



# **The Chartered Institute of Loss Adjusters**

**Associateship Examination 2009 (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**

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 judgments 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. 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 PC1

You are instructed by ABC Insurance Ltd to adjust a claim involving buildings, contents and stock following a serious fire at a department store owned and occupied by the insured. The building comprised a restaurant plus 5 floors containing 20 concessions along with areas selling owned branded goods. The concessions pay a flat rent plus a proportion of their turnover to the insured.

Such was the damage you could not determine whether the fire started in or adjacent to the frying range, or the adjacent concession that sells computer equipment. The stud partition between the two areas had been consumed in the fire. You discover that a contractor had recently (the week before) achieved partial completion of a refurbishment of the kitchen and restaurant at a cost of £1.2m. The contractor was still on site working on the balance of the contract including the common parts of the building, which were also in close proximity to the fire.

Assume a standard fire policy exist with warranties commensurate with the risk.

- a) What policy considerations would you consider?
- b) List the warranties you may expect to apply and advise how you would establish compliance.
- c) Detail the instructions you would provide to a forensic investigator and why.
- d) What potential recovery rights may arise? Discuss when you would put the third party on notice.
- e) Following receiving instructions to settle the claim from insurers the insured intimate a claim for the loss that you establish is seven times greater than the actual loss suffered. What is your advice to ABC Insurance Ltd?

**40 Marks**



### Question PC2

You are instructed to deal with a theft claim at the Insured's factory premises where they manufacture bathroom fittings. Insurers advise you that they cover Stock and Machinery, Plant and All Other Contents. You are told the policy is subject to a Protections Warranty.

On visiting the premises you are told that stock with a sales value of £150,000 has been stolen, as have 6 laptop computers, together with the docking stations, used by the sales staff, valued at £980 each. The laptop computers were subsequently recovered (undamaged), but are being retained by the Police as "evidence" in the event of an arrest. The Insured advise you that these laptops are essential to the running of the business.

- a) Outline what you would understand by the term "Protections Warranty" and the enquiries you would undertake to establish compliance with this warranty.
- b) Set out, in summary form, the information which you would require to carry out a stock reconciliation exercise.
- c) What special features require consideration after the arithmetical stock loss has been calculated under a reconciliation exercise?
- d) State what advice you might be able to give the Insured with respect to the laptop computers.

**40 Marks**

### Question PC3

- a) Explain how Day One Reinstatement Cover operates.
- 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.
- c) Explain how you would deal with damage to any additions purchased since inception.



- d) Contrast reinstatement as provided for under the Condition incorporated in a Standard Fire Policy, with reinstatement under the terms of the Reinstatement Memorandum.
- e) Explain how “Average” applies under the terms of the Reinstatement Memorandum.

**40 Marks**

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