



The Chartered Institute of Loss Adjusters

Associateship Examination 2011 (April)

Paper C3

Adjustment of Claims Business Interruption

3 ½ Hours

Maximum Marks 200

Answer ALL questions in Part 1 and 2 questions from Part 2

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 explain what each of the following terms mean?

- Alternative Trading Clause
- Professional Accountants Clause
- Denial of Access extension
- Loss of attraction
- Rate of Gross Profit

(15 marks)

b) When dealing with a claim under a typical Business Interruption Policy explain briefly the following:

i) The difference between the following terms:

- Increased Cost of Working
- Additional Increased Costs of Working

(5 marks)

ii) The difference between cover on a Sum Insured basis and a Declaration Linked basis.

(5 marks)

c) A Business Interruption Policy is sometimes described as covering “consequential losses”. Detail five consequential losses that might result in a claim but would fall outside the scope of the cover of a typical Business Interruption wording.

(15 marks)

40 MARKS



QUESTION 2

1. You are dealing with a claim for fire damage at a two storey, semi-detached property occupied by the Insured, Mr and Mrs Patel, and their family. Your Principals' policy covers both Buildings and Contents. The fire originated in the kitchen on the ground floor and may have caused by the Insured's children playing with matches.

a) Briefly detail the enquiries that should be made, the initial action that should be taken and what advice should be provided to the Insured.

(16 marks)

b) At the time of your visit, the Insured tell you that they have been advised that they are entitled to be represented by a Chartered Loss Adjuster to present their claim. The Insured ask you if the Loss Adjuster's fees would be covered as part of the claim and if it would be in their best interest to appoint the Loss Adjusters to act on their behalf. How should this enquiry be dealt with?

(6 marks)

c) Mr Patel is a Building Contractor and wishes to repair the building damage utilising his own building company for this purpose. How should this request be dealt with and what advice should be given to your Principals?

(6 marks)

d) You are contacted by the occupiers of the adjoining property. They tell you that their property has been affected by smoke and heat and that they are holding the Insured responsible for the damage since the fire originated within their property. How should this situation be dealt with and what should the response be to the neighbours? What, if any, specific legislation or case law applies to circumstances of this type?

(6 marks)

e) The Insured ask if they can move into other suitable premises until the necessary building repairs have been completed and essential contents have been replaced. Explain briefly how this request should be dealt with and what criteria applies to establish if this can be allowed.

(6 marks)

40 MARKS



QUESTION 3

The Insured owns a Manor house set in 25 acres of land in the countryside. He and his family leave the premises for a weekend break, all the doors and windows are locked and the centrally monitored Intruder Alarm System is set.

When the family return they find the home has been broken into. Although the alarm bells activated, an alarm signal was not received by the central station. The alarm system had been serviced by the Alarm Company Engineer one week before the incident.

The floor mounted safe, within the master bedroom, had been forced from its mountings, dragged along the landing and pushed down marble stairs to the drive where the police believe it had been loaded into a van. The safe contained jewellery, documents and £4,000 in cash. The thieves took a number of silverware items from a table in the entrance hall. Whilst moving the safe, a valuable oil painting was damaged. They also stole a quad bike used by the family in the grounds.

The perpetrators drove their vehicle across a lawn and through a hedge causing damage to both of these, ending with a collision with a statue.

Whilst on site the Police notice an oil painting hanging on the wall which had been reported stolen by an art dealer a year ago, as a result the Insured became legally obliged to return the painting to the rightful owner.

The Insured has a typical “High Net Worth (HNW) Policy”, which provides cover as follows:

- Buildings
- Contents
- Fine Art
- Personal possessions
- Family Legal Protection
- Identity fraud and
- Emergency property assistance.

In reporting to Insurer’s consider the differences between “standard” type Domestic Policies and “HNW”.

1. In respect of the buildings claim the Insured wishes to use his preferred contractor to undertake repairs in the house, repair the statue and re-lay the damaged section of lawn and replant the hedge. It transpires that the Buildings sum insured is unintentionally inadequate. Comment upon the Insured’s request and discuss how you would expect Insurer’s to handle the underinsurance issue.

(10 marks)



2. Regarding the items in the safe, what would you expect to be the difference in the handling of the claim and policy cover afforded between a “High Net Worth Policy” and a standard Household Policy?
(10 marks)
3. Discuss the likely extent of Policy cover in respect of the damaged oil painting.
(5 marks)
4. Comment upon the Insured’s position in respect of the painting he had to return to the owner and likely policy response.
(5 marks)
5. How should the claim for the quad bike be dealt with?
(5 marks)
6. Comment upon the failure of the Alarm System to send a signal to the central monitoring station. Explain how this might affect the claim.
(5 marks)

40 MARKS



PART 2

ANSWER 2 QUESTIONS ONLY

Question Business Interruption 1

Insurers have appointed you to deal with the business interruption loss following a fire at an oak and pine furniture warehouse. The entire stock of furniture and incidentals were destroyed in the fire as was the warehouse itself. Liability was accepted under the Material Damage cover. The incident occurred on 1 January 2010.

The Insured had separate locations in two towns within close proximity of the warehouse, but these were much smaller premises than the warehouse and were showrooms and held no stock for sale.

Within the warehouse were two spray booths used for varnishing/lacquering a number of lines sold by the Insured. Both the booths were destroyed.

Under normal circumstances the stock is imported from China, usually in container loads.

Lead times are normally up to six months due to the manufacturing time and the time taken to ship the containers from China. In order to mitigate the loss, some stock was purchased in Europe, but at greater cost than from China.

Turnover for the financial year ending 31 December 2007 was £8,350,000.

Turnover for the financial year ending 31 December 2008 was £9,514,553.

Turnover for the financial year ending 31 December 2009 was £9,374,366.

Budgeted turnover for the financial year ending 31 December 2010 is £10,100,000.

Turnover is broken down as follows:

PTO



	2009 actual	2010 forecast	2010 actual
Jan	£ 846,115	£ 934,750	£ 0
Feb	£ 779,533	£ 815,065	£ 105,000
Mar	£ 884,741	£ 851,417	£ 251,123
Apr	£ 702,708	£ 782,113	£ 278,631
May	£ 732,523	£ 851,681	£ 351,966
Jun	£ 724,830	£ 746,881	£ 400,637
Jul	£ 669,144	£ 722,678	£ 450,727
Aug	£ 817,955	£ 825,043	£ 300,011
Sep	£ 743,763	£ 765,727	£ 459,752
Oct	£ 752,790	£ 914,520	£ 607,856
Nov	£ 865,432	£ 969,169	£ 680,914
Dec	<u>£ 854,832</u>	<u>£ 920,956</u>	<u>£ 695,040</u>
Total	£9,374,366	£10,100,000	£4,581,657

The accounts for the financial year ending 31 December 2009 are as follows:

Turnover	£9,374,366
Cost of Sales:	
Opening stock	£ 756,911
Purchases	£5,761,546
Subcontracting	£ 120,532
Wages	£1,260,532
Agency labour	£ 73,000
Depreciation	£ 235,000
Closing Stock	(£ 800,104)
Total Cost of Sales	£7,407,417
Gross Profit	£1,966,949

PTO



Expenses:	
Staff salaries	£ 155,035
Directors salaries	£ 299,516
Carriage	£ 468,717
Packaging	£ 93,743
Advertising	£ 75,209
Repairs and renewals	£ 126,225
Telephone costs	£ 8,400
Heat, light and power	£ 23,309
Stationery/postage	£ 17,045
Sundry	£ 1,000
Audit fees	£ 15,000
Legal fees	£ 5,000
Credit card charges	£ 16,802
Bad debts	£ 6,410
Bank charges	£ 9,008
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	£ 1,320,419
Net profit	£ 646,530

The policy is declaration linked with an Estimated Gross Profit of £2,000,000 and a Maximum Indemnity Period of 12 months. Uninsured Working Expenses are Purchases (including stock movement); carriage packing & freight and bad debts.

Increases in Cost of Working was incurred as follows:

Temporary works to showrooms to create stock area	£ 25,000
Establishment of parking areas for delivery vehicles	£ 35,000
Temporary warehousing	£200,000
Hire of shipping containers for stock storage	£ 5,000
Purchase of a van	£ 14,000
Outsourcing varnishing/lacquering	£ 45,000
Additional stock cost of purchasing stock in Europe	£250,000

Based on the above information calculate:

1. The Rate of Gross Profit.
2. A proposal for settlement of the Gross Profit loss to include a discussion surrounding the trend you have adopted.
3. A proposal for settlement of the Increased Cost of Working claim with an explanation of the reasons for their inclusion or exclusion.



4. A proposal for what categories of cost could constitute savings and your explanations as to the reasoning behind their inclusion as a savings item.
5. If the stock loss was settled under a Contract Price Clause, how would this affect your consideration of the Gross Profit loss?
6. Comment on the adequacy of the Declared Gross Profit and what remedies insurers have in relation to Gross Profit that has been under-declared.

40 MARKS



Question Business Interruption 2

Insurers have appointed you to deal with the business interruption aspect of a loss following a serious fire at a large travel agency business. The company is independent and not part of a group. The business has a high street presence in a major city and has a retail counter, a call centre and website all operating from the one building which was severely affected by the fire. Liability was accepted under the Material Damage cover. The incident occurred 1 January 2009.

In an attempt to mitigate the loss, the Insured immediately commenced arranging temporary facilities, however, these facilities took some time to put into place. Turnover for the financial year ending 31 December 2008 totalled £51,683,911. Turnover each financial year is stable and is consistent on a year to year comparison.

The accounts for the financial year ending 31 December 2008 are as follows:

Turnover	£51,683,911
Cost of Sales:	
Purchases (of holidays)	£44,448,163
Gross Profit	<hr/> £ 7,235,748
Expenses:	
Wages and salaries	£ 3,101,035
Property costs	£ 289,516
Publicity	£ 258,419
Press advertising	£ 775,259
Commission paid	£ 1,550,517
Telephone costs	£ 358,400
Depreciation	£ 90,350
Stationery/postage	£ 77,655
Sundry	£ 10,000
Audit fees	£ 35,000
Legal fees	£ 25,000
Credit card charges	£ 516,839
Bad debts	£ 27,710
Bank charges	£ 19,988
	<hr/> £ 7,135,688
Net profit	£ 100,060

Historic turnover and turnover achieved following the incident are noted below.



	Turnover 2008	Turnover 2009
January	£ 5,659,094	£ 0
February	£ 4,108,731	£ 0
March	£ 3,855,455	£ 257,956
April	£ 5,327,882	£ 859,199
May	£ 4,204,323	£ 901,952
June	£ 5,453,181	£ 1,005,323
July	£ 5,839,665	£ 1,100,000
August	£ 4,094,840	£ 1,020,750
September	£ 3,342,316	£ 1,973,400
October	£ 3,362,670	£ 2,763,900
November	£ 2,172,101	£ 2,010,000
December	£ 4,263,653	£ 4,269,000
Total	£51,683,911	£16,161,480

The Insured appointed their own Chartered Loss Adjusters who presented the claim for additional costs as follows:

Temporary offices	£ 310,000
Overtime	£ 16,500
Discounts given to customers	£ 121,000
Temporary IT and telephone equipment	£ 300,000
Installation of IT and telephony	£ 50,400
Legal fees re temporary offices	£ 2,500
Lost bookings re server damage	£ 212,000
Configuration of temporary office	£ 25,750
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	£ 1,038,150

No formal claim was presented for loss of Gross Profit.

The policy is declaration linked with an Estimated Gross Profit of £7,200,000 and a Maximum Indemnity Period of 12 months. Uninsured Working Expenses are Purchases and Bad Debts.

1. Calculate settlement of the loss given the information above.
2. As turnover levels were returning to normal in November, the Policyholder's representative presented a claim under the Additional Increase in Cost of Working for £400,000 relating the cost of a competition to secure customer loyalty and to initiate a 'push' back to normal levels. What would your considerations be if the limit for this cover was £1,000,000?
3. How does an Additional Increase in Cost of Working limit differ from an Increase in Cost of Working limit?



4. What factors should be taken into account when considering whether a costs ranks for inclusion as an increased cost of working?
5. What do you understand by the terms 'Indemnity Period' and 'Maximum Indemnity Period'?
6. What do you understand by the term 'Alternative Trading Clause'?

40 MARKS



Question Business Interruption 3

Insurers have appointed you to deal with the business interruption aspect of a loss for a professional football club following widespread flooding of the area. The business was severely affected as a result of the damage caused by the flood. Liability was accepted under the Material Damage cover. The incident occurred 1 January 2009. As a result of the flooding the pitch was unusable for four home league games and one cup game. One game was re-arranged and played at another local venue.

The administration offices were unable to be occupied for three months whilst drying out and repairs were completed.

The Club has Gross Revenue cover on a sum insured basis in the sum of £2,000,000 for 12 months. The Club's accounts to 31 December 2008 are as follows:

Turnover	£3,828,430
Cost of Sales:	
Purchases	£ 245,941
Wages and salaries	£2,825,950
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	£3,071,891
Gross Profit	£ 756,539
Expenses:	
Directors remuneration	£ 100,130
Motor vehicle leasing	£ 38,900
Security and policing	£ 145,000
Medical costs	£ 10,000
Travel expenses	£ 45,100
Advertising	£ 15,000
Depreciation	£ 60,150
Rates	£ 65,000
Heat, Light, Power	£ 56,300
Insurance	£ 40,100
Repairs	£ 32,750
Telephone	£ 20,600
Stationery/postage	£ 8,800
Sundry	£ 11,000
Audit fees	£ 25,000
Legal fees	£ 25,000
Bad debts	£ 1,710
Bank charges	£ 14,950
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	£ 715,490
Net profit	£ 41,049



Turnover is analysed as follows:

Attendance revenue	£2,743,200
Commercial activities	£ 585,230
Sponsorship	£ 500,000

Commercial activities include the club shop, sale of programmes, refreshments and corporate hospitality. Sponsorship includes a one-off payment from a local businessman of £400,000 and forty games individually sponsored at £2,500 per game.

Due to fixture congestion, the Insured had to play the four league games mid-week later in the season instead of at weekend when they were originally scheduled to be played. As the Club could not play the cup fixture at home the match was not played and the result awarded to the away team.

The Insured presented a claim for lost revenue from the cup game and lost revenue for the league games due to the fixtures being mid-week as opposed to a weekend when attendance is traditionally higher. A schedule of Increased in Cost of Working was also presented. The claim is shown below:

Lost attendance revenue cup game	£ 70,000	(7,000 attendees at £10)
Lost attendance, four league games	£280,000	(based on 100% reduction)
Lost revenue from commercial activities	£ 70,000	
Lost sponsorship	<u>£ 12,500</u>	
Sub-total	£432,500	

Increase in Cost of Working:

Bottled water for players	£ 2,000
Temporary office	£ 18,000
Telephone/data installation for temporary office	£ 3,500
Hire of alternative ground for one game	£ 1,500
Medical supplies for alternative venue	£ 750
Security for alternative venue	£ 3,500
One-off costs for alternative venue	<u>£ 6,000</u>
Sub-Total	£ 35,250

Total Claim £467,750

1. Calculate settlement of the loss given the information above to include potential savings. What adjustments would you consider with regard to the revenue claim? Incorporate any suggestions into your adjustment of the loss.
2. Calculate a revised settlement if the policy had been arranged on a declaration linked Estimated Gross Profit basis with an Estimated Gross Profit declaration in



the sum of £750,000. The Uninsured Working Expenses are listed simply as Purchases.

3. Discuss the recent case *Orient Express Hotels Ltd v Assicurazioni Generali SpA*. Explain what effect, if any, this could have on your consideration of the above claim.

40 MARKS