

P93

Diploma in Insurance

Unit P93 – Commercial property and business interruption insurances

October 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, in respect of the fire risk within a premises:
 - (a) **five** risk features which affect the propagation risk; (5)
 - (b) **five** risk features which affect the inception risk. (5)

2. Explain how terrorism insurance cover is currently provided in the UK. (10)

3. Explain briefly the similarities and differences between the cover provided by the extensions for public utilities and the failure of supply on a business interruption policy. (10)

4. Describe the insured's obligations under a claims notification condition contained within a property damage and business interruption policy. (12)

5. (a) Describe briefly how the cover arranged on a gross profit basis would differ from the cover arranged on an increased cost of working only basis on a business interruption policy. (6)

(b) Provide an example of a business which is more suited to the purchase of:
 - (i) gross profit insurance; (1)
 - (ii) increased cost of working insurance. (1)

6. State **four** types of detection equipment that may be used within an automatic fire alarm system and describe how **each** type operates. (12)

7. Explain the term 'system of check' on a fidelity policy and its importance to insurers. (6)
8. Explain briefly whether a policyholder should include the following items of expenditure in the sum insured under their business interruption policy:
- (a) Depreciation. (3)
 - (b) Electricity and power costs. (3)
 - (c) Wages. (3)
 - (d) Rent payable. (3)
9. Explain the cover provided for explosion on a property damage policy compared with a business interruption policy. (8)
10. Describe the requirements of an intruder alarm warranty which are placed on the policyholder. (12)
11. (a) Identify **three** different types of safe. (3)
- (b) Outline the criteria which a policyholder could use when deciding which type of safe to use at their premises. (5)
12. Describe the cover provided by the following clauses:
- (a) Capital additions clause. (5)
 - (b) Contracting purchases interest clause. (5)

QUESTIONS CONTINUE OVER THE PAGE

- 13.** Outline the following terms, giving an example for **each**:
- (a)** Franchise. **(4)**
 - (b)** Excess. **(3)**
 - (c)** Working excess or non-ranking deductible. **(5)**
- 14.** Explain the term 'listed building' and the effect it has when arranging buildings insurance for a policyholder. **(10)**

Part II questions can be found on pages 8, 9 and 10

PART II

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

15. ALP Plastic Injection Moulders Ltd has just suffered a substantial fire loss.

The sums insured and basis of cover are as follows:

Item	Description	Sum insured	Operative cover
1.	Buildings	£15,000,000 (declared value)	Day One (15%)
2.	Machinery plant fixtures and fittings	£7,000,000 (declared value)	Reinstatement
3.	Stock and materials in trade	£6,000,000	Indemnity
4.	Gross profit	£45,000,000 Maximum indemnity period 24 months	Declaration linked basis
5.	Additional increased cost of working	£2,500,000 Maximum indemnity period 24 months	N/A

A £50,000 deductible applies to the property damage cover and a £75,000 deductible applies to the business interruption cover.

- (a) Following investigation, the insurer accepts liability under the terms of the policy and establishes that the values at risk for each item are as follows:

	At the inception of the policy period	At the time of loss	At the time of reinstatement or replacement
Buildings	£20,000,000	£22,000,000	£25,000,000
Machinery plant fixtures and fittings	£10,000,000	£12,000,000	£14,000,000
Stock and materials in trade	£7,000,000	£8,000,000	£8,000,000

The insured submits a claim for the following values:

- Buildings: £4,000,000
- Machinery plant fixtures and fittings: £500,000
- Stock and materials in trade: £2,400,000

Explain, **showing all your workings and rationale**, how the adjusted loss settlement for the property damage loss is calculated.

(13)

- (b) The business is interrupted for the full 24 month indemnity period. The insured produces the following information in support of their claim:

Turnover in the last financial year prior to the loss	£50,000,000
Gross profit in the last financial year prior to the loss	£25,000,000
Standard turnover	£100,000,000
Turnover achieved during the indemnity period	£35,000,000
Additional costs incurred	£3,750,000 which saved £5,000,000 of turnover
Savings made during indemnity period	£1,500,000

Explain, **showing all your workings**, how the adjusted loss settlement for the business interruption loss is calculated.

(12)

- (c) Describe briefly the high level requirements placed on insurers for claims handling within the Financial Conduct Authority Handbook under the section Insurance: Conduct of Business Sourcebook (ICOBS).

(5)

QUESTIONS CONTINUE OVER THE PAGE

- 16.** Liverton Waste Paper Ltd occupies premises located within a residential area of a town in close proximity to a chemical factory on one side and a paper manufacturer on the other.
- (a)** Explain the benefits of a survey to both the insurer and the insured. **(6)**
 - (b)** Explain the benefits to the insured and the broker, of the broker attending the survey. **(4)**
 - (c)** Discuss the information which would be provided by the surveyor, relative to the fire risk, specifically for a waste paper risk. **(20)**
- 17.** Liverton Waste Paper Ltd is finding it difficult to obtain insurance due to the number of large fires in the waste sector. Therefore, they have appointed a consultant to help them write a business continuity plan.
- (a)** Discuss what should be considered when writing the business continuity plan. **(24)**
 - (b)** Explain the benefits that the business continuity plan will have for both the insurer and Liverton Waste Paper Ltd. **(6)**

