

P93

Diploma in Insurance

Unit P93 – Commercial property and business interruption insurances

October 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. Describe, explaining their importance, **five** risk features relating to the arson risk an underwriter will consider when underwriting a property damage risk. **(10)**

2. State the exclusions which apply to the following perils, in addition to an excess, on a property damage policy:
 - (a) Storm and flood. **(3)**
 - (b) Burst pipes (escape of water). **(2)**
 - (c) Sprinkler leakage. **(2)**
 - (d) Earthquake. **(1)**

3. Explain briefly why the following provisions are included within a business interruption policy and how they operate:
 - (a) Savings clause. **(2)**
 - (b) Other circumstances clause. **(4)**
 - (c) Property damage proviso. **(6)**

4. Explain how catastrophe excess of loss reinsurance operates and why insurers purchase such cover. **(10)**

5. Explain the similarities and differences in cover provided by a transit extension and motor vehicle extension on a business interruption policy. **(6)**

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6. Describe briefly how the following construction materials will perform in fire conditions:
- (a) Timber. (4)
 - (b) Steelwork. (4)
 - (c) Asbestos. (4)
7. Explain why the following clauses are incorporated into a property damage policy and how they operate:
- (a) Marine exception. (6)
 - (b) Date-related exception. (4)
8. Explain how an insurer will use classification and discrimination of risk as part of their risk assessment process. (10)
9. In respect of a manufacturing risk:
- (a) state **five** underwriting factors which a policyholder can easily change to improve the risk; (5)
 - (b) state **five** underwriting factors which a policyholder cannot easily change to improve the risk. (5)
10. Describe the trade risk features specific to a printing company which an underwriter will consider when underwriting the property damage risk. (10)

QUESTIONS CONTINUE OVER THE PAGE

- 11. (a)** Explain why insurers will consider the European Standard EN50131 when advising the insured of the specification for an intruder alarm. **(5)**
- (b)** State the options available to the insurer, when offering policy cover, if an insured does not currently comply with the intruder alarm specification suggested by the insurer. **(5)**
- 12.** Following a fire at an insured's premises, the local authority instructs the insured to upgrade their premises to comply with current building legislation.
- Outline the extent to which a property damage policy would provide an indemnity in these circumstances. **(10)**
- 13. (a)** Explain how a solicitor could insure client paper records which are lost as a result of damage caused by an insured peril. **(5)**
- (b)** Explain why a solicitor may insure their business interruption risk on a gross revenue basis and how this cover operates. **(5)**
- 14. (a)** Outline the most appropriate method for insuring art work and how a claims settlement would be calculated. **(7)**
- (b)** An insured is asked to install a security fog system to protect their art collection.
- Describe briefly how a security fog system operates. **(5)**

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 Farm Ltd operate a farm business involved in the following activities:

- Production of dairy products from the milk produced by their herd of cows.
- The sale of milk and cheese to local supermarkets.
- A retail shop for the sale of their own products, plus stock which they have purchased from wholesalers.
- Growing of crops which are sold on to the food manufacturing industry.

Unfortunately, the local river bursts its banks causing widespread flooding in the area. This results in damage to Liverton Farm's retail shop and warehouses, which contain finished stocks of milk and cheese, severe damage to crops and the death of some of their livestock.

Some of the damaged stock had been sold to ABC Supermarkets prior to the flood but remained on the premises of Liverton Farm, pending delivery. ABC Supermarkets subsequently cancelled the contract for this and future orders.

- (a)** Explain briefly how the loss adjuster will determine if the sum insured is adequate for:
- (i)** stock within the retail shop which Liverton Farm Ltd have manufactured themselves; **(4)**
 - (ii)** stock which Liverton Farm Ltd intend to sell from their retail shop which was initially purchased from the wholesaler; **(4)**
 - (iii)** crops; **(4)**
 - (iv)** livestock. **(2)**
- (b)** Explain briefly whether Liverton Farm Ltd can claim under their property damage insurance policy for the profit lost as a result of the cancellation of the contract between them and ABC Supermarkets. **(5)**
- (c)** Explain how the flood risk for Liverton Farm Ltd can be made more attractive to the insurer despite the inherent storm and flood risk. **(11)**

- 16.** FGH operate a chain of department stores serviced by their own two UK distribution centres and you, as a potential new broker, have been asked by FGH to comment on their current insurance arrangements.

There are two particular areas of concern:

- (a)** The stock sum insured is specified for each individual store on the policy schedule.

Explain how this cover operates, suggesting an alternative basis to insure the stock which would be more beneficial to FGH. **(8)**

- (b)** Business interruption cover is insured for increased cost of working cover only with a three month indemnity period. There are no business interruption extensions of cover.

Discuss whether you think this cover is adequate and any other cover, including extensions, which would be more suitable. **(22)**

- 17.** TCK Wholesale Foods Ltd is expanding their operations to a different part of the country and is in the design phase of the new premises.

The new premises will be sprinklered and consist of two storage areas; one for ambient storage and one for cold storage. There will also be a large production facility. Additionally, there will be a canopy where products may be stored temporarily if the storage areas are full, and during deliveries.

This development of the new premises is expected to double the size of the business over the next two years.

- (a)** Describe the characteristics of the sprinkler systems which would be suited to this risk. **(12)**

- (b)** TCK Wholesale Foods Ltd requires insurance for the loss of gross profit should there be a delay to the opening of this new business, as a result of an insured peril occurring during the construction phase.

Discuss:

- (i)** the cover which should be arranged; **(8)**

- (ii)** the information which would be required to underwrite the risk. **(10)**

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