

# THE CHARTERED INSURANCE INSTITUTE

## P93

### Diploma in Insurance

#### Unit P93 – Commercial property and business interruption insurances

April 2014 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.

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PART I

Answer ALL questions in Part I

Note form is acceptable where this conveys all the necessary information

1. Describe the underwriting features which should be considered when underwriting the risk of arson. (12)
  
2. Explain the trends which insurers see in respect of theft losses. (8)
  
3. (a) Describe briefly the cover provided by the sprinkler leakage peril on a property damage policy. (3)  
(b) State the actions a policyholder should take in advance of a loss, to ensure that they receive an indemnity following damage caused by sprinkler leakage. (5)
  
4. Describe how a long-term agreement (LTA) operates and how a long-term undertaking differs from an LTA. (10)
  
5. (a) Outline the cover provided by a transit extension under a business interruption policy. (4)  
(b) List **four** other business interruption extensions which would provide indemnity for loss of gross profit as a result of damage to the policyholder's property whilst away from their premises. (4)
  
6. (a) Outline the actions which an underwriter will take upon receipt of a property survey from a surveyor, prior to the acceptance of a property damage risk. (7)  
(b) Explain briefly the options available to the underwriter, if a policyholder is unwilling to comply with a risk control requirement. (5)

7. Explain, using an example, how an underwriter will calculate a premium using a burning cost calculation.
8. Compare and contrast the 'average' clause on a property damage policy which is insuring the following:
- Farming produce subject to the special condition of average.
  - Stock for a manufacturer insured on an indemnity basis.
  - Plant and machinery for a manufacturer which is insured subject to the reinstatement memorandum.
  - Buildings insured on a day one reinstatement basis. (8)
9. Explain the difference between facultative and treaty reinsurance and why one may be more suitable than the other. (12)
10. (a) Explain briefly why the figure calculated by an accountant for gross profit will differ to that which the policyholder would calculate for their business interruption policy. (5)
- (b) Describe briefly the benefit of calculating gross profit on a 'difference' basis rather than the 'addition' basis which is net profit plus insured standing charges. (5)
11. (a) Identify **four** types of fire extinguishers and provide an example as to the type of fire for which **each** would be suitable. (8)
- (b) State the best method of extinguishing fires involving metal. (2)
12. (a) Describe how the subrogation condition operates in a property damage policy. (5)
- (b) Outline **three** examples when an insurer would be able to exercise subrogation rights. (3)

Questions continue over the page

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13. Describe how a stock declaration clause operates.
14. (a) Explain the cover provided by a standalone 'increase in cost of working' item in a business interruption policy and how this differs to that provided by an 'additional increase in cost of working' item. (10)
- (b) Identify a trade/business and explain briefly why they would purchase:
- (i) increase in cost of working cover; (2)
- (ii) additional increase in cost of working cover. (2)

Part II questions can be found on pages 8 and 9

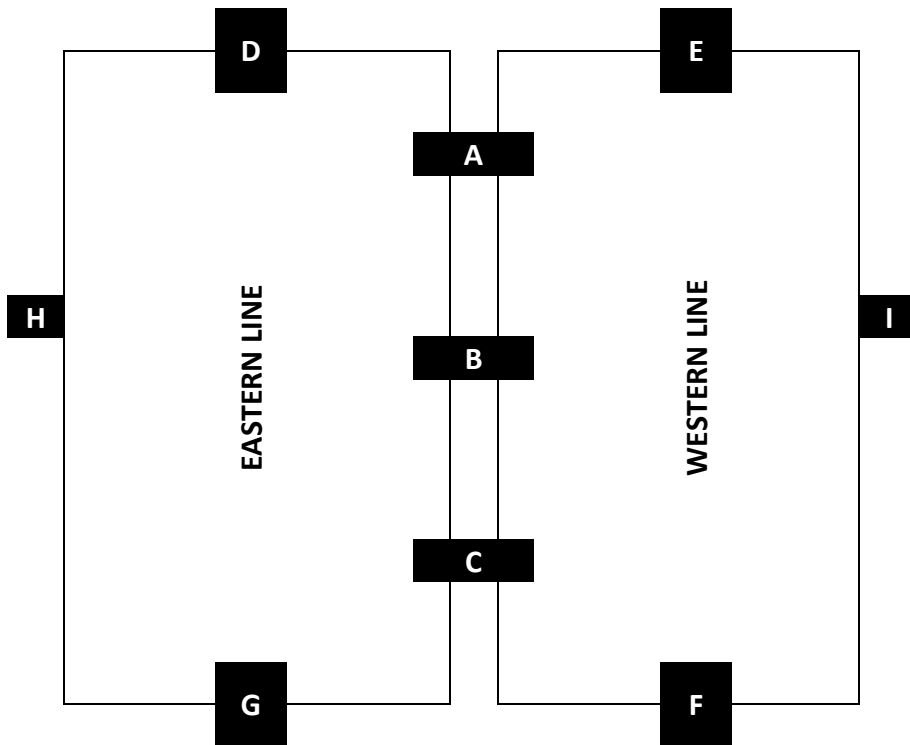
**PART II**

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

The following scenario and diagram applies to **ALL** Part II questions.

Liverton Borough Council (LBC) operates a tram network throughout Liverton. There are two lines, one travels to the west of the town (Western Line) and the other travels to the east (Eastern Line). The service operates daily between 6am and 1am. Both lines share three stations, including the main station in Liverton town centre.

The diagram below shows the layout of the two lines and the location of the stations A to I.





15. (a) LBC has a Government grant to construct a new central depot. The plan is to have four buildings on site which will consist of administration facilities and three separate units used for the storage and maintenance of trams.

XYZ Insurance is asked to provide advice in respect of the design of the buildings, relative to the inherent fire risk associated with the premises.

Write a report, on behalf of XYZ Insurance, identifying the **construction** features which should be considered. (15)

- (b) LBC ask their broker how to calculate the buildings sum insured. As the broker to LBC, prepare a response including how this may change depending upon the different types of cover which could be selected. (15)

16. (a) LBC has some stations with ticket offices which are manned between 7am and 9pm. The remaining stations are unmanned with the conductor collecting fares on the tram. All stations have platform ticket machines.

Discuss the money risk, identifying the cover which should be arranged and the risk management features necessary to ensure that the money risk is controlled. (22)

- (b) The LBC tram network is heavily dependent upon metal cable to operate the signalling system. Theft of cable is a major problem and LBC has enquired whether property damage and business interruption insurance applies to this risk and, if not, whether cover is available.

Prepare a response to LBC. (8)

17. (a) XYZ Insurance decides to undertake a business interruption survey of the LBC tram network.

Identify the information which you would expect to see in the survey report and explain its relevance to this risk. (24)

- (b) LBC operate the tram network at a net loss and enquire whether they should insure their business interruption risk.

Prepare a response to LBC. (6)

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