

P93

Diploma in Insurance

Unit P93 – Commercial property and business interruption insurances

April 2015 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. State **12** risk features to be considered in determining whether a fire risk deviates from the standard risk profile. (12)

2. Explain the extensions which can be added to a theft policy and the additional terms which an insurer may apply. (8)

3. (a) List **four** property damage policy level exclusions where a policyholder would be able to seek indemnity directly from the UK Government. (4)
(b) List **four** property damage policy level exclusions where a policyholder would **not** be able to seek indemnity directly from the UK Government. (4)

4. (a) Describe the cover which can be requested for loss of gross profit for a fire at a supplier's premises with the consequence that the policyholder is unable to manufacture their product. (7)
(b) Describe briefly the underwriting features to be considered when assessing the cover requested in **part (a)** above. (5)

5. (a) Explain how a co-insurance policy operates. (8)
(b) Outline the benefits of a co-insurance property policy to policyholders. (2)

6. State the information which you would expect to see in a preliminary report from a loss adjuster for a property damage claim. (10)

7. Identify:
- (a) (i) **four** types of fixed heater; (4)
 - (ii) **two** types of portable heater. (2)
 - (b) Describe briefly the risk features a surveyor will review when assessing the heating system within a premises. (5)
8. State, in respect of a commercial all risks policy, which causes of damage to property the insurer:
- (a) will not insure; (6)
 - (b) will insure as buy-backs. (6)
9. Describe briefly the cover provided by the following clauses within a business interruption policy:
- (a) Professional accountants' clause. (3)
 - (b) Departmental clause. (3)
 - (c) Alternative premises clause. (3)
10. If some oily rags were to spontaneously combust, explain whether a property damage policy would provide indemnity under the fire peril for damage to:
- (a) the oily rags; (2)
 - (b) the insured's surrounding property; (2)
 - (c) surrounding third party property. (2)
11. Explain how the declaration-linked clause operates on a business interruption policy. (10)

QUESTIONS CONTINUE OVER THE PAGE

12. Explain the term compartmentation in relation to the construction of buildings, stating why it is important. (10)
13. Outline the risk features to be considered when assessing the risks associated with storm and flood. (10)
14. (a) Outline the risk control measures which should be considered when assessing the risk relating to highly theft attractive goods whilst in transit. (4)
- (b) State **eight** exclusions specific to the goods in transit section of a policy. (8)

PART II

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

15. Liverton Aerosols Ltd needs to construct purpose-built premises. They have approached you for guidance on the design of the sprinkler system. Internally the premises will consist of an aerosol manufacturing area and a high bay warehouse. Externally there will be storage tanks containing flammable liquids.
- (a) Discuss the risk and design features you should consider when providing your guidance. (20)
- (b) (i) In addition to sprinklers, outline the recommendations you would make in respect of the storage and use of large quantities of flammable liquids both internal and external to the premises. (8)
- (ii) State **two** pieces of legislation which are specific to the use of flammable liquids. (2)
16. XYZ Insurance operates in the UK insurance market, underwriting property and business interruption risks up to an insured value of £500 million.
- The existing reinsurance treaty expires in six months and you have been asked to prepare a risk presentation which would allow XYZ Insurance to approach the reinsurance market for quotations.
- (a) Discuss the information that should be provided in the risk submission. (22)
- (b) Explain how this might impact the structure of their reinsurance program, if XYZ Insurance were to have a number of large losses. (8)

QUESTIONS CONTINUE OVER THE PAGE

17. (a) Liverton Pharmaceuticals Ltd is reviewing the sum insured for business interruption following completion of their annual accounts.

Trading account

Opening Stock	£5,000,000	Turnover	£75,000,000
Opening Work in Progress	£1,000,000	Closing Stock	£6,500,000
Purchases	£20,000,000	Closing Work in Progress	£500,000
Subcontractor Costs	£10,000,000		
Direct Wages	£15,000,000		
Power Costs	£1,000,000		
Packaging Materials	£2,500,000		
Carriage	£1,500,000		
Gross Profit	£26,000,000		
	£82,000,000		£82,000,000

Profit and loss account

Salaries/Indirect Wages	£2,000,000	Gross Profit (from Trading Account)	£26,000,000
Rent & Rates	£5,000,000		
Advertising	£1,000,000	Discounts from Purchases	£1,000,000
Postage & Telephone	£50,000		
Stationery	£50,000		
Lighting & Heating	£100,000		
Insurance	£200,000		
Bank Charges	£75,000		
Depreciation	£4,000,000		
Sundries	£25,000		
Net Profit	£14,500,000		
	£27,000,000		£27,000,000

Calculate, **showing all your workings**, the recommended sum insured for gross profit based on the above accounts if:

- inflation is currently running at 5% per annum;
- the business expects its turnover to grow at 10% per annum for the next five years;
- the maximum indemnity period is 24 months.

(16)

- (b)** Liverton Pharmaceuticals Ltd undertakes a considerable amount of research and development to enhance their product range. Additionally, it undertakes similar work for other commercial organisations.

Explain how these exposures could be insured on a business interruption policy. **(6)**

- (c)** Liverton Pharmaceuticals Ltd provides credit to their customers. They enquire whether their business interruption policy could insure these debts if they cannot be traced as a result of a fire at their premises.

Describe the cover which could be arranged. **(8)**

BLANK PAGE

