



The Chartered Institute of Loss Adjusters

Associateship Examination 2014 (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

Outline the main provisions of the following legislation and explain, with examples, the application of each in relation to an insurance claim:

1. Consumer Insurance (Disclosure and Representations) Act 2012
2. Water Industry Act 1991
3. Rehabilitation of Offenders Act 1974
4. Fires Prevention (Metropolis) Act 1774

(10 marks each)

40 MARKS

QUESTION 2

1. In a typical Commercial Policy covering both material damage and business interruption, what do you understand by the following terms:

- a) Contract Price Clause
- b) Public Authorities Clause
- c) Professional Fees Clause
- d) 10% Co-Insurance Clause
- e) Departmental Clause
- f) Increased Costs of Working
- g) Denial of Access
- h) Gross Profit

(4 marks each)

2. Your Principal's policy includes a £500.00 excess for damage caused by flood and a £250.00 excess for damage caused by storm. On receipt of your instructions, the only information is that water has ingressed into the Insured's property due to adverse weather conditions. On attending the premises and having established the relevant circumstances, what criteria would you apply to decide whether the damage was caused by flood or by storm?

(8 Marks)

40 MARKS



QUESTION 3

1. 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	£50,000	
Sum Insured	£120,000	
Value at Risk	£200,000	
Excess	£500.00	(8 marks)

Agreed Loss (subject to salvage)	£175,000	
Sum Insured	£100,000	
Value at Risk	£175,000	
Residual Salvage Value	£10,000	
Excess	£250	(8 marks)

b) 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	£500	(8 marks)

c) In dealing with a Business Interruption claim, calculate the sum payable:

Agreed Loss of Gross Profit	£50,000	
Accountants' fees for advising Insured and preparing claim	£3,000	
Accountants fees for certifying turnover to Adjusters	£500	
Sum Insured	£100,000 (declaration basis)	
Insurable Amount	£130,000	(8 marks)

2. You are dealing with a theft claim under a Domestic Contents Policy where the items stolen comprise an assortment of jewellery and no other property. Following your quantum enquiries, the loss is validated at £20,000. The overall Sum Insured is adequate but Valuables, including jewellery, are subject to an aggregate Policy Limit of £15,000. There is a policy excess of £500. There is no additional "All Risks" cover provided by the Policy.

Explain the settlement recommendation that you would submit to your Principals.

(8 marks)

40 MARKS



PART 2
ANSWER 2 QUESTIONS ONLY

QUESTION BI 1

The Insured own and operate a furniture retailing business. On 1st January 2013, the premises were subject to a serious fire which destroyed the building, all contents and stock. Despite a conscious effort to find alternative temporary premises, nothing suitable could be located before the expiry of the Maximum Indemnity Period.

The monthly turnover of the business is summarised below. Turnover excludes VAT. The accounts for the business are also detailed below. The Insured are tenants in the building in question and only insure Contents, Stock and Business Interruption under their policy.

There is a cessation of rent clause within the lease with the landlord.

Liability was accepted under the Material Damage cover.

Turnover:

	2010	2011	2012
Jan	£ 124,526	£ 188,668	£ 177,422
Feb	£ 43,109	£ 150,339	£ 124,114
Mar	£ 36,208	£ 68,844	£ 99,813
Apr	£ 169,135	£ 62,330	£ 84,005
May	£ 48,862	£ 89,092	£ 80,704
Jun	£ 31,838	£ 136,921	£ 81,625
Jul	£ 30,687	£ 90,214	£ 86,578
Aug	£ 177,846	£ 76,361	£ 79,412
Sep	£ 61,746	£ 86,442	£ 57,032
Oct	£ 74,193	£ 72,549	£ 72,610
Nov	£ 82,437	£ 96,466	£ 108,030
Dec	£ <u>79,004</u>	£ <u>47,549</u>	£ <u>45,010</u>
	£ 959,591	£ 1,165,775	£1,096,355

Business Interruption insurance is provided as follows:

Gross Profit sum insured £200,000

Maximum Indemnity Period 12 months

The policyholder decided to include Uninsured Working Expenses as follows:

Purchases, net of stock movement

Delivery charges

20% of wage costs

50% of utility costs

50% of maintenance costs

50% of advertising costs

Bad debts.



Accounts for the year ending 31 December 2012:

Sales	£1,088,819
Finance commission	£ 3,476
Income from Concession	£ 4,060
TURNOVER	<u>£1,096,355</u>
Opening stock	£ 21,367
Purchases	£ 608,323
Closing stock	(£ 22,646)
COST OF SALES	<u>£ 607,044</u>
GROSS PROFIT	£ 489,311
Wages and salaries	£ 197,862
Rent	£ 44,068
Rates	£ 73,678
Delivery charges	£ 36,422
Utilities	£ 8,507
Cleaning	£ 372
Waste disposal	£ 779
Repairs & maintenance	£ 2,912
Postage	£ 1,272
Telephones	£ 1,209
Advertising	£ 37,198
Bad debts	£ 2,500
Credit card charges	£ 548
Depreciation	£ 1,015
TOTAL OVERHEADS	<u>£ 408,342</u>
NET PROFIT	£ 80,969

Increased Costs of Working were claimed as follows:

Wages and salaries incurred	£197,862
Loss assessor's fees	£ 19,000
Accountant's fees	£ 3,000

1. Using the information above, calculate the Loss of Gross Profit to include your calculation of Increased Cost of Working and savings. In your answer discuss the reason for the inclusion of the costs within those identified as Increased Cost of Working and savings.
2. What is the relevance of liability being accepted under the Material Damage cover?
3. Discuss the advantages and disadvantages of insuring gross profit in the manner described above with particular reference to the Uninsured Working Expenses definition.

40 MARKS



QUESTION BI 2

The Insured own and operate two restaurants in separate buildings within a city centre location. On 1st July 2013, one of the restaurants was subject to a serious escape of water from the upper floor of one of the buildings occupied by the Insured. The escape of water rendered the building incapable of occupation whilst it was dried and repaired. In addition to building damage, there was damage to the Insured's fit out, contents and stock. Mitigation proved difficult as there were no suitable temporary premises available locally on a short-term lease.

The weekly turnover of the two restaurants is summarised below and excludes VAT.

The accounts for both businesses are detailed below.

The Insured are tenants in the building in question and only insure Tenants' Improvements, Contents, Stock and Business Interruption under their policy.

The two restaurants form one limited company, but produce a set of accounts for each location. The whole business is insured under one policy.

The Business Interruption cover for the whole company is as follows:

Estimated Gross Profit £1,200,000

Maximum Indemnity Period 24 months.

Uninsured Working Expenses are defined as:

Purchases, net of stock movement

Waste disposal

Credit card charges

Bad debts.

Liability was accepted under the Material Damage cover.



Weekly turnover excluding VAT:

	Restaurant 1			Restaurant 2		
	2011	2012	2013	2011	2012	2013
Week 1	£ 15,878	£ 15,794	£ -	£ 19,892	£ 14,044	£ 21,916
Week 2	£ 16,713	£ 18,510	£ -	£ 22,392	£ 19,650	£ 22,392
Week 3	£ 17,263	£ 16,701	£ -	£ 20,296	£ 15,005	£ 22,159
Week 4	£ 14,799	£ 17,862	£ -	£ 15,203	£ 15,481	£ 23,352
Week 5	£ 15,693	£ 16,703	£ -	£ 18,563	£ 16,647	£ 24,132
Week 6	£ 12,017	£ 20,818	£ -	£ 15,609	£ 19,891	£ 20,203
Week 7	£ 12,077	£ 15,770	£ -	£ 13,581	£ 13,276	£ 18,302
Week 8	£ 13,355	£ 16,419	£ -	£ 14,456	£ 16,694	£ 19,697
Week 9	£ 14,118	£ 16,813	£ -	£ 17,215	£ 17,368	£ 21,572
Week 10	£ 12,303	£ 18,050	£ -	£ 13,887	£ 16,603	£ 16,401
Week 11	£ 13,546	£ 17,219	£ -	£ 13,574	£ 17,370	£ 15,863
Week 12	£ 12,615	£ 15,499	£ -	£ 13,301	£ 15,198	£ 17,943
Week 13	£ 12,448	£ 15,148	£ 18,329	£ 14,135	£ 14,881	£ 14,352
Week 14	£ 11,513	£ 16,201	£ 19,604	£ 12,846	£ 11,702	£ 11,853
Week 15	£ 14,791	£ 16,848	£ 20,386	£ 18,227	£ 18,716	£ 15,159
Week 16	£ 12,126	£ 16,051	£ 19,422	£ 12,717	£ 13,231	£ 15,531
Week 17	£ 14,451	£ 16,496	£ 19,960	£ 17,809	£ 15,975	£ 16,005
Week 18	£ 15,203	£ 20,299	£ 24,562	£ 16,872	£ 16,939	£ 16,000
Week 19	£ 13,543	£ 17,232	£ 20,851	£ 14,834	£ 14,260	£ 15,296
Week 20	£ 6,369	£ 17,636	£ 21,339	£ 17,647	£ 17,647	£ 16,878
Week 21	£ 13,239	£ 15,774	£ 19,087	£ 14,258	£ 14,079	£ 16,681
Week 22	£ 13,833	£ 16,343	£ 19,775	£ 14,281	£ 14,613	£ 14,159
Week 23	£ 15,031	£ 13,000	£ 15,730	£ 13,817	£ 15,295	£ 14,992
Week 24	£ 15,129	£ 16,031	£ 19,398	£ 13,142	£ 12,825	£ 13,654
Week 25	£ 17,371	£ 19,049	£ 23,049	£ 17,740	£ 17,433	£ 17,110
Week 26	£ 15,980	£ 15,035	£ 18,192	£ 14,969	£ 15,701	£ 15,620



Accounts for both restaraunts for the year ending 30 June 2013:

Restaurant 1		Restaurant 2	
TURNOVER	£ 925,683	TURNOVER	£ 875,263
Opening stock	£ 6,500	Opening stock	£ 6,500
Purchases	£ 268,591	Purchases	£ 253,961
Closing stock	<u>(£ 6,000)</u>	Closing stock	<u>(£ 6,000)</u>
COST OF SALES	£ 269,091	COST OF SALES	£ 254,461
GROSS PROFIT	£ 656,592	GROSS PROFIT	£ 620,802
Wages and salaries	£ 269,381	Wages and salaries	£ 254,708
Rent	£ 52,000	Rent	£ 52,000
Rates	£ 26,000	Rates	£ 26,000
Service Charges	£ 5,200	Service Charges	£ 5,200
Waste	£ 6,500	Waste	£ 5,000
Gas	£ 19,250	Gas	£ 18,000
Electric	£ 15,250	Electric	£ 14,750
Water	£ 6,500	Water	£ 6,500
Crockery	£ 900	Crockery	£ 800
Cleaning	£ 8,200	Cleaning	£ 8,200
Waste Disposal	£ 1,200	Waste Disposal	£ 1,200
Repairs & Maintenance	£ 6,500	Repairs & Maintenance	£ 5,000
Postage	£ 750	Postage	£ 695
Telephones	£ 1,200	Telephones	£ 1,200
Advertising	£ 45,000	Advertising	£ 45,000
Bad debts	£ 150	Bad debts	£ 200
Credit card charges	£ 9,000	Credit card charges	£ 8,750
Depreciation	<u>£ 1,500</u>	Depreciation	<u>£ 1,500</u>
TOTAL OVERHEADS	£ 474,481	TOTAL OVERHEADS	£ 454,703
NET PROFIT	£ 182,111	NET PROFIT	£ 166,099



1. Using the information above, calculate the Loss of Gross Profit to include your calculation of savings. In your answer, discuss the reason for the inclusion of items identified as savings.
2. How would your answer differ if the cover was on a Gross Profit Sum Insured basis?
3. What do you understand by the following clauses in a standard Business Interruption policy?
 - i. Alternative Trading clause
 - ii. Departmental clause
4. Discuss the inclusion or otherwise of depreciation in savings calculations. Include any recent case law you may think appropriate.

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QUESTION BI 3

Insurers have appointed you to deal with the business interruption loss following a fire at a breakfast cereal manufacturing business. The entire stock of raw materials, work in progress and finished goods was destroyed in the fire as was the Insured's production machinery. Liability was accepted under the Material Damage cover. The incident occurred on 1st August 2013.

The business commenced trading in January 2013. The management accounts for the business are detailed below. Turnover excludes VAT.

The Business Interruption cover is:

Gross Profit Sum Insured £500,000
Maximum Indemnity Period 12 months.

Uninsured Working Expenses are defined as:

Purchases, net of stock movement
Carriage, packaging and freight
Bad debts.



Management Accounts:

	Jan	Feb	Mar	Apr	May	Jun	Jul
Sales	£279,400	£339,105	£329,050	£269,000	£263,750	£228,109	£256,500
Opening Stock	£ 25,000	£ 30,000	£ 27,850	£ 19,100	£ 25,000	£ 25,500	£ 30,000
Purchases of Materials	£183,000	£222,850	£206,250	£167,900	£159,500	£132,500	£162,000
Material Price Variance	£ 3,000	(£ 9,000)	£ 3,000	£ 1,000	(£ 5,000)	£ 1,000	(£ 2,000)
Material Usage Variance	£ 1,000	£ 1,000	(£ 13,000)	£ 5,000	£ 7,000	£ 4,000	£ 1,000
Closing Stock	(£ 30,000)	(£ 27,850)	(£ 19,100)	(£ 25,000)	(£ 25,500)	(£ 30,000)	(£ 35,000)
Total Cost of Sales	£182,000	£217,000	£205,000	£168,000	£161,000	£133,000	£156,000
Gross Profit	£ 97,400	£122,105	£124,050	£101,000	£102,750	£ 95,109	£100,500
Payroll Costs	£ 27,801	£ 27,369	£ 28,180	£ 28,236	£ 25,199	£ 23,759	£ 25,464
Directors' Salaries	£ 6,000	£ 6,000	£ 6,000	£ 6,000	£ 6,000	£ 6,000	£ 6,000
Transport Costs	£ 13,950	£ 16,955	£ 16,453	£ 13,450	£ 13,188	£ 11,405	£ 12,825
Protective Clothing	£ 798	£ 1,573	£ 1,307	£ 1,369	£ 954	£ 1,359	£ 298
Maintenance Materials	£ 8,905	£ 7,327	£ 8,303	£ 9,668	£ 7,196	£ 10,903	£ 13,918
Equipment Lease	£ 405	£ 405	£ 1,067	£ 405	£ 549	£ 986	£ 814
Electricity	£ 3,000	£ 3,500	£ 4,200	£ 2,556	£ 2,000	£ 2,000	£ 1,500
Gas	£ 3,608	£ 6,500	£ 4,289	(£ 858)	£ 1,977	£ 1,099	£ 1,000
Hire of Cars	£ 481	£ 754	£ 731	£ 749	£ 714	£ 782	£ 363
Hire of Fork Lift Trucks	£ 1,059	£ 1,018	£ 1,060	£ 1,029	£ 1,140	£ 1,060	£ 1,109
Equipment Maintenance	£ 1,782	£ 1,152	£ 589	£ 540	£ 1,127	£ 346	£ 549
Contract Cleaning	£ 800	£ 800	£ 800	£ 800	£ 800	£ 800	£ 800
Waste Disposal	£ 2,603	£ 3,801	£ 4,998	£ 2,169	£ 1,690	£ 1,700	£ 1,581
Rates	£ 2,057	£ 2,057	£ 2,057	£ 2,622	£ 2,622	£ 2,622	£ 2,622
Water Charges	£ 40	£ 1,740	£ 0	(£ 1,268)	£ 100	£ 0	£ 96
Depreciation - Plant	£ 1,266	£ 646	£ 2,800	£ 909	£ 909	£ 909	£ 909
Depreciation - Buildings	£ 2,134	£ 0	£ 0	£ 2,291	£ 2,291	£ 2,291	£ 2,291
Miscellaneous	£ 980	£ 1,178	£ 1,277	£ 2,614	£ 1,218	£ 1,434	£ 2,222
Travel & Entertaining	£ 899	£ 930	(£ 47)	£ 689	£ 664	£ 405	£ 548
Bad Debts	£ 0	£ 0	£ 0	£ 0	£ 15,150	£ 0	£ 0
	£ 78,568	£ 83,705	£ 84,064	£ 73,970	£ 85,488	£ 69,860	£ 74,909
Operating Profit	£ 18,832	£ 38,400	£ 39,986	£ 27,030	£ 17,262	£ 25,249	£ 25,591
Interest Charges	£ 4,191	£ 5,087	£ 4,936	£ 4,035	£ 3,956	£ 3,422	£ 3,848
Net Profit	£ 14,641	£ 33,313	£ 35,050	£ 22,995	£ 13,306	£ 21,827	£ 21,743



The business had been experiencing problems with cash flow since start up and this situation was exacerbated following the incident. The directors decided to wind up the business after nine months of the indemnity period had expired.

1. Using the information above, calculate the Loss of Gross Profit to include your calculation of savings. Include a discussion on how Standard Turnover has been calculated and what assumptions have been made regarding the trend of the business.
2. The Insured advised that they lost a customer who was due to start trading in September and presented a claim for this totalling £275,000 in revenue terms. How would you adjust this item and what steps would you take to establish the legitimacy of this claim?
3. If the policy was on an Estimated Gross Profit basis, what should your recommendations to Insurers be to include the settlement calculated in [1]? Show your calculations.

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