

P93

Diploma in Insurance

Unit P93 – Commercial property and business interruption insurances

October 2011 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. (a) State the difference between an inception hazard and a propagation hazard relative to the fire peril. (2)
(b) Give **three** examples of **each** type of hazard. (6)
2. (a) Explain briefly why some dusts are considered as being more explosive than others. (5)
(b) List **five** risk control measures which can be implemented to prevent dust explosions. (5)
3. Name **four** different types of fire extinguishing agents and provide **two** examples for **each** of the type of fire their use is suitable for. (12)
4. Describe briefly who should undertake the roles of a 'responsible person' and a 'competent person', under the Regulatory Reform (Fire Safety) Order 2005, and give a brief overview of each role. (8)
5. Outline the risk control measures which you would recommend against theft for the following risks:
(a) goods in transit; (5)
(b) cash in transit. (5)
6. Outline the levels of police response which apply following the activation of an intruder alarm system. (8)
7. List **twelve** exclusions which appear under a commercial all risks policy. (12)
8. State the requirements placed upon an insured as a result of the claims notification condition which is contained within a property damage and business interruption policy. (10)

9. Discuss briefly the following terms and how they might be applied:
- (a) a deductible; (4)
 - (b) an aggregate deductible. (6)
10. A business interruption policy will include a definition to calculate the gross profit sum insured.
- (a) State this formula and how it operates. (5)
 - (b) Explain why the gross profit figure calculated by an accountant differs to that which is calculated for insurance purposes. (7)
11. Describe briefly the cover provided by the following business interruption extensions:
- (a) denial of access; (5)
 - (b) contract site. (5)
12. Outline the considerations an underwriter will make when assessing the arson risk for a particular insured. (8)
13. Identify **four** business interruption risk features and explain how such features will influence the underwriter's judgement when they assess the risk. (12)
14. Explain the importance to an underwriter of calculating an estimated maximum loss and the use of acceptance categories. (10)

Questions continue over the page

PART II

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

15. (a) KLM Computer Components Ltd has recently moved premises and has asked their insurers, RST Insurance, for advice relative to security features for the doors, windows and the site perimeter of their premises. Prepare a response on behalf of RST Insurance. (20)
- (b) KLM Computer Components Ltd enquires about 'full theft' cover. Explain how the cover differs to the standard theft cover and what underwriting action, including any additional terms and conditions, RST Insurance will apply. (10)
16. GHI Frozen Foods manufacture fish-based ready meals for two major UK supermarkets. On site they have three separate buildings which are occupied as follows:
- Building 1 – Goods inward and fish preparation area.
 - Building 2 – Cooking areas.
 - Building 3 – Warehouse/cold storage for finished goods.
- Their broker approaches you, as the underwriter for RST Insurance Company, with a view to underwriting the property damage risk and in turn a surveyor is instructed to undertake a property damage survey.
- (a) Explain why an underwriter would prefer to use a survey report prepared by their own surveyor, as opposed to one which has been prepared by a broker surveyor. (6)
- (b) Identify specific risk features, for GHI Frozen Foods, under each of the following survey report headings and explain briefly why the underwriter would believe that these features are of importance to him in underwriting the property damage and business interruption risk.
- (i) Premises including construction. (8)
 - (ii) Business background and trade. (8)
 - (iii) Fire protection and suppression. (8)
17. NOP Communications has expressed concerns about the possibility of an average condition being applied on their property damage and business interruption policy.
- These concerns have arisen as inflation is running at about 6% and their stock fluctuates considerably due to seasonal trends. Furthermore the business has shown consistent growth of 5% over each of the last three years.
- Suggest an amendment to the cover for each of the following items and explain how such a cover enhancement will provide NOP Communications some assurance relative to their concerns.
- (a) Machinery and plant. (10)
 - (b) Stock and materials in trade. (10)
 - (c) Business interruption. (10)

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