

Commercial property & business interruption insurances

Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of:

- the main risks to commercial property;
- the policy cover and market practices of commercial property and business interruption insurances;
- the risk perception, assessment and underwriting issues associated with these insurances.

Assumed knowledge

It is assumed that the candidate already has the knowledge gained from a study of the fundamental principles of insurance as covered in IF1 Insurance, legal and regulatory or equivalent examinations.

Summary of learning outcomes

1. Understand the risk of fire and other contingencies to property.
2. Understand the risk of theft to property.
3. Understand the cover provided under property insurance.
4. Understand the main practices of property insurance.
5. Understand the main aspects of business interruption insurance.
6. Understand risk perception, assessment and underwriting of property and business interruption insurances.

Important notes

- The syllabus is examined on English law and practice unless otherwise stated.
- The April session will test the legal position as of 31 August of the preceding year.
- The October session will test the legal position as of 28 February of the same year.
- Candidates should refer to the CII update website www.cii.co.uk/updates for the latest information on changes to law and practice and when they will be examined.

1. Understand the risk of fire and other contingencies to property

1.1 Fire and associated contingencies

- 1.1.1 The general causes of fire, including the fire triangle, heating and industrial processes;
- 1.1.2 The relationship between fire inception, propagation hazards and fire load;
- 1.1.3 How fire spreads through conduction, convection and radiation, including issues associated with multi-tenure buildings and warehouses;
- 1.1.4 The major causes of fire loss.

1.2 Fire hazards and protection

- 1.2.1 The relative fire hazards of materials used in industry;
- 1.2.2 The relative fire hazards of building construction materials;
- 1.2.3 Methods of fire protection;
- 1.2.4 Methods of protection of computer suites;
- 1.2.5 Methods of protecting property from lightning damage.

1.3 Other hazards and their control

- 1.3.1 Explosion hazards of flammable liquids and gases and the reduction of these risks;
- 1.3.2 The hazards of dust explosions and the reduction of this risk;
- 1.3.3 The hazards arising from storm, flood, burst pipes, impact, malicious damage, riot and civil commotion, terrorism, earthquake and subsidence, and their control.

2. Understand the risk of theft to property

2.1 The nature of theft risks including area, type of property and security;

2.2 The pattern of theft losses;

2.3 The criteria for security surveys;

2.4 Main security measures – perimeter protection, surveillance, access control and security guards, door and window construction, types of intruder alarm, types of safe;

2.5 Main methods of protecting vehicles, cash and goods in transit.

3. Understand the cover provided under property insurance

3.1 The basic cover under fire and specified contingency policies;

3.2 The provision of terrorism cover;

3.3 The principal policy terms, conditions and exclusions;

3.4 Theft insurance cover, exclusions and extensions including collusion, secretion and hold-up cover;

3.5 All risks policy cover and methods of arrangement;

3.6 Types of property which may be insured;

4. Understand the main practices of property insurance

4.1 Clauses commonly available in property damage policies;

4.2 First loss, blanket and floating insurances;

4.3 The use of average conditions, warranties and conditions precedent, excesses, franchises and deductibles;

4.4 Renewal procedures and considerations.

5. Understand the main aspects of business interruption insurance

5.1 Key facts

5.1.1 The need for and function of business interruption insurance;

5.1.2 Considerations concerning what needs to be insured and not insured.

5.2 Key definitions and main cover

5.2.1 The definitions of turnover and gross profit;

5.2.2 The difference between accountant's and insurers' 'gross profit';

5.2.3 The definition of the difference basis of gross profit;

5.2.4 Calculation of gross profit sum insured from presented accounts;

5.2.5 Other bases of cover;

5.2.6 The definition of indemnity period and maximum indemnity period;

5.2.7 Factors that impact on the selection of a maximum indemnity period.

5.3 Other cover issues and market practices

5.3.1 Additional contingencies and other extensions;

5.3.2 Policy conditions and clauses;

5.3.3 Special risks and occupations and the treatment of outstanding book debts;

5.3.4 Renewal procedures and considerations.

5.4 Claims practices

5.4.1 Calculation of gross profit claims using the policy 'formulae', including dealing with the other circumstances clause, increase in cost of working, savings and underinsurance.

6. Understand risk perception, assessment and underwriting of property and business interruption insurances

6.1 Risk perception and assessment

6.1.1 Main objectives of survey requests;

6.1.2 The use, content and interpretation of survey reports and interruption reports;

6.1.3 The calculation of estimated maximum loss (EML) and the insurer's liability;

6.1.4 Main underwriting considerations;

6.1.5 Standard risk profiles and deviations therefrom;

6.1.6 Uses of resurveys and post-loss surveys.

6.2 Underwriting

- 6.2.1 Typical risk criteria used in underwriting;
- 6.2.2 Application of warranties, excesses, deductibles, and franchises;
- 6.2.3 The theory of rating, including classification, discrimination, and experience and interruption basis rates;
- 6.2.4 Methods of calculating the premium;
- 6.2.5 Impact of EMLs and acceptance limits;
- 6.2.6 Impact of reinsurance terms and capacity on property and business interruption underwriting.

Reading list

The following list provides details of various publications which may assist with your studies. Periodicals and publications listed will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

Note: The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination.

CII/Personal Finance Society members can borrow some of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library. For further information on the lending service, please go to www.knowledge.cii.co.uk.

- Commercial property & business interruption insurances. London: CII. Study text P93.
- Business interruption insurance. Diane Jenkins. London: CII Knowledge Services. Updated annually. Available via www.knowledge.cii.co.uk
- Claims and standard fire policies, special extensions and special perils, R M Walmsley. London: Chartered Institute of Loss Adjusters, 1993.
- Claims and theft, all risks and money policies. D Cutter. London: Chartered Institute of Loss Adjusters, 1994.
- Essentials of Fire Safety Management. Dennis Davis. Moreton in Marsh, Gloucestershire: Fire Protection Association, 2007.
- Riley on business interruption. 8th ed. David Cloughton. London: Sweet & Maxwell, 1999. [New ed. expected in 2011]

Reference materials

- The insurance manual. Stourbridge, West Midlands: Insurance Publishing & Printing Co. Looseleaf, updated.
- Further articles and technical bulletins are available at www.knowledge.cii.co.uk (CII and Personal Finance Society members only).

Periodicals

- The Journal. London: CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at www.knowledge.cii.co.uk/category/resource-type/-journal.
- Post Magazine. London. Incisive Financial Publishing.

Websites

CII Knowledge Services – www.knowledge.cii.co.uk

Fire Protection Association (especially code of practice and guidance documents) – www.thefpa.co.uk

London Business Interruption Association (includes lectures and manuals published by the association) – www.london-bia.org

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers. You are strongly advised to study guides for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on 020 8989 8464. Older examination guides are available (for members only) at www.knowledge.cii.co.uk/category/resource-type/exam-guides.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.