

The Chartered Institute of Loss Adjusters

Associateship Examination 2008 (April)

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

The Insured is a family business which has operated for many years as printers. The Insured's customers are generally local businesses.

Assume that the following two losses have occurred:

- a. There was a relatively minor fire in the print shop on 1 January 2007. By sub-contracting some work and working additional overtime the loss was limited. The Insured returned to normal production in April 2007. The Business Interruption loss has been agreed at £13,088 before consideration of the adequacy of the Policy Cover.
- b. A major fire occurred on 1 January 2007. The damage was so extensive that repairs were not completed until August 2007. To mitigate the loss the Insured sub-contracted work, worked additional overtime and rented smaller temporary premises. The Business Interruption loss has been agreed at £106,625 before consideration of the adequacy of Policy Cover.

By reference to the following Policy Details and loss calculations, calculate the amount payable for losses a) and b) under each type of Policy Cover. Your detailed workings should be shown.

40 MARKS

Policy Cover

- a. *Sum Insured basis*

<i>Loss of Gross Profit</i>	<i>£100,000</i>
<i>Maximum Indemnity Period</i>	<i>12 months</i>
<i>Definition of Gross Profit – turnover less purchases as adjusted for stock</i>	

- b. *Declaration linked basis*

<i>Declared Gross Profit – Year to 30 September 2005</i>	<i>£ 65,250</i>
<i>Estimated Gross Profit</i>	<i>£ 75,000</i>
<i>Policy limit 133.3%</i>	
<i>Maximum indemnity period – 12 months</i>	
<i>Definition of Gross Profit – turnover less purchases as adjusted for stock</i>	

Profit & Loss Account – Year to 30 September 2005

	£	£
Turnover		45,000
Opening stock	6,625	
Purchases	35,000	
Direct wages	43,500	
Closing stock	(5,375)	
		(79,750)
		65,250

LOSS 1 – MINOR FIRE - 1 JANUARY 2007

SUMMARY OF TURNOVER DATA

Year to December			Year on Year Trend	
2005	2006	2007	2006	2007
150,000	165,000	172,000	10.0%	4.2%

REDUCTION IN TURNOVER

Year on Year Trend 10.0%

	2006 Actual	2007 Anticipated	2007 Actual	2007 Shortfall
Jan to Apr	49,500	54,450	44,000	10,450

RATE OF GROSS PROFIT

-Based on Financial Accounts for the year Ended 30 September 2006

	£	£
Turnover		162,500
Opening Stock	5,375	
Purchases	40,000	
Closing Stock	<u>-4,750</u>	
		<u>40,625</u>
Gross Profit		<u>121,875</u>
Rate of Gross Profit		75.00%

LOSS OF GROSS PROFIT

Reduction in Turnover		10,450
Loss of Gross Profit at	75.00%	7,838

INCREASE IN COST OF WORKING

	£
Work sub-contracted	3,500
Additional Overtime	<u>2,500</u>
	<u>6,000</u>

SAVINGS

	£
Power	500
Consumables	<u>250</u>
	<u>750</u>

SUMMARY

	£	
Loss of Gross Profit	7,838	
Increase in Cost of working	6,000	
Less Savings	<u>-750</u>	
		<u>13,088</u>

LOSS 2 – MAJOR FIRE - 1 JANUARY 2007**SUMMARY OF TURNOVER DATA**

Year to December			Year on Year Trend	
2005	2006	2007	2006	2007
150,000	160,000	46,000	10.0%	-72.1%

REDUCTION IN TURNOVER

Year on Year Trend 10.0%

	2006 Actual	2007 Anticipated	2007 Actual	2007 Shortfall
Jan to Dec	165,000	181,500	46,000	135,500

RATE OF GROSS PROFIT

-Based on Financial Accounts for the Year Ended 30 September 2006

	£	£
Turnover		162,500
Opening Stock	5,375	
Purchases	40,000	
Closing Stock	<u>-4,750</u>	
		<u>40,625</u>
Gross Profit		<u>121,875</u>
Rate of Gross Profit		75.00%

LOSS OF GROSS PROFIT

Reduction in Turnover		135,500
Loss of Gross Profit at 75.00%		101,625

INCREASE IN COST OF WORKING

	£
<i>Work sub-contracted</i>	6,000
<i>Temporary Premises</i>	5,000
<i>Additional Overtime</i>	<u>7,000</u>
	<u>18,000</u>
 <u>SAVINGS</u>	
	£
<i>Rent and Rates</i>	7,500
<i>Water</i>	1,000
<i>Distribution Costs</i>	1,000
<i>Power</i>	2,000
<i>Consumables</i>	<u>1,500</u>
	<u>13,000</u>
 <u>SUMMARY</u>	
	£
<i>Loss of Gross Profits</i>	101,625
<i>Increase in Cost of Working</i>	18,000
<i>Less Savings</i>	<u>-13,000</u>
	<u>106,625</u>

QUESTION 2

- i. In all parts of the following question, all workings must be shown:
- a. In a Policy with a pro rata average condition calculate the sum payable:

Agreed loss before application of excess	£ 30,000
Sum Insured	£100,000
Value at Risk	£175,000
Excess	£250
	(10 marks)

b. Agreed loss (subject to salvage)

Agreed loss (subject to salvage)	£175,000
Sum Insured	£100,000
Value at Risk	£175,000
Residual salvage value	£ 10,000
Excess	£500
	(10 marks)

- ii. In a Policy subject to average under the reinstatement memorandum calculate the sum payable:

Agreed loss (before excess)	£ 20,000
Sum Insured	£100,000
Value at Risk	£140,000

Excess £250 (10 marks)

- iii. In dealing with a business interruption claim with cover arranged on a sum insured basis, calculate the amount payable:

Agreed loss of gross profit	£200,000
Sum insured	£300,000
Insurable amount	£500,000
Assessors fees for preparing claim	£10,000

(10 marks)

40 MARKS

QUESTION 3

- i. a. Define warranty. (4 marks)
- b. List six warranties which might typically apply in a Commercial Policy. (6 marks)
- ii. In the event of breach of warranty, explain if different considerations arise depending on whether the Policy is Commercial or Domestic. (6 marks)
- iii. Your Principals have instructed you to deal with a claim for flood damage which has occurred to premises occupied by clothing retailers. Flood waters have ingressed into the main stock room and have accumulated there to a depth of approximately 1m. All stock is stored in cartons and similar containers at floor level and substantial quantities have been affected by the ingress of water. Explain how you would deal with the following situations:
- a. As an experienced Adjuster, you would be aware that the Policy might be subject to a stillage warranty requiring the insured to store stock at a certain height above floor level with a view to mitigating the effects of flood waters. Following submission of your report to your Principals they inform you that no warranties are applicable and instruct you to proceed with settlement of the claim. Following the conclusion of your quantum investigations you then submit settlement proposals to the insured. However, you are then informed by your Principals that, on further enquiry, they have now established that a stillage warranty is applicable and since the Insured are in breach of the warranty they now wish to decline the claim. (6 marks)
- b. In their initial instructions to you, your Principals have confirmed that a stillage warranty is applicable. However, you do not draw this to the Insured's intention at the time of your initial visit and you also authorise the Insured to dispose of the damaged stock. You subsequently advise the Insured that the loss may not be recoverable due to the application of the warranty. At that stage, the Insured then inform you that if they had known that this would be the case they would have endeavoured to salvage as much of the stock as possible and would not have disposed of this with your apparent approval. (6 marks)

- c. At the time of your initial visit, you have only very brief cover details and no information regarding warranties. However, you are then told by the Brokers representatives, who are also present, that there are no warranties and, on the strength of this information you authorise removal of the salvage as detailed above. Having reported to your Principals, they then instruct you that a stillage warranty does apply. (6 marks)

- iv. Explain if any different considerations would apply to the breach of the Stillage Warranty if the damage to the stock had not been caused by flooding at low level, but had occurred as a result of rainwater penetration associated with contemporaneous storm damage to the roof covering. (6 marks)

40 MARKS

PART 2

ANSWER 2 QUESTIONS FROM ONE SECTION ONLY

SECTION: PROPERTY (COMMERCIAL)

QUESTION PC 1

You are instructed by the Insurers of Mr J Brown, who provide cover for building and rent following a severe rainstorm. The risk address is a middle terrace, three-storey building plus a basement. There is a small single storey extension projection to the front, which has a parapet and is drained via an outlet with drainage running internally within a duct into the basement where it joins the combined foul and storm drain. A retailer selling television and electrical goods occupies the basement and ground floor. The rent is £24,000 per annum. The upper floors are occupied by an Assured Short hold Tenant.

Water backs up through the WC/drains in the basement to a depth of 800mm with rainwater also coming through the front of the retail outlet via the flat roof to the front.

1. Damage at ground floor includes the stock and contents. In the basement the Insured's surveyor produces a schedule including complete refurbishment. Repairs to the basement take six months but the turnover does not return to previous levels for a further three months. The tenant has withheld nine months rent. Discuss what policy considerations arise and advise on how you would calculate the rent loss payable. (15 Marks)
2. The priced specification includes the following items. Advise insurers what you would allow in the adjusted claim. (20 Marks)

a)	Hack off all plaster from floor to ceiling and reinstate with a proprietary water resistance tanking system.	£24,000
b)	Replace electrical fuse board and re-wiring all circuits to ground and basement, including all builders work.	£16,000
c)	Provide a chemical damp proof course to the walls and excavate the oversite basement slab and replace with 100mm concrete, DPM on 150mm blinded hardcore. (There is no effective DPM existing).	£4,000

d)	Take down timber raking that is not damaged to allow work to be undertaken, remove from site, store and reinstate.	£3,500
e)	Replace single storey felt roof to front roof.	£3,000

3. As there is no electricity the AST moves into temporary accommodation for two weeks at a cost of £1,000, which the landlord pays for and submits for a claim for your consideration. What is your proposal for dealing with such a request? (5 Marks)

40 MARKS

QUESTION PC 2

You are instructed by Insurers who provide cover for Buildings, Contents and Stock for "ABC Department Store". Following a serious fire, a claim is received for the entire stock on display as well as the contents.

The fire started in the cafeteria, run by a catering company with the seat of the fire being identified to a deep fat fryer. There are two warranties on the policy, the first requiring that duct work is professionally cleaned annual and filter are cleaned on a weekly basis. The second endorsement requires the electrical system to be tested every two years and any faults found are repaired without delay.

- i. During your enquiries you establish that an electrical inspection carried out four weeks ago highlighted several problems, none of which had been repaired, although none of the repairs required were associated with the fire. Detail the initial enquiries/actions you make to establish whether policy liability arises? (15 Marks)
- ii. Discuss how you would approach the following contents items included in the claim.
 - a) Employees possessions damaged in the fire.
 - b) A display installed by a Concession trader.
 - c) Asbestos survey to establish if any asbestos is present.
 - d) The cost associated with looking for and retrieving a safe that was lost in the debris. (15 Marks)
- iii. Advise how you would quantify the stock claim, given that there is no tangible way of identifying and counting the items damaged. (10 Marks)

40 MARKS

QUESTION PC 3

You are appointed to investigate a claim under a commercial Theft policy for Amalgamated Integrated Ltd at their workshop in the UK.

The company supply and install data cabling for financial institutions and operate from a self contained workshop in a multi-tenanted building on a small industrial estate.

Due to the high value of multi-core cable that is used in their installations, arrangements are normally made for it to be delivered directly to the site. After winning a large contract however, it became necessary to store some of this cable at the workshop. Due to lack of room, a security container was hired and placed on a hard standing immediately outside the workshop and you are told that some of the stock was stolen from this container.

Outline:

- i. Enquiries you would make regarding the circumstances of the theft and their relevance to policy cover.
- ii. What enquiries would you make to verify the quantities of cable that were reported stolen.
- iii. Outline the enquiries you would make to establish the value of the cable.

40 MARKS

SECTION: PROPERTY (DOMESTIC)

QUESTION PD 1

- i. a. Define fraud. (2 marks)
- b. Detail a typical Domestic Policy Wording relating to fraud. (2marks)
- ii. a. What do you understand by the term 'fraud indicator'. (2marks)
- b. In dealing with a Domestic claim, list six potential fraud indicators. (6marks)
- iii. Give an example of:
- a. Fraud by a policyholder. (2marks)
- b. Fraud by an Insurer. (2marks)
- iv. You are dealing with a theft claim from domestic premises. Your investigations have confirmed that a claim is in order and your principals have agreed that Policy Liability is accepted. The loss involves electrical goods, jewellery and items of clothing. The Policy provides replacement cover apart from clothing which is covered on an indemnity basis. The sum insured is adequate.
- Your principals have instructed you to 'settle on best possible terms'. Explain how you would proceed to adjust the claim and how you would interpret your principals instructions. (10marks)
- v. a. Define insurable interest. (2marks)
- b. List six examples of insurable interest. (6marks)
- vi. Outline the main provisions of the Fires Prevention (Metropolis) Act 1774. (6marks)

40 MARKS

QUESTION PD 2

- i. You are instructed to deal with a claim for impact damage which has occurred to domestic premises. Your Principals policy provides cover for Buildings and Contents. On attending the site you find that a light commercial motor vehicle has collided with the front boundary wall of the building and has then impacted the conservatory extension at the side of the building before continuing across part of the lawned garden area where it demolishes a small marquee and its contents.

- a. What action would you take at the time of your initial site visit and what information would you obtain. What advice would you provide to the Insured. (10marks)
- ii. Once the claim has been formulated and presented to you explain how you would deal with the following issues:
- a. It will be necessary to rebuild approximately 50% of the front boundary wall which is constructed with 225mm brick. However, the Insured is concerned that the rebuilt section of the wall will not match the original and requests that Insurers should defray the full cost of rebuilding the whole wall. (5marks)
- b. Due to the extent of the damage which has occurred it will be necessary to rebuild the conservatory. The existing structure was several years old and to comply with statutory regulations it will be necessary for the replacement structure to include materials of enhanced specification, for example, the provision of safety glass for the windows. (5marks)
- c. Various items of furniture within the conservatory, together with a television and hi-fi equipment were damaged beyond satisfactory restoration. Although the building sum insured is adequate, the contents are underinsured and your Principals have confirmed that there is a pro rata average clause which is to apply on this occasion. (5marks)
- d. The marquee and its contents which include tables and chairs and basic catering equipment were all damaged beyond satisfactory restoration. The marquee and its contents are owned by the Insured and are used primarily by the Insured's wife who is a keen fund raiser for local charities and who uses the marquee in connection with coffee mornings and similar money raising events. It had been erected for this purpose on this occasion. (5marks)
- e. You pursue the owners of the vehicle which caused the damage for recovery and they refer matters to their Insurers who subsequently confirm that liability is accepted. Explain the basis upon which you would quantify your Principals recovery claim on their behalf and how this might be affected by any uninsured losses incurred by the Policyholder. (5marks)
- f. Explain if any different considerations would apply to any potential recovery if the vehicle had been driven without the owners consent and this was confirmed following appropriate Police investigation. (5marks)

40 MARKS

QUESTION PD3

Discuss the liability of Insurers in relation to the following scenarios. You should assume that this is a typical Household Policy covering Building and Contents and that the sums insured are adequate. There is no additional All Risks cover. If applicable, your answers should include reference to any relevant case law.

- i. a. The Insured claims for a loss of a gold ring. This was last seen a few days earlier when the Insured removed the ring and left it on a worktop in the kitchen prior to carrying out some work in the rear garden. Later, the Insured realised that the ring was missing. The Insured believes that this may have been removed by an opportunist thief who could have gained entry through the kitchen door which was left unlocked whilst the Insured was working in the garden. The area where the Insured was working was partially screened by trees and bushes etc., and the kitchen door was, therefore, not under observation at all times. At the time of your meeting with the Insured you find that the incident has not been reported to the Police. (6marks)
- b. You are dealing with a claim which includes a quantity of jewellery. In answer to your questions the Insured confirms that various items were purchased abroad and readily admits that on return to the United Kingdom these items were not declared to the Customs Authorities. The Insured admits that this action was taken with a view to avoiding any duty which might be payable on the items involved. (6marks)
- c. Your Principals have instructed you to deal with a claim for malicious damage and also fire. On attending the premises, you find that various items of furniture in the house have been slashed with a knife and, in addition, a timber garden shed containing gardening equipment and tools etc, has been destroyed by fire. You also establish that the person responsible for both incidents was the Insured's adult son who unfortunately has a history of mental illness. In normal circumstances, the son resides permanently at the property but at the time had been there on temporary day release from a specialist clinic where he had been receiving treatment for his illness. (6marks)
- d. Intruders have attempted to force entry into the Insured's property whilst it is unoccupied apart from the presence of the family's two pet dogs. The intruders attempts to gain entry are not successful but their activities have frightened the two dogs and, in consequence, they have soiled floor coverings throughout the house. (6marks)
- e. The cellar at the Insured's property is continually affected by ingress of water. Enquiries have established this is directly associated with changes to the water table in the immediate vicinity. The Insured maintains that the circumstances constitute flooding and expect your Principals to deal with the claim on this basis. (6marks)
- ii. You are dealing with a claim for theft which has occurred from a private dwelling and your enquiries have established various unsatisfactory circumstances. Having reported to your Principals, they request you to obtain further background information regarding the Insured and, in particular, to

approach the Police Authorities to establish if they can provide any assistance and, if appropriate, also consider criminal proceedings.

Describe the procedures which are in place for approaching the Police Authorities in these type of circumstances.

(10marks)

40 MARKS

NOTE: *Overseas candidates may describe the procedures which are applicable in their own jurisdictions and which they should identify when providing their answer. The answers provided will be checked with the relevant authorities.*

SECTION: SUBSIDENCE

QUESTION S 1

You are instructed by Insurers to investigate cracking to the internal and external walls of a tenanted bungalow, which appears to be in excess of 50 years old. The tenant, who you meet, advises that the cracking has been there for some time. Damage appears to be concentrated to one corner of the building.

The tenant advises that from time to time it is necessary for the drainage system to be cleared, and that there is a 'bad smell' during the summer months.

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

The rent which the tenant pays includes for heating and lighting costs.

The insurance policy in operation is typical and provides cover for subsidence, heave and landslip both buildings and contents. The policy has been in operation for 2 years, and the sum insured is substantially inadequate. There are no reports available regarding the condition of the property at the time of inception.

- i. What is likely to be your 'starting position' as far as policy liability is concerned. (8 marks)
- ii. Briefly advise what you would say to the tenant? (2 marks)
- iii. Detail the enquiries you would make or expect to see, to establish the cause of the problem. (10 marks)
- iv. As part of the second phase of the investigation, soils analysis is undertaken which indicates that ground conditions are principally sandy silt in nature, with areas of excessive wetness close to the affected corner of the building. Insurers agree to deal with the claim sympathetically on a without prejudice basis due to commercial considerations. What considerations might you have in terms of the basis of settlement of the claim ? (8 marks)
- v. Drainage tests show that the drains are leaking. What options are available to restore the integrity of the drainage system? (4 marks)
- vi. It is agreed by all parties that a period of monitoring of the cracks is needed following repair to the drains. Name three ways that this could be done. How often should monitoring readings should be taken? (4 marks)
- vii. The works will result in the property being uninhabitable for a period of 4 months. The landlord cannot find a tenant for the 2 months following completion of the repairs. What insurance cover is likely to be in place for losses which might arise to the policyholder. What other issues might you consider when adjusting the loss? (4 marks)

40 MARKS

QUESTION S 2

Under a standard delegated authority scheme for subsidence handling, you are instructed to investigate cracking to the single storey rear extension of a semi detached dwelling .

There is no indication of damage to the main dwelling. Upon examination you discover that the cracks appear recent. The insured has owned the property for 24 months and confirms that she has not carried out any repairs nor are there any signs of earlier repair. The extension predates the date of purchase.

A 10m high poplar tree owned by the neighbour is located approx 7 metres away from the rear extension.

i. What investigations would you wish to undertake given the circumstances and the scale of the problem. (10 marks)

ii. Because of the proximity of the tree, and the possibility of a recovery action you decide to appoint an expert. What are the likely qualifications or trade memberships that you would expect to see from this expert ? (2 marks)

iii. Outline four things that you might expect to see in the expert's report? (4 marks)

iv. The tree expert identifies that the roots discovered beneath the extension originate from the poplar tree in the neighbouring garden.

Draft a simple letter – one page only – which you would send to the next door neighbour. (10 marks)

v. Taking all the above into account, what if there was a tree in local authority ownership. According to *Sollaway v Hampshire* what are the four elements for a successful recovery? (4 marks)

vi. What would you have done if the claim related to damage to the floor slab only?

What if the investigations revealed 750 mm of hardcore? Would it have made any difference if the internal walls were built off the floor slabs? Quote case law as appropriate. (10 marks)

40 MARKS

QUESTION S 3

You are called to inspect damage to a 2m retaining wall constructed from breeze blocks, as a result of ground movement, and following a period of excessively heavy rainfall.

i. Detail the 5 initial key enquiries you might wish to make. (5 marks)

ii. Provide a sketch of a typical section through a retaining wall, showing the key features you might expect to find. (5 marks)

iii. A structural engineers report is obtained which indicates that the damage has arisen as a result of a build up of water behind the wall. There is no provision for drainage through the wall.

Based on this report, are you likely to consider a valid claim under the subsidence, heave or landslip sections of the policy? Explain your decision. (3 marks)

iv. Is there any basis for considering the claim also (or instead of) under any other section of the policy? Include case law if appropriate. (2 marks)

v. 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? (10 marks)

vi. Explain in detail how the claim might proceed in the absence of the insured not repairing the wall. Assume there is a mortgage interest on the property (10 marks)

vii. Additional facts come to light which result in the claim being declined. 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. (5 marks)

40 MARKS

SECTION: LIABILITY

QUESTION L 1

1. You receive a file from a colleague who has left the Company. Your review of the file reveals:

- Claimant, a lorry driver was injured whilst climbing into his trailer, the accident happened 12 months ago and there is no suggestion that the Claimant has returned to work.
- It is alleged that the rail used by the driver to pull himself up into the trailer was greasy. This is denied by the Insured but there is no inspection evidence and no witnesses to the accident.
- Your colleague has denied liability on the basis that no evidence has been provided to support the allegations made.
- File notes suggest the Insured and your colleague were concerned about the authenticity of the accident. The Insured had questioned whether it actually occurred and whether any real injury was sustained.
- Surveillance has been utilised and showed the Claimant driving a motor vehicle but it was inconclusive in terms of establishing how bad the injury was. There was no indication however that the Claimant was working elsewhere.
- A Medical Report from an orthopaedic surgeon details a injury involving a dislocated shoulder but also indicates that the Claimant is suffering from significant blurred vision. The suggestion was there was a full recovery from the shoulder injury within 6 months but the blurred vision continued.
- The Medical Report was not a joint instruction.
- Your file suggests a Reserve is being held at £26,000 divided thus:

General Damages	£10,000
Special Damages	£10,000
Claimants costs	£6,000

Set out using bullet points, the main issues you need to consider and the tactics you would like to adopt now that the file has become your responsibility.

Consider your answer under the following headings.

- a) Legal Liability (20 marks)
- b) Quantum (20 marks)

40 MARKS

QUESTION L 2

The recent Ministry of Justice proposals suggest that the current CPR allowing 90 days for an investigation should be reduced to 30 days in respect of both Employers Liability and Public Liability claims.

Discuss your views on this proposal focusing on the issues that would arise to you as an investigator and including any proposals you would have as to the changes that would be necessary if these proposals come into force.

40 MARKS

QUESTION L 3

Your Insured, a plumber, is alleged to have caused water damage in a bungalow. The damage has just been discovered.

The Insured carried out some work at the property 12 months ago and had been called to the property by another plumber who was working for a Contractor undertaking a Contract for complete refurbishment of the property.

Your Insured was asked to assist the existing plumber with the completion of plastic pipe work serving radiators. The pipe work was laid under the floor in voids between the existing timberwork.

Prior to meeting the Insured for the first time set out in note form the issues that you would want to cover. Explain the relevance of the enquiries you would want to make ensuring you cover;

- a) Policy liability (10 marks)
- b) Legal liability (20 marks)
- c) Quantum (10 marks)

40 MARKS

SECTION : BUSINESS INTERRUPTION

QUESTION BI 1

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

The fire 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 main department store in the mall was 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 - £90,000
Maximum Indemnity Period – 12 Months

TURNOVER

Month	2005/6	2006/7
Dec	42540	48277
Jan	19488	22553
Feb	13873	NIL
Mar	19945	NIL
Apr	22563	15338
May	20576	16620
Jun	18736	22774
Jul	15495	20539
Aug	19884	22428
Sep	28548	31294
Oct	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>
Gross Profit		128301
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 2

Explain in your own words the following terms and give practical examples, including calculations where appropriate, to highlight the difference between each pair of terms.

- Indemnity Period and Maximum Indemnity Period
- Sum Insured Basis and Declaration Linked Basis
- Accumulated Stocks Clause and Contract Price Clause
- Denial of Access and Loss of Attraction

40 MARKS

QUESTION BI 3

You have been appointed by insurers to adjust a business interruption claim for a manufacturing risk following a fire at adjacent premises.

By the adoption of their business continuity plan it is established that the insured business has successfully avoided a loss of Gross Profit, but you do receive a substantial claim for Increase in Cost of Working totalling £160,000 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
7) Penalty payments under contract	£15,000
8) Bank interest charges	£5,000

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

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

40 MARKS