

# **The Chartered Institute of Loss Adjusters**

**Associateship Examination  
October 2008**

## **Paper C3**

**Adjustment of Claims**

**Business Interruption**

**3½ 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 dealing with a claim for Business Interruption following extensive flood damage which has occurred to the Insured's factory. The Insured are manufacturers of biscuits and confectionery products. They operate from two separate sites approximately 100 miles apart. The site at which the loss occurred specialises in the production of biscuits for a variety of supermarket own labels and the like. The other site produces biscuits and confectionery of higher quality and value under the Insured's own well known brand names.

The Policy covers Business Interruption at both sites against which separate sums insured are allocated and the wording of the Policy follows the typical format. For the site at which the loss occurred, gross profit is covered for £20 million on a sum insured basis and a 24 month indemnity period is applicable.

- a) What action would you take at the time of your initial site visit and what information would you obtain at that stage.
- b) Following your initial visit, prepare a document request list for submission to the Insured. Explain briefly against each item your reasons for requesting such documentation.
- c) Assuming that Insurers subsequently accept Policy Liability, list any points which you think should be considered before proceeding to conclude adjustment of the claim.

**40 Marks**

## **QUESTION 2**

You are instructed to deal with a claim for substantial fire damage which occurred at a garden centre on the 30 August 2008. The fire originated within the main retail showroom and investigations established that this was attributable to an electrical defect. The showroom contained a wide variety of goods including house plants, artificial flower displays, gardening equipment and machinery, garden furniture, outdoor clothing, beverages, confectionery, books, DVD's, together with assorted household and sundry items. Due to the extent of the damage only a few items remain identifiable within the debris which includes part of the roof structure which collapsed during the course of the fire. In the circumstances, and in view of the extent of the devastation which has occurred, it is agreed at your initial attendance at the site that the only practical method of dealing with the stock claim is by means of a stock reconciliation.

- a. Outline what you consider to be the advantages and disadvantages of a claim based on a stock reconciliation.  
10 Marks
- b. What preliminary actions would you take and what documentation would you request at that initial meeting relating to the stock reconciliation.  
10 Marks
- c. Set out the calculation (figures need not be included) that you will be drawing up to determine the theoretical stock loss.  
10 Marks
- d. What further adjustments, if any, to the theoretical stock loss might you wish to consider before agreeing settlement.  
10 Marks

**Total: 40 Marks**

**QUESTION 3**

Where applicable, in all parts of the following questions all workings must be shown.

- a. In a Policy with a 20% Co-Insurance Clause calculate the sum payable for loss of stock:

|                      |             |
|----------------------|-------------|
| Agreed Loss          | £ 50,000.00 |
| Sum Insured on Stock | £100,000.00 |
| Value at Risk        | £100,000.00 |
| Excess               | £ 500.00    |
| Salvage Value        | £ Nil       |

8 Marks

- b. Using the same figures as detailed above, explain if any different considerations would apply if the Insured had arranged additional cover for stock with separate Insurers. The sum insured on the said Policy is £25,000.

8 Marks

- c. In a Policy with a pro-rata average condition calculate the amounts payable:

i.

|               |             |
|---------------|-------------|
| Agreed Loss   | £200,000.00 |
| Sum Insured   | £100,000.00 |
| Value at Risk | £250,000.00 |
| Salvage Value | £ Nil       |
| Excess        | £ 1,000.00  |

8 Marks

ii.

|                                  |             |
|----------------------------------|-------------|
| Agreed Loss (subject to salvage) | £150,000.00 |
| Sum Insured                      | £100,000.00 |
| Value at Risk                    | £150,000.00 |
| Salvage                          | £ 10,000.00 |
| Policy Excess                    | £ 1,000.00  |

8 Marks

- d. In dealing with a Business Interruption claim with cover arranged on a declaration basis, calculate the amount payable:

|   |                                  |
|---|----------------------------------|
| Agreed Loss of Gross Profit   | £150,000.00                      |
| Sum Insured   | £200,000.00 (declaration linked) |
| Insurable amount  | £250,000.00                      |
| Accountants fees for certifying turnover figures at the request of Insurers | £ 1,500.00                       |

8 Marks

**Total: 40 Marks**

## Part 2

### **Business Interruption Answer 2 questions only**

#### **QUESTION BI 1**

You are requested by insurers to handle the business interruption claim for an aluminium billet producer following extensive explosion damage at their manufacturing facility which is located on a large industrial estate. Liability was admitted by the material damage insurer.

The fire occurred on 1 March 2007 and temporary repairs to buildings and machinery were finalized by 1 May 2007 allowing the resumption of partial production. All stocks of raw materials and goods awaiting despatch had been destroyed and finished goods were bought in at additional expense to maintain customer goodwill during the maximum indemnity period and beyond.

It transpired that the sum insured on buildings was inadequate representing 60% of the reinstatement value at risk. Accordingly permanent repairs could not be undertaken by the Insured until they were able to acquire sufficient borrowed finance to fund the works. The permanent works commenced on 1 October and the facility reopened on 1 February 2008

Using the following information and the accounts on the next page, calculate and set out your proposals for settlement of the claim under the policy and explain your reasoning.

Gross Profit Sum Insured - £600,000  
Maximum Indemnity Period – 12 Months

**Total 40 Marks**

## PROFIT & LOSS

12 months to 28.02.2007

|  |                            |                |
|--|----------------------------|----------------|
|  | Sales                      | 2078664        |
|  | Opening stock              | 301300         |
|  | Purchases                  | 1208650        |
|  | Wages & National Insurance | 346370         |
|  |                            | <u>1855720</u> |
|  | Closing stock              | 287005         |
|  |                            | <u>1568715</u> |
|  | Gross Profit               | 509949         |
|  | Director's remuneration    | 205000         |
|  | Depreciation               | 21400          |
|  | Rent & rates               | 94000          |
|  | Insurances                 | 11830          |
|  | IT Leasing                 | 8540           |
|  | Heat and light             | 5849           |
|  | Motor expenses             | 14634          |
|  | Printing & Stationery      | 9057           |
|  | Telephone                  | 3258           |
|  | Legal & accountancy fees   | 11450          |
|  | Bank charges               | 1542           |
|  |                            | <u>386560</u>  |
|  | Net profit                 | 123389         |

## TURNOVER

|           | 2006/7    | 2007/8    | 2008/9 |
|-----------|-----------|-----------|--------|
|           | £         | £         |        |
| March     | 139,874   | 13,290    | 128970 |
| April     | 147,630   | NIL       | 166892 |
| May       | 165,297   | 89,076    | 166098 |
| June      | 200,853   | 156,952   | 228097 |
| July      | 102,897   | 100,965   | 132989 |
| August    | 228,902   | 229,080   | 243908 |
| September | 189,087   | 192,868   |        |
| October   | 202,988   | 187,934   |        |
| November  | 189,762   | NIL       |        |
| December  | 138,609   | NIL       |        |
| January   | 194,782   | NIL       |        |
| February  | 177,983   | 135,674   |        |
|           | 2,078,664 | 1,105,839 |        |

## **QUESTION 2**

Explain in your own words what you understand by all of the following terms and give practical examples, including calculations where appropriate.

- a) Material Damage/ Gross Profit overlap in Stock claims
- b) Specified Working Expenses
- c) Accumulated Stocks Clause and Contract Price Clause
- d) Economic Limit.

**Total 40 Marks**

## **QUESTION 3**

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

The Insured appoint a Chartered Loss Adjuster to present the claim on their behalf. In the formal claim submission the following items are included for consideration:-

- a) Directors' costs in responding to the event.
- b) Claims Consultant's Fees.
- c) Temporary premises costs extending 6 months beyond the Maximum Indemnity Period.
- d) Interest payments on borrowed finance.
- e) Output Basis calculation of Gross Profit loss.
- f) Cost of temporary repairs to factory.
- g) Full cost of skilled staff for 3 month period of closure.
- h) Subsidy charge raised by supplier for accelerated provision of raw materials.

Please set out your response (no more than 50 words per item) outlining what enquiries you would make and quoting any relevant case law.

**Total 40 Marks**