



The Chartered Institute of Loss Adjusters

Associateship Examination 2010 (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

You are instructed to deal with a claim submitted to your Principals for fire and malicious damage which has occurred to a farm shop retailing a range of local farm produce from both the Insured's farm and from other similar suppliers in the area. The business premises comprise a detached single storey building of timber construction with a pitched and felted roof supported on a concrete base. Inside the building, there is a basic range of equipment including a shop counter, a cash register, scales, a refrigerator and a freezer.

Your Principals' policy covers both the building and its contents. There is no cover for Business Interruption. The policy was incepted only one month prior to the incident. Your Principals provide you with a copy of the proposal document, which indicates that the business had been operating for several years but there is no apparent history of previous insurance. Your Principals also inform you that shortly after the claim was notified to them they received information from an anonymous source that the farm shop had allegedly been operating without planning permission.

On attending site you establish the majority of the stock and equipment has been damaged, the latter having been attacked with a hammer or similar implements. In addition there has been an attempt to set fire to the counter but this has caused only superficial damage. You learn that the Insured vacated and secured the premises at approximately 5.00 p.m. on the day of incident and at about 8.30 p.m. was contacted by local police officers who informed him there had been a break-in and fire at the premises. When the Insured, who is the sole key holder, arrived at the premises shortly afterwards, he found the front and only entrance door had been forced open.

During your initial discussions with him, the Insured loses no time in making it plain he will be looking for settlement of the claim as a matter of urgency and will not tolerate any delay.

Explain what further information you would seek from the Insured at the time of this initial meeting. State what further enquiries and investigations you would deem appropriate to enable you to submit appropriate recommendations to your Principals. Your answer should include an explanation of the benefits or necessity to obtain the information.

40 MARKS



QUESTION 2

A. In a typical Business Interruption Policy, what do the following terms mean?

- Trend
- Customers Extension
- Loss of Attraction
- Public Utilities Extension

(12 Marks)

B. When dealing with claims for Business Interruption in the following scenarios explain what action you would recommend to mitigate loss of turnover and any savings 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 have been destroyed and smoke has permeated throughout 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 and has affected decorations, other internal surfaces, furniture and equipment etc within the reception and bar areas.

(6 Marks)

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

(6 Marks)

(iii) Impact damage has occurred to premises rented by a retail newsagent. At the time of your initial visit following the incident you are informed that the Insured will not be able to resume trading until certain emergency and temporary repairs are undertaken by the Landlords. These should be completed within about two weeks. Thereafter, there may be some further disruption whilst permanent repairs are in progress but, at this stage, it is not possible to evaluate the extent of any such further disruption which may occur.

(6 Marks)



- C. 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 in separate ownership which 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 the assumptions you have 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 whilst 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 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 the repairs do not begin until more than twelve months from the date of the fire.

(10 Marks)

40 MARKS



QUESTION 3

Having been instructed to deal with a High Net Worth loss, you are about to commence your pre visit enquiries. The loss concerns a theft from a mansion in a locality generally occupied by celebrities including footballers, television personalities and, it is believed, one of the members of a legendary rock band called “Maximum Indemnity” who had a recent hit with “Love is the Proximate Cause”.

- A. Damage has been sustained to the front door, the doorframe and to the decorations surrounding the front door. The damaged decorations are in the hallway and this is part of the large hall, stairs and landing area. Specify the details you would require to ensure that you are able to validate repair estimates provided in support of the building claim.
(15 marks)
- B. The Insurer has stated that there is a security warranty but is unable to furnish you with a copy. You believe the warranty to be strict in terms of requirements. Draft a security warranty that you could expect to be in place.
(15 marks)
- C. Having arrived on the scene you find that the Policyholder uses a pseudonym and is, in fact, a superstar known worldwide. She has recently been involved in adverse publicity allegedly surrounding drug taking and an assault of a night club doorman. Draft a section of your preliminary report concerning moral hazard.
(10 marks)

40 MARKS



PART 2

ANSWER 2 QUESTIONS ONLY

Question Business Interruption 1

Insurers have appointed you to deal with the business interruption aspect of a loss following a serious fire at an electronic component manufacturing business. The business was severely affected by the fire. Liability was accepted under the Material Damage cover. The incident occurred 1 October 2008.

The Insured adopted a programme of subcontracting their operation in an attempt to mitigate. Other additional costs were also incurred in mitigation of the loss.

Turnover for the financial year ending 30 September 2007 totalled £3,211,691.

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

	Turnover 2007/08	Turnover 2008/09
October	£267,513	£80,250
November	£270,758	£81,200
December	£307,923	£92,350
January	£291,636	£85,500
February	£252,027	£75,600
March	£319,834	£95,950
April	£327,282	£98,250
May	£290,185	£87,050
June	£186,657	£56,000
July	£245,403	£73,600
August	£241,503	£72,450
September	£276,071	£82,800
Total	£3,276,792	£981,000

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

Subcontracting costs (net of own costs)	£469,013
Temporary offices	£12,000
Overtime	£36,500
Professional fees	£25,000
Capital amount of short term loan	£100,000
Interest on short term loan	£80,000
Accountants charges	£2,500



Additional transport	£8,608
Directors costs	£32,000
Liquidated damages on late orders	£45,000
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	£810,621

No formal claim was presented for loss of Gross Profit.

The accounts to 30 September 2007 show the following:

Turnover	£3,211,691
Cost of Sales:	
Opening stock	£386,500
Purchases	£1,667,474
Carriage Packing & Freight	£188,544
Wages and salaries	£625,905
Closing stock	(£315,503)
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	£2,552,920
Gross Profit	£658,771
Expenses:	
Directors remuneration	£10,133
Motor vehicle lease	£8,900
Travel expenses	£5,100
Advertising	£15,000
Depreciation	£90,115
Rates	£45,000
Heat Light & Power	£96,999
Insurance	£40,100
Repairs	£72,769
Telephone	£17,600
Printing Postage & Stationery	£8,800
Sundry	£10,900
Audit fees	£15,000
Legal fees	£5,000
Bad debts	£12,716
Bank charges	£4,950
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	£459,082
Net profit	£199,689

The policy is declaration linked with an Estimated Gross Profit of £700,000 and a Maximum Indemnity Period of 12 months. Uninsured Working Expenses are Purchases (including stock movement); carriage, packing & freight.



1. Calculate settlement of the loss given the information above to include potential savings.
2. What is the relevance of liability being accepted under the Material Damage cover?
3. How does an Additional Increase in Cost of Working limit differ from an Increase in Cost of Working limit?
4. What remedies are available to Insurers, in the event of a claim, if the Gross Profit declaration is inadequate?
5. If the policy above was not Declaration Linked and was written on a Sum Insured basis calculate a revised settlement proposal to incorporate this aspect.
6. There was a delay in resolving settlement which caused cash flow problems for the Insured with their bank reluctant to provide short term funding. Discuss how this issue can be addressed quoting any relevant case law if appropriate.

40 Marks

Question Business Interruption 2

Insurers have appointed you to agree the business interruption loss for a city centre car showroom following the destruction by fire of their premises and stock of cars and parts during a riot on 1st July 2009. Insurers have accepted the Material Damage loss. You have been presented with the following information by the Insured.

New Cars	Jul	Aug	Sep	Oct	Nov	Dec	Total
Historic Turnover	£614,783	£156,872	£1,492,708	£763,979	£478,455	£222,313	£3,729,110
Actual Turnover	£235,093	£245,013	£1,495,000	£862,999	£545,895	£253,759	£3,637,759
Used Cars	Jul	Aug	Sep	Oct	Nov	Dec	Total



Historic Turnover	£748,529	£459,554	£675,637	£636,047	£557,975	£408,860	£3,486,602
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Actual Turnover	£119,832	£438,617	£676,848	£636,999	£558,990	£408,000	£2,839,286
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Service	Jul	Aug	Sep	Oct	Nov	Dec	Total
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Historic Turnover	£72,169	£73,840	£68,712	£80,712	£76,843	£68,705	£440,981
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Actual Turnover	£13,186	£60,608	£71,884	£83,501	£76,898	£68,906	£374,983
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Parts	Jul	Aug	Sep	Oct	Nov	Dec	Total
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Historic Turnover	£100,703	£105,281	£91,548	£105,281	£100,703	£96,127	£599,643
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Actual Turnover	£34,577	£82,824	£78,013	£97,357	£105,634	£103,228	£501,633
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Department	Rate of Gross Profit
New Cars	11.49%
Used Cars	6.74%
Service	78.57%
Parts	22.63%



Department	Trend %
New Cars	14.0%
Used Cars	-8.0%
Service	-7.8%
Parts	7.7%

The management of the dealership were able to find temporary alternative premises in the same city, but in a different area. The premises were fitted out to a suitable standard involving both contractors and their own labour force. The temporary premises opened for business three weeks after the initial incident. Due to the relatively successful mitigation campaign the directors awarded themselves a bonus during the interruption period.

Increased Costs of Working were claimed as follows:

Rental of temporary premises	£ 175,677
Rental of car park	£ 22,500
Rental of valeting bay	£ 16,684
Costs of setting up temporary premises	£ 161,478
Directors bonuses	£ 50,000
Discounts on used cars	£ 25,000
Premium paid to secure replacement 'used' vehicles	£ 19,000
Own labour costs	£ 32,532
Overtime	£ 7,597



Cost of directors cancelled holidays	£ 15,201
Promotional costs, PR and advertising	£ 23,250
‘Win a car’ competition, cost of car	£ 12,000
Additional overdraft interest	£ 4,327
Total	£ 565,246

Calculate your settlement proposals to include Gross Profit and Increase in Cost of Working, identifying the appropriate indemnity periods for each department and potential categories for savings in overheads. Also, provide your reasoning for the inclusion or otherwise of the Increased Costs of Working expenditure. Cover is arranged on an Estimated Gross Profit basis and the Gross Profit declared is accurate. There is no Additional Increase in Cost of Working cover.

(20 Marks)

What do you understand by the following clauses in a standard Business Interruption policy?

- (i) Other Circumstances clause
- (ii) Alternative Trading clause
- (iii) Departmental clause

(15 Marks)

To what extent are Gross Profit losses recoverable under the Riot Damages Act (1886)/Public Order Act (1986)?

(5 Marks)

40 Marks

Question Business Interruption 3

Insurers have appointed you to attend the first meeting at a large plastic extruding/moulding business following the total destruction of the Insured’s buildings, machinery/plant/contents and stock. They had operated for many years from this single



site. There are 3 shareholder directors, 50 permanent staff and 25 agency staff. The Insured own and insure the buildings, machinery, contents and stock.

At the meeting the Insured's Managing Director (MD) looks to you for mitigation solutions. Customers have the choice of substitute products in the market place and will look to utilise other suppliers if the Insured cannot provide a business plan to customers soon. The MD is looking for you to recommend as many options as possible at this stage so that a formal mitigation strategy can be agreed upon in due course.

It is anticipated that reinstatement of the building and machinery could take in excess of 12 months; however, the Maximum Indemnity Period is only 12 months. The declared Gross Profit is adequate at the time of the loss. The policy includes for Additional Increase in Cost of Working expenditure.

Discuss what actions might be taken to mitigate the Insured's potential losses, the benefit and drawbacks of each option and any problems that you may foresee with any of the mitigation options.

40 Marks