

## P93

### Diploma in Insurance

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

April 2017 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 **ten** features of a risk which should be considered when underwriting the fire peril on a property damage policy. (10)
  
2. Describe briefly the cover for the following clauses on a property damage policy:
  - (a) Debris removal. (6)
  - (b) Professional fees. (6)
  
3. Describe how a business interruption policy, arranged on a declaration linked basis, operates. (10)
  
4.
  - (a) Describe briefly the changes which have been introduced to warranties as a result of the Insurance Act 2015. (6)
  - (b) State how a basis of contract clause operates and the changes made as a result of the Insurance Act 2015. (4)
  
5. List **eight** items of information which an insured should provide, when notifying a loss resulting from a fire, where it is believed to have been caused by building contractors. (8)
  
6. Explain briefly the:
  - (a) terms 'theft', 'burglary' and 'aggravated burglary' as defined under the Theft Act 1968; (6)
  - (b) extent to which the theft peril on a property damage policy will respond to the terms referred to in **part (a)** above. (4)

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7. Describe the cover provided under the goods in transit section of a commercial combined policy. (10)
8. Describe how a supplier's extension, under a business interruption policy, operates and the considerations to be made when selecting the level of cover. (10)
9. Identify **three** underwriting features which are specific to the following trades, explaining why:
- (a) Timber saw mill. (5)
- (b) Food manufacturer. (5)
10. (a) Describe the circumstances which need to exist for contribution to apply in common law. (5)
- (b) XGN Surveyors Ltd insures some photographic equipment on their commercial property insurance policy (Policy A). In addition, they have some travel insurance (Policy B) which also insures all of the photographic equipment. The replacement cost of the photographic equipment is £100,000 and the details of the policies are as follows:
- Policy A – sum insured £80,000, pro rata condition of average applies.
  - Policy B – sum insured £40,000, pro rata condition of average applies and a £1,000 deductible.
- On the basis that Policy A is the more specific policy, following a theft of some of the photographic equipment whilst an employee is working overseas, this has a replacement cost of £20,000.
- Calculate, **showing all your workings**, how much the insurer of Policy A would be able to recover from the insurer of Policy B. (5)
11. Describe how an insured can control and mitigate the risk of damage to property or interruption to the business arising from riot and malicious damage. (10)

QUESTIONS CONTINUE OVER THE PAGE

- 12.** Describe the cover provided by the following clauses within a property damage policy:
- (a)** Trace and access. **(5)**
  - (b)** Transfer of interest clause or the contracting purchasers interest clause. **(5)**
- 13.** Explain why and how an insured should insure research and development costs on a business interruption policy. **(10)**
- 14.** Describe how co-insurance between insurers operates in respect of property damage and business interruption insurance and explain why such arrangements are used. **(10)**

**PART II**

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

- 15.** Liverton Motors Ltd (LML) operates a motor vehicle dealership which sells new and used vehicles, ranging in price from £35,000 to £150,000. LML is planning to move to new premises. They will not be able to accommodate all of the vehicles within the building so some will be stored within a compound adjacent to the new premises. The total value of all the vehicles will be £4,500,000.
- (a)** In view of the accumulation of the vehicles, the motor trade underwriter of XYZ Insurance has requested that the static vehicle risk is insured on a property policy.
- Explain briefly why the motor trade underwriter has made this request. **(3)**
- (b)** Describe the security measures which would be expected to be in place at the new premises and the compound for all property other than money. **(15)**
- (c)** Some customers, purchasing second hand vehicles, pay LML in cash.
- Describe the cover available under the money section of the policy and the risk control measures you would expect to see in place. **(12)**

**QUESTIONS CONTINUE OVER THE PAGE**

16. FGH Ltd is a firm of consultant engineers and their main activities are the inspection of railways and other civil structures.

Whilst working away from the premises, FGH Ltd has suffered a number of thefts and damage to expensive pieces of equipment which are insured on a commercial all risks policy.

The annual premium for each of the last five years was £25,000. Currently there are no additional terms and conditions other than the standard policy cover.

During the last five years the claims experience is as follows:

Insurance period	Number of claims	Total claims cost
2011/12	12	£35,000
2012/13	15	£70,000
2013/14	11	£40,000
2014/15	8	£25,000
2015/16	17	£66,000

- (a) The underwriter of XYZ Insurance Company is asked to undertake a review of the commercial all risks policy at renewal.

Discuss:

- (i) the additional information which the underwriter will require, and why, in order for this review to be undertaken effectively; (10)
- (ii) what the underwriter's view might be of this risk and the terms and conditions, including price, the underwriter may apply. (10)

- (b) FGH Ltd suspects a number of their employees are involved in the theft of equipment.

Discuss the cover which could be arranged and the features of the risk which the underwriter will consider when underwriting and pricing the risk. (10)



17. ALP Ltd are reviewing their business interruption insurance program and have presented the following reports and accounts to their broker. Their current sum insured is £88,000,000 based on a 24 month indemnity period on a declaration linked basis.

Trading account for the 12 months prior to renewal

Opening stock	£7,000,000	Turnover	£70,000,000
Opening work in progress	£1,000,000	Closing stock	£3,500,000
Purchases	£17,000,000	Closing work in progress	£500,000
Subcontractor costs	£3,000,000		
Direct wages	£10,000,000		
Power costs	£1,000,000		
Packaging materials	£3,000,000		
Carriage	£1,000,000		
Gross profit	£31,000,000		
<b>Total</b>	£74,000,000		£74,000,000

Profit and loss account for the 12 months prior to renewal

Salaries/indirect wages	£2,000,000	Gross profit (from trading account)	£31,000,000
Rent and rates	£1,000,000	Discounts from purchases	£1,000,000
Advertising	£300,000		
Postage and telephone	£100,000		
Stationery	£100,000		
Lighting and heating	£100,000		
Insurance	£200,000		
Bank charges	£175,000		
Depreciation	£6,000,000		
Sundries	£25,000		
Net profit	£22,000,000		
<b>Total</b>	£32,000,000		£32,000,000

- (a) Calculate, **showing all your workings**, the gross profit sum insured for a 24 month maximum indemnity period, assuming business growth at 5% per annum and inflation at 2% per annum. **(14)**
- (b) Discuss the factors an underwriter will take into account when deciding how much of the risk they could accept based on the new sum insured. **(16)**

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