

Principles of property insurances

Objective: To develop in the candidate:

- a knowledge and understanding of the principles and practices of commercial property, business interruption, 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 English 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. The property insurance market

1.1 Policy wordings

Candidates should be able to

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

1.2 EU directives

Candidates should be able to

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

1.3 Non-admitted risks

Candidates should be able to

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

1.4 Provision of information

Candidates should be able to

- *describe* the essential information needed for the assessment of a risk and how this can be presented;
- *outline* the warnings on proposal forms and other methods of presentation regarding information stored electronically being shared with third parties.

1.5 Application of Taxes

Candidates should be able to

- *explain* the application of Value Added Tax;
- *explain* the application of Insurance Premium Tax.

1.6 Scope of legislation

Candidates should be able to

- *describe* the scope, terms and application of the following pieces of legislation:
 - Theft Act 1968;
 - Riot (Damages) Act 1886;
 - Public Order Act 1986;
 - Control of Asbestos at Work Regulations 2002;
 - Distance Marketing Directive 2003.

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 All risks policies

Candidates should be able to

- *explain* the differences between all risks and fire and perils policies;
- *explain* the different methods of obtaining cover under an all risks policy;
- *explain* the advantages and disadvantages of an all risks policy to clients, underwriters and brokers.

2.3 Terrorism cover

Candidates should be able to

- *discuss* the provision of terrorism cover.

2.4 Types of property insured

Candidates should be able to

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

2.5 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;
 - European Union and public authorities clause;
 - debris removal clauses;
 - non-invalidity;
 - day one and other reinstatement bases;
 - stock declarations;
 - old or obsolete buildings, functional replacement (modern materials);
 - long-term undertakings including profit share agreements;
 - electrical;
 - metered water;
 - professional fees;
 - agreed value;
 - contract price;
 - capital additions, alterations and improvements;
 - trace and access;
 - landscaped grounds (damage by Fire Brigade/ Emergency Services);
 - motor vehicle
 - electronic data exclusion;
 - other interests.

2.6 Covers

Candidates should be able to

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

2.7 Package policies

Candidates should be able to

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

2.8 Combined policies

Candidates should be able to

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

2.9 Conditions, warranties, excesses and deductibles

Candidates should be able to

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

2.10 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 types of property and causes of loss covered and excluded, extensions to and general terms of other commercial policies.

2.11 Renewal procedures and considerations

Candidates should be able to

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

3. 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;
- *discuss* the extent to which increased cost of working cover is provided.

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 Material damage proviso and additional perils

Candidates should be able to

- *explain* the nature and importance of the material damage proviso;
- *discuss* the cover available for additional perils.

3.6 Extensions

Candidates should be able to

- *explain* the typical extensions to policies, including:
 - suppliers’ and customers’ extensions;
 - public utilities;
 - additional increased cost of working;
 - denial of access (including non-damage);
 - loss of attraction;
 - notifiable diseases cover.

3.7 Variations from basic cover

Candidates should be able to

- *describe* the variations from basic cover, including:
 - additional increased cost of working only cover (AICOW);
 - gross revenue;
 - advance profits policies;
 - flexible limit of loss;
 - book debts cover.

3.8 Business interruption features

Candidates should be able to

- *discuss* the following:
 - the interdependency clause;
 - seasonality.

4. Financial crime covers

4.1 Coverage

Candidates should be able to

- *explain* the coverage of money and theft by employee/fidelity insurance policies, including crime covers.

4.2 Use of warranties and systems of check

Candidates should be able to

- *describe* the basic systems of checking fidelity risks.

5. Risk assessment – property and pecuniary insurance

5.1 Proposal and application forms

Candidates should be able to

- *explain* the use of proposal and application forms in property insurance;
- *explain* the use of statements of fact.

6. Construction insurance – development and structure

6.1 Development and need for construction insurance

Candidates should be able to

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

6.2 Legislation

Candidates should be able to

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

6.3 Construction contracts

Candidates should be able to

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

6.4 Environmental issues

Candidates should be able to

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

6.5 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.

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

7.1 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).

7.2 Private Finance Initiative (PFI)

Candidates should be able to

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

8. Construction policies

8.1 Contract works

Candidates should be able to

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

8.2 Machinery erection risks

Candidates should be able to

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

8.3 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.

8.4 Joint Contracts Tribunal

Candidates should be able to

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

8.5 Latent defects

Candidates should be able to

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

8.6 Contract guarantee insurance

Candidates should be able to

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

9. Engineering insurance – development and structure

9.1 Engineering insurance

Candidates should be able to

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

9.2 Legislation

Candidates should be able to

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

10. Engineering policies

10.1 Types of engineering insurance cover

Candidates should be able to

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

10.2 Covers

Candidates should be able to

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

11. Construction business interruption

11.1 Advance profits policy cover

Candidates should be able to

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

11.2 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.

11.3 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.

12. Engineering business interruption

12.1 Engineering business interruption insurance

Candidates should be able to

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

13. Other business interruption covers

13.1 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.

13.2 Computer and miscellaneous risks

Candidates should be able to

- *discuss* the cover generally available in respect of computer and miscellaneous risks in business interruption insurance, including:
 - reinstatement of data;
 - increased cost of working;
 - computer viruses and hacking;
 - computer and machinery breakdown.

14. Claims

14.1 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.

14.2 Determining liability

Candidates should be able to

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

14.3 Application of insurance principles

Candidates should be able to

- *describe* the application of insurance principles to property and business interruption claims, including the effect of warranties.

14.4 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.

14.5 Average conditions

Candidates should be able to

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

14.6 Principle of contribution

Candidates should be able to

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

14.7 Collective policies

Candidates should be able to

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

14.8 Policy 'formulae'

Candidates should be able to

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

14.9 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.

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.

CII/Personal Finance Society members can borrow most of these additional study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to www.cii.co.uk/knowledge

Primary text

Principles of property insurances. London: The CII. Coursebook 745.

Additional reading

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 London, 1999.

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

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 Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/Personal Finance Society members only).

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

Reference materials

Dictionary of insurance. C Bennett. London: Pearson Education, 2004. Also available online at www.cii.co.uk/knowledge/doi (CII/Personal Finance Society members only).

Periodicals

The Journal. London: The CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at www.cii.co.uk/knowledge/journal

Post Magazine. London: Incisive Financial Publishing. Weekly.

Websites

CII Knowledge Services – www.cii.co.uk/knowledge

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 +44 (0)20 8989 8464.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/Personal Finance Society members only).

For a more interactive approach, you should consider:

Winning the brain game. London: The CII, 2006. CD-ROM.