

P93

Diploma in Insurance

Unit P93 – Commercial property and business interruption insurances

April 2016 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. Identify the **three** factors of the fire triangle and explain, with an example, how **each** of these could be used to control or extinguish a fire. **(9)**

2. Describe briefly the operation of the following policy conditions on a property damage policy:
 - (a) Alteration of risk. **(6)**
 - (b) Reasonable precautions. **(5)**

3. (a) Explain briefly the term 'maximum indemnity period' within a business interruption policy. **(4)**

(b) Identify **ten** features about the risk the insured should consider when selecting the maximum indemnity period. **(10)**

4. State **six** risk requirements an insurer may impose following a property damage survey and explain briefly how **each** would improve the fire risk. **(12)**

5. (a) Describe briefly the cover provided by the notifiable disease peril on a business interruption policy. **(4)**

(b) Explain the difficulties that the notifiable disease peril presents for insurers when underwriting the risk, stating how they may amend their wording to deal with these challenges when underwriting this peril. **(8)**

6. Describe briefly the risk management considerations which should be made relative to the location and protection of a computer suite. **(8)**

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7. State **eight** exclusions which apply to the subsidence peril of a property damage policy. (8)
8. Explain the advantages and disadvantages of a flexible limit of loss cover for business interruption. (6)
9. Explain briefly the extent to which a property insurer will provide indemnity in the following scenarios:
- (a) An insured decides to erect an extension which is adjacent to their existing premises. Due to poor design, the new building collapses and causes damage to the existing structure and contents in both the new and the existing structure. (4)
 - (b) An insured has an issue with vermin that chew through an electricity cable. This subsequently causes a short circuit resulting in a spark which ignites some stock. (3)
 - (c) Thieves break into an outbuilding and steal some ladders and use these to force entry into the main factory. The thieves take some power tools and also the ladder. (3)
10. Describe the policy formula used on a gross profit business interruption policy for claims settlements and explain why this policy formula is included. (10)
11. (a) Outline the concerns an underwriter would have in respect of a multi-tenure risk. (5)
- (b) Outline the risk control measures an underwriter could introduce to control the risks associated with a multi-tenure property. (5)
12. (a) Explain how a stock declaration clause operates. (8)
- (b) Describe briefly the alternative extension that can be used to address concerns with fluctuations in stock during the insurance period. (4)

QUESTIONS CONTINUE OVER THE PAGE

13. (a) State **six** elements which must exist for a situation to be classified as a riot. (6)
- (b) Explain briefly the scope for recoveries an insurer has from the police authorities. (4)
14. (a) Explain briefly the advantages and disadvantages of facultative reinsurance. (5)
- (b) State the advantages and disadvantages of using a reinsurance broker to place facultative reinsurance. (3)

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. XYZ Insurance is asked to insure the shopping mall in Liverton which belongs to Liverton Malls Ltd. They already insure a number of the tenants in the mall including the two largest ones which are both major high street retailers. Under the terms of the lease, Liverton Malls Ltd are required to insure both the buildings and any potential loss of rent.
- (a) Discuss how XYZ Insurance will calculate how much capacity can be allocated to the risk. (12)
- (b) Explain how Liverton Malls Ltd could insure rent following loss or damage to the buildings. (8)
- (c) One of the smaller retailers within the shopping mall requests cover for loss of attraction.
- Explain briefly:
- (i) why this cover may be requested and how it operates; (6)
- (ii) how this cover differs to an extension for denial of access as a result of damage. (4)
16. FGH Jewellers are insured by ALP Insurance and occupy a retail unit within Liverton Shopping Mall. ALP Insurance decides to undertake a theft survey of the premises.
- (a) Identify and explain briefly the security measures you would expect to see for FGH Jewellers. (18)
- (b) Explain how your answer in part (a) above may change if the risk was located on a high street in a major town compared to a shopping mall. (4)
- (c) State the other information which an underwriter would expect to see in the theft survey report, in addition to the security measures which are in place. (8)

17. (a) Liverton Malls Ltd has approached a surveyor for guidance on how to calculate their buildings sum insured.

Discuss the factors that should be considered when calculating the buildings sum insured and how this may be dependent on the basis of settlement selected.

(22)

- (b) Liverton Malls Ltd have expressed concern about the following endorsement which applies to the policy, especially as they may not be entirely sure if the tenants are complying:

'It is a condition precedent to any liability of the company for damage that all trade and process waste and refuse will be removed daily from any buildings.'

Explain the implications of this endorsement in terms of the policy cover and how a non-invalidating clause would provide additional cover for Liverton Malls Ltd.

(8)

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