



THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

OCTOBER 2009 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.

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

1. List and describe briefly, seven examples of the major causes of fire loss by accidental means. **(7)**

2.
 - (a) Explain briefly what is meant by a multi-tenure property. **(2)**
 - (b) Outline the key considerations that an underwriter would give to such a risk before providing fire insurance cover. **(9)**
 - (c) State what risk improvements may be suggested. **(4)**

3.
 - (a) In fire prevention, explain how a sprinkler system operates. **(3)**
 - (b) List three different types of sprinkler system and explain briefly under what circumstances it would be appropriate to use each of them. **(6)**

4.
 - (a) Describe what you understand by the term 'obsolete building'. **(3)**
 - (b) Explain briefly how insurers give special consideration to obsolete buildings under a property damage insurance policy. **(7)**

5. A policyholder has stock insured on a declaration basis. Explain what you understand by this and how you would expect an underwriter to react when declarations were not immediately forthcoming. **(10)**

6. (a) Distinguish between a 'requirement' and a 'recommendation' in a survey report and give two examples of each. (7)
- (b) Explain what you understand by the term 'EML'. (3)
7. (a) Explain the function of business interruption (BI) insurance. (3)
- (b) State three factors you would consider when setting the indemnity period. (3)
- (c) Give examples of four extensions of cover often found in a BI policy. (4)
8. The basic purpose of a building is to provide a safe and secure environment in which to carry out activities.
- (a) Explain two main aspects underwriters would consider in a building's construction, when looking to offer fire protection insurance cover. (6)
- (b) Outline briefly the work of the Fire Prevention Association. (2)
9. (a) Define an act of terrorism. (4)
- (b) Describe briefly the measures an insured can adopt to reduce the risk of an attack. (6)
10. When looking at theft risk, insurers have special concerns over cash in transit losses. Explain briefly why this is, and outline the preventative measures that may be appropriate. (8)

- 11.** Explain briefly:
- (a) what is meant by the term 'gross profit' with regard to business interruption insurances; (3)
 - (b) how insurers can help policyholders to overcome the difficulties of setting the correct gross profit figure. (7)
- 12.** Property insurance policies will often provide cover beyond damage by fire, lightning and limited explosions. Provide five examples of other covers often added to a fire policy under the generic heading of 'defined' or 'special' perils. Do not include any reference to theft or accidental damage in your answer. (10)
- 13.** Outline briefly:
- (a) floating and blanket insurances; (5)
 - (b) how floating and blanket insurances are of benefit to a policyholder; (3)
 - (c) how an insurer will normally calculate a premium for property insurance when offering cover on this basis. (3)
- 14.**
- (a) Explain what you understand by the term 'first loss policy' and explain its relevance to property insurance. (6)
 - (b) Outline the advantages for both insurers and insureds of first loss policies. (6)

PART II

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

15. (a) Explain the terms ‘day one reinstatement’, ‘declared value’ and ‘inflationary factor’ as applicable to a fire insurance policy and the benefits to the insured, and describe how an insured should set the amount of cover. (20)
- (b) Explain how a non-adjustable day one premium would be calculated, giving an example. (10)
16. You are the broker to the owners of a medium-sized warehouse situated in a small industrial estate, surrounded by residential properties. They have recently been asked to store high-value electrical goods by one of their clients.
- However, your clients are reluctant to upgrade their intruder alarm as requested by their insurers because their existing alarm has in the past been prone to a number of false alarms, and is not popular with neighbouring residents.
- (a) Explain the different methods of alarm signalling available, and identify which of these you consider most appropriate for this case. (20)
- (b) Identify physical protectors that would be appropriate for the security of these premises. (10)
17. (a) Explain the difference between co-insurance and reinsurance. (10)
- (b) Describe the main types of reinsurance available and the most appropriate use of each. (20)

