



THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

APRIL 2010 EXAMINATION PAPER

**UNIT P93
COMMERCIAL PROPERTY AND
BUSINESS INTERRUPTION INSURANCES**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on 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 booklet and this question paper must be handed in personally by you to the invigilator before you leave the examination. Failure to do this may result in your paper not being marked and you may be prevented from entering this examination in future.**

READ THE INSTRUCTIONS OVERLEAF CAREFULLY BEFORE ANSWERING ANY QUESTIONS.

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P93 – Commercial property and business interruption insurances

CANDIDATE INSTRUCTIONS

READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS.

Three hours are allowed for this paper. You should answer all questions in Part I and two out of the three questions in Part II.

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

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

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

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

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

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.

PART I

Answer ALL questions in Part I.

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

1. Explain briefly your understanding of the term 'fire triangle'. Explain by way of an example the external factors necessary for combustion to occur. **(6)**

2.
 - (a) Explain briefly what you understand by the term 'poor housekeeping'. **(4)**
 - (b) Describe, giving examples, why poor housekeeping can be a major problem for underwriters. **(6)**

3.
 - (a) Explain how lightning occurs. **(6)**
 - (b) Outline the minimum protection underwriters expect to see in place when considering a property risk against lightning damage. **(4)**

4.
 - (a) Under business interruption insurance define the terms 'indemnity period' and 'maximum indemnity period'. **(3)**
 - (b) State the factors the insured would consider when selecting the maximum indemnity period. **(4)**
 - (c) Outline how the indemnity period differs in advance profits insurance. **(3)**

5. Outline what the main objectives of a survey are and when an underwriter would be likely to deem a survey necessary. **(10)**

- 6.** Describe what the likely effect would be on a reinsurer's renewal considerations, where there is:
- (a)** a soft market; **(4)**
 - (b)** a hard market. **(4)**
- 7.**
- (a)** Outline how theft is defined in section 1 of the Theft Act 1968 (England and Wales). **(4)**
 - (b)** Explain how this differs from the insurer's standard definition of theft, as provided by the typical wording in use by most insurers. **(6)**
- 8.**
- (a)** Explain what is meant by a standard risk profile and illustrate your answer with an example. **(7)**
 - (b)** State whether an underwriter could accept a risk which deviates from the standard risk profile, giving your reasons. **(5)**
- 9.** Discuss in what ways loss of rent cover, under a property damage insurance policy, fails to provide adequate cover to an insured, even when the sum insured and rent period are adequate. Outline in your answer the wider cover available. **(10)**
- 10.** Explain briefly the following clauses commonly used in a property damage insurance policy.
- (a)** All other contents. **(6)**
 - (b)** Automatic reinstatement of sum insured. **(3)**
 - (c)** Capital additions. **(3)**

- 11. (a)** Explain what is meant by the pro rata condition of average and in what way it protects insurers. **(6)**
- (b) (i)** Describe briefly how the pro rata condition of average differs from the special condition of average. **(3)**
- (ii)** Give an example of where this may be used. **(1)**
- 12. (a)** Identify why, in a property insurance policy, it is often said a 'warranty goes to the root of the policy'. **(5)**
- (b)** Explain the difference between a warranty and a condition precedent to liability. **(5)**
- 13. (a)** Explain the concept of book debts coverage. **(8)**
- (b)** Outline why the demand for book debts insurance has diminished in recent years. **(2)**
- 14. (a)** State the two main categories of underwriting considerations in respect of property and business interruption insurances. **(2)**
- (b)** Give five examples of each. **(10)**

PART II

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

15. (a) Your role, as a fire surveyor, is to assess Estimated Maximum Loss (EML). Explain what information you would provide to an insurer in respect of their own retention and any reinsurance provision they may require. (20)
- (b) Explain the concept of EML using an example to illustrate your answer. (10)

16. The financial controller of one of your clients does not understand the concept of gross profit cover on a declaration linked basis, or unspecified supplier's and specified customer extensions, under their business interruption insurance.

As their broker, explain these covers and the requirements placed on the client in the event of a business interruption claim. (30)

17. A company which you insure, has a large fire loss at their premises.
- (a) Explain the enquiries you would expect the loss adjuster to make and the information they would present in their initial report. (15)
- (b) The property insurance policy includes a reinstatement clause. Calculate and compare the amount payable under this clause with the loss payable on an indemnity basis, using the figures set out below.

Sum insured	£9,000,000	
Value at time of loss	£9,975,000	
Loss on indemnity basis	£2,500,000	
Value at time of reinstatement	£10,250,000	
Loss on reinstatement basis	£5,750,000	(15)

