



The Chartered Institute of Loss Adjusters

Associateship Examination 2009 (October)

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) Explain the implications on the adjustment of a claim each of the following, using examples:

1. Public Authorities' Clause.

(8 Marks)

2. Professional Fees Clause.

(8 Marks)

3. Debris removal Clause

(8 Marks)

b) Set out the calculation (figures need not be included) that you would use to determine a stock loss using the stock reconciliation basis.

(8 Marks)

c) Explain with rationale, demonstrating impartiality and methods to mitigate the loss, how you would deal with salvage in either of following situations:

1. Smoke logged clothing in a retail outlet (Claim £10,000)

2. Minor irremovable staining to carpets and clothing, in a household situation, caused by an escape of water from a cold water tank (Claim £10,000)

(8 Marks)

TOTAL 40 MARKS



QUESTION 2

a) When dealing with claims for Business Interruption in the following scenarios explain what action you would recommend to mitigate loss of turnover and state any savings which you might be able to identify.

i) Fire damage has occurred within the kitchen of a licensed hotel. Various essential items of catering equipment within the kitchen area has been destroyed and smoke has permeated the remainder of the ground floor including the reception and bar areas. It may be necessary to source some of the replacement catering equipment from overseas suppliers and lead times of approximately three months have been quoted. The smoke damage to the remainder of the ground floor is, generally, fairly superficial affecting decorations, other internal surfaces, furniture and equipment etc within the reception and bar areas.

ii) A firm of solicitors occupies rented offices on the ground floor of a building in multiple tenure. A burst pipe occurs within the roof space of the building and all the office accommodation, including that occupied by the solicitors is extensively waterlogged. In addition to the business interruption element, your Principals policy covers trade contents etc but the building owners are liable for any structural repairs. To allow for the necessary drying out procedures it is estimated that it will be at least three months before the premises can be occupied again.

iii) An old caravan has been converted for use as a snack bar and this is permanently located in a lay by adjacent to a busy main road. The Insured normally trades here during daylight hours Mondays - Saturdays. One night the snack bar is accidentally impacted by a heavy goods vehicle attempting to park in the lay by and, together with its contents, the caravan is totally destroyed. During the course of your enquiries you find that the Insured was apparently trading without the necessary Local Authority licence and that measures were in fact in hand to enforce the removal of the converted caravan from the lay by. However, the Insured had already made arrangements to move the caravan to an alternative site in an adjoining Local Authority area where less stringent trading regulations applied.

(24 Marks)



b) You are dealing with a fire loss under a commercial policy which covers property damage and business interruption. The Insured are retail carpet suppliers and they occupy a self contained unit attached to an adjacent much larger unit which is a separate business in entirely separate ownership and is used as a furniture warehouse. The fire originated in the furniture warehouse and both that building and its contents were severely damaged. In addition to the damage to the Insured's premises there is a business interruption claim. Temporary repairs enable the Insured to trade but there is a continuing loss of turnover.

Explain if any of the following losses would be covered. For the purpose of this exercise you may make whatever assumptions you wish regarding the business interruption cover but you must explain fully the assumptions made.

i) Loss of turnover in the week immediately following the fire, during which time the local authority refused permission for the premises to trade while the extent of the damage to the warehouse was assessed.

ii) Costs incurred by the Insured in an advertising campaign designed to make customers aware that the fire, which received substantial publicity in the local media, had not affected their premises and that they continue to trade.

iii) Loss of turnover during the period in which the permanent repairs are undertaken. These repairs cannot be undertaken independently of the work on the warehouse. The damage adjacent is so severe that the repairs do not begin until more than twelve months from the date of the fire.

(16 Marks)

TOTAL 40 MARKS



QUESTION 3

- a) Explain briefly the difference between Contribution at Common Law and Contribution in accordance with ABI Rules. Provide one example of each.

(10 Marks)

- b) In all parts of the following question, all workings must be shown:

- i) In a Policy with a pro rata average condition, calculate the sum payable

Agreed loss before application of excess	£	50,000
Sum Insured	£	100,000
Value at Risk	£	175,000
Excess	£	500

(10 Marks)

- ii) In a Policy with a pro rata average condition, calculate the sum payable

Agreed Loss (subject to salvage)	£	175,000
Sum Insured	£	90,000
Value at Risk	£	175,000
Residual salvage value	£	10,000
Excess	£	500

(10 Marks)



iii) 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	£	100

(10 Marks)

TOTAL 40 MARKS



PART 2
ANSWER 2 QUESTIONS ONLY

Question BI1

You are requested by insurers to handle the business interruption claim for a ladies' outfitters following flood damage at their Hightown store which is located on the ground floor of a shopping mall.

The flood occurred on 1st February 2009 and the shop was repaired and restocked by 1st April 2009. Liability has been admitted by the material damage insurer.

You establish that the main department store in the mall complex was more severely affected and did not reopen until 1st June 2009. The policy cover is extended to include Denial of Access.

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	2007/8	2008/9
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 ACCOUNT

12 months to 30.11.2008

Sales	285488
Opening stock	30300
Purchases	120250
Wages & National Insurance	34637
	<u>185187</u>
Closing stock	28000
	<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

TOTAL 40 MARKS



Question BI2.

You have been instructed by insurers to deal with a business interruption claim for a pub/ restaurant as a result of a small kitchen fire which was discovered in the early hours of Monday 1 June 2009.

Due to the good efforts of the Insured's management team and staff the disruption was restricted to 7 days.

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 - £890,000
Maximum Indemnity Period - 18 Months

TURNOVER

Week

Commencing

Monday		£21,708
	11.05.2009	
Monday		£23,980
	18.05.2009	
Monday	25.05.2009	£24,078
Monday	01.06.2009	NIL
Monday	08.06.2009	£24,289
Monday	15.06.2009	£23,852
Monday	22.06.2009	£24,486



**TRADING & PROFIT & LOSS
ACCOUNT**

12 months to 31.5.2009

	Sales	1287220	
	Opening stock	27500	
	Purchases	550250	
		<u>577750</u>	
	Closing stock	(28000)	
		<u>549750</u>	
			737470
Wages		171652	
National Insurance		18617	
Rent & rates		47346	
Insurances		12468	
Music & entertaining		24289	
Heat light & power		37382	
Motor expenses		7534	
Printing & stationery		8857	
Telephone		12806	
Legal & accountancy fees		11450	
Bank charges		13542	
Credit card charges		25600	
Cleaning & laundry		12673	
		<u>404216</u>	
Net profit			333254

TOTAL 40 MARKS



Question B13

You have been instructed by insurers to deal with a business interruption claim for a manufacturing risk following a flash flood. Your colleague has resolved the material damage claim.

By the adoption of a 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 totaling £93,000 allocated as:-

1) Overtime Working	£12,000
2) Directors' Costs	£10,500
3) Sub Contracting	£35,000
4) Interest payments to fund new machine	£12,000
5) Penalty payment to key customer	£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.

TOTAL 40 MARKS