

## DETAILS OF INTERESTING CLAIM

(From Risk Control and Claims Handling in Advance Loss of Profits Insurance - IMIA Paper WGP11 (00)E)

No: DOIC32 (ALOP)

### Type of Insurance:

ALoP

### Description of damaged item:

A fire caused severe damage to the hotel complex

### Cause of Loss:

(5) Fire

### Claim Cost

0,7 US\$ Mio

### Description of Incident and Loss Prevention Measures initiated:

Construction of a hotel complex in a holiday resort:

The project fell behind schedule, and cover had to be extended. The revised completion date was estimated at 1st September 1995 except for the east wing, for which full completion was estimated at 1st October 1995, and thus the trigger date for DSU was anticipated as 1st October 1995.

Factual circumstances

In early July a fire occurred causing severe damage to the main wing of the hotel complex.

### Outline the interesting or unusual aspects of this claim or problems experienced during settlement:

In November the area was subject to an earthquake, although this did not cause physical damage to the insured works. However, worldwide news about the earthquake caused reservations to be cancelled. The turnover achieved for January to March was considerably lower than predicted.

The desire for an early opening of the hotel for commercial use, even if partial, was the declared priority of the work to be performed. Thus work on the undamaged part of the complex was slowed down. However, fitting-out work was too optimistically planned and the revised schedule could hardly have been met, even without the fire damage. The furnisher and fitter completed their work at the end of March.

Staffs were recruited prior to the accident, as they were needed for the run-in period of the hotel. These staff assisted in the repair work (cleaning up, debris removal, etc.).

Establishing the "would have been" turnover for a hotel is a rather complex issue.

In the hotel industry it is a common practice to sign annual agreements with travel agencies, in which more rooms are allocated than are available. The practice is that the travel agencies have to advise the hotel of the actual number of rooms they need at least two weeks ahead of the arrival of the guests.

Obviously these circumstances make a fair and technically just loss settlement rather difficult. But for the fire damage, the hotel could have opened for commercial use on 1st September, excluding one wing.

All fire damage repairs were regarded as having been completed by 15th December. This was agreed on the basis that the date of 1st September for partial opening dictated a very tight schedule, which was theoretically possible to accomplish but had not been fully adhered to. To complete repair work by 15th December also necessitated a tight schedule, but if 1st September could have been met, 15th December should also have been met and vice versa. The policy stipulates that the period of indemnity commences as of the date the entire project would have been completed but for the delay caused by physical damage, i.e. as of 1st October. The end of the indemnity period would be the date on which the entire project was actually completed or taken into commercial use.

The earthquake and political unrest, which occurred in late November, had some impact on the business and also contributed to some extent to the delay in the completion of the entire project.

In deviation from a strict policy interpretation, it was agreed to fix the revised anticipated commencement date as 1st September and the actual completion date as 15th December

## **CODES**

### **1. Type of Insurance**

M - Machinery Breakdown

BE - Boiler Explosion

LP (M) M - Loss of Profits

ALOP (DSU) - Advance Loss of Profits

EAR - Erection All Risks

CAR - Contractors All Risks (Civil)

G - Guarantee

EE - Electronic Equipment

O - Other Classes

### **2. Cause of Loss**

(1) Faulty operation

(2) Faulty material or workmanship

(3) Faulty design

(4) Other internal causes

(5) Fire

(6) Explosion

(7) Storm

(8) Earthquake

(9) Other external causes

(10) Other causes or unknown