehicle or while being stored in locked panniers.

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

(b) A typical policy exclusion wording might be:

- "We shall not be liable for damage, death or injury caused or arising beyond the limits of any carriageway or thoroughfare in connection with
- the bringing of the load to the insured vehicle for loading thereon,
- the taking away of the load from the insured vehicle after loading therefrom,
- by any person other than the driver or attendant of such vehicle".

(3½ marks for each correct and completely stated section. Sub-Total: 14 marks) (Grand Total: 34 marks)

13. (a) (i) Compare and contrast normal Motor Vehicle Policy with Motor Trade Insurance Policy. **(10 marks)**

(ii) State any five (5) organisations or people who require the stated policies in (i) above. **(15 marks)**

(b) State any three (3) "driving limitation" for Motor Car Policies. **(9 marks)**

Solution

(a) (i) The main principles of motor insurance apply equally to motor trade insurance but the operations of motor traders and garage properties require special arrangements unique to this business,

which includes the custody and road testing of customers' vehicles and driving otherwise uninsured vehicle under trade plates. The most important feature of these policies is their flexibility in their treatment of both vehicle and drivers.

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

(ii) The organisations or people who require the stated policies in (i) above are:

- Sales or Repair of new or used Cars, Motorcycle, Caravans or Commercial Vehicles;
- Bodywork Repairers; * Vehicle Breaker;
- Agricultural Vehicle Engineers; * Vehicle Repossession Agents;
- Valters; * Accessory, Tyre and Exhaust Fitters;
- Auto Electricians, Vehicle Audio and Security Installers.

(3 marks for any correctly stated organisation. Maximum of 5 to be graded. Sub-Total: 15 marks)

(b) The driving limitations for motor car policies are:

- the limitations may be selected by the insured in exchange for a premium discount or may be imposed by the insurer;
- any authorised person, driving with the policyholder's permission; this is now fairly rare under an individual motor car policy;
- any authorised person, driving with the policyholder's permission but excluding drivers under a mutually agreed age by the insurer and the insured (as most applicable);
- one named driver only; this is often the policyholder.
- driving limited to named persons only.

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

(Grand Total: 34 marks)

14. (a) Enumerate and explain the scope of cover of the four (4) levels of cover provided by most Motor Insurance covers all over the world. **(20 marks)**

(b) A client has five (5) cars and three (3) vans. How may a fleet underwriter calculate the premium, with justification? **(8 marks)**

(c) Enumerate any six (6) information found on a typical motor fleet experience form. **(6 marks)**

Solution

(a) The four levels of cover provided by most Motor Insurance covers all over the world are:

- **RTA or 'Act only':** this is a policy which limits cover to RTA only provides the minimum cover required by law.
- **Third Party only:** in addition to the "Act" only covers, this policy provides the cover for road traffic accidents to third parties involved in the accident only. It does not cover the first party/main insured in the contract.
- **Third Party, Fire and Theft:** this policy provides the third party only cover described above, together with cover for the risks of fire (including explosion and lightning) on and/or theft (or attempted theft) of the insured vehicle.
- **Comprehensive:** in addition to the third-party fire and theft cover described above, this policy provides a range of additional benefits, the most important of which is accidental damage to the specifically insured vehicle irrespective of who is responsible for the accident.

(3 marks for each correctly stated cover level. 2 marks for each correct and completely stated explanation. Sub-Total per level type: 5 marks. Grand Sub-Total: 20 marks)

(b) The Insurer may apply book rates for each vehicle and adjust the total premium by allowing a 'fleet discount' or 'fleet loading' to produce a premium sufficient to cover the expected burning cost and other elements in the risk premium. In other words, the fleet is rated on a 'rate per vehicle' or on a 'book minus fleet discount' or 'book plus fleet loading' basis, depending on its size, mix of vehicle types and cover required.

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

(c) The of information found on a typical motor fleet experience form are:

- claims experience for a minimum of at least three years; * claims paid;
- vehicle years; * number of claims; * cover type;
- claims outstanding; * AD/TP split;
- position as at corresponding period of last year;
- date of extraction of experience.

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

(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 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 assessed candidates' knowledge of Product Liability. An attempt rate of 95% and a pass rate of 82% were recorded, demonstrating a strong understanding of the subject matter and an excellent overall performance.

Question 2

The question focused on Negligent Misstatement. It was attempted by 98% of the candidates, with an impressive pass rate of 92% recorded.

Question 3

The question examined candidates' understanding of the legal principle of Res Ipsa Loquitur. An attempt rate of 90% and a pass rate of 61% were recorded. This represented an above-average performance, although further improvement in candidates' understanding of the principle is desirable.

Question 4

The question assessed candidates' knowledge of various torts, including trespass, negligence and nuisance. An attempt rate of 89% was recorded, while the pass rate was about 50%. This indicated a moderate to below-average performance and suggested that candidates needed to strengthen their understanding of the different categories of torts.

Question 5

The question focused on Negligence. An attempt rate of 90% and a pass rate of 85% were recorded, reflecting an excellent performance and demonstrating a strong understanding of the concept.

Question 6

The question assessed candidates' knowledge of the concept of Intervention. Although over 90% of the candidates attempted it, only 24% passed. This poor performance indicated a significant gap in candidates' understanding of the topic and the need for more thorough preparation.

Question 7

The question examined candidates' understanding of the legal concept of Duty of Care. Over 60% of the candidates attempted the question, but only 38% passed. Despite being a topic covered in the prescribed coursebook, the performance was poor, suggesting inadequate preparation and limited understanding of the topic.

Question 8

The question assessed candidates' knowledge of the underwriting factors considered in Public Liability Insurance. Over 90% of the candidates attempted the question, with a pass rate of 89% recorded.

Question 9

The compulsory question tested candidates' knowledge of Professional Indemnity Insurance and Vicarious Liability. Over 90% of the candidates attempted the question, with a pass rate of 85%.

Question 10

The question assessed candidates' knowledge of the employer–employee relationship. Being an elective question, it was attempted by 48% of the candidates, with a pass rate of 28%.

Question 11
The question tested candidates' knowledge of Product Liability and was elective. Only 16% of the candidates attempted the question, with a pass rate of 19% recorded. This represents a very poor performance and suggested that candidates were either unfamiliar with the topic or insufficiently prepared to answer the question adequately.

Question 12
The question assessed candidates' knowledge of Professional Indemnity Insurance and was elective. The reported pass rate was only 13%, indicating poor performance and a limited understanding of the subject matter. Candidates are encouraged to study this topic more thoroughly.

Question 13
The question focused on Duty of Care and Risk Management. An attempt rate of 77% and a pass rate of 72% were recorded. This represented a very good performance, demonstrating a satisfactory understanding of the relationship between the two concepts.

Question 14
The question assessed candidates' knowledge of Public Liability Insurance and was elective. An attempt rate of 42% was recorded, with a pass rate of 58%. This indicated an average performance among those who attempted the question.

Comment(s) on Overall Performance:
An overall pass rate of 63% was recorded.

Suggestion(s) on Improvement(s):
Candidates are advised to study the prescribed coursebooks thoroughly and ensure that they understand the concepts in depth so that they can adequately respond to questions in case-study format and not simply those that are straight jacketed questions.

PART I

Answer ALL questions in Part I.

Each question carries Six (6) marks.

1. XYZ Manufacturing Plc recently introduced a new bottled fruit drink into the Nigerian market. Due to poor quality control during production, several bottles were contaminated, resulting in serious illness to consumers. One of the affected consumers instituted an action in negligence against the manufacturer.
   (a) State and explain the legal concept upon which the consumer may rely to establish liability against the manufacturer. **(4 marks)**
   (b) State the landmark case that established this principle. **(2 marks)**

Solution

(a) The consumer may rely on the principle of Duty of Care. **(2 marks)** A manufacturer owes a duty of care to the ultimate consumer of its products where it is reasonably foreseeable that failure to exercise reasonable care during production may cause injury or damage. The plaintiff must establish that the manufacturer owed a duty of care, breached that duty and that the breach resulted in injury. **(2 marks)** **(Sub-Total: 4 marks)**

(b) The landmark case is: Donoghue v. Stevenson (1932). **(2 marks)**

2. ABC Insurance Brokers prepared a risk report for a client without conducting adequate investigations. The client relied on the report and subsequently suffered substantial financial loss.
   (a) Identify the tort that may arise. **(2 marks)**
   (b) Briefly explain the basis of liability. **(4 marks)**

Solution

(a) The tort that may arise is Negligent Misstatement. **(2 marks)**

(b) Negligent misstatement arises where a person possessing special knowledge or skill gives advice or information carelessly, knowing that another person will rely upon it, and financial loss results. Liability arises because the adviser owes a duty to exercise reasonable care in giving professional advice. **(4 marks)**

(Grand Total: 6 marks)

3. During the construction of a warehouse, six bags of cement unexpectedly fell from a crane and injured a passer-by. The injured person was unable to identify the exact act of negligence but relied on a legal doctrine that shifts an evidential burden to the defendant.
   (a) State the legal doctrine. **(2 marks)**
   (b) State the two (2) conditions necessary for application of the stated doctrine in (a) above. **(4 marks)**

Solution

(a) The legal doctrine is “Res Ipsa Loquitur” ("The thing speaks for itself"). **(2 marks)**

(b) The conditions necessary for application of the stated doctrine in (a) above are:

- The object causing the injury must have been under the control of the defendant, his servants or agents.
- The accident must be such that it would not ordinarily occur without negligence.

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

(Grand Total: 6 marks)

4. A chemical manufacturing company released toxic waste into a nearby river, resulting in damage to neighbouring farmlands and contamination of the surrounding environment. Enumerate any three (3) torts under which liability may arise from environmental pollution.

Solution

The torts under which liability may arise from environmental pollution are:

* Negligence; * nuisance; * trespass;
* The Rule in Rylands v. Fletcher.

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

5. Briefly explain the following terms as used in the law of negligence:
   (a) breach of duty; (b) standard of care.

Solution

(a) Breach of duty occurs where the defendant fails to exercise the degree of care expected of a reasonable person in the circumstances. **(3 marks)**

(b) Standard of care is when measurement is done objectively by comparing the defendant's conduct with that expected of a reasonable person under similar circumstances. **(3 marks)**

6. A logistics company negligently blocked a busy expressway. While other motorists attempted to avoid the obstruction, a second collision occurred several minutes later involving another driver.
   (a) What legal concept determines whether the first negligent act remains the cause of the subsequent damage?
   (b) State any decided case illustrating this principle.

Solution

(a) The legal concept that determines whether the first negligent act remains the cause of the subsequent damage is "Novus Actus Interveniens" (i.e., intervening act). **(3 marks)**

(b) The decided cases illustrating this principle are:

* Rouse v. Squires (1973); * Knightley v. Johns (1982)

(1 decided case should be graded. Sub-Total: 3 marks)
(Grand Total: 6 marks)

7. In determining whether a duty of care exists, the House of Lords in Caparo Industries v. Dickman (1990) introduced a three-stage test. State the three (3) elements of this test.

Solution

The three elements are:

- Foreseeability.
- Proximity between the parties.
- It must be fair, just and reasonable to impose liability.

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

8. A liability underwriter is assessing the proposal of a manufacturing company seeking Public Liability Insurance. Enumerate the three (3) important categories of information the underwriter requires before accepting the risk and explain why each is important.

Solution

The important categories of information the underwriter requires before accepting the risk, with reasons are:

- **business description**: enables the underwriter to understand the nature of the operations and the hazards involved.
- **historical claims record**: assists in evaluating the frequency and severity of previous losses.
- **loss control survey/risk management measures**: – helps determine the adequacy of existing safety procedures and risk controls.

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

PART II

9. (a) (i) State the two categorisations of insurance business from Section 3 of the Nigerian Insurance Industry Reform Act (NIIRA 2025). **(4 marks)**

(ii) State any three (3) groups under each of the division in (a) above. **(6 marks)**

Solution

(a) (i) The Nigerian Insurance Industry Reform Act (NIIRA) 2025, in Section 3, categories insurance business into two main classes which are Life Insurance Business **(2 marks)** and Non-Life Insurance Business. **(2 marks)**

(Sub-Total: 4 marks)

(ii) **Life Insurance Business:**

* Individual Life Assurance Business; * Group Life Assurance Business
* Annuity * Health Insurance Business.

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) PrimeCare Medical Centre Limited is a privately owned hospital located in Abuja. The hospital recently expanded its operations by introducing a modern diagnostic centre, surgical theatre and pharmaceutical unit. Due to increased patient traffic, management employed additional nurses, laboratory scientists and support staff without conducting adequate safety training.

One afternoon, the following incidents occurred simultaneously:

i) A laboratory technician negligently left a highly corrosive chemical uncovered in the laboratory. A patient accidentally came into contact with the chemical and sustained severe burns.
ii) During surgery, a theatre nurse failed to properly sterilise surgical instruments, resulting in a patient developing a serious post-operative infection.
iii) At the hospital pharmacy, expired drugs were mistakenly dispensed to another patient, leading to prolonged hospitalisation.

An investigation further revealed that Management had failed to provide adequate protective clothing for laboratory personnel and had ignored previous recommendations made by its Health and Safety Committee.

Following these incidents, the affected patients instituted legal proceedings against PrimeCare Medical Centre Limited.

(i) Identify any four (4) legal duties owed by an employer to employees and other lawful visitors in relation to liability insurance. **(12 marks)**

(ii) Using relevant principles of the law of negligence, discuss whether PrimeCare Medical Centre Limited may be held legally liable for the injuries sustained by the affected patients, with any three (3) of the relevant principles. **(12 Marks)**

(iii) Supporting your responses with a relevant legal principle, explain the principle of vicarious liability and discuss whether the hospital can be held liable for the negligent acts of:

(i) the laboratory technician; (ii) the theatre nurse; and
(iii) the pharmacist. **(12 marks)**

(c) Recommend any two (2) practical risk management measures that the hospital should implement to minimise future liability exposures. **(4 Marks)**

SOLUTION

(a) The employer owes the following duties to employees and other lawful visitors in relation to liability insurance:

i) to provide competent employees;
ii) to provide safe plant and equipment;
iii) to provide a safe place of work;
iv) to provide a safe system of work;
v) to provide adequate instruction, supervision and training;
vi) to provide appropriate protective clothing and welfare facilities.

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

(b) (i) PrimeCare Medical Centre Limited is likely to be liable in negligence because the essential elements of negligence are established.

- **Duty of Care:** the hospital owed every patient a legal duty to exercise reasonable skill and care in providing medical treatment and maintaining safe premises.
- **Breach of Duty:** the duty was breached because:
  - corrosive chemicals were left exposed;
  - surgical instruments were inadequately sterilised;
  - expired drugs were dispensed;
  - management failed to provide adequate safety training;
  - protective clothing was not provided.
- **Causation:** the negligent acts directly resulted in:
  - chemical burns;
  - post-operative infection;
  - prolonged illness from expired medication.
- **Damage:** The patients suffered bodily injury, pain, additional medical expenses and financial loss, all of which are legally recoverable.

(4 marks for each correctly stated principle. 2 marks for each correct and completely stated explanation. Sub-Total per principle: 4 marks. Maximum of 3 to be graded. Sub-Total: 12 marks)

(c) The hospital will likely be vicariously liable because:

(i) **Laboratory Technician:** the technician negligently handled hazardous chemicals while carrying out assigned duties. **(4 marks)**
(ii) **Theatre Nurse:** failure to sterilise surgical instruments occurred during the performance of official nursing duties. **(4 marks)**
(iii) **Pharmacist:** dispensing medication formed part of the pharmacist's authorised employment duties; therefore, negligence committed in carrying out those duties may be attributed to the employer. **(4 marks)**

(Grand Sub-Total: 12 marks)

(d) The hospital should implement the following risk management measures to minimise future liability exposures:

- conduct regular staff safety training programmes;
- establish and enforce standard operating procedures;
- provide adequate protective clothing and safety equipment;
- carry out regular safety audits and inspections;
- improve supervision and internal quality assurance systems;
- introduce incident reporting and corrective action procedures.

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

PART III

Answer ANY FOUR (4) Questions
Each Question Carries Thirty-Four (34) Marks

10. XYZ Manufacturing Company Limited is engaged in the manufacture of industrial chemicals. During an inspection by the company's liability insurer, it was discovered that workers handled hazardous chemicals without adequate personal protective equipment. Forklifts were poorly maintained, safety signs were absent in several production areas, and many employees had never received formal health and safety training. Three months later, a forklift developed a mechanical fault while transporting corrosive chemicals. The chemicals spilled, causing severe injuries to two employees and property damage within the factory. The injured employees subsequently instituted an action against XYZ Manufacturing Company Limited.

    (a) Enumerate any four (4) legal duties owed by an employer to employees under the common law. **(10 marks)**
    (b) Enumerate any four (4) statutory duties imposed on employers under workplace health and safety legislation. **(8 marks)**
    (c) Explain the five (5) steps involved in carrying out a Health and Safety Risk Assessment. **(10 marks)**
    (d) Advise the insurer on three (3) loss-control measures that would have prevented or reduced the likelihood of this accident. **(6 marks)**

Solution

(a) The legal duties owed by an employer to employees under the common law are:

- to employ competent fellow employees;
- to provide safe plant and equipment;
- to provide a safe place of work;
- to provide a safe system of work;

- to exercise reasonable care for the safety, health and welfare of employees.

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

(b) The statutory duties imposed on employers under workplace health and safety legislation are:

- identify workplace hazards;
- assess risks;
- eliminate hazards where reasonably practicable;
- establish safe work practices;
- provide information, instruction, training and supervision;
- provide suitable protective equipment;
- continually monitor workplace safety;
- failure to comply may expose the employer to both criminal sanctions and civil liability.

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

(c) The Five Steps in Health and Safety Risk Assessment are:

- **Step 1:** Identify hazards that may reasonably cause injury.
- **Step 2:** Determine who may be harmed and how. Particular attention should be given to inexperienced workers, disabled employees and persons working alone.
- **Step 3:** Evaluate the risks and determine whether existing precautions are adequate.
- **Step 4:** Record all findings and retain records for the statutory period.
- **Step 5:** Review and update the assessment regularly whenever work practices change. Ensure continuous instruction, supervision and monitoring.

(2 marks for each correct and completely stated step. Sub-Total: 10 marks)

(Grand Total: 34 marks)

11. Global Foods Nigeria Limited is a food processing company engaged in the manufacture of canned beverages and packaged fruit juices. The company distributes its products throughout Nigeria and neighbouring West African countries.

Following complaints from consumers, investigations revealed that a batch of canned fruit juice had become contaminated during production due to poor sterilisation and inadequate quality control procedures. Several consumers suffered food poisoning, while some retailers withdrew the products from their shelves after receiving complaints.

Further investigation revealed that:

- production equipment had not been serviced for over eighteen months;
- quality assurance officers failed to carry out routine inspection before distribution;
- management ignored previous reports recommending replacement of worn-out production equipment;
- warning labels on some products were incomplete.

Several affected consumers instituted legal actions against the company, claiming compensation for bodily injury and financial losses.

(a) Explain any three (3) legal principles upon which the affected consumers may establish liability against Global Foods Nigeria Limited. **(12 marks)**

(b) State and discuss any three (3) legal requirements that the consumers must prove in order to succeed in an action for negligence. **(12 marks)**

(c) As a Liability Underwriter, identify and explain any three (3) underwriting factors to be considered before accepting this risk. **(6 marks)**

(d) Recommend two (2) risk management measures that can reduce future Products Liability claims against the company. **(4 Marks)**

Solution

(a) The consumers may establish liability based on the following legal principles:

(i) **Negligence:** the manufacturer owes a duty of care to consumers to ensure that products released into the market are reasonably safe for consumption. Failure to exercise reasonable care during manufacture may result in liability.

(ii) **Duty of Care:** manufacturers owe a duty of care to the ultimate consumer where injury is reasonably foreseeable.

(iii) **Products Liability:** manufacturers are legally responsible for injuries caused by defective products placed into the market.

(iv) **Breach of Statutory Duty:** failure to comply with applicable food safety and health regulations may also constitute evidence of negligence.

(2 marks for each correctly stated liability. 2 marks for each correct and completed stated explanation. Sub-Total per liability: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The legal requirements that the consumers must prove in order to succeed in an action for negligence are:

(i) **Duty of Care:** that the manufacturer owed a legal duty to consumers.

(ii) **Breach of Duty:** that the company failed to exercise reasonable care by:

* poor sterilisation;
* inadequate quality control;
* failure to replace defective equipment;
* ignoring inspection reports.

(iii) **Causation**: that the contaminated products directly caused consumers' illnesses.

(iv) **Damage**: consumers suffered bodily injury, medical expenses and financial losses.

(2 marks for each correctly stated requirement. 2 marks for each correct and completed stated explanation. Sub-Total per requirement: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The underwriting factors to be considered before accepting this risk are:

(i) **Nature of Products Manufactured:** hazardous or consumable products present higher product liability exposure.

(ii) **Quality Control Procedures:** the adequacy of inspection and quality assurance systems.

(iii) **Previous Claims Experience:** past claims provide an indication of future loss frequency.

(iv) **Risk Management Programme:** availability of documented safety procedures, maintenance programmes and product recall plans.

(1 mark for each correctly stated factor. 1 mark for each correct and completed stated explanation. Sub-Total per factor: 2 marks. Maximum of 4 to be graded. Grand Sub-Total: 8 marks)

(d) The risk management measures that can reduce future Products Liability claims against the company are to:

(i) introduce a comprehensive Quality Management System (QMS);

(ii) conduct routine maintenance and servicing of production equipment;

(iii) implement an effective product recall and consumer complaint management system.

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

12. Alpha Consulting Engineers Limited is a firm of consulting engineers engaged by the Federal Government to supervise the construction of a major bridge linking two commercial cities. Under the consultancy agreement, the firm was responsible for preparing engineering drawings, supervising construction works, certifying completed work and ensuring compliance with approved engineering standards.

During construction, the consulting engineers negligently approved the use of sub-standard reinforcement materials supplied by the contractor without conducting the required quality tests. The bridge was subsequently completed and commissioned for public use.

Eight months later, part of the bridge collapsed, resulting in extensive property damage, multiple injuries and disruption of commercial activities. Investigations revealed that the collapse was directly attributable to professional negligence on the part of the consulting engineers.

The Federal Government, affected motorists and several commercial organisations instituted legal proceedings against Alpha Consulting Engineers Limited.

(a) Explain any two (2) legal basis upon which Alpha Consulting Engineers Limited may be held liable for the losses suffered by the claimants. **(8 marks)**
(b) Discuss the principle established in Hedley Byrne & Co. Ltd. v. Heller & Partners Limited and explain its relevance to Professional Indemnity Insurance. **(12 marks)**
(c) Identify and explain any four (4) important underwriting considerations applicable to Professional Indemnity Insurance. **(8 marks)**
(d) As the company's insurance adviser, recommend three (3) risk management measures that should be implemented to minimise future Professional Indemnity claims. **(6 marks)**

Solution

(a) Alpha Consulting Engineers Limited may be held liable for the losses suffered by the claimants on the following grounds:

(i) **Professional Negligence:** professional persons owe clients a duty to exercise the degree of care, competence and skill reasonably expected of members of their profession. Failure to perform to this standard gives rise to liability.
(ii) **Breach of Duty of Care:** the engineers failed to conduct adequate inspections and approved defective construction materials, thereby breaching the duty owed to their client.
(iii) **Financial and Physical Loss:** the negligent acts resulted in bodily injuries, property damage and substantial economic losses which were reasonably foreseeable.

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

(b) The decision in Hedley Byrne & Co. Ltd. v. Heller & Partners Ltd. established that a professional person may be liable for negligent statements or advice even where no contractual relationship exists, provided:

- a duty of care exists;
- the adviser possesses special skill or knowledge;
- the recipient reasonably relies on the advice; and
- financial or physical loss results from the negligent advice. **(6 marks)**

The principle forms one of the legal foundations of Professional Indemnity Insurance because professionals such as engineers, architects, accountants, lawyers and consultants may incur liability arising from negligent advice or services. **(4 marks)**

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

(c) The important underwriting considerations applicable to Professional Indemnity Insurance are:

(i) **Nature of Professional Practice:** different professions present different exposure to liability.

(ii) **Previous Claims Experience:** frequent claims indicate poor professional risk management.

(iii) **Qualifications and Experience:** experienced professionals generally present lower underwriting risks.

(iv) **Internal Quality Control Procedures:** the existence of peer review, supervision and documentation reduces exposure.

(v) **Number of Professional Staff:** the size and complexity of the practice affect exposure.

(1 mark for each correctly stated consideration. 1 mark for each correct and completed stated explanation. Sub-Total per consideration: 2 marks. Maximum of 4 to be graded. Grand Sub-Total: 8 marks)

(d) The risk management measures that should be implemented to minimise future Professional Indemnity claims are to:

i) implement comprehensive quality assurance and technical review procedures before approving engineering designs or materials;
ii) provide continuous professional education and training for all technical personnel;
iii) maintain complete project documentation, inspection reports and engineering record;
iv) establish internal peer review and supervision systems for all major projects before certification.

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

13. Sterling Financial Services Limited is a licensed financial consulting firm providing investment advisory, pension administration, tax consultancy and corporate financial planning services to numerous corporate organisations and high-net-worth individuals.

A senior financial consultant negligently advised one of the company's major clients to invest ₦2.5billion in an unregistered investment scheme without carrying out adequate due diligence. The investment eventually failed, resulting in substantial financial losses.

Further investigation revealed that:

- the Consultant ignored the company's internal investment approval procedures;
- Management failed to supervise the Consultant adequately;
- the firm had no effective peer-review process before investment advice was issued;

- previous internal audit reports had identified similar weaknesses but Management failed to implement the recommendations.

The affected client instituted legal proceedings against Sterling Financial Services Limited, alleging professional negligence and claiming damages for financial losses.

As the insurer providing Professional Indemnity Insurance to Sterling Financial Services Limited, you have been requested to advise on the liability exposure of the firm.

(a) Explain how professional liability usually arise and discuss two (2) ways by which liability arose in this case study. **(10 marks)**

(b) Discuss the principle of vicarious liability and explain whether Sterling Financial Services Limited may be held liable for the negligent acts of its employee. **(10 marks)**

(c) As a Professional Indemnity Underwriter, explain any four (4) important underwriting factors that should be considered before accepting this class of business. **(6 marks)**

(d) Recommend four (4) practical risk management measures that Sterling Financial Services Limited should implement to minimise future Professional Indemnity claims. **(8 marks)**

Solution

(a) Professional liability arises where a person possessing specialised knowledge, qualifications or professional expertise fails to exercise the degree of care, skill and diligence reasonably expected of a member of that profession, thereby causing financial loss or damage to a client. **(4 marks)**

In this case, liability arose because:

- the consultant failed to carry out adequate due diligence;
- unsuitable investment advice was provided;
- established internal procedures were ignored;
- the client relied on the professional advice and suffered substantial financial loss.

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

(b) Vicarious Liability is the legal principle whereby an employer becomes legally responsible for the negligent acts or omissions of an employee committed in the course of employment. **(10 marks)**

Sterling Financial Services Limited is likely to be held vicariously liable because:

- the Consultant acted within the scope of his employment;
- he was authorised to provide financial advice on behalf of the Company;
- the negligent advice was given while performing official duties;
- Management also failed to exercise adequate supervision.

Accordingly, both the employee and the employer may incur legal liability.

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

(c) The important underwriting factors that should be considered before accepting this class of business are:

(i) **Nature of Professional Services:** the underwriter should determine the scope and complexity of the services rendered because different professional activities attract different liability exposures.
(ii) **Previous Claims Experience:** a poor claims history may indicate weaknesses in professional practice and increase underwriting risk.
(iii) **Qualifications and Experience of Professional Staff:** the competence and experience of key personnel significantly influence the likelihood of professional negligence.
(iv) **Internal Quality Control Procedures:** the existence of peer review, supervision, compliance monitoring and documented operational procedures reduces the probability of professional errors.

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

(d) The practical risk management measures that Sterling Financial Services Limited should implement to minimise future Professional Indemnity claims are:
i) establish a comprehensive peer-review system before investment advice is released to clients;
ii) provide continuous professional education and training for all professional staff;
iii) implement effective internal supervision, compliance monitoring and periodic professional audits;
(iv – vi) maintain complete client records, investment documentation and written evidence of professional advice to facilitate accountability and claims defence.

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

14. Metro City Shopping Mall Limited owns and operates one of the largest shopping malls in Nigeria. The mall accommodates supermarkets, restaurants, cinemas, banks, children's recreation centres and over 250 retail shops.

On a public holiday, the following incidents occurred:
- Rainwater entered the shopping mall through a leaking roof, making the tiled floor extremely slippery.
- Although cleaners noticed the danger, no warning signs or barriers were erected.
- A customer slipped, fell and sustained multiple fractures.

During the confusion, an electrical fault caused a fire in one of the restaurants, resulting in injuries to several customers and damage to neighbouring shops.

Investigation further revealed that the mall Management had ignored several previous maintenance reports recommending repairs to the leaking roof and replacement of defective electrical installations.

Several customers and shop owners instituted legal actions against Metro City Shopping Mall Limited for bodily injury, property damage and financial losses. As the Claims Manager of the company's Liability Insurer, you have been requested to advise the insurer on its legal position.

(a) Explain the legal basis upon which Metro City Shopping Mall Limited may be held liable to the injured customers and shop owners. **(15 marks)**

(b) Discuss the essential underwriting information that should have been obtained before accepting the Public Liability Insurance for the shopping mall. **(12 marks)**

(c) Identify and explain any two (2) important risk management measures that should have been implemented by the shopping mall Management. **(7 marks)**

Solution

(a) Metro City Shopping Mall Limited may be held liable on the following legal grounds:

(i) **Negligence:** the shopping mall owed visitors a duty to maintain reasonably safe premises. Failure to repair the leaking roof and defective electrical installation constituted negligence.

(ii) **Occupiers' Liability:** an occupier of premises owes lawful visitors a duty to take reasonable care to ensure that the premises are reasonably safe for their intended use. Failure to erect warning signs or isolate dangerous areas amounts to breach of this duty.

(iii) **Breach of Duty of Care:** Management ignored previous maintenance reports and therefore failed to exercise reasonable care expected of a prudent occupier.

(iv) **Foreseeability of Damage:** the injuries sustained by customers and property damage suffered by shop owners were reasonably foreseeable consequences of poor maintenance.

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

(b) The essential underwriting information that should have been obtained before accepting the Public Liability Insurance for the shopping mall are:

(i) **Nature of Business Operations:** to determine the degree of exposure arising from the shopping mall's activities.

(ii) **Estimated Annual Visitor Traffic:** large numbers of visitors increase the probability of liability claims.

(iii) **Previous Claims Experience:** past claims history assists in assessing the frequency and severity of losses.

(iv) **Maintenance Programme:** evidence of regular inspection and maintenance of buildings, electrical systems, lifts and escalators.

(v) **Fire Protection and Emergency Procedures:** availability of fire alarms, extinguishers, emergency exits, evacuation plans and trained emergency personnel.

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

(c) The important risk management measures that should have been implemented by the shopping mall are for Management:

(i) to carry out regular inspection and preventive maintenance of the building and all electrical installations.

(i) To immediately repair identified hazards and promptly implement maintenance recommendations;

(iii) to display warning notices and barricade hazardous areas pending repairs;

(iv) to develop and regularly test emergency response and fire evacuation procedures while ensuring continuous staff safety training.

(3½ marks for each correct and completely stated measure. Maximum of 2 to be graded. Sub-Total: 7 marks)
(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 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

Approximately 97% of the candidates attempted the question, with a pass rate of 95%. The question appeared straightforward, as evidenced by the excellent performance of the candidates.

Question 2

About 90% of the candidates attempted the question, and 70% of those who attempted it passed. The performance suggested that the question posed some difficulty for the candidates.

Question 3

The question was direct and focused on Enterprise Risk Management (ERM). Approximately 95% of the candidates attempted it, with a pass rate of 52%. This indicated an average performance.

Question 4

The majority of the candidates attempted the question, and the pass rate was 70%. The candidates' performance was satisfactory.

Question 5

Approximately 85% of the candidates attempted the question, with a pass rate of 80%. The question focused on the responsibilities of the Board, and the candidates demonstrated a good understanding of the subject matter.

Question 6

The candidates' performance was poor. Out of the 119 candidates who attempted the question, only 28 passed, indicating a significant gap in their understanding of the subject matter.

Question 7

A total of 120 candidates attempted the question, and 86% of them passed, while 14% failed. The candidates demonstrated a commendable level of understanding of the subject matter.

Question 8

Approximately 50% of the candidates passed the question, while 45% failed and 5% did not attempt it. The overall performance was average.

Question 9

This was a compulsory and straightforward question, which all candidates attempted. However, only 47% passed, indicating that a considerable number of candidates had difficulty providing satisfactory answers despite the direct nature of the question.

Question 10

Approximately 75% of the candidates attempted the question, and 70% of those who attempted it passed. The overall performance was commendable.

Question 11

About 76% of the candidates attempted the question and approximately 50% of those who attempted it passed. This indicated an average performance and suggests that some candidates had difficulty demonstrating adequate knowledge of the subject matter.

Question 12
The question was an optional question in Part III. Of the candidates who attempted it, 41% passed while 59% failed. The performance was below average, suggesting that candidates needed to improve their understanding of the subject matter.

Question 13
A total of 46 candidates attempted the question, of whom 37 passed and 9 failed. This represented a pass rate of approximately 80%, indicating good performance by the candidates who attempted the question.

Question 14
Out of 122 candidates, 50 attempted the question. Of these, 37 passed while 13 failed, representing a pass rate of 74%. The candidates who attempted the question demonstrated a good understanding of the topic.

Comment(s) on Overall Performance:
The candidates' overall performance was below average, with a pass rate of 39% recorded.

Suggestion(s) on Improvement(s):
Candidates are encouraged to study the prescribed course materials thoroughly and greater attention should be given to challenging areas, particularly those in which candidates recorded low pass rates.

In addition, candidates should ensure that they understand the concepts in depth so that they can adequately respond to questions in case-studies format and not simply those that are straight jacketed questions.

PART I
Answer ALL Questions in Part I.
Each Question Carries Six (6) Marks

1. Explain the importance of Risk Management to an organisation by stating any three (3) benefits.

Solution
Risk management is important to an organisation because it:

i) enables the organisation to identify, analyse and evaluate risks that may hinder the achievement of its strategic and operational objectives;
ii) reduces the frequency and severity of losses through the implementation of appropriate risk control and risk financing measures;
iii) improves corporate governance by providing management with reliable information for decision-making and regulatory compliance;
iv) enhances business continuity by ensuring that appropriate contingency and disaster recovery plans are in place;
v) improves stakeholder confidence by demonstrating that risks are being managed systematically and effectively.

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

2. Concisely explain the following terms:
(a) Risk Appetite; (b) Risk Tolerance.

Solution
(a) **Risk Appetite:** is the amount and type of risk that an organisation is willing to accept in pursuit of its strategic objectives. It provides management with boundaries within which business decisions should be made. **(3 marks)**

(b) **Risk Tolerance:** refers to the acceptable variation around the organisation's risk appetite. It defines the maximum level of risk that management is prepared to tolerate before corrective action becomes necessary. **(3 marks)**

(rand Total: 6 marks)

3. State any four (4) objectives of Enterprise Risk Management (ERM).

Solution
The objectives of Enterprise Risk Management are:

- improving achievement of organisational objectives;
- enhancing decision-making; * protecting organisational assets;
- improving regulatory compliance; * strengthening corporate governance;
- enhancing business resilience; * supporting sustainable organisational growth.

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

4. State and explain any three (3) components of the Risk Management Process.

Solution
The components of the Risk Management Process are:
(i) **Risk Identification:** this involves identifying events or circumstances that may adversely affect the organisation's objectives.

(ii) **Risk Assessment:** this involves evaluating the likelihood and impact of identified risks to determine their significance.
(iii) **Risk Treatment:** this involves selecting and implementing appropriate risk responses such as avoiding, reducing, transferring or retaining risks.
(iv) **Risk Monitoring and Review:** this involves continuous monitoring of risks and evaluating the effectiveness of risk control measures.

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

5. Enumerate any three (3) responsibilities of the Board of Directors in Risk Management.

Solution

The responsibilities of the Board of Directors in Risk Management are:

i. establishing the organisation's risk management policy;
ii. determining the organisation's risk appetite;
iii. ensuring an effective risk management framework is implemented;
iv. monitoring overall risk exposure;
v. ensuring adequate internal controls and corporate governance.

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

6. State any four (4) categories of operational risk in an insurance organisation.

Solution

Operational risks include:

(i) internal fraud; (ii) external fraud;
(iii) employment practices and workplace safety;
(iv) business disruption and system failures; (v) damage to physical assets.
(vi) Execution, delivery and process management failures.

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

7. Explain the following terms:

(a) strategic risk; (b) financial risk.

Solution

(a) **Strategic Risk:** refers to the possibility of loss resulting from poor business decisions, ineffective implementation of strategies or failure to respond appropriately to changes in the business environment. **(3 marks)**
(b) **Financial Risk:** refers to the possibility of financial loss arising from market movements, credit defaults, liquidity problems or adverse financial conditions. **(3 marks)**

(Grand Total: 6 marks)

8. Enumerate any four (4) methods of Risk Treatment.

Solution

The methods of risk treatment are:

* risk avoidance; * risk reduction (mitigation); * risk transfer;
* risk retention (acceptance); * risk sharing.

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

9. (a) You have been contracted as a consultant to provide guidance on the specific requirements that an interested organisation must comply with to be able to file an application with NAICOM, the Insurance Regulator in Nigeria, in order to obtain a license as an insurer or a reinsurer to operate in the insurance industry in

Nigeria. Provide the investor with the four (4) guides as stipulated by Section 5(b) of NIIRA 2025. **(10 marks)**

(b) The Board of Directors of Alpha Assurance Plc has resolved to strengthen its Enterprise Risk Management (ERM) framework in line with international best practices.

As the newly appointed Chief Risk Officer (CRO), management has requested that you explain the major components of an effective Enterprise Risk Management Framework.

Discuss any four (4) components of an Enterprise Risk Management Framework. **(16 marks)**

(c) Prime Manufacturing Limited is a large industrial company involved in the production of plastic packaging materials. Following a strategic review, management identified the following events:

- a cyber-attack disrupted production for four days;
- the company suffered significant foreign exchange losses following depreciation of the naira;
- a fire destroyed one production warehouse;
- internal audit discovered fraudulent manipulation of inventory records by warehouse staff;
- failure to comply with environmental regulations resulted in regulatory sanctions.

As the Risk Manager of the company:

(i) classify each of the above events according to the appropriate category of organisational risk. **(10 marks)**

(ii) recommend appropriate risk treatment measures for each identified risk. **(10 marks)**

(iii) state any two (2) reasons why continuous monitoring and review are essential components of the risk management process. **(4 marks)**

Solution

(a) NIIRA 2025, Section 5(b), provides for conditions for licensing to commence or carry on insurance business as an insurer or a reinsurer in Nigeria. These are that 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.

(Candidates need not provide the Section verbatim but must respond with related points. 2½ marks for each correct and completely stated guide. Grand Total: 10 marks)

(b) The components of an Enterprise Risk Management Framework are:

(i) **Governance and Leadership:** the Board of Directors establishes the organisation's risk management philosophy, approves the risk appetite and provides overall oversight of the risk management framework.
(ii) **Risk Identification:** the organisation systematically identifies internal and external events that may affect achievement of its objectives.
(iii) **Risk Assessment:** identified risks are analysed in terms of their likelihood and potential impact in order to determine priorities.
(iv) **Risk Treatment:** Management selects appropriate responses such as risk avoidance, reduction, transfer or retention.
(v) **Monitoring and Review:** the effectiveness of the framework is continuously monitored and improvements are made where necessary.

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

(c) (i) The classification of the stated risks are as stated below:

S/N	Event	Risk Category
1	Cyber-attack	Operational Risk
2	Foreign exchange losses	Financial Risk
3	Fire outbreak	Insurance (Pure) Risk
4	Inventory fraud	Operational Risk (Internal Fraud)
5	Environmental regulatory sanctions	Regulatory / Compliance Risk

(2 marks for each correctly classified risk. Sub-total: 10 marks)

(ii) The appropriate risk treatment measures for each identified risk are:

- **Cyber-Attack:** implement strong cybersecurity controls, regular system updates, employee awareness training and disaster recovery plans.
- **Foreign Exchange Risk:** adopt foreign exchange hedging strategies, diversify currency exposure and establish treasury risk limits.
- **Fire Risk:** install fire detection systems, automatic sprinklers, enforce fire safety procedures and maintain adequate insurance protection.
- **Inventory Fraud:** strengthen internal controls, segregate duties, conduct regular stock audits and implement access control systems.
- **Regulatory Risk:** maintain regulatory compliance programmes, conduct periodic compliance audits and provide continuous staff training.

(2 marks for each correctly classified risk. Sub-Total: 10 marks)

(c) The importance of continuous monitoring and review are that it enables Management to:

- identify newly emerging risks;
- assess whether existing controls remain effective;
- detect changes in the internal and external business environment;
- ensure compliance with regulatory requirements;
- improve the effectiveness of the Enterprise Risk Management Framework.
- Continuous review promotes continual improvement and supports the achievement of organisational objectives.

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

(Grand Total: 50 marks)

Answer ANY THREE (3) Questions.
Each Question Carries Thirty-Four (34) Marks

10. Prime Alliance Insurance Plc is a medium-sized composite insurance company operating throughout Nigeria. Following the introduction of a new corporate strategy, the Board approved an ambitious business expansion programme aimed at increasing market share by 40% within two years.

During implementation, the following events occurred:

- The company introduced several new insurance products without conducting adequate risk assessment.
- Premium income increased significantly, but underwriting losses also increased due to poor risk selection.
- Internal audit discovered weaknesses in underwriting controls and claims approval procedures.
- The company invested a substantial proportion of its funds in highly volatile financial instruments, resulting in significant investment losses.
- NAICOM's routine inspection revealed deficiencies in the company's Enterprise Risk Management (ERM) Framework and recommended immediate corrective action.

As the newly appointed Chief Risk Officer (CRO), you have been requested to advise the Board on the issues arising from the above case.

(a) State and explain any three (3) major categories of risk faced by Prime Alliance Insurance Plc in the above case study. **(12 marks)**

(b) Discuss any three (3) essential components of an effective Enterprise Risk Management (ERM) Framework that should be implemented by the company. **(12 marks)**

(c) Recommend any four (4) measures that Management should implement to strengthen the company's overall risk management system. **(10 marks)**

Solution

(a) The company is exposed to the following major risks:

(i) **Insurance Risk:** the introduction of new insurance products without adequate underwriting assessment exposed the company to poor pricing, adverse selection and increased underwriting losses.

(ii) **Operational Risk:** weak underwriting controls and ineffective claims approval procedures increased the likelihood of financial losses arising from failed internal processes.

(iii) **Financial Risk:** investment in highly volatile financial instruments exposed the company to market risk and significant investment losses.

(iv) **Regulatory/Compliance Risk:** failure to maintain an adequate Enterprise Risk Management Framework exposed the company to regulatory sanctions by NAICOM.

(2 marks for each correctly identified risk. 2 marks for correct and completely stated explanation. Sub-Total per risk: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The components of an Effective Enterprise Risk Management Framework in this instance are:

(i) **Risk Governance:** the Board should establish risk management policies, define risk appetite and provide oversight of the risk management framework.

(ii) **Risk Identification:** the organisation should establish procedures for identifying both internal and external risks affecting organisational objectives.
(iii) **Risk Assessment:** identified risks should be analysed based on likelihood and potential impact to determine priorities.
(iv) **Risk Treatment:** appropriate risk responses should be selected, including risk avoidance, reduction, transfer or retention.
(v) **Monitoring and Review:** Management should continuously monitor risks and periodically review the effectiveness of control measures.

(2 marks for each correctly stated components 2 marks for correct and completely stated explanation. Sub-Total per component: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The measures that Management should implement to strengthen the company's overall risk management system are:
i) develop and implement a comprehensive enterprise risk management policy;
ii) clearly define and communicate the company's risk appetite and risk tolerance;
iii) strengthen underwriting, claims management and internal control procedures;
iv) conduct periodic enterprise-wide risk assessments and internal risk audits;
v) provide continuous risk management training for directors, management and staff to strengthen risk awareness and compliance.

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

(Grand Total: 34 marks)

11. Global Manufacturing Nigeria Limited is a diversified manufacturing company producing household plastics, food packaging materials and industrial containers. The company operates three production plants and distributes its products across West Africa.

In the last financial year, the company experienced the following events:

- a major supplier of raw materials ceased operations unexpectedly, disrupting production for several weeks;
- sharp depreciation of the Naira significantly increased the cost of imported machinery and raw materials;
- an internal investigation revealed that procurement officers had colluded with external suppliers to inflate contract prices;
- a cyber-attack disabled the company's Enterprise Resource Planning (ERP) system, resulting in disruption of production and delayed customer deliveries;
- environmental regulators imposed heavy fines on the company for failing to comply with waste disposal regulations.

The Board of Directors expressed concern that risk management activities were fragmented and not aligned with the organisation's strategic objectives. The Managing Director has appointed you as the company's Chief Risk Officer (CRO) to review the organisation's risk profile and recommend improvements.

(a) State and explain any three (3) categories of risk illustrated in the case study. **(12 marks)**
(b) Discuss any three (3) principles of Enterprise Risk Management (ERM) that should guide the organisation's risk management activities. **(12 marks)**
(c) Recommend any four (4) actions that Management should implement to

strengthen the company's Enterprise Risk Management programme. **(10 marks)**

Solution

(a) The categories of risk illustrated in the case study are:

(i) **Strategic Risk:** the disruption of raw material supply threatens the achievement of the organisation's strategic and operational objectives.

(ii) **Financial Risk:** depreciation of the Naira exposed the organisation to foreign exchange risk and increased production costs.

(iii) **Operational Risk:** the procurement fraud and cyber-attack resulted from failures in internal processes, systems and people.

(iv) **Regulatory (Compliance) Risk:** failure to comply with environmental regulations resulted in regulatory sanctions and financial penalties.

(2 marks for each correctly identified risk. 2 marks for correct and completely stated explanation. Sub-Total per risk: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The principles of Enterprise Risk Management (ERM) that should guide the organisation's risk management activities are:

(i) **Integration:** risk management should be integrated into all organisational processes and decision-making activities.

(ii) **Structured and Comprehensive Approach:** risk management should follow a systematic and consistent process across the organisation.

(iii) **Customisation:** the risk management framework should be tailored to the organisation's objectives, structure and operating environment.

(iv) **Continual Improvement:** the risk management framework should be reviewed regularly and improved continuously to reflect changes in the business environment.

(v) **Inclusiveness:** relevant stakeholders should participate in identifying, assessing and managing organisational risks.

(2 marks for each correctly stated principle. 2 marks for correct and completely stated explanation. Sub-Total per principle: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) Management should implement the following actions in order to strengthen the company's Enterprise Risk Management programme:

i) develop and implement an organisation-wide enterprise risk management policy approved by the Board;

ii) establish clear risk appetite and risk tolerance limits for all major business activities;

iii) strengthen internal controls by improving procurement procedures, segregation of duties and fraud detection mechanisms;

iv) implement robust information technology security controls, including cybersecurity monitoring, data backup and disaster recovery plans;

v) conduct periodic enterprise-wide risk assessments, compliance reviews and staff training to improve risk awareness and regulatory compliance.

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

12. Crystal Bank Plc is a leading financial institution with over 180 branches across Nigeria. In recent years, the bank has embarked on an aggressive digital transformation programme by introducing internet banking, mobile banking, agency banking and electronic payment platforms.

Following a review by the Board Risk Committee, the following issues were identified:

- cybercriminals successfully penetrated the bank's online banking platform, resulting in unauthorised electronic transfers amounting to ₦1.8billion;
- several customers complained of identity theft arising from compromised customer information;
- internal investigations revealed weaknesses in information security governance, poor password management and inadequate staff awareness of cyber risks;
- liquidity pressure arose following a sudden withdrawal of deposits by institutional customers.

The Central Bank of Nigeria (CBN) directed the bank to strengthen its operational risk management framework and improve cybersecurity controls.

The Managing Director has directed the Chief Risk Officer (CRO) to prepare a comprehensive report for the Board.

(a) Identify and explain any three (3) categories of risk arising from the above case study. **(12 marks)**

(b) Discuss any three (3) risk control measures that should be implemented to strengthen the bank's operational risk management framework. **(12 marks)**

(c) Recommend any four (4) actions that the Board of Directors should implement to improve the organisation's overall Enterprise Risk Management Framework. **(10 marks)**

Solution

(a) The categories of risk arising from the above case study are:

(i) **Operational Risk:** the cyber-attack, system weaknesses and failures in internal processes exposed the bank to operational losses.

(ii) **Information Technology (Cyber) Risk:** the unauthorised access to the online banking platform and compromise of customer information represent cyber risks associated with digital banking operations.

(iii) **Financial Risk (Liquidity Risk):** the sudden withdrawal of deposits created liquidity pressure, affecting the bank's ability to meet its financial obligations.

(iv) **Regulatory (Compliance) Risk:** failure to maintain adequate cybersecurity and operational risk controls exposed the bank to regulatory intervention by the Central Bank of Nigeria. **(3 marks)**

(2 marks for each correctly identified risk. 2 marks for correct and completely stated explanation. Sub-Total per risk: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The risk control measures that should be implemented to strengthen the bank's operational risk management framework are:

(i) **Strengthening Information Security:** implement multi-factor authentication, encryption technologies and secure access controls to protect critical information assets.

(ii) **Staff Training and Awareness**: conduct regular cybersecurity awareness programmes and operational risk training for all employees.

(iii) **Business Continuity and Disaster Recovery Planning:** develop and regularly test Business Continuity Plans (BCP) and Disaster Recovery Plans (DRP) to ensure uninterrupted banking services.

(iv) **Continuous Risk Monitoring:** establish continuous monitoring of operational risks through internal audits, Key Risk Indicators (KRIs), incident reporting and compliance reviews.

(2 marks for each correctly stated measure. 2 marks for correct and completely stated explanation. Sub-Total per measure: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The actions that the Board of Directors should implement to improve the organisation's overall Enterprise Risk Management Framework are that the Board should:

i) review and approve a comprehensive enterprise risk management policy that aligns with the bank's strategic objectives;
ii) establish clear risk appetite and risk tolerance limits for all major business activities;
iii) strengthen Board oversight through an active board risk management committee that regularly reviews enterprise-wide risks;
iv) ensure adequate investment in information technology security infrastructure and continuous monitoring systems;
v) promote a strong risk management culture through regular staff training, performance monitoring and accountability at all organisational levels.

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

13. Green Energy Nigeria Plc is a leading renewable energy company engaged in the construction and operation of solar power plants, wind farms and mini-hydro projects across Nigeria. As part of its five-year expansion programme, the company secured substantial loans from local and international financial institutions to finance new projects.

An Enterprise Risk Management (ERM) review conducted by the Board Risk Committee identified the following issues:

- rising interest rates significantly increased the company's debt servicing obligations;
- foreign exchange fluctuations increased the cost of imported solar panels and wind turbines;
- community protests delayed construction of a major solar power project;
- internal audit identified weaknesses in project procurement and contract management, resulting in significant cost overruns;
- the Nigerian Electricity Regulatory Commission (NERC) issued compliance directives following deficiencies in environmental and operational reporting;
- Senior Management noted that individual business units were managing risks independently without an integrated enterprise risk management framework.

The Board has requested the Chief Risk Officer (CRO) to prepare a comprehensive report addressing these issues.

(a) Identify and explain any three (3) categories of risk affecting Green Energy Nigeria Plc. **(12 marks)**

(b) Discuss any three (3) Enterprise Risk Management strategies that should be adopted to improve risk governance within the organisation. **(12 marks)**

(c) Recommend any four (4) Enterprise Risk Management strategies that should be adopted to improve risk governance within the organisation. **(10 marks)**

Solution

(a) The categories of risk affecting Green Energy Nigeria Plc are:
The company is exposed to the following risks:

(i) **Financial Risk:** the increase in interest rates and foreign exchange volatility exposes the company to financing costs, market risk and exchange rate losses.

(ii) **Strategic Risk:** delays in the execution of major projects threaten the achievement of the organisation's long-term strategic objectives and growth plans.

(iii) **Operational Risk:** Weak procurement procedures and ineffective contract management expose the company to operational failures and financial losses.

(iv) **Regulatory (Compliance) Risk:** failure to comply with environmental and operational reporting requirements exposes the company to sanctions, penalties and reputational damage.

(2 marks for each correctly identified risk. 2 marks for correct and completely stated explanation. Sub-Total per risk: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) Enterprise Risk Management strategies that should be adopted to improve risk governance within the organisation are:

(i) **Enterprise-wide Risk Governance:** establish a unified Enterprise Risk Management Framework that integrates risk management into strategic planning and daily operations across all business units.

(ii) **Risk Appetite Framework:** develop and communicate clearly defined risk appetite and risk tolerance statements approved by the Board of Directors to guide decision-making.

(iii) **Risk Monitoring and Reporting:** develop Key Risk Indicators (KRIs), periodic risk reporting systems and dashboards to enable timely identification and escalation of emerging risks.

(iv) **Continuous Risk Assessment:** conduct regular enterprise-wide risk assessments to identify emerging strategic, financial, operational and regulatory risks.(3 Marks)

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

(c) Enterprise Risk Management strategies that should be adopted to improve risk governance within the organisation are to :

i) strengthen financial risk management by implementing interest rate and foreign exchange risk management policies;

ii) improve procurement governance through transparent procurement procedures, segregation of duties and independent contract reviews;

iii) enhance regulatory compliance by establishing a dedicated compliance unit to monitor environmental and statutory obligations;

iv) develop stakeholder engagement programmes to improve relationships with host communities and reduce project implementation risks;

v) promote a strong risk management culture through regular staff training, continuous risk awareness programmes and periodic review of the enterprise risk management Framework.

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

(Grand Total: 34 marks)

14. National HealthCare Services Limited (NHSL) is one of Nigeria's largest healthcare organisations, operating specialist hospitals, diagnostic centres and pharmaceutical distribution facilities across the country.

The organisation recently embarked on a five-year strategic expansion programme involving the construction of new hospitals, acquisition of advanced medical equipment and implementation of an integrated electronic medical records (EMR) system.

Following a comprehensive Enterprise Risk Management (ERM) review, the Board Risk Committee identified the following issues:

- the implementation of the electronic medical records system experienced repeated system failures, causing disruption to patient care;
- a ransomware attack encrypted patient records, forcing several hospitals to suspend clinical services temporarily;
- significant increases in inflation and exchange rates substantially increased the cost of imported medical equipment;
- an internal audit revealed procurement irregularities involving the acquisition of medical equipment, resulting in financial losses;
- a regulatory inspection identified non-compliance with healthcare data protection requirements and recommended immediate corrective action;
- the organisation had no formal business continuity plan (BCP), resulting in prolonged disruption of essential healthcare services.

The Board observed that risk reporting across the various hospitals was inconsistent and that there was no integrated enterprise-wide risk reporting framework.

As the newly appointed Chief Risk Officer (CRO), you have been requested to advise the Board of Directors.

(a) State and explain any three (3) categories of risk affecting National HealthCare Services Limited. **(12 Marks)**

(b) Discuss any three (3) essential components of an effective Enterprise Risk Management Framework that should be strengthened within the organisation. **(12 marks)**

(c) Recommend any four (4) practical measures that Management should implement to improve organisational resilience and strengthen Enterprise Risk Management. **(10 marks)**

Solution

(a) The categories of risk affecting National HealthCare Services Limited are:

(i) **Operational Risk:** the repeated failure of the electronic medical records system and disruption of hospital operations resulted from failures in systems, processes and technology.

(ii) **Information Technology (Cyber) Risk:** the ransomware attack exposed the organisation to cyber risk through unauthorised access to information systems and disruption of digital healthcare services.

(iii) **Financial Risk:** inflation and exchange rate fluctuations significantly increased the cost of imported medical equipment and affected the organisation's financial performance)

(iv) **Regulatory (Compliance) Risk:** failure to comply with healthcare data protection requirements exposed the organisation to regulatory sanctions, legal liabilities and reputational damage.

(2 marks for each correctly identified risk. 2 marks for correct and completely stated explanation. Sub-Total per risk: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(b) The essential components of an effective Enterprise Risk Management Framework that should be strengthened within the organisation are:

(i) **Risk Governance:** the Board should establish clear oversight responsibilities, approve risk policies, define risk appetite and ensure accountability for risk management throughout the organisation.

(ii) **Risk Identification and Assessment:** the organisation should implement structured procedures for identifying, analysing and prioritising strategic, operational, financial and compliance risks across all hospitals and business units.

(iii) **Risk Monitoring and Reporting:** Management should establish Key Risk Indicators (KRIs), periodic risk reporting and escalation procedures to enable timely decision-making by senior management and the Board.

(iv) **Communication and Continuous Review:** risk information should be communicated effectively throughout the organisation, while the Enterprise Risk Management Framework should be reviewed regularly to ensure continual improvement.

(2 marks for each correctly stated component. 2 marks for correct and completely stated explanation. Sub-Total per component: 4 marks. Maximum of 3 to be graded. Grand Sub-Total: 12 marks)

(c) The practical measures that Management should implement to improve organisational resilience and strengthen Enterprise Risk Management are:

(i) Develop and implement a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) for all healthcare facilities to ensure uninterrupted critical services.

(ii) Strengthen cybersecurity through multi-factor authentication, continuous network monitoring, encryption of sensitive patient information, periodic vulnerability assessments and regular penetration testing.

(iii) Implement an enterprise-wide risk reporting framework with clearly defined Key Risk Indicators (KRIs), risk registers and regular reporting to the Board Risk Committee.

(iv) Strengthen procurement governance by improving segregation of duties, supplier due diligence, procurement audits and contract management procedures.

(v) Promote a strong risk management culture through continuous staff training, periodic Enterprise Risk Management awareness programmes and regular compliance monitoring across all healthcare facilities.

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

(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 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

The question assessed candidates' understanding of the concept of matching products and services to customers' needs. A pass rate of 73% was recorded, indicating a satisfactory level of understanding among the candidates.

Question 2

The question examined candidates' knowledge of marketing objectives and strategies. A high pass rate of 91% was recorded, indicating that the majority of candidates demonstrated a good understanding of the topics.

Question 3

The question assessed candidates' understanding of research methodology. A pass rate of 73% was achieved, reflecting a good performance.

Question 4

All candidates attempted the question, which focused on the characteristics that distinguish services from goods. However, only 63% passed, while 37% failed.

Question 5

The question examined candidates' knowledge of the steps involved in new product development. A pass rate of 85% was recorded, indicating good performance and a sound understanding of the concept.

Question 6

The question assessed candidates' understanding of business culture and competitive differentiation. A pass rate of 87% was achieved, demonstrating a commendable level of performance.

Question 7

The question focused on the process of market segmentation. A relatively low pass rate of 25% was recorded, indicating a significant knowledge gap in this area. Candidates are advised to pay greater attention to the principles and processes of market segmentation in their studies.

Question 8

The question examined candidates' understanding of the factors that intensify competition in the marketplace. A failure rate of 91% was recorded, indicating a significant weakness in this area. Candidates should devote more attention to this topic.

Question 9

This was a compulsory question, which focused on minimum capital requirements. A pass rate of 36% was recorded. Candidates need to improve their understanding of these concepts and their practical application.

Question 10

The question assessed candidates' understanding of the benefits of using brokers and the role of distribution channels in marketing. Despite being a familiar area of study, the question recorded a low pass rate of 32.5%.

Question 11
The question examined candidates' knowledge of marketing communications and the responsibilities of the National Insurance Commission (NAICOM) in regulating advertising practices. A pass rate of 58% was achieved. Candidates are encouraged to strengthen their understanding of the regulatory framework governing insurance advertising.

Question 12
The question examined candidates' knowledge of branding. A pass rate of 69% was recorded.

Question 13
The question assessed candidates' understanding of ethical standards and the distinction between transactional and relationship orientations. A low pass rate of 16% was recorded among candidates who attempted the question.

Question 14
The question focused on internal marketing. Of the 35 candidates who attempted the question, only four candidates passed. This represented a pass rate of approximately 11.4%, indicating very poor performance.

Comment(s) on Overall Performance:
The overall pass rate was 52%. Although this represented an improvement over the previous examination diet, the performance remains unsatisfactory.

Suggestion(s) on Improvement(s):
Candidates should devote more time to studying the syllabus comprehensively, with particular attention to topics that recorded low pass rates.

In addition, candidates should ensure that they understand the concepts in depth so that they can adequately respond to questions in case-studies format and not simply those that are straight jacketed questions formats.

1. (a) What does the term "matching" mean with organisations as it relates to customers' needs? **(2 marks)**

(b) What is the difference between "business to business" and "business to consumer" marketing? **(4 marks)**

Solution

(a) "Matching" means the abilities of the business to meet the needs of its customers so that both gets what they want. **(2 marks)**

(b) "Business to business" marketing applies to businesses that sell or provide to other businesses; while "business to consumer" marketing applies to businesses that sell or provide to the end-user.

(2 marks for each correct and completely explained difference. Grand Sub-Total: 4 marks)
(Grand Total: 6 marks)

2. (a) Define marketing according to Chartered Institute of Marketing. **(2 marks)**

(b) How does "marketing objectives" differ from "marketing strategies". **(4 marks)**

Solution

(a) Marketing is the strategic business function that create value by stimulating, facilitating and fulfilling customer demand. It does this by building brands, nurturing innovation, developing relationships, creating good customer service and communicating benefits. **(2 marks)**

(b) "Marketing objectives" are keys and precise statements that outline what is to be accomplished **(2 marks)**; while "Marketing strategies" are the means by which marketing objectives are achieved **(2 marks)**.

(Grand Total: 6 marks)

3. In market research that the underwriting team of your organisation was commissioned to conduct, Management directed that the research should be a primary data research work and not a secondary data research work. What is the difference between these two (2)?

Solution

Primary data research involves the collection of new information by directly contacting respondents and it is customised according to research requirements **(3 marks)**; while secondary data research involves using information obtained from data already collected by previous researcher or officer **(3 marks)**.

(Grand Total: 6 marks)

4. State and explain any three (3) characteristics that distinguish services from goods.

Solution

The characteristics that distinguish services from goods are:

- **Intangibility:** a service cannot be felt, tasted, seen, heard or smell before it is purchased
- **Inseparability:** a service cannot be separated from his provider
- **Heterogeneity:** services are difficult to standardise as they are delivered by a diverse range of people.
- **Perishability:** a service cannot be stored, if you miss your train, that service is gone. It cannot be stored.
- **Ownership:** a service does not provide you with physical ownership as you have only purchased ability to use it.

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

5. New product development is best done as a series of steps. Going this route will screen out the majority of ideas and leave the business with the minority that are most likely to be viable. Enumerate the five (5) steps involved in this route.

Solution

Step 1: Objectives and strategies for new products
Step 2: Idea generation and screening
Step 3: New product design
Step 4: Testing
Step 5: Commercialisation

(1 mark for each correctly stated step. 1 mark for correct listing. Grand Total: 6 marks)

6. (a) What is a "business culture"?
   (b) What is "competitive differentiation" as it relates to an individual entrepreneur?

Solution

(a) Business Culture concerns the assumptions, beliefs, values, and norms that drive the way a business does things. It is about how things really get done in an organisation. **(3 marks)**

(b) Competitive differentiation, as it relates to an individual entrepreneur, is about the individual entrepreneur making him/herself unique and more attractive to the customer by delivering value in response to identified customer need(s). **(3 marks)**

7. Marget segmentation process has six steps in it. Serially state these six (6) steps in the market segmentation process.

Solution

The six steps are:

i) Step 1: Define the market
ii) Step 2: Profile customers
iii) Step 3: Define customers segments
iv) Step 4: Select and patronize target customer segments
v) Step 5: Implement marketing mix to target segments
vi) Step 6: Monitor and revise segments.

(1 mark for each correctly stated process. Grand Total: 6 marks)

8. Under competitive rivalry, state any four (4) factors that increase competition.

Solution

The factors that increase competition are:

- equality of size and power of competitors;
- slow industry growth;
- lack of product differentiation or switching cost;
- high fixed costs;
- capacity added in large increments, causing bottle-neck followed by glut;
- high exit barriers, creating over capacity; and
- diverse competitors' strategies.

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

Part 2.

9. (a) In N.I.I.R.A. 2025,
   (i) What is MCR? **(1 mark)**
   (ii) What is the MCR for non-life insurance business? **(3 marks)**
   (iii) What is the MCR for life assurance business? **(3 marks)**
   (iii) What is the MCR for reinsurance business? **(3 marks)**

(b) Any competitive business environment is usually influenced by factors that shapes such environment. State and explain any four (4) factors that influences the competitive environment.
(20 marks)

(c) When a business is properly focused on customers and their needs, it enables the business to sustain its commercial success by exploiting changes in the market place. Enumerate any five (5) ways by which a business can accomplish this.
(20 marks)

Solution

9. (a) (i) MCR is Minimum Capital Requirement. **(1 mark)**

(ii) The MCR for **non-life insurance business:** the higher of ₦15,000,000,000.00 (i.e. NGN 15 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(iii) The MCR for **life assurance business:** the higher of ₦10,000,000,000.00 (i.e. NGN 10 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(iv) The MCR for **reinsurance business:** the higher of ₦35,000,000,000.00 (i.e. NGN 35 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(Sub-Total: 9 marks)
(Grand Total: 10 marks)

(b) The factors that influence the competitive environment are:

- **Industry Structure:** Number, size and share of competition: It is not the number of competitors but how much of the market is dominated by a small number of companies.
- **The extent of vertical integration:** The link from raw supplier of insurance capital to insurance brokers.
- **Future changes to structure and competitors' tactics:** The probabilities of future changes depend on the likelihood of competitive retaliation and the barrier to new entrants.
- **Market Demand:** Market Type, the importance of substitutes and the extent of product differentiation. Forecast of future total demand and the importance of a demand from a specific customer segment are affected by market maturity and product life cycle position
- **Bargaining power of suppliers and buyers:** The balance of power depends on competition, staff skills and product differentiation. The bargaining power between customers and a business will be affected by the insurance cycle. Suppliers of capital influence costs, which are also affected by the insurance cycle.
- **Costs:** The pattern and scale of costs depend on cost structures (such as fixed and variable), economics of scale, and whether or not there is excess capacity. Failure changes in cost structure should also be taken into consideration.

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

(c) The ways by which a business can accomplish this are to:

- develop products that meet the needs of the market better than those of its competitors;
- set a price that is fair and transparent, and that reflect the cover provided;
- make products readily available and accessible;
- develop customer awareness of value delivering or problem solving;
- hire and train the right people to deliver a professional service;
- ensure the right systems and processes are in place;
- develop a reputable brand to help customer see what they are buying.

(4 marks for each correct and completely stated way. Maximum of 5 to be graded. Sub-Total: 20 marks)
(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks

10. (a) There are various distribution channels available in the insurance industry. State and explain any four (4) of these channels. **(20 marks)**

(b) Mr. Odim has just been appointed as the Administrative Manager of Cautious Metal Company Limited and the company has just hired the services of an Insurance Broker to handle the insurance needs of the company. Justify with any four (4) benefits what the company stands to gain through the use of an Insurance Broker. **(14 marks)**

Solution

(a) The various distribution channels available in the insurance industry are:

- **Financial Advisers:** they are usual associated with long term financial advice (such as investments, mortgages, pensions, private healthcare, tax planning, life assurance, e.t.c.) Financial Advisers must be authorised by NAICOM and they are paid directly by clients or through commissions from financial products.

- **Intermediaries/ Brokers:** Insurance Brokers are usually associated with annually renewable general insurance products (such as household, motor fire, industrial all risk, employer's liability, e.t.c.). In Nigeria, all insurance Brokers and intermediaries, are authorised and regulated by NAICOM. Insurance brokers are professionals therefore expected to offer the best advice. Brokers are the agent of the customers.

- **Direct Selling:** direct distribution allows direct selling customers. There is no delay in payment, other any credit terms that may have been agreed directly with the customer. Direct selling can be face to face or via technology (e.g. telesales team or e -marketing). The challenge for insurance companies is to identify contact and communicate effectively with appropriate customers. Direct selling through e-marketing has seemingly opened up a cost-effective direct channel through substantial investment in systems and advertisement to attract customers to websites.

- **Financial Institutions:** a distribution partnership between financial institutions and insurance businesses uses the financial institution customer base to sell insurance products. The term use to describe a relationship between a bank and insurance company is called 'bancassurance'. A partnership can also be established between two insurance companies.

- **Other Organisations: mutual societies** are organisations which provide insurance cover for their policyholders. Unlike insurance companies, where profits are paid out to external shareholders, mutual society profits are reinvested to help improve services. **Retail promotions** use a distribution partnership to bring customer attention to insurance product, for example using post office, supermarket, e.t.c. **Franchise insurance businesses** typically provide advice on business planning, business finance, marketing, accounting, e.t.c.

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

(b) The benefits that the company stands to gain through the use of an Insurance Broker are:

* improved efficiency;
* transaction standardization;
* easier customer access;
* a broader product range;
* easier product searching.

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

(Grand Total: 34 marks)

11. (a) Usually, marketing messages are categorised when passed on to the intended audience(s). State and explain any six (6) categorisation of marketing messages. **(24 marks)**

(b) NAICOM is responsible for setting the rule on all advert materials including "financial promotions". State any five (5) types of promotional material covered by "financial promotion". **(10 marks)**

Solution

Marketing messages may be categorised as:

- **Connotative Messages:** it deals with feelings and relationships, often appealing to receivers to make decisions based on their lifestyles and values
- **Denotative Messages:** they are more literal and factual. Most descriptive advertising for differentiated product is denotative.
- **Rational Appeals:** it aims at showing that the product will deliver the wanted benefits. The message seeks to demonstrate quality, reliability and performance.
- **Emotional Appeals:** It emphasises good feeling that will come from using a product, such as portraying customers as lifestyle role models
- **Fear–Based Appeal:** They are used to persuade customers to buy products to avoid unpleasant outcomes e,g insurance messages.
- **Moral Appeals:** They are mostly concerned with social issues of morality so as to persuade appropriate action.
- **Humour Appeals:** It often attracts attention and creates a positive attitude, very effective for low-involvement products.

(2 marks for each correctly stated category. 2 marks for each correct and completely stated explanation. Sub-Total per category: 4 marks. Maximum of 6 to be graded. Grand Sub-Total: 24 marks)

(b) Materials covered by NAICOM's financial promotion are:

* adverts in newspapers and magazine (including leaflet inserts);
* direct mail shots; * posters; * TV and radio adverts;
* promotional emails; * text messages;
* advert on websites including product provider's sites

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

(Grand Total: 34 marks)

12. (a) In three (3) distinct manner and simple explanations, explain what the term "brand" means to an organisation. **(12 marks)**

(b) Assuming that you are the new brand manager of your company and you have been requested to simply list twenty-two (22) items that the company can use to communicate its brand to its customers and employees. What should correctly be your response? **(22 marks)**

Solution

(a) Brand is:

- about the personality of the business;
- what the business is like and how the business wants to be perceived;
- about the customers and the employees; what is being sold and how it is being sold;
- about what makes the product of an organisation to be desirable to its customer instead of the product of competitors.

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

(b) The items that the company can use to communicate its brand to its customers and employees are:

* business cards;	* continuation papers;	* rubber stamps;
* internal forms;	* terms of business;	* complimentary slip;
* identity cards;	* posters;	* recruitment adverts;
* presentations;	* product brochure	* newsletter;
* credit notes;	* remittance advice;	* corporate colour;
* vehicle signage;	* rewards certificates;	* uniforms;
* service contract;	* window signage;	* direct mails;
* seasonal greeting cards;	* intranet;	* letterheads;
* envelopes;	* postage paid;	* logo;
* procedures forms;	* quarterly statement;	* visitors passes;
* press release;	* induction packs;	* email signature;
* gifts promotions	* various manuals;	* invoices;
* TV adverts;	* invoices;	* proposal;
* purchase order;	* websites;	* project management;
* casual wears;	* awards;	* direction signs;
* video;	* annual reports.	

(1 mark for each correctly stated item. Maximum of 22 to be graded. Sub-Total: 22 marks)
(Grand Total: 34 marks)

13. (a) Most insurance products, particularly life and investments policies, are highly complex. This comes with the outcome that those engaged in marketing of insurance and financial services face some very particular challenge to keep to ethical standards. Enumerate any six (6) actions that should be taken into account as it relates to good conducts when at work. **(24 marks)**

(b) Enumerate any five (5) differences between transactional orientation and relationship orientation. **(10 marks)**

Solution

(a) The actions that should be taken into account as it relates to good conducts when at work are:

- Are the claims being made for the product accurate and complete?
- Are the limitations of the product being identified with sufficient clarity?
- Are the elements of risk and uncertainty associated with the product being made clear?
- Is the product being marketed through channels that are appropriate?
- Is the product being promoted so as to minimize its exposure to those for who is unsuitable?
- Is the sales taking place under clear and understood terms of agency and commission?
- Are those terms of agency and commission suitable for the product in question?
- Have sales staff being adequately trained in the product they are being asked to sell?

(4 marks for each correct and completely stated action. Maximum of 6 to be graded. Sub-Total: 24 marks)

(b) The differences between transactional orientation and relationship orientation are as tabulated below:

S/N	Transactional Orientation	Relationship Orientation
1	Orientation to single sales	Orientation to customer retention
2	Discontinuous customer contact	Continuous customer contact
3	Focus on product features	Focus on customer value
4	Short time scale	Long time scale
5	Little emphasis on customer service	High customer service emphasis

6	Limited commitment to meeting customer expectations	High commitment to meeting customer expectations
7	Quality is the concern of production staff	Quality is the concern of all staff

(2 marks for each correct and completely stated difference. Maximum of 5 to be graded. Sub-Total: 10 marks) (Grand Total: 34 marks)

14. (a) The Board of Directors of YumYum Insurance Company Limited has not realised its marketing objective since Year 2020 and now decided to institute a marketing audit.
    (i) Enumerate four (4) main areas of enquiries that should be looked into when carrying out the internal marketing audit. **(8 marks)**
    (ii) State any two (2) focal points/could-be-relevant audit questions under each enumerated area above. **(16 marks)**

    (b) Blue and Green Insurance Plc is considering whether to sponsor a friendly football match between Enyimba FC and Enugu Rangers in order to support the growth of Nigerian Football League. Some employees of this company considered this as a white elephant project as it will be difficult to determine the effectiveness of this sponsorship on the company. If you are the new public relations manager of Blue and Green, state and explain any three (3) manners by which the effectiveness of this sponsorship can be evaluated. **(10 marks)**

Solution

(a) (i) The area of enquiries that should be looked into when carrying out the internal marketing audit are:

* People; * Facilities; * Systems;
* Money; * Markets; * Assets

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

(ii) The focal points/could-be-relevant audit questions under each enumerated area are:

- **People**
  i) Are numbers adequate?
  ii) What skill does the organisation needs and do staff have those skills?
  iii) How do these skills compare with those of its competitors
  iv) Are staffers enthusiastic and loyal?
  v) Are customers at the centre at their focus?
  vi) Do reporting structures match roles and relationships?
- **Facilities**
  i) Is equipment adequate and flexible enough to allow staff to do their work effectively?
  ii) What is the quality of locations?
- **Systems**
  i) Are operating systems and procedures adequate?
  ii) Is management and marketing information of good quality?
  iii) Are control systems working?
  iv) Is the planning system functioning?
  v) Are communication channels open?
  vi) Do customers benefit from systems or systems benefit from customers
- **Money**
  i) Are capital provisions adequate?
  ii) Are budgets flexible tools or rigid constraints?
- **Market Assets**
  i) Is the customer base large enough and or wide?

ii) Is access to capital supply sufficient for the business plan?

(2 marks each for correct and completely stated question. Maximum of 2 to be graded under each Area. Sub-Total per area: 4 marks. Maximum of 4 areas to be graded. Grand Sub-Total: 16 marks)
(Grand Sub-Total: 24 marks)

(b) The manners by which the effectiveness of this sponsorship can be evaluated are:

(i) **media exposure:** for example, the number of mentions of the sponsor's brand on TV, radio and the press

(ii) **sponsor name awareness**: measured before and after the sponsored event

(iii) **sales result**: whether the volume of sales has increased during or after the sponsored event

(iv) **audience feedback**: this should be focused on the target market.

(3 marks for each correctly stated manner. 2 marks for correct and completely stated explanation. Sub-Total per manner: 5 marks. Maximum of 2 to be graded. Grans Sub-Total: 10 marks)
(Grand Total: 34 marks)

CHARTERED INSURANCE INSTITUTE OF NIGERIA

ASSOCIATESHIP

OCTOBER 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 OCTOBER 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 if 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 45minites 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' understanding of the agency relationship between brokers and their principals. Despite being a compulsory question, fewer than 10% of the candidates who attempted it passed. Candidates are advised to study the topic thoroughly to develop a sound understanding of it.

Question 2
The question examined candidates' understanding of the broker's role as an agent of the client. Although all candidates attempted the question, the pass rate was below 50%. The question was straightforward and direct; however, the performance suggested that candidates needed to improve their preparation for future examinations.

Question 3
The question examined candidates' knowledge of the objectives of the Nigerian Council of Registered Insurance Brokers (NCRIB). All candidates attempted the question, but their overall performance was average. Considering the straightforward nature of the question, it could have provided an opportunity for candidates to have earned additional marks.

Question 4
The question focused on the reasons why Brokers will choose to deal with a wide range of insurers. All candidates attempted the question, but the good performance was approximately 50%.

Question 5
The question assessed candidates' understanding of the importance of maintaining positive relationships between underwriters and brokers. All candidates attempted the question, with an average performance of approximately 50% pass rate.

Question 6
This question focused on reasons why insurers should maintain a good relationship with the broker. Attempt was 100% but the response was below 50% pass. This ought to be a question that ought to have earned higher marks.

Question 7
The question examined candidates' understanding of conflicts of interest in insurance broking. All candidates attempted the question, but the performance was around 50% pass rate. This suggested that candidates needed to improve their understanding of the concept.

Question 8
The question was compulsory and assessed candidates' knowledge of brokers' responsibilities within insurers' distribution channels. The attempt rate was poor, at below 30% pass rate.

Question 9
The question assessed candidates' knowledge of the NCRIB under the Nigerian Insurance Industry Reform Act (NIIRA) 2025. Only four out of the 47 candidates scored 25 marks, representing 50% of the total marks obtainable. This result indicated a significant weakness in candidates' understanding of the relevant provisions.

Question 10
The question examined candidates' understanding of the benefits of good business relationships and other related issues. Approximately 70% of the candidates attempted the question, while the pass rate was about 40%.

Question 11
The question assessed candidates' knowledge of SWOT analysis and related concepts. Approximately 60% of those who attempted the question did not provide complete answers to the SWOT analysis component. Question 11(b) was also poorly attempted, indicating gaps in candidates' understanding of the subject matter. However, Question 11(c) recorded a pass rate of approximately 70%, as it was direct and unambiguous.

Question12
The question assessed candidates' understanding of risk management concepts and related issues. Question 12(a): Candidates performed poorly in explaining how identified risks should be treated. This suggests inadequate understanding of risk treatment options and their practical application. Question 12(b): Approximately 60% of the candidates attempted the question on the objectives of risk management, with a pass rate of about 50%. Question 12(c): Approximately 70% of the candidates attempted the question on concentrated power, recording a pass rate of about 60%.

Question 13
The question examined significant factors affecting the marketing and distribution activities of brokers and insurers. It was poorly attempted, as most candidates avoided the question. Question 13(c), however, attracted the attention of approximately 60% of the candidates. Nevertheless, the sub-question carried only 10 marks, which may not have been sufficient to secure an overall pass for candidates who performed poorly in the other parts.

Question 14
The question assessed candidates' knowledge of the criteria for evaluating insurers' capabilities. It was the most popular question, attracting an attempt rate of approximately 90% and a pass rate of about 80%. However, Question 14(b) recorded a poor pass rate of approximately 20%.

Comment(s) on Overall Performance:
The overall performance of candidates was poor, with a pass rate of 32%, despite the relatively straightforward nature of some questions, particularly Questions 3, 4, 5, and 6. Questions 10 and 14 in Part III also presented opportunities for candidates to improve their overall scores. In particular, Question 14 recorded a high success rate, while some components of Question 10 were well answered.

Suggestion(s) on Improvement(s):
Candidates should devote more time to studying the prescribed syllabus and ensure that they understand the key concepts rather than relying solely on memorisation. Candidates should attend programmes of the industry arms like NCRIB, CIIN, ILAN and NIA to aid their understanding of course materials.

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

1. State any four (4) key features of the Broker's Agency Relationship.

Solution
The key features of the Broker's Agency Relationship are:

* implied or written; * lawful instructions; * skill and care;
* fiduciary obligations; * conflict of interest; * secret profits;
* confidential information.

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

2. State any four (4) key aspects of the Broker's role in acting as the agent of the client.

Solution
The key aspects of the broker's role in acting as the agent of the client are:

- understand the client's business, its risk and insurance needs;
- design and source the most appropriate insurance cover, explain the options and give reasons for the advice;
- negotiate cost, cover and other terms that meet the client's needs;
- execute the client's instructions in an efficient manner;
- explain the needs and the behaviour of the market to clients;
- maintain effective relationships with the market in order to achieve the best results for the client;
- negotiate claims;
- administer all aspects of the transaction in an efficient manner, including maintaining the necessary records.

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

3. State any four (4) objectives of NCRIB.

Solution
The objectives of NCRIB are:

- to provide a platform for members to maximize their potentials trough relevant trainings & synergies,
- to have a functional secretariat equipped to deliver effective and qualitative service to member companies and other stake holders.
- to integrate area committees and chapters to serve as effective functional platforms for members.
- to improve council's lobby to government and advocacy on relevant issues concerning insurance.
- to have a library system that will facilitate the dissemination of continuous knowledge and research.
- to attract, retain and reward competent workforce and management at the secretariat.
- to develop suitable professional curriculum for training, education, examination and award of the NCRIB Diploma to fully affirm the provisions of the NCRIB charter.

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

4. State any six (6) reasons why Brokers will choose to deal with a wide range of insurers.

Solution

The reasons why Brokers will choose to deal with a wide range of insurers are for/on:

* fair market analysis; * client expectations; * capacity;
* mergers and takeovers; * change in underwriting strategy;
* unusual risks; * competitive terms;
* competition from other brokers; * new entrants.

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

5. State any three (3) reasons why insurers should maintain a good relationship with the broker.

Solution

The reasons why insurers should maintain a good relationship with the broker are:

- a good relationship helps ensure the broker's risks are dealt with first;
- it may assist with negotiations on difficult claims;
- many insurers may be willing to work with and even fund (subject of course to necessary disclosure) brokers for marketing projects and campaigns;
- insurers can be a useful source of general market-based information; and
- insurers also conduct detailed sector-based research that they will be willing to share with supporting brokers.

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

6. Regular meetings with insurers help build and maintain relationships with them and might form part of the broking strategy. State any four (4) probable subjects for discussion at such regular meetings.

Solution

The probable subjects for discussion at such regular meetings with insurers by Brokers are:

- future renewals, both those held by the insurer and those that they may be interested in quoting for;
- cases where a market exercise is likely to take place with an outline of the client's requirements;
- past cases submitted and won, quoted and not bound, and no-quotes;
- new business that the broker is prospecting, is confident of winning or has won;
- service issues;
- making sure the broker is up to date with developments in the insurer that may affect its competitive stance, appetite for certain risks, underwriter authority levels and changes in policy forms;
- advance notice of an intention to increase rates; and/or
- the working relationship with the claims function to help with reviews of claims experience and give early warning of problems with claims, particularly if there is a serious issue, e.g. possible declinature.

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

7. NAICOM requires Brokers to disclose any conflict of interest concerning any aspect of their job performance. These conflict of interest can be broken down into five. State any three (3) of such interest.

Solution

The interests that NAICOM require Brokers to disclose in relation to any conflict of interest concerning any aspect of their job performances are:

- Brokers must make disclosures about shareholding links between the intermediary and any insurers.
- Where brokers do not provide advice on the basis of a fair and personal analysis of the market, they must disclose the names of insurers with whom they may place business.
- Brokers must disclose the nature of their remuneration in relation to the insurance contract and whether they work on the basis of a fee, commission or some other form of remuneration (or a combination thereof).
- Insurers must disclose the nature of the remuneration paid to their employees.
- All firms must disclose fees payable by the customer in cash terms. This includes fees which may become payable later such as for mid-term adjustments or early cancellation.

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

8. State any three (3) responsibilities that the Broker performs as a channel of distribution for insurers and other suppliers such as premium finance companies.

Solution

The responsibilities that the broker performs in the 'de facto' role capacity are:

- understand the risk appetite of an insurer;
- present risks in an efficient fashion so as to obtain the right terms quickly;
- build relationships with insurer personnel so as to ensure the right terms for the broker's clients;
- place sufficient premium with an insurer to meet its minimum requirements; and
- act for insurers and other capital providers where the broker has delegated authority to underwrite risks or settle claims.

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

Part II
Compulsory Question.
This question carries 50 marks.

9. (a) In N.I.I.R.A. 2025,
   - (i) What is MCR? **(1 mark)**
   - (ii) What is the MCR for non-life insurance business? **(3 marks)**
   - (iii) What is the MCR for life assurance business? **(3 marks)**
   - (iii) What is the MCR for reinsurance business? **(3 marks)**

   (b) Technical standards should form part of the quality system as a key feature of overall service offering. Clients expect a good standard of technical capability in the people they deal with and a broad level of technical knowledge of insurance. State three (3) reasons for the fall in "technical standards and skills". **(12 marks)**

   (c) Under Errors and Omissions, mistakes usually occur. State and explain any four (4) causes of mistakes. **(20 marks)**

   (d) State any four (4) senior executive position in the staffing structure of an insurance organisation. Explain, in a sentence, the role of the stated position. **(8 marks)**

Solution

9. (a) (i) MCR is Minimum Capital Requirement. **(1 mark)**

(ii) The MCR for **non-life insurance business:** the higher of ₦15,000,000,000.00 (i.e. NGN 15 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(iii) The MCR for **life assurance business:** the higher of ₦10,000,000,000.00 (i.e. NGN 10 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.
(iv) The MCR for **reinsurance business:** the higher of ₦35,000,000,000.00 (i.e. NGN 35 billion) **(1½ marks)** or risk-based capital determined by the Commission **(1½ marks)**.

(Sub-Total: 9 marks)
(Grand Total: 10 marks)

(b) The reasons for the fall in "technical standards and skills" are the:

- movement of personal lines and 'small' business to highly automated call centre environments where less technical knowledge and skill are required;
- pressure on margins for both insurers and brokers from long periods of soft markets;
- quality of people entering the profession as it becomes less attractive in comparison with other jobs e.g. investment banking and IT;
- lack of regulatory and industry-wide pressure for professional qualifications.

(4 marks each for each correctly stated reason. Maximum of 3 each to be graded. Sub Total: 12 marks)

(c) The causes of mistakes are:

- mergers, acquisitions and consolidation;
- reduced standards of supervision;
- impact of the market cycle;
- * technical training and education;
- * policies;
- * economic pressures.

- **Mergers, Acquisitions and Consolidation:** The integration process inevitably leads to indigestion, disruption, redundancies and lack of focus on clients.
- **Technical Training and Education:** Clients expect a good standard of technical capability in the people they deal with and a broad level of technical knowledge of insurance. A view widely expressed in the profession from both insurers and brokers is that technical standards and skills have fallen over the past three decades.
- **Reduced Standards of Supervision:** People that entered the insurance profession 20 or 30 years ago will have experienced a relatively high degree of supervision, particularly for staff with less experience. For example, outgoing post would often be counter-signed by a team leader. Junior underwriters would have had to refer underwriting decisions to senior staff, and so on. Today, we seem more diffident about the exercise of authority in this way. The explosion of email has also made the task of supervising communications between broker and underwriter, and broker and client much more difficult.
- **Policies:** Before the advent of contract certainty at inception (CCI), the insurance profession had become remarkably sloppy with respect to its key product, namely the policy document. Error rates tended to be high and policies were often issued months if not years after inception. The problem was particularly acute in the London Market and major UK risks where negotiations over cover dragged on interminably. Fault lay with both insurers and brokers. This has been partly but not completely resolved by the CC I initiative.
- **Impact of the Market Cycle:** Soft markets mean more than just lower premiums. They tend to reduce standards overall. More difficult risks can be placed with less information and without much skill on the part of the broker. Underwriters are less rigid on policy conditions, at least at the underwriting stage, and less time is spent on the detail. Despite knowledge of these market conditions, the management of brokers and insurers still seek growth and increased market share.

- **Economic Pressures:** Some of the worst problems have probably arisen as a result of a desire for short-term profits. With the benefit of 20/20 hindsight, the pensions mis-selling scandal and the film finance shambles look completely avoidable. The total cost of these two episodes is simply vast in comparison with the money actually made by both brokers and underwriters.

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

(d) The senior executives of an insurance organisation are:

- Chief Finance Officer (CFO) or Finance Director
- Chief Operating Officer (COO)
- Divisional or Strategic Business Unit CEOs
- Chief Risk Officer (CRO)
- Head of Internal Audit
- Marketing Director
- Human Resources (HR) Director
- Information Technology Director or the Chief Information Officer (CIO)
- Strategy Director

Chief Finance Officer (CFO) or Finance Director is always a board-level appointment. The CFO is responsible for all financial matters including budgeting, financial planning and tax, and is often regarded as the next most senior position to the CEO. The CFO would normally be a qualified accountant. This role includes the management of the financial risks to the company, financial planning and reporting, capital management, record keeping, taxation, and communicating the financial performance and forecasts to analysts. When necessary, the CFO may be involved in raising capital and in the acquisition or disposal of parts of the business.

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.

Divisional or Strategic Business Unit CEOs are normally the leaders of the key business units generating the majority of revenue or profit.

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.

Head of Internal Audit is a member of senior management, usually reporting directly to the CEO. Internal auditors are responsible for the independent inspection and assessment of the effectiveness of the range of risk management and internal control processes established by management to manage risk across the organisation. They provide consultancy and advice on the adequacy of risk identification and assessment processes and the design of effective

internal controls. They report on the overall adequacy of internal controls operated to enable the board to meet external reporting obligations. They are different from the external auditor, which is appointed by the board to audit the business and report to the shareholders.

Marketing Director: This role depends very much on the nature of the business, i.e. whether it is centralised or not and its style of management. Marketing-led companies would normally have this role at board level. In addition to setting the marketing strategy, this role is responsible for marketing analysis, brand management and promotion. In some companies the marketing director is also responsible for the management of the sales function. Marketing is a process that identifies, anticipates and advances value propositions that satisfy customer needs in a profitable manner.

Human Resources (HR) Director is responsible for the effective use of human resources in the workplace. This involves the development and implementation of policies for human resource planning, recruitment and selection, performance management, rewards and recognition, equality and diversity policies.

Information Technology Director or Chief Information Officer (CIO) is responsible for the delivery of effective and efficient technology, essential to any organisation. This might include linking together voice, data and image across a whole range of platforms (telephony, desktop PCs/laptops, networks, servers, mainframes, communications processors, data storage media, display and print devices etc.) and connecting the technology across multiple sites, with third parties and the internet.

Strategy Director: An integral part of the management role is each manager's responsibility for the development and implementation of plans in their units; the strategy director's job is to support the board and executive management in the creation of a company-wide strategic framework and also to establish a planning process to ensure that units present sound, deliverable plans that are consistent with that framework. The strategy director would be expected to brief the management on strategic issues, facilitate planning meetings, and monitor the implementation of plans, probably by means of a balanced scorecard system. They would work closely with the CFO who has responsibility for the financial aspects of plans and budgets.

(1 mark each for each correctly stated senior executive. 1 mark for each correct and completely stated role. Sub-Total per executive: 2 marks. Maximum of 4 to be graded, Grand Sub-Total: 8 marks)

(Grand Total: 50 marks)

Part III

Answer THREE of the following FIVE questions.

Each question carries 34 marks.

10. (a) State and explain any four (4) benefits of good business relationships for a Broker. **(16 marks)**

    (b) (i) Explain the insurance market cycle. **(4 marks)**

    (ii) State any five (5) factors that drive the insurance market cycle. **(10 marks)**

    (c) Chartered Broker Status is intended to raise standards within the broking profession and to achieve recognition from the public and businesses for these much higher standards. State any three (3) benefits of a chartered Broker status. **(4 marks)**

Solution

(a) The benefits of good business relationships are:

(i) **Reduced Costs:** Transaction and maintenance costs are reduced as a result of knowledge of how the client's business 'ticks'. Information flow is improved.

(ii) **Better Returns for the Broker:** The longer relationships last, the better the return for the broker. In all business relationships, higher costs are incurred at the beginning as the broker gets to know the client and its needs, but once this knowledge is fully assimilated, tasks of all types can be completed quickly and more efficiently.

(iii) **More Cross-Selling:** There is a greater likelihood of cross-selling or gaining a bigger share of the 'client's wallet' which simply means all of their insurance and risk-related expenditure including employee benefits; it is always easier to sell off the back of an established relationship.

(iv) **Better Retention Rates:** Good relationships equal long-term relationships that can sustain occasional mistakes and lapses in service, and indeed full-scale reviews. With a strong relationship, there is a good chance that if another broker proposes a lower fee or claims to be able to place cover at a lower premium, the incumbent broker will be given the opportunity to respond. Indeed, the client may be willing to pay the broker a 'premium', that is, a higher fee in recognition of the value in the relationship.

(v) **Improved Problem Solving:** Problems can be identified and dealt with before they become serious; even in the best relationships problems can occur for a variety of reasons; staff absence or changes might cause problems; the market or the client's needs may change; in this respect, clients can behave just like us – they don't like to complain and they are willing to tolerate faults. However, it is essential that the broker is always vigilant and regularly checks that the relationship is really as good as they like to think.

(vi) **More Referrals:** If the most cost-effective source of new business is a new risk from an existing client, then the next best is a strong referral from an existing and satisfied customer.

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

(b) (i) The insurance market cycle refers to the trend for insurance rates and underwriting capacity to rise and fall over time, often independently of the general business cycle.

(4 marks)

(ii) The factors that drive the insurance market cycle are:

- Catastrophic Losses ;
- Investment Performance;
- Oversupply of Insurance Capacity;
- Economic Conditions.
- Claims Cost Inflation;
- Availability of Capital;
- Risk Management Improvements;

(2 marks for each correctly stated factor. Maximum of 5 to be graded. Sub-Total: 10 marks)
(Grand Sub-Total: 14 marks)

(c) The benefits of chartered status are:

- sharpens competitive edge
- enhances business performance
- promotes and supports regulatory compliance
- provides tangible evidence of professional status
- helps attract and retain talent

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

11. (a) SWOT Analysis is a common tool used in developing strategy. State five (5) areas that this type of analysis might be considered for usage. **(15 marks)**

(b) The larger broking firms choose to maintain their own security function. State any five (5) reasons why the broking firms chose to maintain this function. **(15 marks)**

(c) Explain the term “distribution channel”. **(4 marks)**

Solution

(a) The areas that this type of analysis might be considered for usage are:

- Where does the business wish to get to in the short, medium and long term?
- Which markets can and should the business compete in?
- How can the business perform better than the competition?
- What resources in terms of skills, assets, finance, relationships, technical competence, and facilities are required?
- What are the values and expectations of those who have influence in and around the business?
- The SWOT analysis is often supported by a PEST analysis. Quite often it is expanded to also include 'environmental and legal', resulting in the acronym PESTEL. It is an analysis of the marketplace in which the firm works and the key factors driving change within its business environment. This is an area where it may be more effective to use outside help to conduct some of the needed research. Of course, in the age of the internet, a huge volume of material and tools are available online.
- Specifically, commissioned research is conducted with key clients and suppliers by specialist contractors. The output from this work needs to be consolidated so that it can be considered by the senior management of the firm. Larger firms are likely to require a short list of options supported by further budgeting and business planning. The smaller firm can and often does take a more entrepreneurial approach. Some of the typical outcomes of the strategic review might include:
- defining the business' vision of itself and the strategy to achieve that vision;
- creating a 'mission statement';

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

(b) The reasons why the broking firms choose to maintain their own security function are:

- Client demand – a frequent request in tender exercises for larger risks is indicative of the broker's approach to insurer security.
- Large broking firms place business in many jurisdictions around the world – the quality of regulation varies considerably from country to country and many insurers are not rated or only have public information ratings. For reasons of corporate governance, these firms prefer to adopt a consistent approach around the world based upon standards and procedures developed by a central security function.
- Many of the insurers that have failed anywhere in the world did so whilst allowed to underwrite by the competent authorities, so the broker needs its own method of assessment.
- A perception among large firms that they have a greater duty of care imposed upon them because of their size, influence and access to confidential data.
- The professional security function can gain access to more detailed information from insurers.
- To undertake the necessary analysis requires financial expertise, and it is more cost effective to do this as part of a focused central team.
- In theory this function could be outsourced to a firm of accountants but that is unlikely to be acceptable to insurers, at least as regards the provision of confidential data.

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

(c) A distribution channel is a chain of businesses or intermediaries through which a good or service passes until it reaches the end consumer. It can include wholesalers, retailers, distributors and even the internet itself. **(4 marks)**

(Grand Total: 34 marks)

12. (a) State any three (3) actions through which identified risks might be treated in an organisation. **(9 marks)**

(b) The objectives of risk management are mainly to preserve the assets and income of any organisation by providing protection against fortuitous losses. State five (5) basic objectives that risk management seeks to attain. **(10 marks)**

(c) The traditional hierarchical structure of a business concentrates power at the top of the organisation, with limited decision-making delegated down through the ranks. State five (5) characteristics of "concentrated power". **(15 marks)**

Solution

(a) The steps through which identified risks might be treated in an organisation are**:**

- who within the organisation takes responsibility for the risk – most firms tend to allocate risks to the person in the best position to manage and monitor them with the proviso that some risks must remain the province of the executive management group;
- the structure of the overall management of the process via board committees and sub-committees – some firms appoint a specific risk committee;
- clear protocols to ensure clarity of ownership of risk to avoid a risk "falling between the cracks";
- the regularity of review.

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

(b) The basic objectives that risk management seeks to attain are:

- continued growth; * higher profits; * lower costs;
- minimal interruption of operations; * peace of mind;
- satisfaction of social responsibility with a good public image;
- stable earnings; * survival.

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

(c) The characteristics of concentrated power are:

- long chains of command with orders flowing down and information flowing up;
- strong centralisation of decision-making and functions;
- spans of control whereby each manager throughout the organisation would have no more than eight or ten direct reports;
- limited lateral information flow and slow decision-making;
- formal communication systems, but limited explanation to the workers;
- limited adaptability to change;
- close association with the production- and sales-led organisations.

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

(Grand Total: 34 marks)

13. (a) In addition to the rise of the aggregators and the continued process of consolidation for broking firm, many other factors have had a significant bearing on distribution and marketing for both insurers and brokers. State any six (6) of such factors. **(18 marks)**

(b) Both insurers and brokers are concerned about responding to the needs and wants of their clients. This aim is often defined in terms of the client value proposition. The proposition is defined in different ways. State three (3) of these ways. **(6 marks)**

(c) State any four (4) reasons to be considered by Brokers why working with a more limited number of insurers could be considered as a viable option. **(10 marks)**

Solution

(a) The factors that have had a significant bearing on distribution and marketing for both insurers and brokers are:

- the sheer competitiveness of the industry;
- greater demand from large- and medium-sized clients for a wider and more sophisticated range of products and services;
- prolonged soft commercial insurance market conditions with few expectations of change, although rates are thought to have reached a plateau, these challenges the economic models of all market participants. The prolonged soft commercial market could see movement following the recent changes to the Ogden rate;
- lack of real growth in the private sector of the economy for many years, although 2014 saw a return of market confidence with companies starting to invest in construction and business projects;
- the continuing trend towards fees for broker services for mid-market clients;
- claims farming', referral fees and fraud, particularly in the private motor sector leading to a Competition Commission review and possible reputational issues for the industry as a whole, referral fees have now been banned in the Jackson Reforms, which should see overall claims costs reducing and a more balanced settlement in favour of the claimant, as opposed to legal fees;
- the threat of the internet to further disrupt existing business models. Alongside this is the debate that in the desire to simplify the commercial insurance transaction online, there may be a rise in disclosure-related issues;
- the fact that while the internet and other forces may change distribution methods, the underlying insurance product remains relatively unchanged proving that the model of the "losses of the few being spread among the many" is robust;
- for insurers, the selection of the myriad alternative distribution routes;
- in the case of Lloyd's, how it manages its dependence on Lloyd's brokers;
- both insurers and brokers have to decide how physically close they need to be to their clients; do they maintain traditional multifunction branches, centralise some activities or make use of call centres?

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

(b) The client value proposition is defined in terms of:

- the demographics of the client marketplace;
- the location of clients;
- the specific needs and wants that reflect their individual characteristics;
- how the products and services offered respond to these needs and wants or how they need to be adapted or tailored to do so;
- how it will be delivered and from where;
- the cost of providing the proposition.

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

(c) The reasons to be considered by Brokers why working with a more limited numbers insurers could be considered as a viable option.are:

- Many insurers will not deal with every broker and even the insurers that do offer varying levels of service.
- Even large brokers cannot maintain the same degree of relationship with every possible insurer. There are as many insurers competing for commercial business, but most brokers will, by normal market forces, place a large proportion of their account with a much lower number.
- By using a restricted panel of insurers for a certain type of business, the broker can gain benefits for clients in terms or cover, service, and competitive premiums and additional remuneration. Broker-agreed wordings speed up the issue of policies by minimising the need to negotiate over cover.
- Many brokers use single-insurer facilities for business, such as travel/personal accident or excess liability, to further enhance the benefits described above.
- It can be more cost-effective to deal with fewer insurers for certain types of business. Many insurers have built products that are integrated into the broking IT systems used by many brokers. These can give additional efficiency gains.
- Concentration and aggregation of business with fewer insurers may give the broker greater influence and the ability to negotiate generally better terms overall for clients.

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

14. (a) State any eight (8) professional criteria for assessing insurer capabilities by Brokers. **(24 marks)**

(b) There is the generally idealistic view that people should not be rewarded for merely doing their job and that many people are not motivated by money. State five (5) views that are obtainable in an ideal reward system in a workplace. **(10 marks)**

Solution:

(a) The professional criteria for assessing insurer capabilities are:

* service to clients; * service to the broker; * innovation;
* underwriting appetite and specialist areas; * breadth of cover;
* credit facilities; * capacity; * continuity;
* geographical spread and quality of global organisation and administration;
* technical advice and specialist expertise; * competitiveness;
* survey and risk control; * reputation; * financial security.

(3 marks for each correctly stated criterion. Maximum of 8 to be graded. Sub Total: 24 marks)

(b) The views that are obtainable in an ideal reward system in a workplace are:

- the whole bonus structure should be transparent to all;
- there should be a fair division of rewards;
- truly exceptional performance should receive exceptional rewards;
- everyone should remember that bonuses can go down as well as up;
- there should be a link to overall performance, whether within the specific division or the firm as a whole, and this link should be the larger component, the more senior the person;
- for large accounts where many people are involved, bonuses may not work since when spread amongst the whole team, the amounts may become derisory. This area needs more thought and should probably reflect overall team performance;
- care must be exercised to ensure there is no evidence that a firm's incentive plan has caused a conflict of interest to the client's detriment.

(2 marks for correctly stated view. Maximum of 5 to be graded. Sub Total: 10 marks)
(Grand Total: 34 marks)