

The Chartered Institute of Loss Adjusters

Associateship Examination 2007

Paper C3

Adjustment of Claims

3½ Hours

15 minutes will be allowed before the commencement of the examination for candidates to read the questions

Maximum Marks 200

**ANSWER ALL QUESTIONS IN PART 1
and
2 QUESTIONS IN THE SECTION YOU CHOOSE
BOTH QUESTIONS MUST BE FROM THE SAME SECTION**

Where appropriate, answers should make reference to relevant case law or statute

PLEASE ENSURE THAT QUESTION NUMBERS ARE ENTERED CLEARLY AND IN FULL ON THE COVER OF YOUR ANSWER BOOK AND IN YOUR ANSWER BOOK.

PART 1

ANSWER ALL QUESTIONS

QUESTION 1

- a. In a typical Business Interruption Policy what do you understand by the following terms.
- i. Gross Profit
 - ii. Alternative trading clause
 - iii. Professional Accountants clause
 - iv. Denial of access extension (10 marks)

- b. You are dealing with a claim for fire damage which has occurred at a city centre restaurant. The restaurant specialises in international cuisine and has been established under family ownership for several years. It is open for business seven days a week providing luncheon and evening meals.

The fire has caused severe damage to the building and also to trade fixtures and furniture. The stocks of comestibles and beverages, both alcoholic and non-alcoholic have either been destroyed or are no longer fit for use due to the effect of smoke and heat. The Insured will not be able to trade at the premises until the necessary building repairs have been completed and the various trade contents have been replaced.

Your Principals' policy covers all the trade contents including stock. The building is insured by the Landlords and their Insurers have appointed their own Loss Adjusters. The Insured have not engaged Loss Assessors to act on their behalf and for the purposes of the claim negotiations you will be dealing direct with two of the family members who own the business.

With specific reference to the Business Interruption element of the claim the following issues arise:

- i. You are told that the building owners wish to take the opportunity to incorporate certain improvements during the course of the reinstatement project. If reinstatement had taken place to the original specification then a contract period of approximately six

months would have been involved. To allow for the additional improvements the contract period will be extended by a further three months. How do you deal with this situation?

- ii. Explain the measures which could be taken to mitigate the period of interruption and the ultimate financial liability of your Principals.
- iii. Following the temporary closure of the restaurant the Insured have laid off a number of casual and part-time staff. However, they also employ a number of key staff including their head chef. They wish to continue to employ them whilst the business is temporarily out of commission so that they are immediately available once normal trading can be resumed. What is your response to this request?
- iv. In relation to the Material Damage element the sum insured on trade fixtures and fittings etc., was not adequate. Following the application of average the Insured have incurred a shortfall of £5,000 on that part of the claim. They now seek to include this shortfall within the Business Interruption item on the basis that this is a "consequential loss directly resulting from the fire". Explain how you would deal with this and what advice you would provide to both the Insured and your Principals.

(30 marks)

TOTAL 40 MARKS

QUESTION 2

You are dealing with a claim for theft from a large domestic property. This is occupied by your Insured and also by their tenant who lives in a self-contained flat on the top floor of the building. The loss includes jewellery, electrical goods, clothing and other personal effects. Entry was achieved by means of an insecure window at the side of the house. The Insured's wife and also the tenant were away from the property at the time. The Insured himself, a keen woodworking enthusiast was engaged in this activity in a shed in the rear garden approximately 30m from the main house and was not aware that intruders were on the premises. The Policy issued by your Principals covers both buildings and contents and includes a specific warranty which requires that the intruder alarm should always be left in operation when the premises are unattended.

Explain how you would deal with the following issues:

- i. When you receive the claim you find that this also includes certain property owned by the tenant. This person has not arranged any separate insurance. When discussing this issue with the Insured you are informed that 'they accept liability for their tenants property'. (10 MARKS)
- ii. What documentation would you require in order to validate the loss. With particular reference to the jewellery you are told that various items were acquired many years ago and others were inherited. One of the electrical items stolen was a plasma television, acquired new approximately six months ago. However, the Insured cannot provide any purchase documentation, indicating that this has been lost and they also state that they cannot recall precisely where the item was purchased. (10 MARKS)
- iii. The family's small pet dog was in the property at the time of the incident. The dog was frightened by the intruders activities and chewed various items of soft furnishings. Your Principals have informed you that they do not wish to deal with this part of the claim as damage by domestic pets is specifically excluded. (10 MARKS)
- iv. In your report to your Principals you have indicated that the burglar alarm was not in operation and whilst the main house itself was unoccupied the Insured was working in the garden shed. Your Principals have indicated that they consider the Insured to be in breach of the relevant warranty and may not wish to give consideration to the claim. The Insured have asked you for guidance as to whether their Insurers can legitimately take this course of action. (10 MARKS)

40 MARKS

QUESTION 3

You are dealing with a claim for fire damage which has occurred to a bookshop which also retails stationery and sundry items such as artists' materials. All applicable warranties have been complied with and your Principals have accepted Policy Liability.

Assessors representing the Insured have presented a claim for Material Damage as follows:

Buildings	£75,000.00
Stock	£28,000.00
Trade Fixtures & Fittings	£10,000.00
Assessors Fees	£ 5,000.00

From the enquiries which you have carried out the following points have emerged:

- i. The building is tenanted by the Insured but in terms of the lease they are required to arrange the necessary building insurance. They have done so but the sum insured is £150,000 against a reinstatement value of £200,000.
- ii. Although the Insured are obliged to arrange the necessary insurance in terms of their lease, you have also established that the building owners have separately arranged their own insurance. The sum insured on their Policy represents the reinstatement value of £200,000.
- iii. The sum insured on stock is £50,000 and this is adequate.
- iv. The sum insured on fixtures, fittings and all other trade contents is also adequate. However, the claim includes certain leased equipment for which the Insured are apparently responsible. The claim submitted for this equipment is based on the full replacement cost although the lease itself simply requires the Insured to indemnify the owner of the equipment against any loss or damage.
- v. The fire originated in an area used as the staff kitchen on the ground floor. The source of the fire appears to be within or adjacent to a microwave oven which was purchased new from local suppliers approximately 2 months prior to the fire.

Explain how you would propose to adjust the claim and what further investigations you would carry out and what documentation you would require. Identify any areas and procedures which might mitigate the ultimate financial liability of your Principals.

40 MARKS

PART 2

ANSWER 2 QUESTIONS FROM ONE SECTION ONLY

SECTION: PROPERTY (COMMERCIAL)

QUESTION PC 1

You are appointed to investigate a claim under an All Risks (Commercial) Policy for Allied Systems at their Head office/factory in the UK.

The company manufacture plastic packaging materials that are produced from recycled waste plastic. The plastic waste is delivered to site in skips and is screened for "foreign" matter before it is processed. Once the plastic has been recycled it is extruded and rolled under pressure to produce plastic film. The film can be of different gauge/width according to customer requirements.

The company has just invested in new machinery to detect metal objects before they enter the manufacturing process. Previously they relied mainly on physical checks.

Since installation of the detector there have been problems with it failing to identify metal objects although these have not resulted in any damage. The fault stems from incorrect calibration.

On 1st May the detector, which has been re-calibrated and which is still under warranty, fails to detect some metal in the waste and this enters the production cycle. When the plastic is extruded the rollers are scored by a metal object. A replacement roller is kept on site and as a result the damaged unit is replaced within 24 hours. The damaged unit is returned to Germany for repair. This will take 6 weeks.

On 24th May a similar incident occurs damaging the spare roller. It is found that this can be used but will only be able to produce rolls of film of 2/3rd the normal width.

Outline:

- i. The enquiries you would make into cause
- ii. The steps you would take to mitigate the loss (assume the Sums Insured are adequate)
- iii. The advice you would give on possible subrogation issues.

40 MARKS

QUESTION PC 2

You are appointed by MotoTrade Insurance Company in connection with a fire which occurred today, 2nd October 2007 in East London. The insured business is a motor garage sales and repairs workshop. You are to contact the owner, Mr R Brown.

The insurance details are as follows:

Policy No A/567890 – inception 30/06/2007	
Buildings including tenants decorations & improvements	£ 3000
Plant & machinery	£12000
Stock, excluding vehicles	£ 2500
Motor vehicles	£15000
Loss of profits (12 months)	£37000
Employers liability – estimated wages	£10000
Public Liability – indemnity limit	£1,500,000

The policy benefits from the reinstatement memorandum and is subject to average.

Mr Brown has told Insurers that he was working, welding a car when it exploded. In response to their request for an estimate of the damage he replied "It's all gone, everything".

Describe the steps you would take, and why you are taking them, from Day 1 to completion of the claims:

- i. To investigate cause and establish whether a valid claim arises (15 Marks)
- ii. To restore the business (10 marks)
- iii. To quantify the admissible claims(s) (15 marks)

40 MARKS

QUESTION PC 3

A runaway lorry has demolished the corner of a Grade 2 listed* timber framed house in Suffolk causing extensive damage to the main structure plus contents of the living room.

At the time of the incident works are being carried out at the property to build an extension, the works being carried out under a JCT Minor Works Contract.

In the light of the damage the Insured has had to move into temporary accommodation.

- i. A proposal is put forward by the architects to carry out repairs based on a price negotiated with the contractor. Outline the benefits and disadvantages of such a proposal and explain how you would verify the price. (15 marks)
- ii. How would you deal with the claim for damage to the existing works? (5 marks)
- iii. What particular difficulties can arise when dealing with damage to a listed building? (5 marks)
- iv. Outline the insurance requirements of the JCT Minor Works contract** and comment on any conflict that would arise between it and the property insurance in force. (15 Marks)

40 MARKS

NOTES FOR NON-UK CANDIDATES

** A listed building is a building of historic importance that is protected by law. The level of its importance is governed by the grading, with Grade 1 being the highest.*

Restrictions are placed on works that can be carried out to such buildings and in the event of damage the property has to be reinstated to its original style using comparable materials. Reinstatement therefore tends to be more expensive and can take longer.

***JCT Minor Works is a form of contract used in the UK for works involving repair or minor construction. If you are not UK based you may answer part iv. On a contract with which you are familiar, providing you state the title and details of the contract form being referred to and the country in which you are based.*

SECTION: PROPERTY (DOMESTIC)

QUESTION PD 1

You are instructed to deal with a claim submitted for damage to a domestic property. This has been caused by gradual leakage from underground drains which has affected the ground floor of the building and where kitchen units, flooring and other joinery items will require replacement. Your investigations have established the following facts:

- i. At the time of reporting the incident to your Principals, the Insured had already sold the property.
- ii. The new owner became aware of the potential problems within two days of moving in, being alerted by unpleasant smells emanating from the kitchen area.
- iii. The new owners initially notified a claim to their Building Insurers. These Insurers carried out appropriate investigations and declined the claim on the basis that the damage had occurred prior to their Insured's purchase of the property.
- iv. Prior to purchase, the new owner had commissioned a report from an Independent Structural Engineer. This was primarily to confirm that the property was not affected by any significant structural problems, for example, subsidence. In submitting their report, the Engineers advised that no structural problems were present.
- v. The previous owners maintain that they neither had any knowledge nor suspected that defects of this type were present prior to the property being sold.
- vi. The new owners have asked your Policyholder if they are prepared to request your Principals to finance the necessary remedial works on the basis that the damage would have occurred whilst their Policy was still in force. The Policyholders have indicated that, subject to the agreement of your Principals, they would have no objection to this course of action.

Produce a narrative report for your Principals including comment on the various issues referred to above and, in particular, indicate, with appropriate reasoning whether liability would attach or otherwise under their Policy.

40 MARKS

QUESTION PD 2

- a. List six specific exclusions which would normally apply to the Accidental Damage Extension to a typical Household Contents Policy. (6 marks)
- b. What would be the extent of Insurers liability in the following circumstances: (assume that this is a typical Household Policy covering Buildings & Contents)
- i. The ground floor front windows of a domestic property are smashed by vandals. Due to weathering over a period of time the timber window frames have rotted and to effectively re-glaze the windows it will be necessary to install new timber frames. (5 marks)
 - ii. The thermostat to the immersion heater of a domestic hot water cylinder, situate in an airing cupboard of the first floor of the Insured's house fails. The water inside overheats and ruptures the cylinder. The escape of water damages furniture, floor coverings and decorations. (5 marks)
- c. You are dealing with a claim for storm damage which has occurred to the roof of a domestic property. At the time of your attendance on site you note that the work has already been completed and the Insured presents you with a contractors invoice for £1,000. Your enquiries have established that no storm damage occurred and that the work carried out is simply general maintenance. At the insistence of the Insured the contractor has stated on the invoice that the work relates to storm damage. What advice do you provide to your Principals? (4 marks)
- d. Explain if different considerations would apply in the following circumstances:
- i. There was genuine storm damage to the roof and the Insured has paid an amount of £1,000 to a contractor. However, the contractors invoice has been lost and the Insured cannot recall the precise details of the firm involved. The Insured, thereafter, produces a copy invoice purporting to originate from the contractors involved and this is presented to you in order to substantiate the claim. (4 marks)
 - ii. Again genuine storm damage has occurred and the Insured presents you with an invoice indicating that the cost of rectification was £1,500. However, and on making enquiries with the contractors you find that

the invoice has been altered and the cost incurred was only £500.
(4 marks)

- e. i. What do you understand by the term 18ct. gold. (2 marks)
- ii. You are dealing with a claim for an item described as a 2 carat diamond. What does this term mean. (2 marks)
- iii. Differentiate between Sterling Silver, Britannia Silver and Silver Plate. (4 marks)
- iv. A quotation which you have received from a contractor to reinstate building damage includes allowance for a new RSJ. What is this item? (2 marks)
- v. In submitting a report to your Principals, you refer to damage to UPVC windows. What does this term mean? (2 marks)

40 MARKS

QUESTION PD 3

On behalf of two separate Insurers you are dealing with a claim which has been submitted for damage to two adjoining properties at nos. 18 & 20 Water Meadows Crescent. The damage occurred during a period of torrential rainfall which overwhelmed the surface water drainage system and substantial volumes of water ingressed into the ground floor of each property to a depth of approximately 1m. Both policies cover Buildings and Contents against the normal range of perils although the Policy for no.18 incorporates a substantial excess of £5,000 for loss or damage caused by flood.

- i. What advice would you provide to your respective Principals regarding the proximate cause of the loss. (8 marks)
- ii. Describe what initial measures you would consider taking to mitigate the extent of the loss and damage and what advice you would provide to the Policyholders. (8 marks)
- iii. You find that in the case of no. 20 Water Meadows Crescent the sum insured on Contents is not adequate and represents only 50% of the replacement value. Your Principals' Policy stipulates that in such circumstances only an indemnity settlement will be allowed and your Principals have confirmed that they wish you to proceed on this basis. Describe briefly how you would explain this basis of settlement to the Policyholder. (8 marks)

iv. Pending reinstatement of the damage, both properties will be uninhabitable. Since there has been widespread similar damage there are problems in securing suitable alternative accommodation and, for instance, reasonably priced hotel accommodation is generally fully booked with only the more expensive hotels being available. In addition, there is also a shortage of suitable rental properties. In the circumstances, you agree with the householders at no. 18 that their Insurers will provide a caravan which will be sited in their front garden by way of alternative accommodation and once their property is habitable again the caravan will be sold and Insurers will retain the residual value. The householders at no. 20 will also consider similar arrangements but, in their case, they insist that they should be allowed to retain the caravan. If your Principals do not agree, then they propose to move into hotel accommodation for the duration of the reinstatement period. How do you deal with this situation?

(8 marks)

v. You are subsequently requested to deal with a further claim in the same area where a separate property was evacuated on the advice of the emergency services on the basis that a nearby watercourse was about to overflow. There was the potential risk of the property being flooded and the occupants were recommended to vacate, temporarily, for reasons of personal safety.

In the event, the watercourse did not overflow and no damage occurred to the property. However, it was necessary for the occupants to stay in relatively expensive hotel accommodation for a period of three nights and they wish to recover the costs involved from their Insurers who have instructed you to investigate the claim. What advice do you provide to your Principals and their Insured?

(8 marks)

40 MARKS

SECTION: SUBSIDENCE

QUESTION S1

You are instructed by Insurers to investigate recent cracking to the internal and external walls of a semi- detached brick-built bungalow with original porch, all constructed 12 years ago. The original builder is no longer trading. Upon visiting the site you discover that the damage appears to be concentrated to one side of the building, parallel to which is a row of trees. Damage appears to deteriorate in the drier periods of the year.

A large Oak is also located close to the site on a neighbouring site, the tree being approximately 100 years old. Ground conditions are believed to comprise clay.

Cracking to the building is a combination of vertical and diagonal. The occupant also complains of occasional blockage to the drainage system.

The insurance policy in operation is typical and provides cover for subsidence, heave and landslip both buildings and contents, with a rebuilding cost guarantee in place. The policy has been in operation for 3 years.

A full structural report was obtained at the time of purchase which gave the building a clean bill of health.

- i. Detail the enquiries you would make or expect to see, to establish the cause of the problem. (10 marks)

- ii. As part of the second phase of the investigation, soils analysis is undertaken which indicates that ground conditions are principally clay in nature, with desiccated conditions also being evident across the entire site and beneath the entire building, not only close to the trees. What considerations might you have in terms of policy liability, and which might form the basis of your recommendations to the insurance company? (5 Marks)

- iii. It is agreed by all parties that a period of monitoring of the cracks might be merited. Name two ways that this could be done. In these circumstances, what do you consider to be the optimum period for monitoring to take place. How often should monitoring readings be taken? (5 Marks)

- iv. A tree expert is appointed who advises that the remaining trees should be removed, including the aged Oak which has a TPO (Tree Preservation Order). Outline the issues involved, and how can the TPO be dealt with. Where appropriate please quote the relevant legislation. (5 Marks)
- v. After full investigation and a period of monitoring it is agreed that a major structural repair is the only way forward, typically underpinning. Summarise the types of underpinning, with illustrations, and indicated which, in your view, might be the most appropriate. What other options might be available to strengthen the foundations of the building? (5 Marks)
- vi. The works will result in the property being uninhabitable for a period of 4 months. Discuss the accommodation options available to the policyholder. (5 Marks)
- vii. The major repairs involve underpinning, including the party wall of the semi detached bungalow. Access can only be obtained through the neighbours property. Work will take 4 months. The policyholder decides to build a larger porch to replace the damaged porch. What areas of legislation are likely to be encountered as the repair proceeds? (5 Marks)

40 MARKS

QUESTION S 2

Under a standard delegated authority scheme for subsidence handling, you are instructed to investigate cracking to the fabric of the original porchway of a 20 year old house in Gloucester which has been partly submerged in flood water. There is no indication of damage to the main dwelling. Upon examination you discover that there is evidence of previously repaired cracks. The insured has owned the property for 24 months and confirms that she has not carried out any repairs. A small laburnum bush is located close to the porch.

- i. What investigations would you wish to undertake given the circumstances and the scale of the problem? (10 Marks)
- ii. Upon investigation, the foundations of the porchway appear very shallow, almost resting on the surface of the ground. Discuss whether in your opinion any issues of poor workmanship might arise and how this would affect your consideration under the policy. What constitutes poor workmanship in this situation? The Local Authority (LA) state the porch was subject to Building Regulations but they failed to pick up the shallow foundations. What are the prospects of recovery against the LA? (9 Marks)
- iii. Examination of the proposal form at the time of inception makes no reference to cracking to the porchway. Why might this have been important to underwriters. Explain what the impact of this might be in terms of consideration of the claim under the policy. What advice may you wish to give to the insured at this stage? (4 Marks)
- iv. The policyholder provides a copy of a structural report prepared by an engineer and also a valuation report prepared on behalf of the lenders, neither of which make reference to the previous repairs. What is the responsibility of the engineer and the valuation surveyor in respect of each report, stating relevant case law? (5 Marks)
- v. Name five considerations you would take into account in making a recommendation on policy liability. Explain the relevance of the ABI Subsidence Agreement. (8 Marks)
- vi. Taking all the above into account, what 5 options emerge for settlement of the claim under the policy? (4 Marks)

40 MARKS

QUESTION S 3

A detached property has recently been re-roofed, with the slates being replaced by heavier clay tiles. You are called to inspect evidence of cracking at eaves level, but upon closer inspection you discover widespread cracking throughout the fabric of the building both internally and externally.

- i. Detail the 5 initial key enquiries you might wish to make. (5 Marks)
- ii. Name 5 key characteristics that tend to typify subsidence damage. (5 marks)
- iii. Cracking ranges from 0.5mm to greater than 25mm in width. Outline using sketches where appropriate 5 different ways of repair. (8 Marks)
- iv. The homeowner is relatively impecunious and cannot afford the policy excess. Explain how the claim might proceed and how in these circumstances the loss might be practically adjusted. How would the position change if there was a mortgage interest? (4 Marks)
- v. Cracking at eaves level may be due in part to roof spread. Assuming there is a mortgage interest on the property explain in detail how the claim might proceed in the absence of the insured not repairing the roof. (5 Marks)
- vi. The customer will not accept the decision that you have made under delegated authority and wants to refer the matter to the FOS. Outline what steps are necessary before this will occur. (3 Marks)
- vii. Consider what recovery opportunity might arise under the policy in respect of the work carried out by the roofing contractor, who is known. Explain the basis of any recovery action, indicating your rationale. (5 Marks)
- viii. The investigations indicate that extra loading has caused settlement of the walls rather than subsidence. Debate the difference between settlement and subsidence quoting case law as appropriate. (Marks 5)

40 MARKS

SECTION: LIABILITY

QUESTION L 1

There has been a serious fire which started in the Insured's retail Toy shop. The fire started in the first floor which was used for storage. The Fire Brigade have reported that the fire started as a result of an electrical fault.

The fire spread into the roof space of the neighbouring building which was leased by a local businessman and from where he traded as an Art Gallery. Significant damage was caused to the roof of the Art Gallery with further damage caused by smoke and extinguishment water to the contents of the Gallery.

You are instructed by the Liability Insurers of the Toy shop who have received a claim from the owner of the Art Gallery which comprises:

Damage to Paintings	£30,000
Redecoration	£6,000
Loss of commission whilst closed for repairs (6 months)	£40,000

- a) Detail what enquiries would be relevant to establish if a liability existed on the part of the owner of the Toy shop. Please quote any Case Law or Statute that may be relevant (20 marks)
- b) In the event of a liability existing set out your views on the claim submitted and the further information that you may require. In particular please address the areas where you believe an adjustment may be warranted. (20 Marks)

40 MARKS

QUESTION L 2

You are instructed by the EL Insurer of "Anywhere Anytime Haulage". They have received a Letter of Claim from Solicitors acting for one of their Drivers who has sustained an injury whilst at work.

The Letter of Claim states that the Claimant was injured whilst closing the rear roller shutter door of his vehicle trailer. He had climbed into the rear of the trailer and was pulling down the rear door using a strap, the strap broke

causing him to lose his balance and fall from the rear of the trailer. In falling the Claimant broke his arm and sustained a back injury.

- a) Detail the issues that are relevant to your consideration of any potential Liability on the part of the Insured including reference to any Statute or Case Law (20 Marks)
- b) Having received the Letter of Claim please detail what actions you need to undertake to comply with the Civil Procedure Rules and any other actions you might consider in the initial stages of this claim (10 Marks)
- c) Whilst you only have the information provided in the Letter of Claim the EL Insurer has asked you to provide them with a Reserve based on an assumption that there is a liability. Please set out the Heads of Claim that you would have to consider and what initial Reserves you might set along with a rationale for those Reserves. (10 Marks)

40 MARKS

QUESTION L 3

You are instructed by the Insurers of Mr and Mrs Smith. The Insurers provided a Pet Insurance Policy providing cover for their Labrador, "Fluffy". The cover includes an indemnity for any liabilities arising on the Insured for the actions of Fluffy.

A claim has been received from a Postman who had his hand bitten by Fluffy. The Postman had been pushing post through the letter box when Fluffy jumped up to the letter box and bit his hand. The injury involves a cut and the Postman had no time off work. He is not represented by a Solicitor and has written direct to Mr and Mrs Smith seeking compensation.

- a) Outline your thoughts on the potential liability of Mr and Mrs Smith and explain what further enquiries you would seek to make. (20 Marks)
- b) Advice what Policy Considerations might arise (10 Marks)
- c) Explain the process for dealing with the Compensation Recovery Unit (10 Marks)

40 MARKS

SECTION : BUSINESS INTERRUPTION

QUESTION BI 1

You have been instructed by insurers to deal with a business interruption claim for a restaurant following a minor kitchen fire. Fortunately the disruption was restricted to a 24 hour period but resulted in the loss of one complete day's trade on Thursday 31 May 2007.

Using the following information, calculate and set out your proposals for settlement of the claim under the policy and explain your reasoning.

Gross Profit Sum Insured - £835,000

Maximum Indemnity Period – 12 Months

TURNOVER

Thursday	10.05.2007	£4,205
Thursday	17.05.2007	£4,459
Thursday	24.05.2007	£4,902
Thursday	31.05.2007	NIL
Thursday	07.06.2007	£5,386
Thursday	14.06.2007	£5,680
Thursday	21.06.2007	£5,778

PROFIT & LOSS

**12 months to
31.3.2007**

Sales	1487220	
Opening stock	20500	
Purchases	<u>440250</u>	
	460750	
Closing stock	<u>21000</u>	
	439750	
	<u>1047470</u>	
Gross Profit		
Wages	451250	
NI	35918	
Rent & rates	152400	
Insurances	8700	
Music & entertaining	5300	
Heat light & power	12430	
Depreciation	23000	
Motor expenses	6738	
Printing & stationery	3502	
Telephone	3847	
Legal & accountancy fees	6200	
Bank charges	3988	
Credit card charges	18590	
Cleaning & laundry	<u>13287</u>	
	745150	
Net profit	302320	

40 MARKS

QUESTION BI 2

You are requested by insurers to handle the business interruption claim for a toy retailer following flood damage at their Hometown shop which is located on the ground floor of a shopping mall.

The flood occurred on 1st February 2007 and the shop was repaired and restocked by 1st April 2007. Liability was admitted by the material damage insurer.

It transpired that the 2 main department stores in the mall were more severely affected and full trading did not resume within the mall complex until 1st June 2007.

Using the following information, calculate and set out your proposals for settlement of the claim under the policy and explain your reasoning.

Gross Profit Sum Insured - £150,000
Maximum Indemnity Period – 12 Months

TURNOVER		
Month	2005/6	2006/7
December	42540	48277
January	19488	22553
February	13873	NIL
March	19945	NIL
April	22563	15338
May	20576	16620
June	18736	22774
July	15495	20539
August	19884	22428
Sept	28548	31294
October	30490	
Nov	33350	

PROFIT & LOSS

12 months to 30.11.2006

Sales		285488
Opening stock	30300	
Purchases	120250	
Wages & National Insurance	<u>34637</u>	
	185187	
Closing stock	<u>28000</u>	
		<u>157187</u>
		128301
Gross Profit		
Director's remuneration	30000	
Depreciation	2400	
Rent & rates	24000	
Insurances	1830	
Till leasing	540	
Heat and light	2849	
Motor expenses	4634	
Printing & Stationery	2057	
Telephone	1258	
Legal & accountancy fees	1450	
Bank charges	1542	
Credit card charges	3568	
		<u>76128</u>
Net profit		52173

40 MARKS

QUESTION BI 3

You have been instructed by insurers to deal with a business interruption claim for a manufacturing risk following an explosion at adjacent premises. Your colleague has resolved the material damage claim.

By the adoption of their business continuity plan it is established that the insured business has not sustained a loss of Gross Profit, but you receive a substantial claim for Increase in Cost of Working totalling £120,000 allocated as:-

1) Overtime Working	£22,000
2) Directors' Costs	£12,500
3) Sub Contracting	£40,000
4) Additional Cost of reinstated machinery	£22,000
5) Cash inducement/ discounts to retain customers	£12,000
6) Additional delivery/ transit costs	£11,500

The Business Interruption policy is subject to a 12 month Maximum Indemnity Period.

Describe in detail the enquiries that you would deem appropriate in considering the claim and comment upon your proposed adjustment with reasoning.

40 MARKS