

# P93

## Diploma in Insurance

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

April 2013 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.

**PART I****Answer ALL questions in Part I****Note form is acceptable where this conveys all the necessary information**

1. Describe briefly the performance of the following construction materials when they are exposed to fire.
  - (a) Brickwork. (4)
  - (b) Steelwork. (4)
  
2. State how the following are defined under the Theft Act 1968.
  - (a) Theft. (4)
  - (b) Burglary. (6)
  
3.
  - (a) Describe briefly how a security fog system operates. (4)
  - (b) Outline the circumstances in which you would consider the use of a security fog system to be suitable and those circumstances where such a system would be unsuitable. (6)
  
4.
  - (a) Describe a policy extension that could be added to a business interruption policy to provide an indemnity for loss of gross profit and/or increased cost of working, following an outbreak of chickenpox at a care home, which results in the closure of the premises. (6)
  - (b) State **four** other contingencies which can be added to the extension referred to in part (a) above to provide wider cover. (4)
  
5. Explain briefly the cover which is provided on a property damage policy by the following clauses.
  - (a) Automatic reinstatement. (4)
  - (b) Fire extinguishment expenses. (6)

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6. (a) Outline the criteria which must apply if the UK Government is to classify an event as a riot. (5)
- (b) State **two** exclusions which apply to the peril of riot in a property damage policy and explain briefly why these exclusions are included. (6)
7. (a) State the implications of a warranty when applied to a commercial property insurance contract and explain briefly how it differs from a condition precedent to liability. (6)
- (b) List **three** warranties which an insurer might apply on a property damage policy. (3)
8. State the considerations an insured should make when selecting the maximum indemnity period on a business interruption policy. (10)
9. Explain the terms:
- (a) (i) flash point; (3)
- (ii) auto ignition temperature. (3)
- (b) Describe briefly **four** risk requirements which would be applicable when storing flammable liquids. (4)
10. (a) Describe how an insurer may calculate the premium for a supplier's extension on a business interruption policy. (6)
- (b) Explain the assessments an underwriter will need to make when underwriting a supplier's extension on a business interruption policy. (6)
11. List **eight** items that are defined under the machinery, plant and all other contents definition contained within a property damage policy. (8)
12. Outline the features an underwriter will consider in respect of the following perils.
- (a) Escape of water. (6)
- (b) Impact by own and third party vehicles. (6)

Questions continue over the page

13. Explain why an insurer might arrange catastrophe excess of loss reinsurance and how it would operate. (10)
14. Describe the operation of the current Pool Re terrorism scheme. (10)

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**

15. Liverton Newspapers Ltd suffers a major fire loss at their printers which it is believed to have been caused by friction in one of the folding areas of a press.

The values at risk and the basis of cover stated on the policy schedule are as follows.

Item	Sum insured (£)	Basis of cover
Buildings	25,000,000 (31,250,000)	Day one reinstatement non-adjustable subject to a 25% day one inflation provision
Machinery and plant	65,000,000	Reinstatement
Stock	8,000,000	Indemnity and subject to an adjustable stock declaration
Gross profit	38,000,000	Based on a 24 month indemnity period and subject to a 75% deposit basis
Additional increase cost of working	2,500,000	First loss

The deductible which applies to the property damage is £50,000 and that which applies to business interruption is £25,000.

When the loss adjuster investigates the loss the following information is established:

- The reinstatement value of the buildings by the time the buildings have been reinstated is £30,000,000 and at inception of the policy period the reinstatement value was £27,500,000.
- The reinstatement value of the machinery and plant at the time of reinstatement was £80,000,000 and at inception of the policy period the reinstatement value was £67,000,000.
- The value of stock at the time of the loss was £7,500,000.
- Turnover for the annual accounting period most concurrent prior to the loss was £70,000,000.
- Gross profit (as defined within the policy) for the annual accounting period most concurrent prior to the loss was £21,000,000.
- The cost to reinstate the buildings is £15,000,000.
- The cost to reinstate the machinery and plant is £35,000,000.
- £4,000,000 of stock was lost.
- During the indemnity period there was a shortfall in the insured's turnover of £15,000,000.
- The insured can demonstrate that they expended an additional £2,500,000 which prevented £4,000,000 of turnover being lost.
- During the indemnity period savings of £1,500,000 were derived by the insured.

Calculate, **showing all your workings**, your recommendation as to the value of:

- (a) the property damage loss settlement; (15)
- (b) the business interruption loss settlement. (15)



- 16.** The broker for Liverton Newspapers Ltd has submitted a new business presentation to RST Insurance.

One of the key sites is a print works in Birmingham, which is protected by an automatic sprinkler system. The underwriter from RST Insurance requests a sprinkler survey prior to completing the quotation.

**(a)** Outline:

**(i)** the information the underwriter would expect to find within the sprinkler survey report; **(16)**

**(ii)** the assessments the underwriter will make based upon the content of the report. **(6)**

**(b)** The survey report describes the interdependency of the print works with another location which is used for editorial purposes.

Explain briefly the term 'interdependency' in the context of business interruption insurance and describe briefly the impact for Liverton Newspapers Ltd. **(8)**

- 17.** Liverton Newspapers Ltd has relocated their servers from their offices within the financial district of London to a modern industrial unit which is on the outskirts of London. The new unit is occupied Monday to Friday between the hours of 7am and 7pm. Outside of these hours the premises are left unattended.

As a result of this change, Liverton Newspapers Ltd reviews the security which they will require at this new location.

**(a)** Describe the various operational, technological and design features of an intruder alarm system and discuss the extent to which these features would provide adequate protection to Liverton Newspapers Ltd for loss or damage occasioned by theft. **(18)**

**(b)** Outline the requirements imposed on the insured as a result of an intruder alarm warranty and explain briefly why insurers insist on its inclusion in a property damage policy. **(12)**

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