

C3.2004

CHARTERED INSTITUTE OF LOSS ADJUSTERS

ASSOCIATESHIP EXAMINATIONS 2004

PAPER C3

ADJUSTMENT OF CLAIMS

3½ HOURS

MAXIMUM MARKS 200

ALL QUESTIONS MUST BE ANSWERED

Question 1

Your policyholder is the proprietor of a nightclub situated in a basement below an office block. Your principals insure only the contents including tenants' improvements. The landlord has effected separate cover on the building including landlord's fixtures and fittings.

Prior to occupation by your Insured, the premises were a wine bar. Some of the features present then, notably the brick built bar, were retained by your Insured when the premises were refurbished and substantially upgraded to a luxurious nightclub.

There has been serious damage as a result of escape of water from the water authority's main in the road outside. The club was flooded to a depth of about 1m and, as a result, almost every item of contents and all fixtures and fittings and tenants' improvements within the premises will require replacement or refurbishment.

- (a) Outline the documentation you would wish to review and the enquiries you would make to determine responsibility for the affected items.

10 marks

- (b) Define the following terms:

1. A fixture.
2. An improvement.
3. How would you distinguish between a fixture and an improvement?

10 marks

- (c) Do you regard the following items in the nightclub as falling under the landlord's or the tenant's policy? Give your reasons:

1. Air handling system, which serves other parts of the premises as well as the club.
2. Mirrors, which line the whole of one wall of club.
3. A tongued and grooved hardwood dance floor.
4. An enclosure for the DJ's console/sound equipment which has been built on top of the hardwood flooring. This has been constructed of plasterboard on timber studwork.
5. Plasterwork and decorations on the perimeter walls of the club.

6. The brick built bar.
7. Lockers in the artistes' changing room. These are purpose built of timber to fit in alcoves in a changing room.
8. Tiling on walls and the floor in the kitchen.
9. Broadloom carpeting in the seating area, which has been stuck down to the concrete floor.
10. Banquette seating which is screwed to the walls of the club.

20 marks
TOTAL 40 MARKS

Question 2

Your policyholder is a retailer of ceramic tiles. He owns substantial warehouse-style premises on an out of town retail estate. The premises incorporate a showroom and a large high bay racked storage area. Following a disastrous fire, most of the racking collapsed, resulting in the destruction of most of the tile stocks. Most of the tiles are purchased from Europe, mainly Italy and Spain.

Your principals' policy covers the building, plant, machinery and all other contents, stock and business interruption.

Whilst some quantities of tiles remain identifiable and capable of accurate counting, it is agreed at your initial attendance on site that the only way of dealing with the stock claim is by a stock reconciliation.

(a) Outline what you consider to be the advantages and disadvantages of a claim based on a stock reconciliation.

10 marks

(b) What preliminary actions would you take and what documentation would you seek at that initial meeting relating to the stock reconciliation?

10 marks

(c) Set out the calculation (figures need not be included) that you will be drawing up to determine the theoretical stock loss.

10 marks

(d) What further adjustments to the theoretical stock loss (if any) might you wish to consider before agreeing settlement?

10 marks

TOTAL 40 MARKS

Question 3

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 excess)	£ 10,000
Sum Insured	£100,000
Value at risk	£125,000
Excess	£ 500

10 marks

(b) In a policy subject to average under the Reinstatement Memorandum, calculate the sum payable:

Agreed loss (before excess)	£ 10,000
Sum Insured	£110,000
Value at risk	£125,000
Excess	£ 500

10 marks

(c) In a policy subject to average under the Reinstatement Memorandum (Day One Basis), calculate the sum payable:

Agreed loss (before excess)	£ 10,000
Day One Declared Value	£100,000
Sum Insured	£150,000
Day One Value at Risk	£125,000
Excess	£ 500

10 marks

(d) In a policy subject to average under the Reinstatement Memorandum and with the Public Authorities Clause, calculate the sum payable:

Agreed loss (excluding public authority costs)	£ 10,000
Public authority costs	£ 5,000
Sum Insured	£100,000
Value at risk (excluding public authority costs)	£125,000
Value at risk (including public authority costs)	£130,000

10 marks

TOTAL 40 MARKS

Question 4

(a) Define these exclusions which are found in the ABI standard all risks wording:

- Inherent vice
- Scratching and marring
- Vermin
- Insects
- Flood
- Contamination and pollution
- Precious stones and metals
- Curiosities

You should illustrate your answers by reference to case law and other authorities, if appropriate.

20 marks

(b) You have been asked to deal with a business interruption claim in a café which occupies the ground floor of a 6 storey building. The upper floors are flats. The loss follows a fire that occurred overnight on 29/30th January 2004 in and which caused serious damage to the penthouse flat. The fire caused no damage to the café. However, in order to effect the repairs, scaffolding was erected from mid-March 2004 and this has impeded access to the café, obscured its signage and resulted in a reduction in turnover.

Your principals' policy is based on the ABI standard all risks wording and inception on 1 March 2003. At renewal in 2004 the consequential loss exclusion was deleted in order to add cover for business interruption.

Do you consider the claim submitted by your policyholder is covered? A full explanation should be given. Illustrate your answer by reference to case law if appropriate.

20 marks
TOTAL 40 MARKS

Question 5

(a) When does contribution arise at common law?

10 marks

(b) Indicate the method to be adopted for apportionment of losses between the policies in the following circumstances:

(i) For policies covering the same rights and interests:

- Non average, concurrent
- Non average, non concurrent

- Average concurrent
- Average non concurrent

- Liability policies
- Alternative accommodation

(ii) For policies covering different rights and interests (under the ABI agreement)

10 marks

(c) You are acting for the building insurers who cover the landlord in respect of a loss in a leased building. The tenant has also insured the building. You have agreed the claim as shown below and now seek contribution from the tenant's insurers. Calculate the contribution you seek:

Landlord's policy has a sum insured of	£100,000
Tenant's policy has a sum insured of	£250,000
The value at risk is	£300,000
The adjusted loss is	£ 80,000

Full calculations must be shown.

10 marks

(d) ABI Rules on Contribution incorporate 11 exclusions. List 5 of them.

10 marks

TOTAL 40 MARKS