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.


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;
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
eruction ‘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 insurers.

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

Additional reading and reference material

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