Instructions

- Three hours are allowed for this paper.
- Do not begin writing until the invigilator instructs you to.
- Read the instructions on page 3 carefully before answering any questions.
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must NOT write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must both be handed in personally by you to the invigilator before you leave the examination room. Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.
Unit P93 – Commercial property and business interruption insurances

Instructions to candidates

Read the instructions below before answering any questions

• **Three hours** are allowed for this paper which carries a total of 200 marks, as follows:

  - Part I 14 compulsory questions 140 marks
  - Part II 2 questions selected from 3 60 marks

• You should answer **all** questions in Part I and two out of the three questions in Part II.

• You are advised to spend no more than two hours on Part I.

• Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

• The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

• You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should 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.

• If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

• Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.
PART I

Answer ALL questions in Part I.

Note form is acceptable where this conveys all the necessary information.

1. Define the following terms with reference to a business interruption policy.
   (a) Turnover. (4)
   (b) Gross profit. (6)

2. (a) Provide a definition of the doctrine of subrogation. (5)
   (b) Explain briefly two examples of how subrogation can operate in property insurance. (4)

3. (a) Identify how the construction of a building can give rise to theft claims. (5)
   (b) List four types of perimeter protection excluding doors and windows. (4)

4. (a) State the three main headings under which property is usually insured. (3)
   (b) Explain briefly three examples of additional costs incurred in the reinstatement of property insurance. (6)

5. Explain the difference between increase in cost of working and additional increase in cost of working, with reference to business interruption insurance, and provide an example of where each would apply. (10)

6. Explain the effect of the Fires Prevention (Metropolis) Act 1774. (10)

7. Explain how a business interruption policy, written on a declaration linked basis, operates. (10)
8. (a) Explain briefly the purpose of underwriting. (4)
(b) State how the premium for an item on a first loss basis of cover would be calculated and provide an example. (4)

9. Describe how subsidence, heave and landslip occurs, making reference to the type of soil which presents the greatest risk when considering the underwriting of such cover. (10)

10. In the event of riot damage, insurers are able to recover from the police providing policy conditions have been met.

State and provide details of the Act applicable and describe briefly recent developments in this respect. (8)

11. Identify six principal causes of accidental fire, providing an example of each. (12)

12. Outline the Statement of Principles agreed between the Government and the Association of British Insurers in respect of flood damage cover. (11)

13. Under the standard cover provided by underwriters for theft risks, explain briefly the following terms:
(a) collusion; (4)
(b) secretion; (4)
(c) full cover. (6)

14. (a) List five of the risk criteria used by underwriters when considering whether to accept or decline a proposal. (5)
(b) There are a number of trades which few underwriters are prepared to cover in light of consistently poor claims experience.

Outline five examples why such trades are not considered attractive to underwriters. (5)

Questions continue over the page.
PART II

Answer TWO of the following THREE questions.
Each question is worth 30 marks.

15. (a) Outline how co-insurance operates. (10)

(b) As an insurer, after making your assessment of the estimated maximum loss (EML) for a risk offered to you, you decide that the sums insured exceed your acceptance limit.

Discuss the various types of reinsurance which may enable you to underwrite this and other risks, while keeping your exposure to an acceptable level. (20)

16. One of your policyholders has a fire, special perils and theft policy with your insurance company, insuring general contents, including plant, machinery and fixtures and fittings. They have just taken over another firm and require cover for this risk before you are able to carry out a survey. You are aware that the new premises do not have a sprinkler system and the previous owners had an intruder alarm at the premises.

The acquired business occupies the end unit of a range of five units built ten years ago and they are occupied as follows:

Units 1 & 2 – Plumbers merchant
Unit 3 – Light engineering workshop
Unit 4 – Disused (formerly a warehouse)
Unit 5 – Occupied by the acquired firm

(a) Your client is considering the acquisition of the five units which are leased/occupied as above. Identify the underwriting information required for units 1, 2, 3 and 5 and what restrictions on cover may be applied to unit 4. (20)

(b) Identify ten features of the risk you would expect your survey to reveal. (10)

17. As a broker, you have been asked by a client to explain certain aspects of their business interruption (BI) cover.

(a) Give details of the indemnity provided should an insured event occur. (8)

(b) The covers for the property damage and BI insurance are placed with separate insurers. Explain briefly any difficulties that may arise in the event of a claim. (6)

(c) Additionally, your client has asked for the following extension to be added to their cover: murder, suicide, food poisoning, notifiable diseases. Identify the features of this extension. (6)

(d) Your client has both the public utilities extension and the accidental failure of utilities covered under their policy. Explain briefly each of these extensions. (6)

(e) Your client has asked why they need to have ‘theft’ covered under their BI policy when they have a separate theft policy in force. Provide a brief explanation as to why both policies are required. (4)