



C40 BUSINESS INTERRUPTION INSURANCE

IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

You must hand in this paper and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

Section A: Multiple-Choice Questions

Question 1. For the following multiple-choice questions, fill in the circle of the letter that identifies the most correct answer.

Example: (A) (B) ● (D)

DO NOT MARK THE ANSWERS ON THESE PAGES.
USE THE FIRST PAGE OF YOUR ANSWER BOOK.

1. The basic purpose of business interruption insurance is to
 - (A) arrange alternative employment for employees while the damaged property is being repaired.
 - (B) cover the cost of relocating the business.
 - (C) protect commercial ventures against indirect financial loss.
 - (D) restore the damaged property to its condition prior to the loss.

2. **Operating cost expenses** are defined as expenses that
 - (A) always continue in full as long as the operation does not cease completely.
 - (B) are incurred in running the operation.
 - (C) are incurred in supplying goods to be sold.
 - (D) cease if the operation ceases completely.

3. Indirect losses
- (A) are excluded by most insurance policies because they are one step removed in the chain of causation.
 - (B) are hidden losses that cannot be quantified or recovered, such as the time lost in having your car appraised following a collision.
 - (C) may continue to grow long after the event that caused the loss.
 - (D) occur from external perils such as wind and hail rather than directly from the property itself.
4. Lease payments and depreciation of property are common examples of
- (A) fixed expense.
 - (B) semi-fixed expense.
 - (C) semi-variable expense.
 - (D) variable expense.
5. In accounting, the difference between total net sales and the cost of goods sold is
- (A) net profit.
 - (B) gross earnings.
 - (C) gross capital.
 - (D) net earnings.
6. Which of the following is NOT part of the definition of **business income** for the purposes of business interruption insurance?
- (A) The difference between the amounts of closing and opening work in progress
 - (B) The difference between the revenue and variable operating expenses
 - (C) The difference between the amounts of closing and opening stock
 - (D) The difference between the revenue and retained earnings
7. In the Business Income forms, materials and supplies that are being transformed into finished products but have yet to complete that transformation are referred to as
- (A) Closing Stock.
 - (B) Opening Stock.
 - (C) Work in Progress.
 - (D) Semi-variable Expenses.
8. In the Business Income Form (Named Perils), the difference between the Revenue and the Expected Revenue during the Indemnity Period as a result of the Damage is known as
- (A) Gross Revenue.
 - (B) Revenue Shortfall.
 - (C) Variable Operating Expenses.
 - (D) Business Income Percentage.

9. In the standard Business Income forms, ordinary payroll coverage
- (A) generally provides coverage for a period not exceeding 60 consecutive days from the date of damage.
 - (B) must be specifically added to the policy.
 - (C) compensates commissioned sales staff for the commissions they would have earned if there had not been an interruption in the business.
 - (D) indemnifies the insured for 100% of the senior staff's wages during the 90 consecutive days immediately following the date of the loss.
10. The money paid or payable with respect to goods sold or services rendered elsewhere than at the insured's premises is referred to in which of the following clauses of a Business Income Form?
- (A) Alternate Trading
 - (B) Coinsurance
 - (C) Determination of Payment
 - (D) Premium Adjustment
11. Which of the following is TRUE of the indemnity period in the Extended Business Income forms?
- (A) It always begins with the loss and ends after 12 months.
 - (B) It always begins with the loss and ends with the rebuilding or replacement of the lost or damaged property.
 - (C) Its definition reflects the American approach to business interruption insurance.
 - (D) Its definition reflects the British approach to business interruption insurance.
12. The due diligence proviso in the Business Income forms' definition of **indemnity period** applies
- (A) only to the Broad forms.
 - (B) only to the Named Perils forms.
 - (C) to both the Named Perils and Broad forms.
 - (D) to both the standard and Extended forms.
13. Fines or damages for breach of contract are excluded from
- (A) the standard but not the Extended Business Income forms.
 - (B) the Extended but not the standard Business Income forms.
 - (C) both the standard and Extended Business Income forms.
 - (D) neither the standard nor the Extended Business Income forms.

14. The Interruption by Civil Authority clause in Extended Business Income Forms extends coverage for loss of Business Income
- (A) for up to 90 days from the date the insured suffered an insured loss.
 - (B) until the insured is profitable.
 - (C) when access to the property is prohibited by civil authority as a result of a direct damage to neighbouring premises caused by a peril insured by the policy.
 - (D) when access to the property is prohibited by civil authority due to a nuclear incident.
15. The Obligation to Minimize Loss Clause in the Extended Business Income forms is essentially similar to which of the following elements in the standard forms?
- (A) Determination of Payment
 - (B) Due Diligence
 - (C) Premium Adjustment
 - (D) Reinstatement
16. The 80 % Coinsurance Clause is a requirement in the
- (A) Broad forms only.
 - (B) Extended Business Income forms (both Named Perils and Broad).
 - (C) Named Perils forms only.
 - (D) Standard Business Income forms (both Named Perils and Broad).
17. Which of the following would NOT be a factor in the **down time** following an insured loss at a manufacturing plant? The length of time required for
- (A) the plant's truck to deliver completed inventory to its major buyer.
 - (B) authorities to grant permission to rebuild a manufacturing plant.
 - (C) the plant to replace and install special equipment.
 - (D) a supplier to deliver materials for the plant's assembly line.
18. In the Extended Business Income forms, the Indemnity Period is
- (A) the sum of down time and sales recovery time.
 - (B) the time from the date of the loss until the expiry date stated on the policy.
 - (C) the time from the date of the loss until the business reopens.
 - (D) 24 months from the date of the loss.
19. In the year ending December 31, 2002, the XYZ Company earned \$1,000,000 in business income. The company estimates an income increase of 10% for each of the next five years. If this trending is accurate, what would be the maximum amount of the business income loss for XYZ Company if a direct loss were to occur on December 31, 2003 and business were not to resume for 12 months?
- (A) \$1,100,000
 - (B) \$1,200,000
 - (C) \$1,210,000
 - (D) \$1,400,000

20. One advantage of a stated amount coinsurance clause to the insured is that
- (A) any business income loss will be paid in full.
 - (B) the insurer will delete the Premium Adjustment clause.
 - (C) there will be no coinsurance penalty if the insured has a profitable year.
 - (D) the insured and insurer can establish a lower coinsurance percentage than usual to the form.
21. A Gross Earnings form is best suited to a business that will
- (A) continue to be affected by the loss immediately after it reopens.
 - (B) continue to be affected by the loss years after it reopens.
 - (C) likely never return to the same level of profit.
 - (D) not be affected by the loss once it reopens.
22. Under the Profits Form, the coverage
- (A) ceases when the damaged property has been restored.
 - (B) ceases when the level of profit is no longer affected, or after 12 months, whichever comes first.
 - (C) pays the additional expenses incurred to keep the business going in spite of the loss.
 - (D) pays when a business is affected by a property loss at the premises of another business upon which it depends.
23. With respect to the Gross Earnings forms, the loss measurement is the rate of gross earnings applied to the reduction in sales during the indemnity period, less any reduction in
- (A) operating expenses.
 - (B) semi-variable expenses.
 - (C) standard turnover.
 - (D) standing charges.
24. The Coinsurance Clause in the Gross Earnings forms requires coinsurance of
- (A) 50% or 80% if the total ordinary payroll is excluded.
 - (B) 50% or 80% if the total ordinary payroll is included.
 - (C) 100% if the total ordinary payroll is excluded.
 - (D) 90% if the total ordinary payroll is included.
25. With respect to the Profits Form, the loss measurement is the rate of gross profit applied to the reduction in turnover during the indemnity period, less any reduction in
- (A) Annual Turnover.
 - (B) Insured Standing Charges.
 - (C) Ordinary Payroll.
 - (D) Standing Charges.

26. Rental Income insurance indemnifies
- (A) the owner of a property if the owner's rental income is interrupted by an insured peril.
 - (B) tenants who enjoyed a low rent, if the premises are damaged and they must find substitute premises at prevailing market prices.
 - (C) tenants who must find other quarters because the building has become unusable.
 - (D) tenants whose long-term lease is expiring and who must pay an increase (in excess of a stated percentage) under new rental terms.
27. **Rental income** as defined in the Rental Income (Named Perils) form does NOT cover
- (A) money that has been paid to the insured by tenants for rented premises.
 - (B) money that is owed to the insured by tenants.
 - (C) the fair rental value of the portion of the building occupied by the insured.
 - (D) the fair rental value of the unoccupied portion of the building.
28. Which usual business interruption exclusion found in the standard Business Income forms does NOT appear in the standard Rental Income forms?
- (A) Loss due to fines or damages for breach of contract or other penalties for late or non-completion of orders
 - (B) The by-laws exclusion
 - (C) Increased loss caused by delays or loss of time due to interference by strikers on the premises
 - (D) Loss due to suspension, lapse or cancellation of any lease or license which may affect the Insured's income during the indemnity period
29. The insured who could benefit the most from a premium adjustment clause in a Rental Income property is a landlord
- (A) with a rental property in an area where the government controls the rent.
 - (B) who occupies 100% of a building as the tenant.
 - (C) in a shopping mall where the rent is based on a percentage of the tenants' sales.
 - (D) who is demolishing the rental property.
30. The Extended Rental Income Broad form has
- (A) no coinsurance clause.
 - (B) a 50% coinsurance clause.
 - (C) an 80% coinsurance clause.
 - (D) a 100% coinsurance clause.
31. Which of the following forms do NOT insure loss of income or profit after an interruption of business?
- (A) Extra Expense forms
 - (B) Gross Earnings forms
 - (C) Profits forms
 - (D) Rental Income forms

32. Extra Expense insurance is purchased to
- (A) insure the loss suffered by a business when it is affected by a property loss of another business upon which the first business depends.
 - (B) replace lost income until a business is able to reopen.
 - (C) restore lost profits until the business is no longer affected by a business interruption.
 - (D) sustain business operations after a loss with costs that may exceed the reduction in loss.
33. Extra Expense insurance
- (A) is intended for seasonal operations only.
 - (B) would be suitable for an insurance broker or an insurance adjuster.
 - (C) would be suitable for an insured who owns an apartment building.
 - (D) covers loss of income in a retail store.
34. A client asks what kind of business interruption insurance he needs. If he has a serious loss, his business could be shut down for several months. He would lose customers, and it would probably take a year after his premises are restored to build up his clientele to the original level. This time could be reduced if he can find suitable rental premises while his own premises are being restored. Which of the following would be the best recommendation?
- (A) Contingency Form
 - (B) Earnings No Coinsurance Form
 - (C) Profits Form and Earnings Form
 - (D) Profits Form and Extra Expense Form
35. Under which of the following is the insurer liable for the entire amount of insurance only after an indemnity period of the longest specified length?
- (A) Extended Business Income forms
 - (B) Extra Expense forms
 - (C) Rental Income forms
 - (D) Standard Business Income forms
36. A business that enjoys especially favourable terms in the rental of its premises wants to preserve the benefit of these terms even if forced to move. This interest may be protected with
- (A) contingent income extension insurance.
 - (B) extra expense insurance.
 - (C) leasehold interest insurance.
 - (D) normal annual rent insurance.

37. Which of the following is NOT a true statement? The Contingent Business Income Extension Endorsement is sometimes necessary because
- (A) a manufacturer may sell a large part of its production to one single customer.
 - (B) a manufacturer has an unlimited number of external suppliers of raw materials or accessories.
 - (C) the insured's business may be interrupted by a direct-damage loss to property at premises other than those of the insured.
 - (D) the insured's business may influence the results of another business due to their proximity.
38. The Contingent Liability from Enforcement of Building By-Laws Endorsement
- (A) does not cover loss arising when a by-law requires the demolition of any undamaged part of the insured buildings or structures.
 - (B) does not cover loss from an increase in the time required for repairing or replacing any part of the insured buildings or structures.
 - (C) includes coverage for loss arising because a by-law prohibits the insured from rebuilding on the same or an adjacent site.
 - (D) reaffirms the standard-form limitation of the indemnity period to 12 months.
39. Tuition fees insurance for private schools
- (A) is not governed by the due diligence proviso.
 - (B) includes extra expense coverage to bring in portable classrooms.
 - (C) covers the higher tuition fees for students at a substitute private school.
 - (D) extends the indemnity period when repairs after a loss are completed shortly before the next school year.
40. A business that must reopen on a specific date and is concerned that a piece of custom-made technical equipment could be lost in transit might purchase this type of extension endorsement.
- (A) Transport fees
 - (B) Start-up delay
 - (C) Contingent liability
 - (D) Extra expense

(2 marks each = 80 marks)

Section B: Narrative Questions

- Question 2. (a) Briefly describe FIVE (5) different types of loss that illustrate the need for business interruption insurance. (10 marks)
- (b) The profit and loss experienced by any business is the difference between **income** and **expenses**. Briefly explain what each of these terms mean? (6 marks)

- (c) (i) Identify the TWO (2) types of profit in a typical business environment. (2 marks)
 - (ii) How are each of them calculated? (2 marks)

- Question 3. (a) List SEVEN (7) exclusions in the Extended Business Income (Named Perils) Form that also appear in the standard Business Income (Named Perils) Form. (14 marks)

- (b) Explain the purpose of the Premium Adjustment Clause in the Business Income forms and the coverage it provides. (6 marks)

- Question 4. Summarize the differences between the standard Business Income (Named Perils) and the Extended Business Income (Named Perils) forms with respect to each of the following:
 - (a) Indemnity period (4 marks)
 - (b) Expected revenue (4 marks)
 - (c) Exclusions (4 marks)
 - (d) Obligation to minimize loss (4 marks)
 - (e) Premium adjustment (4 marks)

- Question 5. Identify the differences between the Gross Earnings and Profits forms under each of the following headings:
 - (a) Additional costs to reduce loss (4 marks)
 - (b) Coverage (4 marks)
 - (c) Due diligence (4 marks)
 - (d) Loss measurement (4 marks)
 - (e) Ordinary payroll (4 marks)

- Question 6. (a) With respect to loss of finished stock, distinguish between the coverage afforded by the Gross Earnings Form (Manufacturing) and that afforded by other business interruption forms. (8 marks)

- (b) What is the amount payable by the insurer under the Extended Rental Income forms for
 - (i) loss of rental income? (3 marks)
 - (ii) increase in cost of operations? (3 marks)

- (c) With respect to Tuition Fees insurance:
 - (i) Explain the unique feature of the indemnity period. (3 marks)
 - (ii) Explain the reason for this unique feature. (3 marks)

Section C: Application Question

- Question 7. (a) ABC Manufacturing Company estimates that as many as 12 months would be needed to complete repairs after a major loss, and as many as 15 months for business income to return to its previous level. ABC would want to continue business while repairs are being made, even though the additional cost to do so would exceed the resulting reduction in loss.

What Business Income form would you suggest for ABC, and why? What other form of business interruption insurance might you suggest, and why?

(10 marks)

- (b) With respect to the standard Business Income Form, indicate how the following strikes would affect the insured's loss and its recovery under the policy:

(i) The insured's plant suffers fire damage that would ordinarily take eight weeks to repair. During that time, the insured's employees go on strike for three weeks and their picket lines cause a further delay in repairs to the plant.

(3 marks)

(ii) While repairs are being made to the plant in (i) above, a strike occurs at the manufacturer's plant that supplies a special machine that the insured must replace to resume operations.

(7 marks)

