

The Chartered Institute of Loss Adjusters

Associateship Examination 2005

Paper C3

Adjustment of Claims

3½ HOURS

Maximum Marks 200

ALL QUESTIONS MUST BE ANSWERED

Where appropriate, answers should make reference to relevant case law or statute

Question 1

(i) Define proximate cause. **(3 marks)**

(ii) On which party is the onus of proving that the loss is covered by the policy? **(2 marks)**

(iii) (a) You are dealing with a loss under a domestic policy covering the range of perils usually found in such policies. The policy inceptioned on 1 January 2005. In May 2005, the Insured notified insurers that the property would be vacant for several months while it was renovated. In response, insurers indicated that they would exclude wet perils, theft and malicious damage until it was re-occupied. The claim you have been asked to consider occurred in September and involves damage by fire following a break in and deliberate ignition.

Do you consider the loss is covered? Why?

(5 marks)

(b) You are dealing with a fire loss under a property damage and business interruption policy at commercial premises occupied by a motor trader. The premises extend to only approximately 100sq.m. The fire began in the adjacent attached premises which were a very large (10,000 sq m) warehouse, which has been completely destroyed. In addition to the damage to your policyholder's premises, there is a business interruption claim. Temporary repairs enable the policyholder to trade, but there is a continuing loss of turnover.

Making whatever assumptions you wish regarding the business interruption cover (but you must explain fully the assumptions made), explain whether any of the following losses are covered:

- Loss of turnover in the week immediately following the fire, during which time the local authority refused permission for the premises to trade while the extent of the damage to the warehouse was assessed.
- Costs incurred by the policyholder in an advertising campaign designed to alert customers to the fact that the fire – which received substantial local publicity – has not affected their premises and they continue to trade.
- Loss of turnover during the period in which the repairs are undertaken. The repairs to the policyholder's premises cannot be undertaken independently of the work on the warehouse. The damage adjacent is so great that the repairs do not begin until more than 12 months from the date of the fire.

(10 marks)

(c) You are dealing with a claim for damage to decorations and contents in a top floor flat in a building with a flat roof. The drainage outlet from the roof was blocked by twigs and leaves and in a period of heavy rain, water accumulated to a depth sufficient to overtop the flashings and penetrate the building.

Making whatever assumptions you wish regarding the cover (but you must explain fully the assumptions made), explain whether you regard this loss as being covered.

(10 marks)

(d) Following a leak from a water pipe in domestic premises, the policyholder claims for:

- the cost of repairing the pipe
- substantial costs in locating the leak
- the cost of repairs to water damage to decorations and joinery.

Making whatever assumptions you wish regarding the cover (but you must explain fully the assumptions made), explain whether you regard any of those three heads of loss as covered.

(10 marks)

40 Marks

Question 2

There has been a serious fire damaging the roof of a two storey home divided into two flats. The fire was caused when roofing contractors set fire to the roof when applying “torch on” roofing felt using a propane gas blow torch. You have been instructed by the liability insurers of the roofing contractors.

The lessee of the first floor flat had asked roofing contractors to re-cover the flat roof at the rear of the building as it was leaking. There is no formal contract. Indeed as the repairs were considered urgent, there was not even a written estimate. The contractor simply indicated what the work would cost and the lessee asked him to do the work.

There is damage to the building in both flats, to contents belonging to the lessee of the first floor flat, and it will be necessary for the lessees of both the ground and first floor flats to move out while the repairs are undertaken. The building is owned and insured by absentee landlords.

The roofing contractor sub-contracted the work to a flat roofing specialist. He (the main contractor) was not present when the fire occurred.

To which parties does the policyholder owe a liability? Why?

Making whatever assumptions you wish regarding the cover (but you must explain fully the assumptions made), do you consider your principals have a liability? If so, to what extent?

Outline the investigations you would wish to make.

40 marks

Question 3

This question relates to a stock loss. However, you are NOT required to draw up a stock reconciliation.

The policyholder is an importer of timber and laminate flooring and retailer (to the trade and the public) of this flooring, and locally sourced carpets, sheet vinyl and tile flooring and accessories. Stock is purchased in the UK, Europe and the Far East. Purchases made in Europe are in Euros and those from the Far East are in US Dollars. All foreign purchases are made via Letters of Credit. The purchase price ex the Far East is on a CIF (cost, insurance, freight) basis to the UK port of landing. European purchases are CIF to the policyholder's warehouse.

There has been a serious fire which has destroyed the major part of the warehouse and a significant portion of the stock. Some stock has been salvaged, but cannot be sold by the policyholder as prime merchandise.

- (i) Assuming that the quantities destroyed are agreed, explain the basis on which you will value the stock? What factors affecting value will you include in the claim? Why?

(20 marks)

- (ii) The policyholder and insurers agree that the salvaged stock (which has a sound value of about £100,000) should be sold to salvage dealers by competitive tender. Draw up a tender letter to be sent to interested parties.

(20 marks)

40 marks

Question 4

You have been asked to deal with a claim for business interruption for a restaurant involving interruption to the public electricity supply. Power was off for 24 hours, causing the loss of one complete day's trade on Thursday 30 June 2005. The policy has been extended to cover such losses.

Using the following information, calculate proposals for settlement of the claim under the policy.

TURNOVER

Thursday	09.06.2005	£5,788
Thursday	16.06.2005	£5,482
Thursday	23.06.2005	£5,128
Thursday	30.06.2005	NIL
Thursday	07.07.2005	£3,939
Thursday	14.07.2005	£4,652
Thursday	21.07.2005	£4,914

PROFIT & LOSS

12 months to 31.3.2005

	Sales	1441140
Opening stock	12500	
Purchases	<u>590150</u>	
	602650	
Closing stock	<u>11000</u>	
		<u>591650</u>
		849490
Wages	441697	
NI	34894	
Rent & rates	129034	
Insurances	6880	
Music & entertaining	56398	
Heat light & power	63587	
Motor expenses	3726	
Printing & stationery	7542	
Telephone	10950	
Legal & accountancy fees	7225	
Bank charges	12695	
Credit card charges	27381	
Cleaning & laundry	<u>25621</u>	
		<u>827630</u>
Net profit		21860

40 marks

Question 5

- (i) (a) Define fraud
(2 marks)
- (b) Outline the usual policy wording relating to fraud.
(2 marks)
- (c) You are dealing with a loss where the circumstances of the loss are straightforward and the extent of the loss is agreed without any suggestion of fraud. However, examination of invoices submitted in support of the quantum of the claim reveals that one has been “manufactured” by the policyholder. Advise your principals how to proceed.
(4 marks)
- (ii) (a) Explain the difference between a bailee for reward and a gratuitous bailee.
(4 marks)
- (b) Your policyholder owns a warehouse in which he stores customers’ goods, charging by the sq.m and week. His policy includes cover for customers’ goods for which the policyholder is responsible. There is no formal written contract with the customers. An escape of water damages customers’ goods. You receive claims from the customers. What enquiries would you make before deciding to accept or reject these claims?
(4 marks)
- (iii) (a) Define insurable interest.
(2 marks)
- (b) List 6 examples of insurable interest other than ownership.
(6 marks)
- (iv) (a) Outline the purpose of the Rehabilitation of Offenders Act 1974.
(2 marks)
- (b) List the principal rehabilitation periods.
(6 marks)
- (v) (a) Define utmost good faith.
(4 marks)
- (b) On investigating a theft claim, you establish that the policy stands in the name of a husband and wife. The proposal form was completed by the wife on behalf of both parties. She did not disclose that her husband had a current criminal record (convictions for receiving stolen property). On examining the proposal form you find that there is no specific question relating to criminal convictions. Advise your principals on their liability for the claim.
(4 marks)

40 Marks

