

The Chartered Institute of Loss Adjusters

Associateship Examination 2006

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

You are dealing with a claim for fire damage at a semi-detached three storey private dwelling house built during the late Victorian period and occupied by the Insured and their family. Your principals' Policy covers both Buildings and Contents. The fire originated in the bedroom on the second floor front and the source of ignition is believed to be a television, approximately five years old. No previous problems with the television have been disclosed.

- i) Detail in note form the enquiries you would make at the time of your first visit, what initial action you would take and what advice you would provide to the Insured. (15 marks)
- ii) At the time of your visit, the Insured tell you they have been approached by well known Public Loss Assessors who have offered to deal with the claim on their behalf. The Insured ask you if the Assessors' fees would be dealt with as part of the claim and if it would be in their interest to request the Assessors to act on their behalf. How do you deal with this enquiry? (5 marks)
- iii) You are approached by the occupiers of the neighbouring property. They tell you that part of their property has been affected by smoke and heat and that they are holding the Insured responsible for the damage which has occurred. How do you deal with this situation and how do you respond to the neighbours? Is there any specific legislation or case law which applies in circumstances of this type? (5 marks)
- iv) The Insured's property is uninhabitable. Initially, and for the first few days the family were accommodated in a Hotel. Subsequently, it has been established that the only suitable property for rental will be subject to a minimum rental period of six months. Repairs to the Insured's property are anticipated to take three months to complete. How do you deal with this situation? (5 marks)
- v) The tile covering to the front roof of the Insured's property needs to be replaced as part of the agreed reinstatement scheme. However, the replacement tiles will not match those which presently cover the rear roof slope. The Insured insist that the rear roof slope should also be retiled to match. What response do you provide to the Insured? (5 marks)
- vi) You have arranged for Insurers' nominated suppliers to clean and restore smoke damaged Contents and personal effects wherever possible. However, when these are returned by the nominated suppliers the Insured suggest that some items have not been adequately restored and, in the case of clothing, various items have shrunk and are discoloured. What action do you take to deal with this particular problem? (5 marks)

Total 40 marks

QUESTION 2

You are dealing with a claim for theft of Contents from a detached bungalow where the Insured, husband and wife, are tenants and where your Principals' Policy covers "Contents" only. The loss includes electrical goods, a collection of DVDs/CDs, personal computer equipment, jewellery and designer clothing. Damage has also been caused to the building during the course of the forced entry which was via the patio doors at the rear.

During your discussions with the husband, he discloses that whilst a teenager some twenty years ago, he was convicted of an offence of shop lifting and sentenced to pay a small fine. The Policy also includes a condition requiring that all final exit doors, excluding patio doors, are protected with five lever mortice deadlocks. You find that at the time of your inspection, the front entrance door is secured only with a three lever mortice deadlock and a nightlatch and the rear door from the kitchen is protected only with a rim deadlock.

During your initial discussions, the husband also provides outline details of the potential claim and, when questioned, admits that some items of the jewellery were purchased abroad and not disclosed to the Customs Authorities on arrival in the United Kingdom. In addition, he also admits that a number of DVDs/CDs which were stolen are counterfeit copies which were purchased from a friend. That apart, you also suspect that certain of the computer equipment which had been stolen may possibly have been utilised to manufacture other counterfeit DVDs/CDs.

i) Discuss any issues which may arise in relation to the conviction disclosed by the husband, the lack of compliance with the security conditions, and the admitted failure to disclose items upon which Customs Duty should have been paid. Illustrate with any relevant legislation or case law. (12 marks)

ii) In submitting your report to Insurers you draw attention to the potentially unsatisfactory issues which have been identified, including the counterfeit items and your suspicions regarding the use of the computer equipment. Once they have considered your report, Insurers telephone you and ask you to make discreet enquiries with the Police and in particular, to speak to the Investigating Officer involved. How do you deal with this enquiry from Insurers? Are there any specific procedures which must be followed? (10 marks)

iii) In the event, your further enquiries have established that your suspicions regarding the use of the computer equipment are unfounded and, in addition, there is no evidence that the theft is other than genuine. In the case of the DVDs/CDs which the Insured has admitted are counterfeit, how would you deal with these items? Would the position be any different if the Insured had acquired these reasonably believing that these were genuine items? (6 marks)

iv) The claim also includes the cost of replacing the patio doors since it appears that the Landlords are not interested in making any claim on the Building Insurance which they have arranged. The Landlords maintain that the tenants are responsible for making good any damage to the building. What issues arise here? (6 marks)

v) Subsequently, and prior to settlement of the claim, some of the stolen property is recovered by the Police who indicate that they will be returning it to the Insured. The property recovered includes some of the wife's designer clothing. It is in apparently satisfactory condition but the wife refuses to accept it back since she believes that it may have been worn by others. What action do you take here? Would the position be any different if the claim had already been paid by Insurers prior to recovery of the stolen property? (6 marks)

Total 40 marks

Question 3

a)

You are instructed to deal with a claim for storm damage which has occurred at premises occupied by furniture manufacturers. The premises comprise a detached industrial type unit of steel frame construction clad and roofed with profile steel sheet. This accommodates the various manufacturing and stock storage facilities. There is separate office accommodation in a two storey brick built annexe to the front of the building.

The policy issued by your Principals covers the building, stock and all trade contents including office equipment and furnishings against the usual range of perils. For the purposes of this exercise, all the sums insured can be deemed to be adequate.

As a result of your investigations the following issues have been identified.

i) The Insured occupy the building as tenants. On examining the lease you find that it is the Landlords' responsibility to insure the building against the usual range of perils and you also find that they are responsible for external maintenance. On contacting the Landlords, you ascertain that there is separate building insurance in force and the Landlords, being aware of the damage to the premises have already provided notice of claim to the Insurers involved. The cover is arranged with other Insurers and not with your Principals.

From your discussions with the Insured, it would appear that there was a misunderstanding on their part, and they believed, that in terms of the lease, they were required to arrange the necessary building insurance.

ii) Your Principals' policy incorporates a number of warranties. One of these is a stillage warranty which requires that all finished stock must be stored on pallets or similar, at least 12" above floor level. You believe that this warranty has been applied due to the presence of a nearby water course and the potential risk of flooding from that particular source.

Other warranties include a requirement for "No Smoking" signs to be displayed prominently throughout the whole of the premises, excluding the office accommodation. There are also specified requirements regarding fire extinguishment appliances and their maintenance.

During the storm, various roof sheets were dislodged by high winds and, due to the accompanying torrential rainfall, a considerable volume of rainwater cascaded into the

premises and directly onto a quantity of finished product. This has all been damaged beyond satisfactory restoration.

None of the warranties referred to above have been complied with. When you draw this to the Insured's attention they state that they were never made aware of these warranties, the cover having been arranged through their brokers and where they had no direct contact with Insurers.

iii) A substantial volume of rainwater gravitated into the separate office accommodation damaging floor coverings and various equipment. On investigation, you discover that this results from lack of maintenance of the eaves guttering which over a period of time has become blocked with debris of various type. You believe that if the guttering had been properly maintained then this would adequately have dealt with the volume of rainfall at the time and that no damage would have occurred within the office accommodation.

Explain how you would deal with the above issues and what recommendations you would submit to your Principals.

(20 Marks)

b)

In a typical Business Interruption Policy, what do you understand by the following terms?

i) Material Damage proviso

ii) Increased cost of working

iii) Additional increased cost of working

(6 marks)

For the same Insurer you are dealing with a Business Interruption claim for two adjoining premises in a parade of lock-up retail units. One of these accommodates a Newsagents and the other a Gentlemen's Hairdressing Salon. The claim results from fire damage which has originated in a third unit directly adjacent to the Newsagents.

The damage to both the Newsagents and the Hair Dressing Salon is relatively superficial and relates mainly to the effects of smoke contamination. However, both premises are closed for two working days whilst cleaning operations are in progress.

The Newsagents main activities include the sale of newspapers and magazines, both delivered and over the counter, and also the sale of confectionery, tobacco and the like. The customer base is both regular and casual. In the case of the Hair Dressing Salon, approximately 50% of the business is generated by pre-booked appointments and the remainder by chance callers, again both regular and casual.

When you receive the claims, you note that both businesses are claiming for loss of gross profit based on the complete loss of turnover for the two days when both premises were closed.

Describe how you would deal with each claim. What steps could either business reasonably take to mitigate loss of turnover?

(14 marks)

Total 40 marks

Question 4

You are instructed by Insurers to deal with a claim involving fire damage at a retail Chemists. The premises are accommodated in a converted two storey building and comprise a retail sales shop, Pharmacy/Dispensary, and stock storage facilities on the ground floor. The first floor is also used for overflow storage and since the fire occurred shortly after Christmas various surplus stock, specially acquired for the Christmas trading period is stored at first floor level.

The normal range of stock is typical for a retail Chemists. This includes prescription and over the counter medicines, toiletries, cosmetics and the like.

The fire originated in the vicinity of the electrical distribution board which is located within the stockroom at the ground floor rear of the building. All the stock in that area has been either completely destroyed or so severely damaged that it is fit only for disposal. The remainder of the premises has been affected mainly by smoke and heat.

i) What action would you take to determine the cause of the fire and what investigations would you arrange to be undertaken? (5 marks)

ii) What issues might arise if investigations determined that the fire originated on the Power Supply Company's side of the distribution board? (5 marks)

iii) What action would you take to establish and evaluate the extent of the stock loss? What documentation would you require? On what basis would the stock loss normally be calculated? Would any special consideration apply to the stock which had been specifically acquired for the Christmas period but which is now surplus to the Insured's normal requirements? (10 marks)

iv) Various items of equipment have been damaged, including a photocopier which, on investigation, is found to be beyond economic repair. The Policy provides replacement cost cover for equipment of this type. The photocopier is leased and, in terms of the Lease Agreement, the Insured are required to pay the owners its depreciated value at the time of the loss. The Insured, however, claim the full replacement cost. How do you deal with this situation? (10 marks)

v) Apart from the items which have either been destroyed or severely damaged, the remainder of the stock has only suffered superficial smoke damage. How would you deal with the salvage element? (10 marks)

Total 40 marks

Question 5

You have been instructed to deal with a business interruption claim for a nightclub following a denial of access in consequence of a serious fire in a neighbouring property. Fortunately the disruption was restricted to a 24 hour period but resulted in the loss of one complete day's trade on Wednesday 31 May 2006. The policy has been extended to cover such losses.

Using the information on the following page, calculate and set out your proposals for settlement of the claim under the policy and explain your reasoning.

Total 40 Marks

Gross Profit Sum Insured - £775,000
Maximum Indemnity Period - 12 Months

TURNOVER

Wednesday 10.05.2006	£3,708
Wednesday 17.05.2006	£3,982
Wednesday 24.05.2006	£4,078
Wednesday 31.05.2006	NIL
Wednesday 07.06.2006	£4,279
Wednesday 14.06.2006	£3,842
Wednesday 21.06.2006	£4,484

PROFIT & LOSS

12 months to 31.3.2006

Sales	1087220
Opening stock	17500
Purchases	450250
	<u>467750</u>
Closing stock	18000
	<u>449750</u>
	849490
Wages	371652
NI	28617
Rent & rates	147346
Insurances	7468
Music & entertaining	74289
Heat light & power	57382
Motor expenses	5534
Printing & stationery	8857
Telephone	12458
Legal & accountancy fees	9450
Bank charges	13542
Credit card charges	16436
Cleaning & laundry	34673
	<u>787704</u>
Net profit	61786

