

Principles of property and pecuniary insurance

- a knowledge and understanding of the principles and practices of commercial property, pecuniary, construction and engineering insurance;
- a knowledge of the cover available;
- a knowledge of the principles of claim settlement;
- the ability to synthesise different aspects of the syllabus and to apply learning specifically to the insurance industry;
- the application of knowledge and skills to practical situations.

Method of assessment: See page 7 in the 2005 Advanced Diploma in Insurance 'Information for candidates' brochure.

Notes:

- The syllabus will be based on UK law and practice.
- The April session will test the legal position as of 31st August of the preceding year.
- The October session will test the legal position as of 28th February of the same year.

1. Development and structure of property and pecuniary insurance

1.1 Development of property and pecuniary insurances

Candidates should be able to

- *outline* the development of property and pecuniary insurances.

1.2 The property and pecuniary market

Candidates should be able to

- *outline* the structure of the property and pecuniary insurance market.

1.3 Policy wordings

Candidates should be able to

- *outline* the market practices in relation to recommended policy wordings;
- *explain* the justification for recommended wordings.

1.4 EU Directives

Candidates should be able to

- *explain* the EU directives relevant to property insurance.

1.5 Application of Value Added Tax

Candidates should be able to

- *explain* the application of Value Added Tax.

1.6 Scope of legislation

Candidates should be able to

- *describe* the scope, terms and application of the Theft Act 1968, the Riot (Damages) Act 1886 and the Public Order Act 1986.

2. Property insurance cover

2.1 Standard and additional perils

Candidates should be able to

- *discuss* the standard and possible additional perils covered by the principal policies.

2.2 Terrorism cover

Candidates should be able to

- *discuss* the provision of terrorism cover.

2.3 Types of property insured

Candidates should be able to

- *discuss* the types of property insured (including use of the all other contents clause).

2.4 Principal terms, conditions and exclusions

Candidates should be able to

- *discuss* the principal policy terms, conditions and exclusions (and availability of 'buy backs' on 'all risks' policies);
- *discuss* other clauses commonly found in property policies, including:
 - temporary removal;
 - public authority and debris removal clauses;
 - day one and other reinstatement bases;
 - stock declarations;
 - old or obsolete buildings;
 - long-term undertakings;
 - electrical;

- contract price;
- motor vehicle;
- metalworkers clauses.

2.5 Covers

Candidates should be able to

- *discuss* first loss, floating and blanket covers.

2.6 Conditions, warranties, excesses and deductibles

Candidates should be able to

- *discuss* the use of average conditions, warranties, excesses, deductibles and franchises.

2.7 Extensions and exclusions

Candidates should be able to

- *describe* the use of extensions to theft policies including collusion, secretion and hold-up cover;
- *describe* the use of risks and property covered and excluded, extensions to and general terms of other commercial policies.

2.8 Renewal procedures and considerations

Candidates should be able to

- *outline* the commonly used renewal procedures and considerations.

3. Pecuniary insurance – business interruption insurance

3.1 Business interruption insurance

Candidates should be able to

- *explain* the need for and function of business interruption insurance;
- *discuss* the considerations for explaining what needs to be insured and not insured.

3.2 Gross profit

Candidates should be able to

- *outline* the distinction between accountants' and insurers' gross profit;
- *discuss* the definition of the 'difference' basis of gross profit;
- *describe* the calculation of gross profit sum insured from presented accounts.

3.3 Payroll coverage

Candidates should be able to

- *outline* the development of payroll coverage.

3.4 Maximum indemnity period

Candidates should be able to

- *discuss* the selection of the maximum indemnity period and rationale of choice.

3.5 Standard and extra perils

Candidates should be able to

- *discuss* the standard and extra perils insured on interruption policies.

3.6 Additional clauses

Candidates should be able to

- *explain* the additional clauses commonly added to policies, including:
 - suppliers and customers extensions;
 - public utilities;

- denial of access;
- loss of attraction;
- notifiable diseases cover;
- other specially requested clauses.

3.7 Variations from basic cover

Candidates should be able to

- *describe* the variations from basic cover, including:
 - increased cost of working only cover;
 - gross revenue and advance profits policies;
 - book debts cover.

3.8 Special risks and special requirements

Candidates should be able to

- *outline* special risks and occupations with special requirements.

4. Pecuniary insurance – fidelity guarantees and bonds, credit insurance

4.1 Coverage

Candidates should be able to

- *explain* the coverage of fidelity insurance policies, including crime, specific, floating and blanket policies.

4.2 Distinction between guarantees and bonds

Candidates should be able to

- *explain* the distinction between fidelity guarantees and bonds.

4.3 Scope of cover

Candidates should be able to

- *describe* the scope of cover of the following:
 - commercial guarantees;
 - administration and court bonds;
 - government bonds;
 - bankruptcy and liquidation bonds;
 - customs and excise bonds;
 - local government bonds;
 - contract guarantees;
- *describe* the scope of cover provided by credit insurance policies.

5. Package policies and combined covers

5.1 Package policies

Candidates should be able to

- *explain* the application of package policies to property and pecuniary insurance;
- *outline* the relationship of package policies to other branches of insurance.

5.2 Combined policies

Candidates should be able to

- *discuss* the development and operation of combined policies.

6. Risk assessment — property and pecuniary insurance

6.1 The risk underwriter

Candidates should be able to

- *outline* the tasks of the risk underwriter;
- *outline* the presentation of risks for underwriting.

6.2 Risk presentation

Candidates should be able to

- *describe* the essential information needed for a risk presentation.

6.3 Proposal and application forms

Candidates should be able to

- *explain* the use of proposal and application forms in property and pecuniary insurance.

6.4 Physical and moral hazards

Candidates should be able to

- *explain* the distinction between physical and moral hazards with examples from all classes of property and pecuniary insurance.

7. Administration and account management

7.1 Financial aspects

Candidates should be able to

- *describe* the financial aspects of the property and pecuniary portfolio.

7.2 Earned premiums

Candidates should be able to

- *describe* the methods of establishing earned premiums.

7.3 Calculation of reserves

Candidates should be able to

- *describe* the practices used in the calculation of reserves.

7.4 Comparing underwriting performance

Candidates should be able to

- *explain* the comparison between expense ratios, claims analysis and assessment of underwriting performance.

7.5 Accumulation of risk

Candidates should be able to

- *explain* the effect and implications of accumulation of risk.

7.6 Information Technology

Candidates should be able to

- *describe* the impact on and application of IT to the administration and account management process;
- *explain* the use of IT in monitoring risk exposure;
- *outline* the warnings on proposal forms about information that is stored electronically and that may be shared with other parties;
- *explain* the use of IT in rate calculation for insurance schemes and delegated authority schemes.

8. Claims principles and procedures

8.1 Application of insurance principles

Candidates should be able to

- *describe* the application of insurance principles to claims, including the effect of warranties.

8.2 Market agreements

Candidates should be able to

- *outline* examples of market agreements and trends in their use.

8.3 Association of British Insurers Statement of General Insurance Practice

Candidates should be able to

- *explain* the application of the ABI Statement of General Insurance Practice to claims.

8.4 The Financial Ombudsman Service

Candidates should be able to

- *outline* the role and impact of the Financial Ombudsman Service as it relates to the claims environment.

8.5 Relationship between underwriting and claims

Candidates should be able to

- *explain* the nature and importance of the interrelationship between underwriters and claims personnel.

8.6 Claims notification

Candidates should be able to

- *outline* the process of claims notification and use and completion of claim forms.

8.7 Claims handling procedures

Candidates should be able to

- *discuss* the key components of the procedures for handling claims.

8.8 Loss adjusters

Candidates should be able to

- *discuss* the use of loss adjusters and the content of adjusters' reports;
- *outline* the use of loss assessors.

8.9 Indemnity

Candidates should be able to

- *discuss* the measurement of indemnity for various classes of property insured;
- *discuss* the distinction between indemnity and reinstatement settlements.

8.10 Average conditions

Candidates should be able to

- *discuss* the calculation of claims involving the use of average conditions.

8.11 Principle of contribution

Candidates should be able to

- *outline* the apportionment of losses involving the principle of contribution.

8.12 Collective policies

Candidates should be able to

- *outline* the settlement of claims involving collective policies.

8.13 Policy 'formulae'

Candidates should be able to

- *discuss* the use of policy 'formulae' to calculate business interruption claims settlements.

8.14 Material damage proviso

Candidates should be able to

- *explain* the key features and importance of the material damage proviso.

8.15 Gross profit claims

Candidates should be able to

- *discuss* the calculation of gross profit claims on interruption policies, including:
 - the other circumstances clause;
 - the treatment of increase in cost of working;
 - savings;
 - underinsurance.

8.16 Commercial guarantees and bonds

Candidates should be able to

- *outline* the settlement of claims on commercial guarantees and bonds.

8.17 Dispute resolution

Candidates should be able to

- *describe* the practical settlement of claims in the event of dispute, including arbitration and use of alternative dispute resolution.

9. Construction insurance (including erection 'all risks') – development and structure

9.1 Development and need for construction insurance

Candidates should be able to

- *describe* the development of and need for construction insurance.

9.2 Legislation

Candidates should be able to

- *discuss* the key legislation applicable to construction insurance.

9.3 Construction contracts

Candidates should be able to

- *describe* the role and effect of parties to construction contracts.

9.4 The construction market

Candidates should be able to

- *outline* the composition of the construction market, including Home Foreign.

9.5 Environmental issues

Candidates should be able to

- *explain* the potential effect of construction on environmental issues.

9.6 Other construction related insurances

Candidates should be able to

- *describe* the development of and cover provided by other construction related insurances, including:
 - latent defects insurances;

- professional indemnity insurance;
- contract guarantee insurance;
- civil engineering completed risks.

10. Construction contracts (obligations of interested parties under insurance and indemnity clauses)

10.1 Construction contracts

Candidates should be able to

- *discuss* the following in relation to their impact on construction clauses:
 - Joint Contract Tribunal (JCT);
 - Institution of Civil Engineers (ICE);
 - Government Contracts for Building and Civil Engineering Works (GC/Works/1);
 - Contractors' Plant Hire Association Model Conditions for Hiring of Plant (CPA Conditions);
 - Engineering and Construction Contract (ECC);
- *describe* the following in relation to their impact on construction clauses:
 - International Conditions of Contract for Works of Civil Engineering Construction (FIDIC contract);
 - Institution of Mechanical Engineers (IMechE);
 - Institution of Chemical Engineers (ICHEME);
 - European Crane Association (ECA).

10.2 Private Finance Initiative (PFI)

Candidates should be able to

- *describe* the development of and issues surrounding the use of PFI.

11. Policy cover

11.1 Non-admitted risks

Candidates should be able to

- *explain* the treatment of non-admitted risks and differences in policy conditions.

11.2 Contract works

Candidates should be able to

- *discuss* the nature and standard terms of policy cover in respect of contract works.

11.3 Machinery erection risks

Candidates should be able to

- *discuss* the nature and standard terms of policy cover in respect of machinery erection risks.

11.4 Contractors' plant and equipment cover

Candidates should be able to

- *discuss* the nature and standard terms of policy cover in respect of contractors' plant and equipment cover.

11.5 Employers' liability and public liability

Candidates should be able to

- *discuss* the nature and standard terms of policy cover in respect of employers' liability and public liability risks.

11.6 Joint Contracts Tribunal

Candidates should be able to

- *explain* the key features and impact of JCT clause 21.2.1.

11.7 Latent defects

Candidates should be able to

- *explain* and describe the impact of latent defects.

11.8 Professional indemnity

Candidates should be able to

- *explain* the principal terms of and cover provided by professional indemnity policies.

11.9 Contract guarantee insurance

Candidates should be able to

- *explain* the content and role of contract guarantee insurance.

11.10 Civil engineering completed risks

Candidates should be able to

- *explain* the content and role of civil engineering completed risks.

12. Engineering insurance – development and structure

12.1 Engineering insurance

Candidates should be able to

- *describe* the development of and need for engineering insurance.

12.2 Legislation

Candidates should be able to

- *describe* the relevant legislation applicable to engineering insurance.

12.3 Structure and organisation of engineering insurers

Candidates should be able to

- *discuss* the structure and organisation of engineering insurers.

12.4 EU standardisation

Candidates should be able to

- *describe* the impact of EU standardisation and the requirements for best practice.

12.5 The engineering market

Candidates should be able to

- *outline* the composition of the engineering market, including Home Foreign.

13. Policy cover

13.1 Types of engineering insurance cover

Candidates should be able to

- *explain* and *compare* inspected classes and contingency engineering insurance cover.

13.2 Covers

Candidates should be able to

- *describe* the cover available in respect of the following:
 - computers;
 - machinery movement;
 - deterioration of stock;
 - miscellaneous plant.

14. Business interruption relating to engineering and construction insurances – development and structure

14.1 Business interruption insurance

Candidates should be able to

- *describe* the development of and need for business interruption insurance;
- *discuss* the indemnity provided under business interruption policies;
- *outline* the business interruption market including Home Foreign;
- *explain* the application of reinsurance to business interruption insurance.

15. Engineering business interruption

15.1 Engineering business interruption insurance

Candidates should be able to

- *discuss* the key features of engineering business interruption policy cover.

15.2 Computer and miscellaneous risks

Candidates should be able to

- *discuss* the cover generally available in respect of computer and miscellaneous risks in engineering business interruption insurance.

16. Construction business interruption

16.1 Advance profits policy cover

Candidates should be able to

- *discuss* the key features of the cover available in respect of advance profits.

16.2 Joint contracts tribunal

Candidates should be able to

- *explain* the main provisions and impact of JCT clause 22D Insurance;
- *describe* the main provisions and impact of JCT 25.4.3 insurance for contractors for loss of liquidated damages arising out of negligence.

16.3 Business interruption covers for contractors

Candidates should be able to

- *describe* the business interruption covers for contractors following:
 - loss or damage to contract works;
 - increased cost of working;
 - additional cost of construction for unbuilt works.

17. Other business interruption covers

17.1 Other covers

Candidates should be able to

- *describe* the key features of the business interruption covers available in respect of:
 - latent defects insurance;
 - civil engineering completed risks insurance;
 - cover for fines, damages and contract overrun.

17.2 Private Finance Initiative

Candidates should be able to

- *explain* the nature of business interruption insurance available under the Private Finance Initiative.

18. Claims

18.1 Claims handling procedures

Candidates should be able to

- *discuss* the principles of claims handling;
- *describe* the usual claims procedures, including legal procedures and notification procedures.

18.2 Determining liability

Candidates should be able to

- *discuss* the issues for determining the extent of liability and the application of policy conditions.

18.3 Estimating claims reserves

Candidates should be able to

- *explain* the process and methods for estimating claims reserves, including incurred but not reported (IBNR).

Reading list

The following list provides details of various publications which may assist with your studies. The primary text for this syllabus is shown in bold type. Periodicals and publications listed as additional reading will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

Note: The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination.

Most of these additional study materials can be borrowed or purchased from CII Information Services at www.cii.co.uk/is

Primary text

Principles of property and pecuniary insurance. London: The CII. Coursebook 745.

Additional reading and reference material

Claims and standard fire policies, special extensions and special perils. R. M. Walmsley. London: Chartered Institute of Loss Adjusters, 1993.

Claims and theft, all risks and money policies. D. Cutter. London: Chartered Institute of Loss Adjusters, 1994.

Construction insurance: practice, law, reinsurance and risk management. John D Wright. London: Witherby 1997.

Construction insurance: report of Advanced Study Group 208B of the Insurance Institute of London. London: Insurance Institute of London, 1999.

Engineering insurance, Kluwer's Handbook of Insurance. Kingston upon Thames, Surrey: Croner. CCH. Looseleaf, updated.

Health & Safety at Work etc Act 1974. London: HMSO, 1974.

Insurance against inherent defects in buildings: report of Advanced Study Group Report No 230 of the Insurance Institute of London. London: Insurance Institute of London, 1992.

Insurance requirements in construction contracts. John D Wright. London: CII Information Services. Updated as necessary. Available online at www.cii.co.uk/is/factfiles (CII members only).

Riley on business interruption & consequential loss insurance. 8th ed. David Cloughton. London: Sweet & Maxwell, 1999.

Periodicals

The Journal. London: The CII. Six issues a year. Also available online (CII/SOFA members only) at www.cii.co.uk/is

Post Magazine. London: Timothy Benn. Weekly.

Construction News. London: EMAP Construct. Weekly.

New Civil Engineer International. London: EMAP Construct. Forty five issues a year.

Examination guides

You are strongly advised to study these before the examination. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on 020 8989 8464.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

An example is:

The exam secret: how to make the grade. Barbara Brown. Tadworth, Surrey: Elliott Right Way Books, 2000.

For a more interactive approach, you should consider:

Winning the brain game. London: The CII, 1996. CD Rom.