



The Chartered Institute of Loss Adjusters

Associateship Examination 2009 (April)

Paper C3

**Adjustment of Claims
Liability**

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

You are instructed to deal with a claim for extensive fire damage which has occurred to a large detached late Victorian building set in its own grounds. The building was originally a private dwelling but some time previously had been converted into a number of self contained flats. It was unoccupied at the time of the fire. The building had been purchased approximately twelve months earlier by XYZ Ltd, property developers. The sole share holder of the company is a Mr J Smith and the only directors are Mr J Smith and his wife.

Your Principals were aware that the property was unoccupied and the policy is subject to various endorsements. These include a requirement for weekly internal inspections to be carried out by, or on behalf of the Insured and for the property to be protected by a monitored intruder alarm system.

As a result of the enquiries which you have carried out and the further investigations which you have instigated the following features have been identified:

- i. Forensic investigation suggests that the fire was deliberate in origin with evidence of accelerants having been introduced into the premises.
- ii. There is no evidence that the weekly inspections were carried out. By way of explanation Mr Smith tells you that this task was contracted to a local security firm and there was no reason to believe that they had failed to undertake these inspections.
- iii. There is an alarm system within the building but this is “ bells only “ and not monitored. In any event it does seem that the alarm was defective and not operational.
- iv. You are told, unofficially, by the local “beat“ Police Officer that there have been numerous previous break ins to the premises through insecure doors and windows mainly by children and young persons from the neighbourhood. This appears to be confirmed by evidence of graffiti



daubed within parts of the building and possible evidence of substance misuse.

- v. You have ascertained that the Insured applied for planning permission to demolish the existing building and to replace it with six exclusive detached houses. Planning permission was granted. However, the Directors of the Insured company tell you that due to the current financial climate, they have decided not to proceed with this development and, prior to the fire, the intention was to refurbish and relet the existing self contained flats.
- vi. You have also ascertained that Mr J Smith has previously been the director of other companies, some of which have been wound up at the instigation of creditors and others have unsatisfied County Court judgements recorded against them.
- vii. You are led to believe from hearsay information that Mr Smith has been or is associated with some form of fraudulent activity involving motor vehicles. Comment has also been made to you that Mrs Smith has, sometime in the past, been fined for theft (shoplifting).

Explain how you would deal with these issues and what advice you would provide to your Principals.

40 Marks

Question 2

You are instructed to deal with a claim for storm damage which has occurred at premises occupied by carpet 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 facilities and also storage areas for raw materials and finished product. There is separate office accommodation in a two storey brick built annex 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 purpose of this question 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 specific perils including storm. The lease also specifies that the Landlords are responsible for external maintenance. On contacting the Landlords you



are able to ascertain from them that they have arranged insurance for the building and they agree to notify the Insurers involved. The cover is with other Insurers and not your Principals. The Insured tell you that there must have been a misunderstanding on their part and where they believed that, in terms of the lease, it was their responsibility to insure the building.

- 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 30cm above floor level. It would appear that this warranty has been applied due to the presence of a nearby watercourse and the potential risk of flooding from that particular source.
- iii. Other warranties include the provision of suitable intruder and fire alarms and the provision and maintenance of suitable fire extinguishment equipment.
- iv. None of these warranties 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.
- v. During the storm, a number of roof sheets were dislodged by high winds. Due to the accompanying torrential rainfall a considerable volume of rainwater gravitated into the building and directly on to quantities of finished product in the storage area. The Insured state that the damaged stock is of no further value to them and seek your immediate confirmation that they can make arrangements for all of this to be removed from their premises for disposal.
- vi. A substantial volume of rainwater also gravitated into the separate office accommodation damaging floor coverings and various items of office equipment. You discover that this appears to result from lack of maintenance of the eaves guttering which, over a period of time, has become blocked with debris of various types. You consider that if the guttering had been properly maintained then this would adequately have coped with the volume of rainfall at the time and no damage would have occurred within the office accommodation.

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

40 Marks



Question 3

a) 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
- iv. Alternative Trading Clause
- v. Professional Accountants Clause
- vi. 6. Denial of Access extension

(12 Marks)

b) Explain the main differences between cover provided on a Sum Insured basis and cover provided on a Declaration Linked Basis. (4 marks)

c) Business Interruption Insurance is sometimes described as Consequential Loss Insurance. List six types of “ consequential losses “ which would not normally be covered under a typical Business Interruption Policy. (6 Marks)

d) When dealing with claims for Business Interruption for the following trades/businesses identify the measures you might be able to take to mitigate loss of turnover and detail any types of savings which might accrue during the period of closure. In each case it is anticipated that the business will close for approximately two months whilst building repairs are undertaken.

- i. Gentlemen’s Hairdresser
- ii. Retail Newsagent
- iii. Solicitors’ practice
- iv. Dental surgery
- v. Licensed Guest House
- vi. Estate Agent

(18 Marks)

Total 40 marks



PART 2 ANSWER 2 QUESTIONS ONLY

Question L1

You act for the PL Insurers of “Mill Estates” who own a number of Mill buildings in the North of England.

At Backwater Mill, one of the Insured’s properties, a sprinkler has leaked causing damage to the contents of two tenants (Mr Cheap and Mr Innocent) who lease space from your insured. You are told by the Insured that the leak occurred when a sprinkler head froze. Your initial enquiries reveal that this occurred on a cold night in December, that the Insured maintain gas fired hot air blowers in the upper floor of the Mill and these had been on when the sprinkler head froze. The sprinkler head that froze was however in a small upper floor unit which did not have a hot air blower in it but did have a central heating system installed and maintained by the tenant “Mr Cheap”. You also discover that the Insured have no formal leases with the tenants, they operate a system that if they pay their rent they are allowed to stay.

Water escaped from the sprinkler system causing damage to the contents owned by Mr Cheap and the water then ran into the Unit below causing damage to the contents of Mr Innocent.

When you visit the site you discover that both tenants are not present and all damaged contents have been removed. You have, however received letters from Mr Cheap claiming £20,000 for his damaged contents and from Mr Innocent claiming £5,000.

- a) Discuss what further enquiries you might want to make in regard to liability and set out which parties may have a liability and why. (20 Marks)
- b) Explain how you would approach the quantum element of this claim, and in so doing explain the initial reserve you would set, how you would develop your enquiries in respect to quantum and what adjustments you might reasonably expect to make. (20 Marks)

40 Marks



Question L2

You act for the Motor Insurers of Mr Reckless who lost control of his BMW saloon; his car left the carriageway, crossed a pavement, demolished a fence and ended up upside down in the car park of a roadside café. The car burst into flames and then exploded. Debris from the explosion broke windows in the café and oil and petrol caused contamination damage to the car park surface.

The café owner decides to pursue his claim direct against your Insured and sends you his initial claim to include:

1	Quotes for replacement fence	£15,000 net of VAT
2	Invoices for the decontamination of the car park	£12,000 net of VAT
3	Repairs to the café windows	£220 net of VAT
4	Lost Turnover from the Café	£8,000 inclusive of VAT

In a covering letter the claimant explains that the lost turnover arose over a six week period including being closed for one week whilst repairs were undertaken.

Focusing on the claim for lost turnover detail:

- a) Any considerations relevant to Economic Loss (15 Marks)
- b) How you would verify the extent of the loss (15 Marks)
- c) What adjustments you anticipate as being likely (10 Marks)

40 Mark

Question L3

Your Insured are a Housing Association who employs a maintenance team who undertake general repairs and maintenance to the housing stock. The claimant, Mr Webster, is one of the maintenance team and was injured when he was sent out to repair an up and over garage door at one of the Insured's properties. The tenant had phoned in to report the door was closed but every time they try an open it the door comes of its runners. Mr Webster was injured when he tried opening the up and over door and it fell on him.

You establish the claimant was off work for 4 weeks as a result of the injuries sustained and then having made a full recovery he returned to his previous job.



- a) Discuss which Statutes and Regulations and any case law you would need to consider in relation to this incident and their impact on liability (25 Marks)
- b) Assuming there was a liability on the part of the Insured, set out how you would establish and calculate any claim for loss of wages (15 Marks)

40 Marks