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39	A	B	C	D	E

PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

AAGYZ5E4

E93 - Commercial property and business interruption insurances

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) AAGYZ5E4 , each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, AAGYZ5E4
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 SINGLE CHOICE

Under a standard commercial property insurance policy, which of the following perils is typically covered on an 'all risks' basis but requires specific conditions relating to security, maintenance, and protection to be satisfied at the time of loss?

- ☐ A Flood
- ☐ B Escape of water from tanks
- ☒ C Subsidence
- ☐ D Storm

ANSWER C

WHY Subsidence, ground heave and landslip are usually covered as an 'all risks' peril, but the cover is conditional on the insured maintaining the property in a sound condition and complying with policy conditions relating to the discovery and remediation of subsidence damage. Flood and storm are usually covered under named-peril wordings, while escape of water is subject to its own specific conditions but not the same maintenance-based conditions as subsidence.

QUESTION 2 SINGLE CHOICE

In a business interruption policy, the 'indemnity period' is best described as:

- ☒ A The maximum length of time during which the insurer will pay for loss of gross profit following damage to insured property.
- ☐ B The period between the occurrence of damage and the date the insured formally notifies the insurer of the loss.
- ☐ C The length of time the insured has been continuously trading prior to the date of loss.
- ☐ D The period during which the insured is required to pay premiums before cover ceases.

ANSWER A

WHY The indemnity period starts on the date of the damage and continues for the maximum period stated in the schedule. It is during this period that the insurer will indemnify the insured for loss of gross profit (or gross revenue, depending on the basis) and increased cost of working arising from the damage. The other options describe different concepts not related to the indemnity period.

QUESTION 3

SINGLE CHOICE

A manufacturer suffers damage to its premises from an insured peril. Production halts for four weeks while repairs are carried out, but customers immediately switch to a competitor and the lost sales cannot be recovered after the business resumes. Under a standard gross profit basis of business interruption cover, what is the insurer's liability in respect of these lost sales?

- ☐ **A** The insurer pays the full loss of gross profit for the entire indemnity period including the unrecoverable sales.
- ☐ **B** The insurer pays only the loss of gross profit that can be shown to have been avoided through reasonable action by the insured.
- ☐ **C** The insurer pays no indemnity because the loss is not caused by the damage itself but by customer reaction.
- ☒ **D** The insurer pays loss of gross profit for the four-week indemnity period, after taking into account any trend and circumstances affecting the business and the actual reduction in turnover.

ANSWER D

WHY Under the standard gross profit basis (as in the long-form wording), the indemnity is the amount by which gross profit falls short of the standard turnover during the indemnity period, with due account taken of trends and special circumstances. Unrecoverable lost sales are reflected in the actual reduction in turnover and are therefore included within the indemnity, subject to the adequacy of the declared indemnity period. The insurer does not exclude losses simply because customers switched to competitors.

QUESTION 4

SINGLE CHOICE

Which of the following items is most likely to require specific declaration under a commercial property policy rather than being automatically included within the buildings sum insured?

- ☐ A Brick-built boundary walls at the insured premises.
- ☐ B Foundations and footings of the insured building.
- ☐ C External signage fixed to the insured building.
- ☒ D Tenant's improvements and fittings installed by the insured occupier.

ANSWER D

WHY Tenant's improvements, fixtures, fittings and decorations are the property of the tenant rather than the building owner and are not normally subsumed within the landlord's buildings insurance. They must usually be itemised and insured separately by the tenant, either as part of a contents or 'all other property' sum insured. Boundary walls, foundations and external signage generally form part of the building and fall within the buildings sum insured.

QUESTION 5

SINGLE CHOICE

An 'excess' (or deductible) in a commercial property policy operates in which of the following ways in the event of a claim?

- ☐ A The insurer pays the full loss and then recovers the excess from the insured.
- ☒ B The insured bears the first part of each and every loss up to the amount of the excess, with the insurer liable only for the amount above it.
- ☐ C The excess is deducted from the sum insured before a claim is calculated.
- ☐ D The excess is added to the premium for the following year following any claim.

ANSWER B

WHY An excess is the first amount of each and every loss that the insured bears themselves. The insurer's liability begins only once the loss exceeds the excess, and the insurer pays only the amount above the excess. The excess does not reduce the sum insured and is not recovered retrospectively; it is a self-insured retention applied at the point of loss.

QUESTION 6

SINGLE CHOICE

A business interruption policy written on a 'gross revenue' (or 'fee income') basis is most appropriate for:

- ☐ A Manufacturing businesses whose output is valued at selling price.
- ☒ B Service-based businesses, such as professional firms, where the cost of work is largely fixed and income arises from fees charged.
- ☐ C Retail businesses whose principal exposure is stock.
- ☐ D Property-owning businesses whose income derives from rent.

ANSWER B

WHY A gross revenue basis is generally used by service businesses (for example, solicitors, accountants, consultants and other professional firms) where the bulk of expenditure is relatively fixed standing charges and the income is fee-based. A manufacturer's loss of profit is more appropriately insured on a gross profit basis, while retail stock exposure is normally addressed under a stock policy.

QUESTION 7

SINGLE CHOICE

A factory suffers a small fire that damages only a portion of the building. Repairs take 12 months to complete because specialist materials must be sourced from overseas. The declared indemnity period under the business interruption policy is 6 months. What is the likely outcome for the business interruption claim in months 7 to 12?

- ☐ A The insurer must extend cover to the actual period of interruption.
- ☐ B The insurer is liable for the full 12 months because the damage was caused by an insured peril.
- ☒ C The insurer is liable only for the first 6 months; losses in months 7 to 12 fall outside the indemnity period and are not covered.
- ☐ D The insurer is liable for months 7 to 12 only if the insured had purchased a separate extension of the indemnity period.

ANSWER C

WHY The indemnity period is the maximum period stated in the schedule, starting on the date of the damage. Once that period is exhausted, the insurer's liability for loss of gross profit ceases, regardless of whether the business is still being interrupted. This is why selecting an appropriate indemnity period at proposal stage is critical. Extensions of the indemnity period are available as an optional endorsement but do not apply automatically.

QUESTION 8

SINGLE CHOICE

In a commercial property 'all risks' wording, the principle of 'utmost good faith' (uberrima fides) requires the insured to:

- ☐ A Pay the premium in full within 14 days of inception.
- ☒ B Disclose every material circumstance and not misrepresent any material fact before the contract is concluded.
- ☐ C Mitigate loss following damage by taking all reasonable steps.
- ☐ D Maintain the property in sound condition throughout the policy period.

ANSWER B

WHY Utmost good faith is a long-standing principle of insurance law codified in the Insurance Act 2015. It requires both parties to act honestly, and places a particular duty on the insured to disclose every material circumstance which would influence a prudent insurer's decision to accept the risk or set the premium, and not to misrepresent any material fact. Mitigation and maintenance are separate policy conditions.

QUESTION 9

MULTIPLE CHOICE

Which TWO of the following perils are typically included as standard under a commercial property 'all risks' wording, subject to general policy exclusions and conditions?

- ☒ A Fire
- ☒ B Theft involving forcible and violent entry to or exit from the premises
- ☐ C Wear and tear, gradual deterioration
- ☐ D Storm and flood

ANSWER A - B

WHY Under an 'all risks' wording, the policy covers fortuitous physical loss or damage that is not expressly excluded. Fire and theft involving forcible and violent entry are standard covered perils. Wear, tear and gradual deterioration are standard exclusions, and storm and flood, while commonly covered, are often subject to specific sub-limits, excesses and conditions rather than being unrestricted. On a strict wording basis, fire and forcible-entry theft are the most clearly unconditional of the four.