



THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

APRIL 2010 EXAMINATION PAPER

**UNIT P96
LIABILITY 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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P96 – Liability 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

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

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

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.** You are a UK liability underwriter who has been approached by an investment fund that is considering investing in research laboratories.

 - (a)** State the activities that are considered terrorist under the Terrorism Act 2006, which might be excluded under a liability insurance policy. **(6)**
 - (b)** State two activities which, if carried out by a research laboratory, would make a liability underwriter consider them to have a medium to high terrorist risk. **(4)**

- 2.**

 - (a)** Explain the term ‘SPV’ in relation to construction contracts, and for what purpose one might be established. **(7)**
 - (b)** Identify four characteristics of SPV’s that differentiates them from traditional civil engineering or building companies. **(8)**

- 3.**

 - (a)** Explain briefly the most suitable premium basis a public and products liability underwriter might use to calculate the premium for each of the following independent activities, all located at a film studio set.

 - (i)** Hotel for film crew and actors. **(2)**
 - (ii)** Company that sells foreign language films, the annual turnover of which is rarely constant due to fluctuating demand and currency rates. **(2)**
 - (iii)** Cinema. **(2)**
 - (iv)** Full time school for the children of full time studio employees and actors. **(4)**
 - (b)** State why both underwriters and policyholders might benefit, if public liability insurers underwrote a studio’s dangerous stunt activities during film making on a case by case basis, rather than covering such activities automatically under the annual public liability insurance policy. **(2)**

4. Explain briefly if the activities of each of the following would typically be covered under a public and products liability insurance policy, giving reasons in support of each answer.
- A handyman who is permanently employed by the insured to repair and maintain the insured's head office.
 - A doctor who the workforce can visit during working hours at a permanent surgery set up at head office.
 - Charity events organised by insured to raise money for the local community.
 - Activities by security guards employed by the firm. (8)

5. State the questions a liability underwriter would consider, when evaluating for the first time, the potential risk presented by a firm that wants to undertake a newly discovered process as part of its manufacturing activities. (10)

6. (a) Define the meaning of a 'non-admitted' insurance policy. (5)
- (b) Explain the characteristics in the claims process that an insured has to consider when dealing with claims under such policies. (7)

7. Your new assistant liability broker overhears you being asked by a client during a telephone call, to find out the cost of increasing his limit of public liability from £1m to £5m or to £10m. He does not know who the client is or what they do, but he quickly passes you the following table of premium loadings, that he understands are always applied by underwriters to increase the primary layer of £1m to the new limits.

List five factors that could cause the final premiums quoted by insurers to bear little relation to such percentage increases.

Limit of	% of the premium for the primary £1m limit
£2m	30
£5m	65
£10m	100

(10)

- 8.** Your inexperienced underwriting manager looks at the past employers' liability claims of your clients involved in engineering activities. He comments 'Surely you can reduce your claims from such activities, if you issue some sort of endorsement excluding liability for accidents involving hidden defects in items purchased from reputable suppliers? The subrogation clause must have a use in such claims, after all?'
- (a) Explain how you would respond to your underwriting manager, citing relevant legislation where appropriate. **(6)**
 - (b) Explain briefly how far rights of contribution exist in such a situation. **(2)**
- 9.**
- (a) State the recent changes in the way solicitors deal with claims that have made it easier for people to claim for compensation. **(4)**
 - (b) The 'credit crunch' is still a factor in the economy. State why people may be more willing to make claims at such a time. **(4)**
- 10.** The risk manager of a major client complains about the insistence by underwriters that a 'directors and officers' proposal is always completed annually, when so much of the information required in the proposal is available on the latest audited accounts, which are often put on the firm's websites when available.
- (a) Explain why the information in the latest audited accounts is of only limited use when fixing premiums. **(5)**
 - (b) Explain what additional information is required to assess the risk. **(7)**
- 11.** In relation to the QC clause under a professional indemnity insurance policy.
- (a) Describe briefly its purpose. **(6)**
 - (b) Outline how it benefits those insured. **(3)**

12. A new employee at a firm of solicitors is surprised that his new employer allows junior staff to make decisions about the direction of client's court cases, which are well beyond the experience usually expected of such staff, without guidance from senior partners. The new employee is told that this practice is fine as 'there is something called a breach of warranty cover on our professional indemnity insurance policy'.

Describe the extent of cover of such a clause and state if cover applies for this firm, citing appropriate case law.

(8)

13. Explain the main reason why **all** directors should take an interest in ensuring that their directors' and officers' underwriter, is aware of all material facts appertaining to their directors' and officers' insurance cover.

(8)

14. Identify the main occupational disease that often arises from each of the following occupations and state how each is caused.

- | | | |
|-------|-------------------------------|-----|
| (i) | Baker. | (2) |
| (ii) | Animal laboratory technician. | (2) |
| (iii) | Carpenter. | (2) |
| (iv) | Motor mechanic. | (2) |
| (v) | Typist. | (2) |

PART II

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

15. A managing director of a firm issues a press statement shortly after being involved in a court case, where an employee of the firm was injured in the UK.

‘One aspect of this case which has concerned us, was how much time we lost as a result of members of staff both acting as witnesses in court and meeting our insurers to resolve this claim – usually with expensive solicitors being present. Further, we are now being put under pressure to pay our injured employee the amount the courts said he is due. This is despite the courts saying that we were not vicariously liable and that the injury was caused by the actions of a local contractor, who unfortunately has now declared himself bankrupt before paying anything out.

We are also astonished that nobody wanted to consider how rehabilitation could help our injured employee’.

A competitor of the firm reads this press statement and asks you as their liability broker to advise the following.

- (a) Explain what provisions might typically be found in a liability insurance policy, including the extent of cover, in relation to:
- (i) the damages awarded to the employee in the light of the declared bankruptcy; (10)
 - (ii) the other losses. (10)
- (b) Describe the different forms of rehabilitation that are used. (6)
- (c) State what the respective advantages of rehabilitation are to:
- (i) the claimant; (2)
 - (ii) the defendant. (2)

- 16.** Bach Plc undertakes all forms of building, civil engineering and decoration work. They plan to renovate a large ten storey building they own, which is situated between a river and railway line, in what was once a thriving industrial area of a city. The building is divided into three interconnecting sections. A leading television centre that transmits programmes occupies the left hand section of the building, while the right hand section is an antique glass warehouse.

Bach Plc are to remove the middle section of the building before using industrial hammers, working 24 hours per day, to strengthen the foundations. Their workers will then install heavy floors made from girders which will be riveted, cut and welded on site. This would be to bear the weight of a bridge that will cross the river starting from the middle section of the building, which is set to be retail premises.

- (a) List the type of short-tail injuries that could arise under Bach Plc's employers' liability insurance policy from the activities described and how they are caused. **(10)**
- (b) Consider the types of risk exposure that could arise under Bach Plc's public liability insurance policy from the activities described. For each indicate how they are caused and state two questions an underwriter should ask to ascertain the extent of the risk. **(10)**
- (c) (i) Outline what duties are owed by employers to their employees at their work place. **(7)**
- (ii) Identify how an employer may discharge these duties. **(3)**

17. You have been the public and products liability broker to Handel Movements since its inception three years ago. Handel Movements provide an exceptional service, moving the personal belongings of musicians on tour from hotel to hotel, a service for which customers have consistently accepted price increases far in excess of the UK's annual inflation figure. Invariably, the claims made have been a result of the employees bumping instruments into hotel furniture. There is no deductible under the policy which has always been rated on turnover.

The present insurer has been increasing the rates and terms of all of their insureds where there has been an annual increase in claims number and claims totals, as they feel this is evidence of such risks 'deteriorating'.

You therefore create the following table which comprises of Handel Movements claims' statistics and turnover. It also includes figures you obtained from the client for the number of hotel visits by the firm for each period.

Period	Turnover (000)	Number of hotels visited	Number of claims	Total claims cost (000)
2006-07	200	100	10	4
2007-08	1000	500	40	20
2008-09	2000	750	50	50

- (a) Calculate the following statistics.
- (i) Average claims cost. (3)
 - (ii) Claims frequency per £1,000 of turnover. (3)
 - (iii) Claims frequency per hotel visit. (3)
- (b) Use the statistics from part (a) above to argue how credible (or not) the insurer's allegation is, that this risk is deteriorating. (11)
- (c) Identify the advantages to an underwriter of using turnover as a premium basis for this case. (5)
- (d) Identify the disadvantages to the underwriter of using the 'number of hotels visited' as a premium basis for this case. (5)