

# Case Study

## Easychair Furniture Company



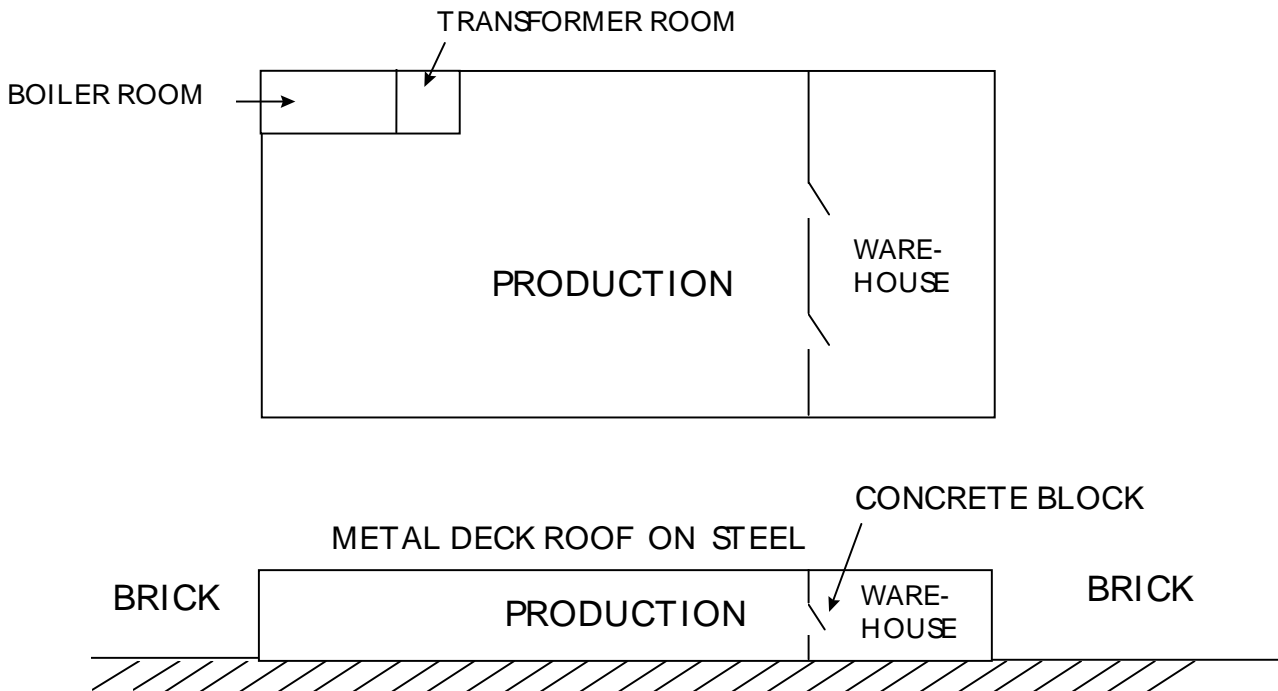
**Easychair Furniture Company**

Easychair makes high quality chairs in the household furniture segment. It is an operation with a single location. The work is done on single shifts. The facility is closed during the weekends. The facility consists of one building divided by a fire wall into two areas.

The production area contains the machinery to produce furniture from raw wood. Lacquering operations also take place in this building. The utilities, i.e. the boiler and the transformer are located in cut-off rooms that are only accessible from the outside.

The warehouse contains raw stock (wood and pots of lacquer) equivalent to one month of production. It also contains a stock of finished chairs equivalent to one month of production (one thousand chairs). When the warehouse is full (this often happens in the 4<sup>th</sup> Quarter), Easychair rents storage space in a public warehouse located 10 km away.

The policy renewal date is 1 July.



Here below are several tables presenting some figures about Easychair.

**Sales in pieces of furniture**

	1995	1996	1997	1998	1999
1 <sup>st</sup> Quarter	2,000	2,000	1,700	1,800	3,000
2 <sup>nd</sup> Quarter	3,000	2,900	2,400	2,450	4,000
3 <sup>rd</sup> Quarter	3,000	3,000	2,600	2,700	4,000
4 <sup>th</sup> Quarter	5,000	5,050	4,400	4,500	7,000
<b>Total</b>	<b>13,000</b>	<b>12,950</b>	<b>11,100</b>	<b>11,450</b>	<b>18,000</b>

**Sales price per item (EUR)**

	1995	1996	1997	1998	1999
Variable cost	350	355	360	370	370
Fixed cost	450	450	450	400	450
Net Profit	200	250	150	140	250
<b>Sale price</b>	<b>1,000</b>	<b>1,055</b>	<b>960</b>	<b>910</b>	<b>1,070</b>

**Declared values for property million EUR**

	million EUR
Buildings	2
Machinery	7
Stock	2
<b>Total</b>	<b>11</b>

**Questions**

1. Are the declared property values OK?
2. If no, what should they be?
3. How should the warehouse values be reported? Should the net profit be included or not?
4. What is the BI value insured for 1998?
5. What would be the BI sum insured for 1999?
6. What is the PD-EML?
7. What is the BI-EML?
8. What is the combined EML?
9. If a loss occurred on 10 January 1999, how can the loss adjustment for BI be calculated?