



The Chartered Institute of Loss Adjusters

Associateship Examination 2011 (April)

Paper C3

Adjustment of Claims Property Commercial

3 ½ Hours

Maximum Marks 200

Answer ALL questions in Part 1 and 2 questions from Part 2
Where appropriate, answers should make reference to relevant case law or statute

PLEASE ENSURE THAT QUESTION NUMBERS ARE ENTERED CLEARLY AND IN FULL ON THE COVER OF YOUR ANSWER BOOK AND IN YOUR ANSWER BOOK



PART 1

ANSWER ALL QUESTIONS

QUESTION 1

a) In a typical Business Interruption Policy explain what each of the following terms mean?

- Alternative Trading Clause
- Professional Accountants Clause
- Denial of Access extension
- Loss of attraction
- Rate of Gross Profit

(15 marks)

b) When dealing with a claim under a typical Business Interruption Policy explain briefly the following:

i) The difference between the following terms:

- Increased Cost of Working
- Additional Increased Costs of Working

(5 marks)

ii) The difference between cover on a Sum Insured basis and a Declaration Linked basis.

(5 marks)

c) A Business Interruption Policy is sometimes described as covering “consequential losses”. Detail five consequential losses that might result in a claim but would fall outside the scope of the cover of a typical Business Interruption wording.

(15 marks)

40 MARKS



QUESTION 2

1. You are dealing with a claim for fire damage at a two storey, semi-detached property occupied by the Insured, Mr and Mrs Patel, and their family. Your Principals' policy covers both Buildings and Contents. The fire originated in the kitchen on the ground floor and may have caused by the Insured's children playing with matches.

a) Briefly detail the enquiries that should be made, the initial action that should be taken and what advice should be provided to the Insured.

(16 marks)

b) At the time of your visit, the Insured tell you that they have been advised that they are entitled to be represented by a Chartered Loss Adjuster to present their claim. The Insured ask you if the Loss Adjuster's fees would be covered as part of the claim and if it would be in their best interest to appoint the Loss Adjusters to act on their behalf. How should this enquiry be dealt with?

(6 marks)

c) Mr Patel is a Building Contractor and wishes to repair the building damage utilising his own building company for this purpose. How should this request be dealt with and what advice should be given to your Principals?

(6 marks)

d) You are contacted by the occupiers of the adjoining property. They tell you that their property has been affected by smoke and heat and that they are holding the Insured responsible for the damage since the fire originated within their property. How should this situation be dealt with and what should the response be to the neighbours? What, if any, specific legislation or case law applies to circumstances of this type?

(6 marks)

e) The Insured ask if they can move into other suitable premises until the necessary building repairs have been completed and essential contents have been replaced. Explain briefly how this request should be dealt with and what criteria applies to establish if this can be allowed.

(6 marks)

40 MARKS



QUESTION 3

The Insured owns a Manor house set in 25 acres of land in the countryside. He and his family leave the premises for a weekend break, all the doors and windows are locked and the centrally monitored Intruder Alarm System is set.

When the family return they find the home has been broken into. Although the alarm bells activated, an alarm signal was not received by the central station. The alarm system had been serviced by the Alarm Company Engineer one week before the incident.

The floor mounted safe, within the master bedroom, had been forced from its mountings, dragged along the landing and pushed down marble stairs to the drive where the police believe it had been loaded into a van. The safe contained jewellery, documents and £4,000 in cash. The thieves took a number of silverware items from a table in the entrance hall. Whilst moving the safe, a valuable oil painting was damaged. They also stole a quad bike used by the family in the grounds.

The perpetrators drove their vehicle across a lawn and through a hedge causing damage to both of these, ending with a collision with a statue.

Whilst on site the Police notice an oil painting hanging on the wall which had been reported stolen by an art dealer a year ago, as a result the Insured became legally obliged to return the painting to the rightful owner.

The Insured has a typical “High Net Worth (HNW) Policy”, which provides cover as follows:

- Buildings
- Contents
- Fine Art
- Personal possessions
- Family Legal Protection
- Identity fraud and
- Emergency property assistance.

In reporting to Insurer’s consider the differences between “standard” type Domestic Policies and “HNW”.

1. In respect of the buildings claim the Insured wishes to use his preferred contractor to undertake repairs in the house, repair the statue and re-lay the damaged section of lawn and replant the hedge. It transpires that the Buildings sum insured is unintentionally inadequate. Comment upon the Insured’s request and discuss how you would expect Insurer’s to handle the underinsurance issue.

(10 marks)



2. Regarding the items in the safe, what would you expect to be the difference in the handling of the claim and policy cover afforded between a “High Net Worth Policy” and a standard Household Policy?
(10 marks)
3. Discuss the likely extent of Policy cover in respect of the damaged oil painting.
(5 marks)
4. Comment upon the Insured’s position in respect of the painting he had to return to the owner and likely policy response.
(5 marks)
5. How should the claim for the quad bike be dealt with?
(5 marks)
6. Comment upon the failure of the Alarm System to send a signal to the central monitoring station. Explain how this might affect the claim.
(5 marks)

40 MARKS



PART 2

ANSWER 2 QUESTIONS ONLY

QUESTION PC 1

The policyholder is a retailer of “designer” men’s clothing with several shops located in the London area. 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 on the outskirts of London. Stock is then transferred from the warehouse to the various shops, as required, by an independent carrier contracted to the Insured. There is generally a 3 to 6 month lead in time for replacement stock.

One of the Insured’s shops, which is located in Old London Road, is a 4 storey premises with basement and the Insured occupy the ground floor and basement under the terms of a full repairing lease. The ground floor comprises the main retail and display area with fitting rooms, and the basement is used for the storage of stock.

A water main located below Old London Road failed due to age as a result of which water percolated into the basement overnight “flooding” it to a depth of 220mm. Stock (mainly shirts and ties) and contained in boxes on timber pallets laid on the floor has been partially submerged rendering the majority of items useless.

The remaining stock in the basement (generally suits, jackets and trousers) is kept on hangars distributed across various storage rails, and whilst these have not been in direct contact with the water they have become damp and have a musty odour as a result of which they cannot be sold by the policyholder as prime merchandise. The display stock on the ground floor is unaffected.

- a) Explain any avenues of subrogation that may arise. (5 marks)
- b) Given the location of the stock room, would you expect any warranties to apply, and if so how could this affect your adjustment of the claim? (5 marks)



- c) Assuming that the quantities destroyed are agreed, explain the basis upon which the stock should be valued? What factors affecting value should be included in the claim and why? (You are **NOT** required to draw up or explain a stock reconciliation).
(20 marks)
- d) Explain the options which are open to the adjuster in relation to the stock that cannot be sold as prime merchandise and comment upon the advantages or disadvantages of each option.
(10 marks)
- 40 MARKS**

QUESTION PC 2

You are instructed by Insurers to deal with a fire damage claim under a policy which they issue to an independent school which provides education for pupils aged 12 to 18 years of age. The policy, written on an all risks basis, covers Buildings, Trade Contents, (all on a reinstatement basis), Employees Effects, and Loss of Revenue/Increased Costs of Working. The sums insured are adequate.

At the time of the incident the main assembly hall was being extensively refurbished, this work entailed the replacement of the timber strip flooring and the stage together with various upgrades to the lighting and heating. The work, which was being undertaken by the contractor under the terms of a JCT Form of Contract (Minor Works) Edition, was almost complete.

The final stage of the work involved the application of linseed oil to the new timber floor; this was done by a flooring sub-contractor using mini paint rollers and then removing the excess oil with cloths. Unfortunately, the contractor omitted to remove one batch of the oil soaked cloths from the building at the end of the working day and during the course of the following night these spontaneously ignited. The local Fire & Rescue Service were alerted by the automatic fire detection system as a result of which they were able to respond to the fire before major structural damage occurred. However, a large area of the floor was damaged and the newly refurbished hall was heavily contaminated by the products of combustion. Extinguishment water percolated the floor into the Administration offices below on the ground floor rendering the office equipment and facilities in that area temporarily unusable.

- a) Describe the initial measures which should be proposed in respect of the material damage and Business Interruption aspects.
(15 marks)



- b) What advice should be given to your Principals in relation to policy liability?
(10 marks)
- c) Given the cause, what avenues of subrogation are open to your Principals?
(10 marks)
- d) Various members of staff sustained damage to shoes and clothing during the clear up operation in the administration offices - how should these claims be handled?
(5 marks)
- 40 MARKS**

QUESTION PC 3

- a) Explain how Day One Reinstatement Cover operates
(8 marks)
- b) Explain how you would check the adequacy of the sum insured on a policy written on a Day One Reinstatement Basis and the basis upon which “Average” applies
(8 marks)
- c) Explain the terms of the Public Authorities Clause
(8 marks)
- d) Contrast reinstatement as provided for under the Condition incorporated in a typical Fire Policy, with reinstatement under the terms of the Reinstatement Memorandum.
(8 marks)
- e) Explain how “Average” applies under the terms of the Reinstatement Memorandum
(8 marks)
- 40 MARKS**