Specimen coursework assignment

M93 – Commercial property and business interruption insurances

The following is a specimen coursework assignment including questions and indicative answers.

It provides guidance to the style and format of coursework questions that will be asked and indicates the length and breadth of answers sought by markers. The answers given are not intended to be the definitive answers; well-reasoned alternative answers will also gain marks.

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Coursework submission rules and important notes

Before you start your assignment, it is essential that you familiarise yourself with the *Coursework assessment guidelines and instructions* available on RevisionMate.

This includes the following information:

- These questions must not be provided to, or discussed with, any other person regardless of whether they are another candidate or not. If you are found to have breached this rule, disciplinary action may be taken against you.
- Important rules relating to referencing all sources including the study text, regulations and citing statute and case law.
- Penalties for contravention of the rules relating to plagiarism and collaboration.
- Coursework marking criteria applied by markers to submitted answers.
- Deadlines for submission of coursework answers.
- You must not include your name or CII PIN anywhere in your answer.
- The total marks available are 200. You need to obtain 120 marks to pass this assignment.
- Your answer must be submitted on the correct answer template in Arial font, size 11.
- Answers to a coursework assignment should be a maximum of 10,000 words. The word count does not include diagrams however, it does include text contained within any tables you choose to use. The word count does not include referencing or supplementary material in appendices. **Please be aware that at the point an assignment exceeds the word count by more than 10% the examiner will stop marking.**

Top tips for answering coursework assignments

- Read the Learning Outcome(s) and related study text chapter for each question before answering it.
- Ensure your answer reflects the context of the question. Your answer must be based on the figures and/or information used in the question.
- Ensure you answer all questions.
- Address all the issues raised in each question.
- Do not group question parts together in your answer. If there are parts (a) and (b), answer them separately.
- Where a question requires you to address several items, the marks available for each item are equally weighted. For example, if 4 items are required and the question is worth 12 marks, each item is worth 3 marks.
- Ensure that the length and breadth of each answer matches the maximum marks available. For example, a 30 mark question requires more breadth than a 10 or 20 mark question.

M93 Specimen coursework assignment

The coursework questions link to the Learning Outcomes shown on the M93 syllabus as follows:

Question	Learning Outcome(s)	Chapter(s) in the Study Text	Maximum marks per answer
1	Learning Outcome 1	Chapter 1 to 4	10 marks
2	Learning Outcome 2	Chapters 5 to 7	10 marks
3	Learning Outcome 2	Chapters 5 to 7	20 marks
4	Learning Outcome 3	Chapters 8 & 9	20 marks
5	Learning Outcome 3	Chapters 8 & 9	10 marks
6	Learning Outcome 4	Chapters 10 & 11	20 marks
7	Learning Outcome 5	Chapters 12	20 marks
8	Across more than one Learning Outcome	Across more than one chapter	30 marks
9	Across more than one Learning Outcome	Across more than one chapter	30 marks
10	Across more than one Learning Outcome	Across more than one chapter	30 marks

M93 specimen coursework questions and answers

Question 1 - Learning Outcome 1 (10 marks)

You are a commercial property underwriter for an insurer and have received a new business submission relating to a company which operates a motor vehicle repair workshop. The company stores motor vehicle parts on its premises.

Identify, with justification, **five** property hazards which apply to the motor vehicle repair workshop. (10)

Answer to Question 1 (Learning Outcome 1)

Five property hazards which apply to the motor vehicle repair workshop are:

Hot work – repairs using welding equipment generate considerable heat and sources of ignition. Removal of damaged bodywork from vehicles may require metal cutting, which produces sparks which are a source of ignition for flammable materials. These sparks can result from gas flames producing hazards similar to welding or alternatively cold cutting by grinding discs which creates a spark ignition hazard. (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018)

Storage of flammables – paint and oils create a major source of fuel for a fire. Correct storage, such as limiting quantities kept in work areas and proper handling of part used containers, reduces the risk considerably.

Spray painting – painting of vehicles is associated with the use of portable liquid petroleum gas fired blowers for drying together with the creation of potentially flammable fumes by the spray process, both of which create a potential source of ignition.

Theft attractive stock and general contents – the storage of motor vehicle parts of significant value is a known attraction to thieves. Many items are relatively expensive, easily sold and fairly portable. Stock which is packaged is highly attractive, whilst specialist hand tools and electronic diagnostic equipment are also attract thieves.

Waste – the use of oils, paints and other flammable fluids can lead to a build up of rags and cleaning wipes. Accumulation of such waste creates a source of fuel which if it comes into contact with a source of ignition and may burn freely. Serious accumulation of oily rags is a potential source of self-ignition through the process of spontaneous combustion. Draining of fuel tanks prior to repair work creates flammable waste which requires special storage and disposal as well as the potential for the escape of fumes (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

Question 2 - Learning Outcome 2 (10 marks)

You are a commercial property underwriter for an insurer. A policyholder who is a hotel owner, has told you he is considering closing down his hotel on a temporary basis because of challenging trading conditions, but will re-open the hotel when the trading conditions improve.

Identify with justification, **five** restrictions that you might apply to the buildings cover should the hotel become unoccupied. (10)

Answer to question 2 (Learning Outcome 2)

Five restrictions that might apply to the buildings cover should the hotel become unoccupied are:

Arson warranties including:

As an underwriter we could apply a warranty to ensure the hotel does the following:

- Establishes perimeter security and the possible use of a security company.
- Removes accumulated waste around outside of building. An easy source of fuel for a malicious or accidental fire and often found when a building is emptied after trading ceases.
- Ensures that the premises are inspected at an agreed frequency to avoid the source of potential claims going unnoticed.

Malicious damage
Cover is likely to be withdrawn – usual practice is to exclude damage to unoccupied premises in the wording of the contingency (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

Theft
Generally insurers are unwilling to continue cover. This is due to an increased risk of the removal of the fabric of the building such as copper pipe and roofing materials.

Water damage
Either as an exclusion or warranty. This would normally exclude damage by bursting or overflowing of water tanks apparatus or pipes.

Storm
The fire and theft hazards increased by un-occupancy may increase the risk of damage by storm being worse than would otherwise be the case. This is due to possible exposure to the elements not being discovered and remedied quickly.

Question 3 - Learning Outcome 2 (20 marks)

You are a commercial property underwriter for an insurer. An insurance broker presents a potential new client to you, which is a furniture manufacturer. The client has a manufacturing site and a warehouse building at a different location.

The warehouse is used to store finished goods, which are subject to seasonal fluctuations in demand. Stock and raw materials are stored in the two locations and the value of these varies according to seasonal demand. Both the amount of raw materials and finished goods vary between these two locations.

The insurance broker is keen to win this business and has asked you to offer the most competitive and appropriate terms for both the buildings and the stock. The insurance broker suggests insuring the stock on a first loss basis.

Prior to the inception of cover, a survey is undertaken which establishes that the warehouse, although old, is not listed and has been adapted to provide warehouse facilities.

(a) Explain why insuring the stock on a first loss basis may not reduce the overall premium. (4)

(b) Explain how the stock could be insured to take into account seasonal fluctuations and the variation in values at the warehouse, including the responsibilities placed on the insured in relation to this cover. (8)

(c) Explain, with justification, the most appropriate basis of property cover for the warehouse building. (8)

Answer to question 3 (Learning Outcome 2)

(a) As the cover is likely to be on an 'all risks' basis a limit which is less than the catastrophe exposure at the most valuable site would leave the insured exposed. Therefore, it is not possible to devise a satisfactory first loss cover which would result in a premium saving.

The concept of first loss cover is that a loss equal to the total value at risk is inconceivable (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018). This works for a single location but does not mean that we will cover two or more locations for the price of one just because more than one is unlikely to have a loss at the same time.

We would apply a rate to the total value at all locations. Any proposed first loss discount would have to reflect the amount by which the first loss limit fell short of the maximum exposure at the largest location.

(b) It is possible to provide for seasonal increases in the sum insured either overall or at specific locations. This is unlikely to offer the flexibility required and a stock declaration basis would offer a better solution (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

The simplest method is for a single sum insured to represent the maximum total value at both locations and for the premium to be calculated at the rate on this sum insured. A discount of 25% is then allowed to produce a deposit premium for the item subject to the stock declaration clause.

The Insured is required to declare the total value at risk at the end of each month (or possibly quarterly) and at the end of the period of insurance an adjustment is calculated. The 'earned premium' is the rate x the average of the month-end or quarter-end declarations and the deposit premium is deducted from the earned figure to arrive at the adjustment premium.

In the case of this particular enquiry it may be that the rate might vary considerably between the manufacturing and storage locations. There would be a case for each separate location to have a sum insured subject to stock declaration conditions rather than a floating sum insured over both being subject to stock declaration conditions. This would produce a very accurately calculated premium but imposes a greater administrative burden on all concerned.

Stock maximum value basis - a further alternative is for a discount of perhaps 20% from the full stock premium to be allowed in recognition of the fluctuations in the actual amount at risk during the period of insurance. This avoids the need for declarations and adjustment calculations.

(c) The buildings should be insured on a reinstatement basis. Variations exist between day one adjustable and non adjustable basis but in every case account must be taken of the cost of rebuilding together with debris removal fees.

The warehouse appears to be a building for which obsolete buildings cover (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018) would be suitable. The measure of suitability is firstly that the building is not listed and further that its reinstatement would not be practical.

In the event of total loss of the building an indemnity could be achieved by meeting debris removal costs and the cost of securing a similar building elsewhere.

Alternatively rebuilding on the original site using modern materials and techniques would represent indemnity.

The sum insured selected to adequately meet the requirements of the obsolete buildings basis should be less than the reinstatement sum insured and in this way a premium saving is achieved.

As an underwriter, I will not lose sight of the cost of a partial loss and the full reinstatement sum insured needs therefore to be known. The premium is likely to be calculated on the full reinstatement sum insured and a discount applied according to the proportion that the selected sum insured bears to the reinstatement figure.

Question 4 - Learning Outcome 4 (20 marks)

You are the insurance broker for XYZ plc who is a food manufacturer. The business interruption insurance, which is on a non-declaration linked basis, for XYZ plc is due for renewal on 1 April. XYZ plc has provided you with the following provisional financial information for the current trading year. The turnover is growing at a rate of 5% per annum and the maximum indemnity period is 24 months.

Trading Account for the year ending 31 March				
Opening Stock	£1,500,000		Turnover	£6,000,000
Purchases	£2,500,000		Closing Stock	£1,000,000
Power	£500,000			
Wages	£1,000,000			
Gross Profit	£1,500,000			
Total	**£7,000,000**		**Total**	**£7,000,000**

Profit & Loss Account for the year ending 31 March				
Salaries	£300,000		Gross Profit from Trading Account	£1,500,000
Rent & Rates	£100,000			
Lighting & Heating	£50,000			
Depreciation	£250,000			
Repairs & Renewals	£350,000			
Advertising	£25,000			
Transport & Packaging	£175,000			
Net Profit	£350,000			
Total	£1,500,000		**Total**	£1,500,000

(a) Calculate, **showing all your workings**, the business interruption sum insured, using relevant information from the above accounts, for the forthcoming period of insurance. (10)

(b) Explain **five** risk features which XYZ plc's insurance broker should take into account, for the food manufacturer, when considering the maximum indemnity period for the business interruption policy. (10)

Answer to question 4 (Learning Outcome 3)

(a)

Turnover	£6,000,000	plus
Closing stock and WIP	£1,000,000	
	£7,000,000	(A)
Purchases	£2,500,000	plus
Opening stock and WIP	£1,500,000	
	£4,000,000	(B)

A less B = £3,000,000

(CII study text, M93 Commercial Property and Business Interruption Insurances, 2018)

The above figures are from the accounts to 31.12.2015. The £3m would need to be adjusted to reflect any growth or contraction during any period between the end date of the accounts and the inception date of the insurance.

No inception date is given so assume cover to start 01.01.2016.

The £3m must be adjusted to reflect the effects of growth (5% pa) and the duration of the indemnity period (24 months) The sum insured must be sufficient to provide indemnity for a loss occurring on the last day of the period of insurance that results in interruption lasting for the whole of the maximum indemnity period.

2016	£3,150,000	(£3m + 5%)	
2017	£3,307,500	(£3,150,000 + 5%)	(C)
2018	£3,472,875	(£3,307,500 + 5%)	(D)

24 month indemnity period requires a sum insured of:

(C) + (D) = £6,780,375.

(b) The maximum indemnity period that would prove correct cannot be determined in advance with complete certainty (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

The factors leading to a conclusion include:

Time:

- To replace or rebuild damaged buildings.
- To replace production machinery and other facilities and to train staff on anything that is new to them.
- To source raw materials or whatever is needed to produce the end product.
- To resume production once the above steps have been taken.
- To regain market share.

I would look for features which may prolong or decrease the expected time for each step in the process to be completed. These may include:

- Rebuilding – planning issues, constraints imposed by listed buildings or the need to include special features or built-in plant in buildings.
- Replacement machinery – custom made, made overseas with import problems or mismatch between original equipment and new with up-to-date specifications.
- Raw materials – lack of availability if loss occurs at the wrong time. Availability may be seasonal and it is possible that all available stock will have been taken up by the market. Any spare supplies, if available, may be over priced or of inferior quality.
- Market conditions change without regard to the insured's ability to carry on trading in them. Likely competition and fickle buyers may prolong the time to regain market share.
- The time element to regain market share may be reduced if outwork has been employed, buffer stocks used or overtime used on surviving resources employed while rebuilding progresses.

Various stages of the recovery process can proceed alongside each other. Rebuilding may be underway at the same time as new machinery is on order. Overtime working and outwork may replace a certain percentage of turnover.

Time periods should be assigned to each of the factors and the longest period plus a margin for error will suggest the period which should be recommended.

Question 5 - Learning Outcome 3 (10 marks)

You are an insurance broker and one of your clients, a clothing retailer located in a shopping centre, has asked you to review their business interruption insurance. The shopping centre consists of a number of independent retailers, of which your client is one, together with a prestigious department store.

Identify and explain an appropriate business interruption insurance extension which may be applied to provide protection in the following circumstances:

(a) A significant fire in the prestigious department store, which did not spread to any other retailers. (5)

(b) The closure of an access route to the shopping centre as a result of fire at a neighbouring premises to the shopping centre. (5)

Answer to question 5 (Learning Outcome 3)

(a) Loss of attraction. This extension covers loss of turnover resulting from damage to premises specified. Such premises could be the prestigious department store which acts as a draw to encourage the public to visit the shopping mall and shop at both the prestigious department store and other retail outlets in the vicinity. Therefore, loss of all or part of the prestigious department store could result in the public not visiting the shopping mall in the same numbers as was anticipated resulting in the reduction of footfall for our insured (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

Where the identity of the key attraction is known as in this case it is likely to be specified. Cover is also available for loss of attraction due to damage to unspecified premises within a mile of the insured's premises.

Both types of extension may be subject to a time excess or franchise which removes cover for short period interruptions – perhaps twelve hours.

The cover is subject to a limit of liability.

(b) Prevention of access. This extension covers loss of turnover resulting from damage to property within one mile of the Insured's premises which prevents or hinders access to the Insured's premises (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

This clause refers to loss flowing from damage and is in contrast to cover for prevention of access as a result of the action of the police or other authority which may be the result of a bomb scare or other reason not accompanied by actual damage.

A time excess or franchise may apply.

The cover is subject to a limit of liability.

Question 6 - Learning Outcome 4 (20 marks)

You are an underwriter for ABC plc and have been asked by FGH plc, an insurance broker, to provide cover for the following large manufacturing risk, with the following risk exposures.

Risk Exposures for ABC plc	Declared Value	Basis of Settlement	Estimated Maximum Loss
Buildings	£50,000,000	Day One Reinstatement (15%)	25%
Contents	£100,000,000	Reinstatement	75%
Stock	£25,000,000	Indemnity	15%
Business Interruption	£140,000,000	Declaration Linked – 24 Month Indemnity Period	60%

ABC plc has capacity to underwrite business for manufacturing risks to a total insured value of £250,000,000 and an Estimated Maximum Loss (EML) of £75,000,000, for a combined total in respect of material damage and business interruption.

(a) Calculate, **showing all your workings**, what proportion of the risk you would accept. (12)

(b) Explain, with justification, **one** option available to the insurance broker if ABC plc is unable to underwrite 100% of the risk. (8)

Answer to Question 6 (Learning Outcome 4)

(a) Adjust total sums insured to reflect effect of Day One Reinstatement (Buildings) and Declaration Linking (Business Interruption):

Buildings	£ 50,000,000
Day One 15%	£ 7,500,000
Contents	£100,000,000
Stock	£ 25,000,000
Business interruption	£140,000,000

Declaration linking:

(33.3% of sum insured)	£ 46,620,000
Total sum insured	£369,120,000

Capacity of £250,000,000 is 68% of above total sum insured. However, applying the estimated maximum loss (EML) (CII study text, M93 Commercial Property and Business Interruption Insurances, 2016, P10/20- 10/23) percentages to the total sum insured figures above:

Buildings	£57.5m x 25%	£ 14,375,000
Contents	£100m x 75%	£ 75,000,000
Stock	£25m x 15%	£ 3,750,000
BI	£186.62m x 60%	£111,972,000
Total EML		£205,097,000

ABC plc's EML capacity of £75,000,000 is 36.5% of the above total EML. Therefore, the offered participation should be based on this percentage. Allowing some margin for possible mid-term increases in sums insured and understated EML figures I, as the underwriter, would probably offer to write 30%.

(b) As an insurance broker one option would be to arrange co-insurance. In this arrangement ABC might become the leading office and write a 30% lead. The broker negotiates the premium, terms and survey matters with ABC plc who are responsible for the issue of the policy documents and day-to-day administration on behalf of the following insurers (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

The broker seeks other insurers who are willing to write a share; usually each equal to or less than that of the leading office. The percentages need to total 100% and then the placement is complete.

Sometimes more than 100% is placed and in such cases the participation of all insurers concerned is usually reduced proportionately so that the risk is finally placed 100%. Occasionally a line will be offered 'to stand' which means that the insurer will only participate if they are able to do so at their offered percentage and not to have their line reduced when the final placement is done. This latter approach means that the reduction in the lines of the other insurers is greater.

The other insurers are known as co-insurers or follow lines. They are responsible for their share of the risk but not for the share of any other participant in the placing. Equally ABC is responsible only for its lead line (30%) and not for the lines written by the other participants. The insured, or rather the broker on the insured's behalf, needs to be satisfied with the security of each participant as they are in a direct relationship.

Claims are handled by the leading office but co-insurers may stipulate that they are notified of and involved in discussion of a major loss. A settlement date is agreed and on this day each co-insurer will make a separate payment representing their share of the settled amount.

Question 7 - Learning Outcome 5 (20 marks)

You are an insurance broker and one of your clients is YUI plc. You have been informed by a director of YUI plc that there has been a fire at their business premises which has damaged the building, plant, machinery and stock. The director has concerns as to the obligations of YUI plc under the property insurance policy, following the fire.

The insurance policy in place provides the following cover:

- Buildings £700,000 – Day One Reinstatement (25%).
- Plant & Machinery - £200,000 – Reinstatement.
- Stock - £100,000 – Indemnity.
- Deductible - £2,500.

You notify the insurer, who then appoints a loss adjuster to investigate and adjust the property damage loss. During investigations, the loss adjuster establishes the total amounts claimed and the values at risk are as follows:

	Total amount claimed	Actual Value at Risk at Inception of the policy	Value at Risk on the date of Loss	Value at Risk at the date of reinstatement / replacement
Buildings	£240,000	£800,000	£850,000	£900,000
Plant and Machinery	£100,000	£200,000	£220,000	£250,000
Stock	£75,000	£100,000	£110,000	£150,000

(a) Explain **five** relevant policy obligations and their importance which you should inform YUI plc of, in order to meet the terms of the policy following the fire. (10)

(b) Calculate, **showing all your workings**, the anticipated claim settlement figure, based on the above information. (10)

Answer to question 7 (Learning Outcome 5)

(a) The Insured's obligations are set out in the policy documents and schedule received by the Insured (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018). Where a loss adjuster is appointed it is anticipated that they will provide the Insured with guidance on the way in which the policy obligations can be met in a practical way.

In general, the stated obligations are:

- Immediate notification of loss to insurer – already done in this case.
- Notify the police if the loss involves potential criminal act.
- Provide a written claim in 30 days.
- Provide the insurer with help they may reasonably require in connection with the claim.
- Provide the insurer with information and assistance to enable them to seek recovery from any third party responsible for the damage.

There is an overriding duty to mitigate the loss in any way possible.

As the broker, I would advise full co-operation with the loss adjuster and in the circumstances of this very serious loss may well attend early meetings to guide YUI plc through the process.

I would reinforce advice given by the loss adjuster concerning security of the site and protection of any undamaged property. I would need to identify any new insurance requirements arising out of the removal of undamaged items to new locations as they may not be automatically covered by the existing policy.

The insurer may accept that it may not be possible to submit the written claim within 30 days but within that time YUI plc should agree with the loss adjuster how the claim will proceed to ensure compliance with the claims condition.

Finally, YUI plc should be made aware that the cost of preparing the claim is not covered by the policy.

(b) <u>Buildings</u>

Underinsured at inception and therefore pro-rata average applies (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

(Declared Value advised by the insured / Actual Value on Day One of the insurance) x the Loss = Claims settlement figure

Therefore (£700,000 / £800,000) x £240,000 = £210,000

Plants & Machinery

Average applies because sum insured is less than 85% of cost of reinstatement at the time of reinstatement.

£200,000/£250.000 x loss of £100,000 = £80,000

Again insurer is liable for 4/5ths of loss but this is equal to the full sum insured as the item was a total loss.

Stock

Reinstatement is not applicable. Average is measured by the relationship of the sum insured to the value at the time of the loss.

£100,000/£150,000 x loss of £75,000 = £50,000

Total loss settlement prior to deduction of the deductible is:

Buildings £210,000.
Plant & Machinery £80,000.
Stock £50,000.
Total £340,000.

The deductible of £2,500 needs to be deducted.

Therefore, the final payment would be £337,500.

Question 8 - Across more than one Learning Outcome (30 marks)

You are an insurance broker for ZXC plc, a hotel chain operator. ZXC plc have recently acquired a Grade 1 listed building in the centre of London which is in need of refurbishment. ASD plc has been appointed as contractors to undertake the necessary works to convert the premises into a five star hotel. The period of the refurbishment will take approximately three years to complete.

ZXC plc has expressed their concern that any delay in the refurbishment will adversely affect the long term profitability of the new hotel.

(a) Identify, with justification, **four** property risks associated with the refurbishment of this building and how each of these risks may be controlled. (16)

(b) Explain how the listed building status will affect the underwriting of this risk. (4)

(c) Describe the cover which could be provided to safeguard future loss of profits in the event of a fire during the refurbishment process. (4)

(d) Describe the risk features you would expect an underwriter to consider when underwriting the cover in (c) above. (6)

Answer to Question 8 (Across more than one Learning Outcome)

(a) Four property risks associated with the refurbishment of the building are:

1. Heightened fire risk associated with hot work carried out by contactors. Possible welding work in the earlier stages of works and use of blowlamps in connection with plumbing work at later stages. Roofing may involve hot processes and has a track record of causing substantial losses if things go wrong.

   These works cannot usually be replaced by less hazardous methods. Risk control measures lay in compliance with the Joint Code of Practice on the Protection from Fire of Construction Sites and Buildings Undergoing Renovation 1997. Adherence to these would help mitigate the risk (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

2. Building sites attract the attention of thieves for various reasons. Contractor's plant and tools may not be covered by the existing properties insurance but the presence of thieves' increases fire and malicious damage exposure. Various parts of the building itself – existing or newly fitted – may be more easily

accessible than in a completed building and theft of kitchen and bathroom fittings can prove expensive. These risks may be controlled by security guards, fencing and alarms.

3. Security of the site is important to prevent unauthorised access, which may lead to arson or malicious damage. This security can be managed by suitable perimeter fencing, 24-hour security patrols and surveillance camera. Particularly valuable equipment, such as engineering equipment and tools, may need separate locked compounds and/or secure onsite areas to reduce the risks of arson and malicious damage. These measures will protect the assets of the insured and their contractors.

4. Damage from burst pipes can cause considerable losses. The conversion of this hotel will involve considerable work to the plumbing and heating system. Where new plumbing is added to the existing plumbing and heating systems there is an increased potential for water leakage. This risk can be controlled by ensuring that the plumbing and heating system will only be activated and filled with water once it has passed quality assurance tests conducted by qualified plumbers. Monitoring of the system via the use of flow meters can be undertaken to identify leaks as soon as possible to prevent them causing significant damage.

(b) Of the three grades of listing Grade 1 represents the highest importance. Planning consents will not have been easy to obtain and repairs to a damaged structure or refurbishment of an existing structure will have to be undertaken under the guidance and authorisation of English Heritage, a lengthy and potentially expensive process. (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018)

The listed status can impact on the cost of reinstatement in terms of the materials and techniques used. For the underwriter considering the business interruption or material damage risk the prospect of delay resulting from the planning issues and possibly restricted availability of specialised building materials and skilled craftsmen represents an increased risk.

(c) At the present stage of the venture there are no earnings against which a loss following damage can be measured. The hotel chain should consider advance profits insurance which seeks to indemnify them for the loss of gross profit which they would incur should the date at which the hotel commences trading be postponed due to an insured event (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

The indemnity period selected should reflect the maximum period that damage may delay the planned date of the hotel’s opening.

The risk is primarily concerned with damage to the construction site. It may also encompass damage at suppliers' premises or in transit to site depending on the exposures identified.

Just as with gross profit cover, the insurance includes Increased cost of working aimed at reducing the loss of profit finally incurred. This might consist of extra wages for overtime working or any other means of making up lost time.

(d) The primary concerns of the underwriter considering the interruption risk are similar to, but can vary from, those of the underwriter looking at the material damage exposure. A serious fire just before completion of the works is probably the worst prospect as the opportunity to recover before the planned opening date of the hotel is minimal, if not non-existent. The underwriter will seek to improve the risk by incorporating a material damage proviso into the advance profits policy.

The advance profits exposure will be increased by anything that will make the delay in returning to the planned construction path worse than it might otherwise be e.g. specialist machinery or specialist materials.

<u>Question 9 - Across more than one Learning Outcome (30 marks)</u>

You are an insurance broker and one of your clients is SSG plc, who own and operate a private hospital. The hospital building dates from the 1850s and has been extended over the years, including the addition of a large restaurant.

Following a number of losses, the property insurer of the private hospital has commissioned a risk survey of the premises, which has been shared with you and SSG plc. The survey report has highlighted the following issues:

- Subsidence has been identified in the large restaurant.
- The private hospital, due to its age, undergoes frequent repair and maintenance work, to keep it to the standards expected by its patients and their families who visit them.
- Planning permission for the redevelopment of the private hospital, in the event of a substantial loss, will be subject to current planning legislation.

(a) Explain, with justification, **three** potential property clauses which an underwriter might seek to apply to limit their exposure. (15)

(b) Explain, with justification, **three** potential property clauses which an insurance broker might seek from the insurer to obtain the widest cover. (15)

Answer to Question 9 (Across more than one Learning Outcome)

(a) *Subsidence* – the damage already identified means that unrestricted cover for this contingency is out of the question. The restaurant is said to be a newer feature but it is not clear if it was a new and separate structure sometime after the 1850s when the main buildings were erected. It may be a new aspect of the operation in a part of the original structure. (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018)

Subsidence cover for unaffected parts might be possible if the restaurant can be clearly separated from other parts of the premises and that the cause of the existing damage does not threaten other structures.

A higher than standard deductible for all or part of the subsidence risk is a possibility but the greater likelihood is that underwriters will apply an exclusion.

Fire – the higher than usual degree of repair and maintenance work presents an increased inception hazard accompanied by some increase in the propagation risk. Underwriters will respond to this situation by insistence on risk control measures embodied into the insurance as warranties or conditions precedent.

The in-house maintenance facilities will have been subject to the surveyor's scrutiny and a warranty dealing with waste, hot work and material storage will be agreed. It is not hard to imagine paint stores, wood offcuts and possibly gas bottles in the maintenance department which may be rather less clinical than other parts of the hospital.

More extensive work is likely to involve the use of outside contractors either independently of alongside the in-house team. Control of contractor's measures will be agreed and form part of the warranty relating to the fire risk control measures generally.

Adherence to the current version (Edition 9) of the Joint Code of Practice for Fire Prevention on Construction Sites will form part of the risk requirements (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

Theft - a significant risk in a hospital environment. Medical equipment may be attractive to a specialised type of thief due to its high value. The value and limited availability of medicines means that they are also theft attractive.

There are some similarities to a hotel risk where people come and go at all hours and the broker may be looking for full theft cover. Underwriters may impose a restriction to theft following forcible and violent entry only. An alternative may be a substantial deductible on non forcible and violent entry theft.

(b) Significant building or mechanical work may represent a variation of risk which needs to be specifically agreed with insurers. The Broker will wish to see a workmen clause included in the policy wording which agrees that minor building works carried out during the period of insurance will not invalidate the insurance (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

The Broker will wish to see the policy wording including the European Union and public authorities clause included in the policy wording. Originally known as the local authorities clause this provision allows additional costs of reinstatement to be included in the settlement where these are incurred to comply with EU or UK legislation or local authority planning bylaws (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

Many wordings include this clause as standard but it is most important in cases like this hospital where the premises are old and in the event of damage there may be a requirement to rebuild on another site or planning permission for rebuilding on the existing site will only be granted if significant changes to the premises are made. The changes might include changes access, car parking of layout of the buildings themselves.

The clause seeks to avoid insurers paying for matters which the Insured would have had to deal with whether or not the insured damage occurred. There is no cover for the cost of compliance for undamaged parts of the building except foundations or for the cost of compliance with notices served before the damage took place.

If only part of a building has been damaged by fire the local authority may take the opportunity to insist that the whole building is improved to meet modern standards. Cover can be given for undamaged parts subject to a limit – usually 15% - of the insurers liability had the whole building been subject to damage. This does not extend to buildings on the same site that were not damaged by the fire at all.

Capital additions occur in most businesses but in this case there is special mention of the fact that there is frequent repair and maintenance work. The capital additions Clause relieves the insured of the need to advise insurers of all newly acquired buildings and machinery which would ordinarily be necessary to keep the sum insured up-to-date (CII study text, M93 Commercial Property and Business Interruption Insurances, 2018).

Cover is provided automatically within the existing terms and conditions of the policy and the liability of insurers is limited to 10% of the combined buildings and plant & machinery sums insured. A cap of £500,000 would normally apply to the amount of the additional sum insured.

The insured is required to declare details of the additional buildings or plant to insurers as soon as possible and in any case within six months of their acquisition. If the period of insurance ends before the six-month period, then the cover ceases at the end of the period rather than after six months.

The insured is required to pay an additional premium reflecting the increase in risk which will be calculated from the date of acquisition and not from the date of declaration.

Question 10 - Across more than one Learning Outcome (30 marks)

You are an insurance broker and you have a renewal meeting with one of your commercial clients, a jewellery retail chain trading from a number of locations. The insurer has informed you that the loss history for this client is worse than for similar clients, whom they insure.

- Some of the jewellery shops keep a large amount of cash on the premises overnight.
- The intruder and fire alarms vary in standard between the shops.
- Some of the shops are of modern purpose-built design, whilst others are conversions of older buildings.
- The shops are located in a variety of locations, with the majority in shopping malls and town centres, and a few in more remote locations.

The client has expressed a wish to remain with the existing insurer and has asked for your advice as to how they can improve their risks to ensure the property and business interruption insurance terms offered at renewal remain favourable.

(a) Discuss, with justification, **three** theft risk improvements, based on the above information, which the client could make to reduce potential future claims. (12)

(b) Discuss **three** non-theft risk improvements, based on the above information, which the client could make to reduce potential future claims. (9)

(c) Recommend, with justification, **one** significant change in the cover to make the insurance programme more attractive to the insurer. (9)

Answer to Question 10 (Across more than one Learning Outcome)

(a) High value stock and cash are a dangerous mix from the theft attractiveness standpoint. It is probably difficult to reduce stock holdings but cash is another matter. Collection prior to close of business by a specialist cash handling company may provide the answer. Other solutions will involve more transit which creates exposure but at least more frequent banking could be considered.

The client should agree with the insurer a minimum standard for alarms which all locations will meet. Intruder and fire alarm technology has been a fairly fast developing area and the older alarms could now be seriously out-of-date. These are more prone to false alarms leading to downgraded response.

This might include confirmable technology within intruder alarms and updating of detectors in fire alarms.

Daytime theft is a problem for jewellery risks.

The insured could introduce measures to demonstrate that higher value items are kept towards the rear of display floors and that display layout is designed to limit the snatch risk.

Fog generating machines linked to intruder alarms may be suitable in some of the insured's locations but almost certainly not in all. The fog is intended to disorientate the intruder and limit or halt the theft but there may be risks to customers and staff especially if fog is deployed in a 'hold-up' situation.

A review of ram-raid prevention measures could form a useful part of the broker's renewal presentation. Details of existing measures together with a time-table for improvements would help the insurers confidence. Ram-raids occur during business hours as well as when the premises are closed although day time events are more likely to involve motorcycles than larger vehicles. Changes in layout can make such attacks less likely to succeed.

(b) Smart retailers often have attractive public areas but stock rooms and staff facilities can become congested and create a fire inception hazard. Insurers confidence in the risk would be increased if it could be shown that control of waste and general upkeep of non-public areas formed part of the insured's internal audit system operated through branch and regional managers. Waste accumulation just outside the premises especially by windows and doors increases the arson and accidental fire risk and any evidence that there is awareness and control of this possibility would be helpful.

Some of the more traditional jewellers may have small workshops on the shop premises. These can resemble metal working risks and though mostly using hand tools, soldering and small amounts of hot work may be present. Small 'desk top' furnaces are sometimes present for melting down scrap gold or other precious metals particularly if there is a pawn broking side to the business. The insurers should be made aware of whether or not this feature is present and if it is, whether a review of the presence of appropriate fire extinguishers has been carried out.

Some of the locations may be in older parts of cities and for all flood is an increasingly worrying exposure. The broker's renewal presentation would be strengthened if it showed the exact location of each branch with details of known flood risk. A minimum standard that all branches would adhere to in terms of storage above floor level would be helpful. Although the jewellery is not particularly water damage prone in itself, damage to packing boxes alone can be costly and disruptive.

(c) If the loss history represents a large number of relatively small losses from one particular cause – it might be theft – then an increased excess would be a suitable option. By applying to each and every claim the overall cost would be reduced as well as the frequency being reduced by smaller losses falling within the excess. The insured feels the effect relatively quickly and increased involvement in losses often leads to a heightened interest in loss control and prevention.

If high values are involved and there is not a particularly high frequency of losses an increased excess may not have much effect. A larger voluntary deductible would be more appropriate and would encourage the insured to focus their attention on their exposure. Such a step might be too much for the insured to consider as there are multiple locations and simply through ill-fortune a number of larger losses could occur in one period of insurance. The use of an aggregate cap on the deductible would solve this problem. If a deductible of £50,000 each and every loss were selected, then an aggregate of perhaps £200,000 would be suitable. This limits the insured's exposure to £200,000 in the period of insurance.

A working excess – possibly £500 or £1,000 - would still need to apply to avoid insurers having to deal with losses from the first £1 in the event that the aggregate is exhausted by a number of losses early in the insurance period. This working excess would not normally contribute to the aggregate calculation.

<u>Reference list</u>

CII study text, M93 Commercial Property and Business Interruption Insurances, 2018

Question deconstruction and answer planning

The following three plans are based on 10, 20 and 30 mark questions respectively.

Question 2 - Learning Outcome 2 (10 marks)

You are a commercial property underwriter for an insurer. A policyholder who is a hotel owner, has told you he is considering closing down his hotel on a temporary basis because of challenging trading conditions, but will re-open the hotel when the trading conditions improve.

Identify with justification, **five** restrictions that you might apply to the buildings cover should the hotel become unoccupied. (10)

Question deconstruction

- Review learning outcome 2 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- What is the <u>context</u>? You are an underwriter. The policyholder has specific characteristics – unoccupancy.
- The question asks for five restrictions. This means that you should spend an equal amount of time and effort in your answer in relation to each of those five (1 mark for identifying and 1 mark for justifying each of the five).

Answer plan

- Identify the first restriction. See the glossary at the end of this document. Identification should be one word and one mark is available for each of the five. Justify the first restriction, say why you have identified the restriction in the terms of the context. Do the same for each of the four other restrictions.
- Spend an equal amount of time on each of the five restrictions. However this is a 10 mark question so your answer can be quite brief and only two marks will be available for each of the five restrictions.
- As this is a 10 mark question, your answer should be shorter than the answers to either a 20 or 30 mark question.

Question 7 - Learning Outcome 5 (20 marks)

You are an insurance broker and one of your clients is YUI plc. You have been informed by a director of YUI plc that there has been a fire at their business premises which has damaged the building, plant, machinery and stock. The director has concerns as to the obligations of YUI plc under the property insurance policy, following the fire.

The insurance policy in place provides the following cover:

- Buildings £700,000 – Day One Reinstatement (25%).
- Plant & Machinery - £200,000 – Reinstatement.
- Stock - £100,000 – Indemnity.
- Deductible - £2,500.

You notify the insurer, who then appoints a loss adjuster to investigate and adjust the property damage loss. During investigations, the loss adjuster establishes the total amounts claimed and the values at risk are as follows:

	Total amount claimed	Actual Value at Risk at Inception of the policy	Value at Risk on the date of Loss	Value at Risk at the date of reinstatement / replacement
Buildings	£240,000	£800,000	£850,000	£900,000
Plant and Machinery	£100,000	£200,000	£220,000	£250,000
Stock	£75,000	£100,000	£110,000	£150,000

(a) Explain **five** relevant policy obligations and their importance which you should inform YUI plc of, in order to meet the terms of the policy following the fire. (10)

(b) Calculate, **showing all your workings**, the anticipated claim settlement figure, based on the above information. (10)

Question deconstruction

- Review learning outcome 5 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- Consider the context. You are an insurance broker and you have a client who has had a fire. You are asked to provide advice based on the policy cover and the potential claim.
- The marks in part (a) are equally weighted so spend an equal amount of time and effort in explaining each of the five relevant policy obligations. Note the word 'relevant' which requires you to apply your knowledge to this specific context.
- The 10 marks in part (b) are equal to part (a).

Answer plan

- Part (a): You need to explain five relevant policy obligations. Two marks are available for each which means your explanations should be brief, but they must be linked to this specific scenario.
- Part (b): This is a calculation question and it is important that you show all your calculations to gain the marks. There are ten marks available, so your calculations and workings should be shown in detail in order secure the marks available.
- As this is a 20 mark question, your answer should be longer than the answer to a 10 mark question but shorter than the answer to a 30 mark question.

Question 10 - Across more than one Learning Outcome (30 marks)

You are an insurance broker and you have a renewal meeting with one of your commercial clients, a jewellery retail chain trading from a number of locations. The insurer has informed you that the loss history for this client is worse than for similar clients, whom they insure.

- Some of the jewellery shops keep a large amount of cash on the premises overnight.
- The intruder and fire alarms vary in standard between the shops.
- Some of the shops are of modern purpose-built design, whilst others are conversions of older buildings.
- The shops are located in a variety of locations, with the majority in shopping malls and town centres, and a few in more remote locations.

The client has expressed a wish to remain with the existing insurer and has asked for your advice as to how they can improve their risks to ensure the property and business interruption insurance terms offered at renewal remain favourable.

(a) Discuss, with justification, **three** theft risk improvements, based on the above information, which the client could make to reduce potential future claims. (12)

(b) Discuss **three** non-theft risk improvements, based on the above information, which the client could make to reduce potential future claims. (9)

(c) Recommend, with justification, **one** significant change in the cover to make the insurance programme more attractive to the insurer. (9)

Question deconstruction

- This question covers learning from more than one learning outcome. First identify the syllabus areas that this question covers and read the relevant study material which will be found in more than one chapter.
- Highlight the instructions within the question (which are circled in red above).
- Consideration of the context. You are an insurance broker. One of your clients has a number of risk characteristics and a claim's history which is worse than other similar risks from an insurer's perspective. Your client has certain demands and needs and has asked you for advice.

Answer plan

- Part (a) is worth 12 marks and part (b) is worth 9 marks, and part (c) is worth 9 marks. You should look at the instructions in the question and, were relevant, the number of items requested to construct and plan your answer in line with the mark allocation.
- For example, part (a) is worth 12 marks and you are being instructed to discuss, with justification, three risk improvements. So the marks available would be 2 for each discussion and 2 two for each justification, 12 in total.
- The methodology for part (b) is similar, but there is no requirement to justify your risk improvement, so 9 marks are available. In part (c), one change in cover is being asked for, so the mark allocation would be 6 for the recommendation and 3 for the justification, 9 in total.
- Remember that in each part, your answer should apply specifically to the context of the question, as no marks would be available for general discussion beyond the scope of this specific context.
- As this is a 30 mark question, your answer should be longer than the answers to 10 and 20 mark questions.

Glossary of key words

Analyse
Find the relevant facts and examine these in depth. Examine the relationship between various facts and make conclusions or recommendations.

Construct
To build or make something; construct a table.

Describe
Give an account in words (someone or something) including all relevant characteristics, qualities or events.

Devise
To plan or create a method, procedure or system.

Discuss
To consider something in detail; examining the different ideas and opinions about something, for example to weigh up alternative views.

Explain
To make something clear and easy to understand with reasoning and/or justification.

Identify
Recognise and name.

Justify
Support an argument or conclusion. Prove or show grounds for a decision.

Outline
Give a general description briefly showing the essential features.

Recommend with reasons
Provide reasons in favour.

State
Express main points in brief, clear form.