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The Chartered Institute of Loss Adjusters

Associateship Examination 2016 (April)

Paper C3- 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

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PART 1
ANSWER ALL QUESTIONS

QUESTION 1

1. Discuss and explain the following aspects of the cover normally available under a typical Business Interruption Policy:

- a) The difference between Increased Cost of Working and Additional Increased Cost of Working where the latter extension is included as part of the policy cover
- b) The circumstances under which indemnity under the Denial of Access extension would be available
- c) The circumstances under which indemnity would be available under the Professional Accountants clause
- d) The application of the Material Damage Proviso.

(20 Marks)

2. When dealing with claims for business interruption involving the following trades/professions, explain briefly what measures might correctly be taken to mitigate the extent of the loss. In the case of the first three claim scenarios, the premises are rented whilst in case d) (the restaurant) the premises are owned by the Insured but are insured elsewhere.

- a) Retail Grocery Store - estimated interruption period seven days
- b) Tattoo Parlour - estimated interruption period three weeks
- c) Solicitors' offices - estimated interruption period three months
- d) Licensed Restaurant - estimated interruption period twelve months.

(12 Marks)



3. Fire damage has occurred within a detached two storey commercial building which provides office accommodation. The building is owned by the Insured and they occupy the whole of the building. The fire originated in the staff kitchen, where extensive damage occurred, the remainder of the building being mainly affected by smoke contamination. Your Principals' Policy includes the building and they appoint you to deal with the claim.

The Insured are represented by Loss Assessors. Specifications and costings for the necessary reinstatement were agreed with the Loss Assessors and the work has now been completed on the approved basis. Your Principals have discharged the agreed claim costs and have closed their file.

Three months later, you are contacted by the Assessors who tell you that the Insured are concerned about complaints from their staff as a result of what appears to be continuing smoke odour. This appears to originate within the roof void and the Assessors suggest that this results from slight smoke soiling to insulating materials, internal roof felting and structural roof timbers. The Assessors maintain that whatever remedial works are necessary to eliminate the residual smoke odours should be carried out as part of the claim.

Having carried out your own enquiries, you agree that there may be some lingering smoke odour but this has not degraded or impaired the functionality of the areas affected. You do not therefore consider that any further works are required. This is challenged by the assessors, who have indicated that they will pursue the matter further.

Outline briefly what recommendations you would make to your Principals.

(8 Marks)

40 MARKS



QUESTION 2

1. Define and explain a warranty when applied to a contract of insurance

(4 Marks)

2. Discuss briefly the effect of breach of warranty when dealing with a claim under a commercial policy.

(4 Marks)

3. Within the context of a contract of insurance, what is meant by the following terms:

- a) Reinstatement Memorandum
- b) 20% Co-Insurance Clause
- c) Contract Price Clause.

(12 Marks)

4.a) For several years, the Insured, Mr Smith, has arranged his household insurance, covering Buildings and Contents, with ABC Insurance Company. The policy renewed each year on 20th June. Mr Smith was not satisfied with the premium quoted for the renewal due on 20th June 2015, no losses having been incurred and no alterations having occurred to the risk, and obtained more competitive terms from XYZ Insurance Company with whom cover was effected as from 20th June 2015.

On 16th June 2015, Mr Smith and his family went away on holiday, having ensured that the premises were fully secured (no intruder alarm is installed). They returned home on 24th June 2015 and discovered that a burglary had occurred, thieves having forced open the rear entrance door to achieve access and then stealing jewellery and other easily portable personal effects. The Insured immediately reported the incident to the Police, who carried out enquiries but found no evidence to identify the culprits. They were also unable to confirm exactly when the incident occurred, none of the Insured's neighbours having heard or seen anything untoward and there being no CCTV or other evidence available to assist them. In their report, the theft is, therefore, recorded as having occurred some time between the 16th and 24th June 2015.

There is no suggestion that the incident is anything other than fortuitous and genuine so far as the Insured is concerned.



Mr Smith initially submitted a claim to ABC Insurance Company. They have told him that they are unable to assist since their policy had already lapsed by the time the incident was discovered. He then refers his claim to XYZ Insurance Company, who appoint you to act as their Adjusters.

What advice should you provide to your Principals and the Insured in relation to Policy Liability?

(10 Marks)

b) In January 2015, your Principals instructed you to deal with a claim submitted for dry rot infestation within a private dwelling, their policy covering the Buildings and Contents against the usual range of perils. Following your investigations, it was established that the dry rot was not associated with the operation of any insured peril and the claim was declined. You explained to the Insured that they would need to remedy the dry rot infestation at their own expense.

A few months later, the premises are damaged by fire. Your Principals instruct you to deal with this further claim and, following investigation, Policy Liability is admitted.

Surveyors are appointed on the Insured's behalf to deal with the necessary repair/reinstatement. They submit a repair schedule for your approval and you note that this includes areas affected by the earlier dry rot infestation. In discussing this issue with the Surveyors, they explain that, due to their financial circumstances, their clients were not in a position to carry out reinstatement of the dry rot damage prior to the fire. The cost of this work had been estimated at £5,000. They also explain that, to satisfactorily reinstate the fire damage, it will be necessary to include the areas affected by the dry rot that had been included within the earlier claim. You then refer to your own in-house surveyors for further advice and, on completion of their review, they confirm that it is not possible to reinstate the fire damage in isolation and the remedial scheme must necessarily include the areas previously affected by dry rot.

What advice should you provide to your Principals regarding Quantum?

(10 Marks)

40 MARKS



QUESTION 3

1. Outline briefly the main provisions of the following legislation and explain how it might be relevant to the adjustment of a property claim:

- a) Rehabilitation of Offenders Act 1974
- b) Fires Prevention (Metropolis) Act 1774
- c) Riot (Damages) Act 1886
- d) Consumer Insurance (Disclosure and Representations) Act 2012

(20 Marks)

2. What advice would you provide to your Principals in the following scenarios:

- a) You are appointed to deal with a claim for escape of water which has occurred at a detached two storey house. It originated in the bathroom on the first floor when the connection to the cold feed to the washbasin failed due to normal wear and tear. The areas mainly affected are the lounge and entrance hall. Prior to your involvement, disaster and restoration contractors had already been appointed by your Principals in accordance with delegated authority arrangements. On attending the premises, their personnel deemed that the carpet in the entrance hall, which extended to the staircase and landing, was damaged beyond restoration as was the sofa forming part of a three piece suite in the lounge. They informed the Insured, Mr Jones, that these would be removed for disposal. They apparently also told the Insured that “the claim would cover the cost of replacing the complete three piece suite and also the undamaged carpet if a match was not possible”.

The Policy, which had been in place for three months prior to the incident, is subsequently avoided since your enquiries establish that Mr Jones had supplied incorrect and inaccurate information to various questions that were put to him when applying for cover. You inform him that, in the circumstances, your Principals cannot assist him financially. In response, Mr Jones points out that, due to the actions of the contractors, he is left with the remains of a three piece suite which he regards as useless and carpets which, it has since been shown, can no longer be matched. He states that,



if he had been aware that his claim would not succeed, he would have retained both the carpet and the sofa and attempted to restore them. He asks what your Principals intend to do to resolve the position. Explain the correct outcome.

(10 Marks)

- b) You are instructed to deal with a claim for fire damage which has occurred at a small detached bungalow. Your Principals' policy covers both Buildings and Contents. Due to the extent of the damage, the property will not be fit for habitation until permanent repairs are completed.

The Insured, who are an elderly retired couple, own a touring caravan which they park on the driveway to their bungalow. In discussions with your Principals prior to your involvement, they have indicated that they would be quite happy to live in the caravan until the building repairs are completed. On meeting the Insured at your initial site visit, you discuss these arrangements with them and find that they are quite content to remain in the caravan. You do explain to them that, should it become inconvenient or uncomfortable to remain in the caravan, particularly since building repairs will continue through the winter months, they should contact you again to discuss other possible arrangements.

About one month later, your Principals are contacted by the Insured's son, who normally works overseas but has returned to visit his parents. The son, who is now authorised to deal with the claim on behalf of his parents, alleges that your Principals have taken advantage of an elderly couple by not offering "proper alternative accommodation", leaving them in a damp caravan during the winter (exacerbating certain health problems of which you were not aware), exposing them to the noise and disturbance associated with the on-going building works and not offering them any compensation for providing their own caravan. State the advice you should provide.

(10 Marks)

40 MARKS



PART 2
ANSWER TWO QUESTIONS ONLY

QUESTION BI1

Fairbrother Joy Riders Ltd own and operate two theme park/fun fair attractions at two locations within the UK, Ambridge and Felpersham. Ambridge and Felpersham are approximately 100 miles from each other.

During week 15 of the 2014 financial year, one of the rollercoasters operated by Fairbrother Joy Riders Ltd at Ambridge was subject to a serious fire. The fire damaged the track and supporting structure of the rollercoaster to such an extent that the rollercoaster could not be used until repairs were completed. The Insured operate three trains on the roller coaster. Two were undamaged, but the third suffered fire and smoke damage to a number of carriages and required repair and repainting.

The rollercoaster was the main attraction at Ambridge. The park at Felpersham is a smaller version of that at Ambridge and it too has a rollercoaster.

Fairbrother Joy Riders Ltd insures the Business Interruption aspect on a Gross Revenue policy in the sum of £25,000,000 with a Maximum Indemnity Period of 12 months, covering both Ambridge and Felpersham locations.



Forecast revenues for the first half year of 2014 were as follows:

Ambridge	£20,000,000
Felpersham	£ 7,000,000

The Insured presented a schedule of Increase in Cost of Working following the incident as follows:

Claim preparation costs	£ 5,000
Staff overtime	£ 7,500
Engagement of a public relations company	£25,000
Additional security	£15,000
Repainting of trains to match repaired train	£55,000
Promotional tickets for visitors next year	£80,000
Advertising campaign for re-opening	£15,000
Directors' costs in dealing with the incident	£ 5,000

An extract from last year's accounts has been provided as follows:

Turnover	18,000,000
Cost of Sales:	
Purchases for re-sale	505,090
Direct labour	3,421,605
Casual labour/agency	2,500,650
Repairs	<u>895,632</u>
Total Cost of Sales	7,322,977
Gross Profit	£10,677,023

A turnover analysis has been provided overleaf. The Insured have included turnover at both locations for comparative purposes.



Week number	Financial Year	£000 Ambridge	£000 Felpersham	Financial Year	£000 Ambridge	£000 Felpersham
1	2014	27	10	2013	33	9
2	2014	42	11	2013	30	10
3	2014	37	32	2013	392	29
4	2014	269	28	2013	211	25
5	2014	486	88	2013	649	80
6	2014	373	127	2013	691	115
7	2014	660	106	2013	585	96
8	2014	582	101	2013	512	92
9	2014	1,603	119	2013	477	108
10	2014	1,505	584	2013	1,632	531
11	2014	611	398	2013	1,242	362
12	2014	776	113	2013	576	103
13	2014	722	184	2013	663	167
14	2014	643	64	2013	474	58
15	2014	121	134	2013	729	122
16	2014	90	565	2013	1,569	514
17	2014	101	182	2013	775	165
18	2014	107	182	2013	788	165
19	2014	85	177	2013	780	161
20	2014	110	198	2013	933	180
21	2014	115	145	2013	974	132
22	2014	102	289	2013	1,191	263
23	2014	645	283	2013	1,359	257
24	2014	1,500	308	2013	1,517	280
25	2014	1,891	414	2013	1,825	376
26	2014	969	220	2013	950	200



1. Calculate the adjustment and recommendations for Insurers based on the following:
 - a) That the policy is declaration linked on an Estimated Gross Revenue basis
 - b) That the policy is on a Gross Revenue Sum Insured basis.
2. Discuss the issue of any trend appropriate to the loss and the reasons for its inclusion. In this type of business, what other factors would you consider when agreeing any trends?
Consideration and discussion should be given to both the Increase in Cost of Working and Savings calculations.

40 MARKS



QUESTION B12

The Insured operate a successful business importing and distributing seasonal giftware items to a variety of customers.

On 1 April 2014, the Insured's premises were subjected to a serious storm in which the building was badly damaged and all the stock was destroyed. Temporary premises were considered, but the only suitable location could not be leased until November 2014, by which time the trade in the run-up to Christmas would have been lost.

The Business Interruption aspect is insured on an Estimated Gross Profit basis in the sum of £400,000 with a Maximum Indemnity Period of 12 months. Uninsured Working Expenses are Purchases (including stock movement), carriage and packaging.

You have been instructed by Insurers to adjust the loss on the basis of the information provided. No claim has been presented by the Insured for loss of gross profit, but a schedule of costs incurred has been provided as part of the Increase in Cost of Working claim as follows:

Costs incurred:

Wages during closure period	£ 200,000
Staff overtime upon re-opening	£ 12,500
Insurance costs during closure	£ 15,000
Temporary additional security	£ 14,000
Installation of intruder alarm/CCTV after flood	£ 30,000
Installation of flood defence systems	£ 55,000
Advertising campaign for re-opening	£ 25,000
Director's bonus upon re-opening	£ 15,000



Turnover details have been provided as follows:

Sales (£)	2011/12	2012/13	2013/14	2014/15
Apr	173,652	143,848	137,809	0
May	163,371	142,754	90,116	0
Jun	109,857	93,430	112,285	0
Jul	79,242	58,324	91,016	0
Aug	79,496	63,001	77,215	0
Sep	147,594	116,095	127,022	0
Oct	192,576	122,526	92,884	0
Nov	208,531	204,646	199,159	0
Dec	120,455	99,293	101,933	0
Jan	46,574	66,534	50,635	0
Feb	86,101	111,022	131,191	115,675
Mar	201,737	166,577	156,984	140,702
Total	1,609,186	1,388,050	1,368,249	256,377



The Insured's last set of accounts have been provided for your information.

Sales		1,388,050
Opening stock	129,400	
Direct wages	253,767	
Purchases	800,845	
Closing stock	(135,200)	
Cost of Sales		<u>1,048,812</u>
Gross Profit		<u>339,238</u>
Carriage	60,177	
Packaging	10,000	
Rent	38,000	
Rates	10,000	
Insurance	16,500	
Electricity	6,000	
Heat and light	7,998	
Repairs	4,532	
Motor expenses	7,630	
Telephones	3,653	
Printing, postage and stationery	6,550	
Bank charges	550	
Invoice discounting charges	6,272	
Accountancy/professional fees	3,000	
Directors remuneration	23,000	
Depreciation	2,000	
Overheads		<u>205,862</u>
Net Profit		<u>£133,376</u>

1. Calculate the Loss of Gross Profit, to include a discussion on trend, Increase in Cost of Working and potential Savings, giving your reasons for including or excluding costs as Increase in Cost of Working/Savings.
2. What do the following terms mean?
 - a) Standard Turnover
 - b) Annual Turnover
 - c) Uninsured Standing Charges clause



- d) Departmental clause
 - e) Estimated Gross Profit
 - f) Accumulated Stocks clause
3. Recalculate your answer if the cover was a Gross Profit Sum Insured of £400,000 as opposed to an Estimated Gross Profit of £400,000.

40 MARKS



QUESTION BI3

You are instructed to adjust a claim for Loss of Gross Profit following a major fire in an indoor shopping centre on the outskirts of Luton on 1 October 2014.

The Insured did not suffer any physical damage to any of the insured property on site. The fire damaged a number of neighbouring properties to varying degrees. The recovery of the various neighbouring retailers' businesses took differing periods of time depending on the extent of the damage.

The claimant is a restaurant, part of a large UK-wide chain of restaurants that are located predominantly in city centres, retail parks and in indoor shopping centres. The restaurant is sited amongst a large number of well known retailers and opens seven days a week from 11 am until 11 pm.

An analysis of monthly turnover from the site has been provided by the Insured and is detailed below.

Sales (£)	2011/12	2012/13	2013/14	2014/15
Jun	27,480	36,334	43,200	44,064
Jul	40,980	36,425	45,531	46,897
Aug	40,231	37,271	44,400	45,288
Sep	52,473	63,233	51,501	53,046
Oct	34,758	45,487	30,532	2,058
Nov	46,504	56,722	67,200	3,500
Dec	42,357	55,009	67,100	2,210
Jan	38,443	30,960	37,200	5,450
Feb	35,260	54,115	64,800	2,950
Mar	53,385	75,629	83,191	3,500
Apr	33,756	38,430	45,600	7,880
May	27,930	62,558	75,070	76,571
Total	473,557	592,173	655,325	293,414



A claim has been presented under the Loss of Attraction extension to the Business Interruption policy. The entire business within the UK is on one policy covering all locations.

The cover in question has a policy limit of £200,000 per location. Gross Profit is defined simply as Turnover less Uninsured Working Expenses, which are further defined as Purchases (including stock movement). The Insured incurred £10,000 in advertising and promotional costs during the interruption period in an attempt to generate trade.

The accounts for the last financial year are scheduled below for the affected site only.

Sales		655,325
Opening stock	9,400	
Purchases	193,797	
Wages	131,065	
Closing stock	(6,200)	
Cost of Sales		<u>328,062</u>
Gross Profit		<u>327,263</u>
Rent	100,000	
Rates	20,000	
Insurance	10,500	
Heat, light and power	21,098	
Consumables	15,231	
Waste disposal	19,000	
Laundry	11,650	
Repairs	5,502	
Telephones	1,603	
Printing, postage and stationery	1,550	
Bank charges	2,550	
Credit/debit card charges	13,107	
Accountancy/professional fees	4,000	
Management salaries	55,000	
Head office charges	25,000	
Depreciation	3,090	
Overheads		<u>308,881</u>
Net Profit		<u>£18,382</u>



1. Based on the above, calculate the Loss of Gross Profit including Increase in Cost of Working and potential Savings, detailing your assumptions in calculating the loss. What other factors might you consider in looking at the reduction in turnover?
2. What do the following extensions to a Business Interruption policy provide? Highlight the differences between them.
 - a) Denial of Access
 - b) Denial of Access (non-damage)
 - c) Loss of Attraction
3. What is meant by the term Alternative Trading Clause? Which legal case highlighted the principles contained within the Alternative Trading Clause?
4. To what extent are these losses recoverable from a third party?
5. Discuss the circumstances of the legal case *Orient-Express Hotels Ltd v Assicurazioni Generali SpA (UK branch)*. What relevance does this case have in adjusting losses of this type?

40 MARKS