



The Chartered Institute of Loss Adjusters

Associateship Examination 2009 (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

You are instructed to deal with a claim for extensive fire damage which has occurred to a large detached late Victorian building set in its own grounds. The building was originally a private dwelling but some time previously had been converted into a number of self contained flats. It was unoccupied at the time of the fire. The building had been purchased approximately twelve months earlier by XYZ Ltd, property developers. The sole share holder of the company is a Mr J Smith and the only directors are Mr J Smith and his wife.

Your Principals were aware that the property was unoccupied and the policy is subject to various endorsements. These include a requirement for weekly internal inspections to be carried out by, or on behalf of the Insured and for the property to be protected by a monitored intruder alarm system.

As a result of the enquiries which you have carried out and the further investigations which you have instigated the following features have been identified:

- i. Forensic investigation suggests that the fire was deliberate in origin with evidence of accelerants having been introduced into the premises.
- ii. There is no evidence that the weekly inspections were carried out. By way of explanation Mr Smith tells you that this task was contracted to a local security firm and there was no reason to believe that they had failed to undertake these inspections.
- iii. There is an alarm system within the building but this is “ bells only “ and not monitored. In any event it does seem that the alarm was defective and not operational.
- iv. You are told, unofficially, by the local “beat“ Police Officer that there have been numerous previous break ins to the premises through insecure doors and windows mainly by children and young persons from the neighbourhood. This appears to be confirmed by evidence of graffiti daubed within parts of the building and possible evidence of substance misuse.



- v. You have ascertained that the Insured applied for planning permission to demolish the existing building and to replace it with six exclusive detached houses. Planning permission was granted. However, the Directors of the Insured company tell you that due to the current financial climate, they have decided not to proceed with this development and, prior to the fire, the intention was to refurbish and relet the existing self contained flats.
- vi. You have also ascertained that Mr J Smith has previously been the director of other companies, some of which have been wound up at the instigation of creditors and others have unsatisfied County Court judgements recorded against them.
- vii. You are led to believe from hearsay information that Mr Smith has been or is associated with some form of fraudulent activity involving motor vehicles. Comment has also been made to you that Mrs Smith has, sometime in the past, been fined for theft (shoplifting).

Explain how you would deal with these issues and what advice you would provide to your Principals.

40 Marks

Question 2

You are instructed to deal with a claim for storm damage which has occurred at premises occupied by carpet manufacturers. The premises comprise a detached industrial type unit of steel frame construction clad and roofed with profile steel sheet. This accommodates the various manufacturing facilities and also storage areas for raw materials and finished product. There is separate office accommodation in a two storey brick built annex to the front of the building.

The policy issued by your Principals covers the building, Stock and All Trade Contents, including office equipment and furnishings against the usual range of perils. For the purpose of this question all the Sums Insured can be deemed to be adequate.

As a result of your investigations, the following issues have been identified:

- i. The Insured occupy the building as tenants. On examining the lease you find that it is the Landlords' responsibility to insure the building against specific perils including storm. The lease also specifies that the Landlords are responsible for external maintenance. On contacting the Landlords you are able to ascertain from them that they have arranged insurance for the building and they agree to notify the Insurers involved. The cover is with



other Insurers and not your Principals. The Insured tell you that there must have been a misunderstanding on their part and where they believed that, in terms of the lease, it was their responsibility to insure the building.

- ii. Your Principals' policy incorporates a number of warranties. One of these is a stillage warranty which requires that all finished stock must be stored on pallets or similar at least 30cm above floor level. It would appear that this warranty has been applied due to the presence of a nearby watercourse and the potential risk of flooding from that particular source.
- iii. Other warranties include the provision of suitable intruder and fire alarms and the provision and maintenance of suitable fire extinguishment equipment.
- iv. None of these warranties have been complied with. When you draw this to the Insured's attention they state that they were never made aware of these warranties, the cover having been arranged through their brokers and where they had no direct contact with Insurers.
- v. During the storm, a number of roof sheets were dislodged by high winds. Due to the accompanying torrential rainfall a considerable volume of rainwater gravitated into the building and directly on to quantities of finished product in the storage area. The Insured state that the damaged stock is of no further value to them and seek your immediate confirmation that they can make arrangements for all of this to be removed from their premises for disposal.
- vi. A substantial volume of rainwater also gravitated into the separate office accommodation damaging floor coverings and various items of office equipment. You discover that this appears to result from lack of maintenance of the eaves guttering which, over a period of time, has become blocked with debris of various types. You consider that if the guttering had been properly maintained then this would adequately have coped with the volume of rainfall at the time and no damage would have occurred within the office accommodation.

Explain how you would deal with each of the above issues and what recommendations you would submit to your Principals.

40 Marks



Question 3

a) In a typical Business Interruption Policy, what do you understand by the following terms:

- i. Material Damage Proviso
- ii. Increased Cost of Working
- iii. Additional Increased Cost of Working
- iv. Alternative Trading Clause
- v. Professional Accountants Clause
- vi. Denial of Access extension

(12 Marks)

b) Explain the main differences between cover provided on a Sum Insured basis and cover provided on a Declaration Linked Basis. (4 marks)

c) Business Interruption Insurance is sometimes described as Consequential Loss Insurance. List six types of “ consequential losses “ which would not normally be covered under a typical Business Interruption Policy. (6 Marks)

d) When dealing with claims for Business Interruption for the following trades/businesses identify the measures you might be able to take to mitigate loss of turnover and detail any types of savings which might accrue during the period of closure. In each case it is anticipated that the business will close for approximately two months whilst building repairs are undertaken.

- i. Gentlemen’s Hairdresser
- ii. Retail Newsagent
- iii. Solicitors’ practice
- iv. Dental surgery
- v. Licensed Guest House
- vi. Estate Agent

(18 Marks)

Total 40 marks



PART 2 ANSWER 2 QUESTIONS ONLY

Question BI 1

Explain in your own words the following terms and give practical examples to highlight the difference between each pair of terms:

- a) Increase in Cost of Working and Additional Increase in Cost of Working
- b) Sum Insured Basis and Declaration Linked Basis
- c) Prevention of Access and Loss of Attraction

In note form put forward arguments for and against allowing each of the following in a claims situation. Draw a reasoned conclusion in each case.

- a) Bank overdraft interest
- b) Savings in depreciation
- c) Directors' costs in responding to the restoration of the business
- d) Penalty charges for late delivery of orders
- e) Accountant's charges in respect of:
 - i. Extraction of monthly turnover figures
 - ii. Attending a meeting with the adjuster to negotiate the business interruption claim

40 Marks

Question BI 2

The Insured established their city centre restaurant business some 6 months before a major fire destroyed the kitchen and stores area. They had secured a 7 year lease on the premises but have experienced difficulties with the landlord who has not acted expeditiously in undertaking the building reinstatement.

The period of closure is expected to extend to 8 months. The Insured wish to retain the services of their Head Chef until the reopening date due to his excellent reputation.

- a) What enquiries would you make and what information would you request to set an accurate reserve for insurers?



- b) What advice would you provide to the Insured on the measures which should be considered to mitigate the business interruption loss?
- c) Write brief notes on the areas that the loss adjuster should consider when recommending an interim payment.
- d) During the indemnity period the local council impose parking restrictions in the vicinity of the restaurant. How would this action affect your measurement of the potential loss?

40 Marks

Question BI 3

You are instructed by insurers to handle the Business Interruption claim for a car retailer following a major fire at their sole location which occurred on 1st February 2008. The fire was so severe that all vehicles located in the main showroom were destroyed. The showroom and office facilities required substantial repair and the site reopened on 1st October 2008.

In an attempt to mitigate the business interruption loss the Insured acquired a short term lease for a 350m² plot of land for 9 months commencing 1 March 2008 at a cost of £18,000. Some sales of newly sourced vehicles were achieved from the temporary site but due to restricted access the business performance was disappointing.

The Insured hired a portakabin office and generator for the same period (£24,000) and erected a security fence around the plot (£5,500). Further, an improved road surface was laid at the entrance to the site at a cost of £3,500.

The Business Interruption policy is subject to an underinsurance clause and provides cover for Gross Profit at £450,000 for a 12 month maximum indemnity period.

Utilising the accounting information below calculate and set out your proposals for settlement of the claim under the policy explaining your reasoning.



SALES

	<u>2006/7</u>	<u>2007/8</u>	<u>2008/9</u>
	<u>£</u>	<u>£</u>	<u>£</u>
February	128,950	134,265	NIL
March	134,876	137,564	35,687
April	163,489	166,890	46,588
May	143,687	153,428	58,733
June	137,673	139,895	64,532
July	98,782	102,659	77,643
August	87,720	90,674	88,675
September	146,890	154,398	133,476
October	134,897	137,850	121,545
November	126,576	128,967	105,534
December	83,986	85,978	72,549
January	<u>97,372</u>	<u>99,445</u>	<u>82,465</u>
	1,484,898	1,532,013	887,427



DETAILED PROFIT & LOSS ACCOUNT FOR YEAR ENDED 31 JANUARY 2008

Turnover	<u>£</u>	<u>£</u> 1,532,013
Opening Stock	142,500	
Purchases	1,040,288	
Closing Stock	<u>-135,786</u>	
		<u>1,047,002</u>
Gross Profit		485,011
Rent & Rates	102,300	
Light & Power	13,547	
Salaries	124,588	
Pensions	12,500	
Credit Card Charges	5,342	
Motor Expenses	7,386	
Advertising	10,687	
Cleaning	3,450	
Telephone	8,644	
Legal & Accountancy	3,750	
Depreciation	24,000	
		<u>316,194</u>
Net Profit		168,817

40 Marks