



THE CHARTERED INSURANCE INSTITUTE

P93

Diploma in Insurance

Unit P93 – Commercial property and business interruption insurances

October 2013 examination

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. Describe specific risk improvements which could be introduced by an insured to control the fire risk associated with electrical installations and apparatus. (12)

2. Describe the European Standard EN50131 (in respect of alarm systems) and the effect of the standard on insurers. (9)

3. (a) Outline the risks presented to a retailer when they install an automated teller machine (ATM) on their premises. (4)
- (b) State **six** risk control requirements which would reduce the theft risk associated with ATMs for a retailer. (6)

4. Explain why 'loss of data' exclusions have been introduced into property damage and business interruption policies. (10)

5. Explain whether the following business costs should be included within the gross profit item on a business interruption policy.
 - (a) Purchase of raw materials. (3)
 - (b) Power. (3)
 - (c) Advertising. (3)

6. Describe the actions an underwriter will take when they review the renewal of a property damage and business interruption policy. (12)

7. Describe briefly the causes of:
 - (a) subsidence; (5)
 - (b) heave. (5)

8. State the limitations and exclusions of the European Union and public authorities clause which may be contained within a property damage policy.
9. List **12** risk features that a surveyor will refer to when writing a survey report in respect of theft. (12)
10. Identify **three** types of detector which can be used in an automatic fire alarm and explain briefly how **each** operates. (12)
11. Describe the cover provided in respect of rent on a property damage and business interruption policy. (8)
12. Describe the criteria which an underwriter will use to decide whether to accept or decline a property damage risk. (12)
13. Explain the purpose of the following conditions which appear in a property damage policy.
 - (a) Arbitration. (4)
 - (b) Alteration of risk. (6)
14. Outline the similarities and differences in cover on a business interruption policy in respect of: prevention of access extension; and prevention of access – loss of attraction extension. (6)

Questions continue over the page

PART II

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

15. Liverton Airport has approached RST Insurance for property damage and business interruption insurance. The sums insured are stated as follows:

Item	Sum insured	Basis of cover
Terminal buildings	£250,000,000	Day one reinstatement plus 15%
Outbuildings located air side	£10,000,000	Day one reinstatement plus 15%
Buildings of the air traffic control tower	£25,000,000	Day one reinstatement plus 15%
Contents of the air traffic control tower	£25,000,000	Day one reinstatement plus 15%
All other contents	£50,000,000	Day one reinstatement plus 15%
Stock	£10,000,000	Indemnity
Business interruption – gross profit maximum indemnity period 24 months	£240,000,000	Sum insured

A surveyor for RST Insurance has undertaken a survey of the premises and has established the following facts.

- There are two identical terminal buildings which do not communicate. Each of these buildings is split into five separate two hour compartments.
- The view of the surveyor is that each terminal building is of Grade 1 construction, and a fire would be restricted to one compartment within each terminal building.
- All other contents are split equally between each fire compartment within the two terminal buildings.
- The air traffic control tower is located on the opposite side of the airport to the terminal buildings.
- There are no compartments in the air traffic control tower and a total loss is assumed of this building in the event of a fire.
- All stock is retained within the outbuildings except 10%, which is retained within the two terminal buildings in equal apportionment.
- Both terminals have an equal number of passengers and each operate at 80% capacity.
- In the event of the loss of the air traffic control tower the airport would close for 3 months until temporary facilities have been found.
- Utilising the temporary air traffic control facilities the airport could operate at 50% of its current capacity.
- After 12 months, the air traffic control tower would be fully operational and the airport could operate at full capacity.
- If the air traffic control tower was destroyed, the additional costs would be £10,000,000 whilst the airport operates with temporary air traffic control facilities.
- In the event of a fire at one of the terminal buildings, the terminal building would be closed for a month but would fully re-open thereafter.
- If one of the terminal buildings was damaged the additional costs would be £1,000,000 whilst the terminal building is closed.

- (a) Calculate, **showing all your workings**, an estimated maximum loss for the property damage and business interruption risk following a fire at:
 - (i) the air traffic control tower; (10)
 - (ii) one of the terminal buildings. (10)
- (b) Describe how RST Insurance would determine how much capacity to allocate to the risk. (6)
- (c) Explain how RST Insurance could use facultative reinsurance to allow them to write 100% of the risk. (4)

16. Liverton Airport has asked their broker for advice as to how the premium for their property damage and business interruption insurance could be reduced. The broker suggests changes in cover in their response.

Explain how **each** of the following cover alterations operate, their advantages and disadvantages for both the insurer and the insured and how an insurer might respond to any request for such cover.

- (a) Aggregate deductible. (8)
- (b) Flexible limit of loss applicable to the business interruption section. (10)
- (c) First loss limit. (12)

17. DFG Fuels Ltd supply Liverton Airport with aviation fuel. Their premises are located two miles away from the airport and fuel is transported by pipeline to the airport.

As a broker, you are asked to prepare presentations for the underwriter which would allow the underwriter to assess the property damage and business interruption risks.

- (a) Outline and explain the information you would present to the property damage and business interruption underwriter which would allow them to consider the risk in relation to the aviation fuel storage facility, including coverage requirements and inherent risk features. (25)
- (b) DFG Fuels Ltd erects a new industrial unit on the site. After six months, a crack appears in a load bearing beam. After further investigation, it was found that the beam was faulty.

Explain briefly the extent of cover that applies to both the buildings and the contents under the accidental damage peril of a property damage policy, if the building were to collapse. (5)

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