

## P93

### Diploma in Insurance

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

October 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. List **six** risk features an underwriter will consider when assessing **each** of the following perils:
  - (a) Riot. (6)
  - (b) Subsidence. (6)
  
2. (a) Describe briefly the cover provided by the standard theft peril. (5)  
(b) List **three** extensions which can be added to the theft peril. (3)
  
3. Describe the similarities and differences between the covers provided by the loss of attraction and denial of access clauses. (10)
  
4. Explain why an underwriter may use a burning cost calculation to determine a property premium and the methodology they would apply. (12)
  
5. State **five** advantages and **five** disadvantages of using composite panels in the construction of a factory. (10)
  
6. (a) Identify **five** exclusions commonly found on a fidelity guarantee policy. (5)  
(b) List **five** systems of check an underwriter would include, by endorsement, to a fidelity guarantee policy. (5)
  
7. Explain how a policy could be endorsed if the insured undertakes to renew their policy for more than one single policy period. (10)

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8. Describe the cover and the benefits provided by the following:
- (a) Departments clause. (5)
  - (b) Payments on account clause. (3)
9. Describe the specific trade features to be considered when underwriting the fire and explosion perils for a large chemical facility. (10)
10. Explain briefly the application of indemnity in a claims settlement for the following items on a property damage policy:
- (a) Computer system records. (4)
  - (b) Patterns, models, moulds and designs. (4)
  - (c) Retailers and wholesalers stock in trade. (4)
11. List **four** different types of fire extinguishers and, for **each** type, provide **two** examples of materials or types of fire for which they would be suitable. (12)
12. Describe briefly the operation and the reasons for the inclusion of the following clauses:
- (a) Automatic reinstatement. (3)
  - (b) Non-invalidating. (5)
13. Explain the considerations a property owner and a tenant would make when insuring rent. (10)
14. Describe briefly **four** circumstances where an insurer may elect to reinstate, replace or repair rather than provide a cash settlement on a property damage policy. (8)

QUESTIONS CONTINUE OVER THE PAGE

## PART II

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

15. Liverton plc is a plastic tray manufacturer and they have recently suffered a large fire loss.

The policy cover which applied to their business interruption risk was as follows:

- Gross profit sum insured – £24,000,000.
- Additional increased cost of working – £2,500,000.
- Maximum indemnity period – 24 months.
- Deductible – £10,000.
- Cover is on a declaration linked basis.

Liverton plc's annual turnover is £40,000,000 which has remained static for the last three years and was expected to do so had there not been a fire. Inflation is running at 0%. The gross profit earned, in the period most concurrent with the current period of insurance prior to the loss, was £14,000,000.

Following the loss, the turnover reduced by:

- £24,000,000 in the first 12 months of trading;
- £6,000,000 during the second 12 months of trading;
- £1,000,000 during the third 12 months of trading.

During the 36 months, whilst the business was interrupted, Liverton plc spent £25,000 per month which meant they were able to increase their gross profit by £50,000 per month. Additionally, Liverton plc managed to secure savings in their business of £10,000 per month.

- (a) Calculate, **showing all your workings**, the amount which Liverton plc would be able to recover from their insurers and the amount which would be uninsured. (14)
- (b) Discuss how Liverton plc could have prepared themselves to ensure that the impact of the loss and the length of the interruption were reduced as much as possible. (16)

16. You are the Underwriting Manager for XYZ Insurance Company (XYZ). XYZ are reviewing their strategy in respect of a number of perils in terms of underwriting, risk control and claims handling following poor performance of the underwriting account.

Discuss the factors which you think may be driving this performance and suggest how future performance could be improved for **each** of the following perils:

(a) Burst pipes. (10)

(b) Flood. (20)

17. (a) The Insurance Act 2015 imposes the duty of a fair presentation on the insured. However, the insured does not have to disclose material facts which the insurer ought to know.

Discuss, in respect of the property damage risk for a timber pallet manufacturer:

(i) **three** material facts which the insured should declare, explaining why they may impact the judgement of a prudent underwriter; (12)

(ii) **two** material facts which the insurer ought to know. (8)

(b) Discuss the options available to an insurer if misrepresentation by the insured is discovered during the claims investigation. (10)

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