Canned Fruit Company

Answers to Questions

1. Are the property values adequate?

   No, the stock value for the raw material warehouse is missing.

2. What is the sum insured for PD?

   Calculate the value of the raw stock : 0.5 USD/kg x (average annual total weight) = 0.5 x 18,000 = 9,000 USD

3. What is the sum insured for BI?

   Wrong answer: take the highest value per quarter or take the average per quarter.

   Right answer: multiply annual production by profit + administration = 18 million kg x 0.35 USD/kg = 6,3 million USD. No dividing by 4 to get three months.

4. What is the EML for plant B?

   100%, made of the building value and the value of the complete stock, i.e. 18,000 tons, because the warehouse is full at the end of season then slowly emptied.

   There is no BI, because there is no production at this facility.

5. Are the deductibles acceptable?

   Yes, because this is a seasonal operation, so the one day BI deductible can be understandable.

6. Was Canned Fruit underinsured in 1997?

   Yes, because its values increased very much for that year.

7. Could you help the insured avoid underinsurance in this case?

   A clause excluding underinsurance in case of exceptional harvest, but indicating that the premium would be corrected at the end of the season, or in September, when the harvest estimates for the year are known with certainty.