



# **The Chartered Institute of Loss Adjusters**

**Associateship Examination 2009 (April)**

**Paper C3**

**Adjustment of Claims  
Property Domestic**

**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. 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 PD 1

You are instructed to deal with a claim for Theft which has occurred from a modern two storey semi-detached property situated on an estate development. The loss comprises various electrical goods, jewellery, including watches, clothing, sundry personal effects and approximately £2000.00 in cash.

Entry was achieved by forcing the patio doors to the rear of the building whilst the house was temporarily unoccupied during the daytime. Your Principals' policy covers household contents against the normal range of perils including Theft. There is no additional or separate All Risks cover. The policy incorporates various security requirements including the provision of an Intruder Alarm and also for suitable locks to be fitted to all opening windows on the ground floor.

The policy stipulates that all security devices must be left in full operation whenever the premises are unattended. Due to an oversight on the part of the Insured there is no Buildings cover in force at the time of the incident, the relevant policy having inadvertently been allowed to lapse.

As a result of your enquiries the following issues have been identified:

- i. For a number of the electrical goods there is lack of suitable substantiation, including some relatively high value items, such as a 46" LCD television and audio equipment, which apparently were acquired no more than twelve months prior to the theft. There is also lack of adequate substantiation for the jewellery, some of which was inherited.
- ii. One of the watches stolen was purchased whilst the Insured were outside the United Kingdom on holiday. It was not declared to the Customs Authorities on returning to the United Kingdom. By way of explanation the Insured state that they were not aware that there was any obligation to do so.
- iii. During the intruders' search of the building they either deliberately or accidentally knocked over a large ornamental vase in the lounge which is shattered beyond repair. They also forced open locked drawers in the fitted wardrobe in the main bedroom.



- iv. The son of the policyholder aged 20, and who lives there permanently, was fined for a drugs related offence three years earlier.
- v. The Intruder Alarm was not in operation at the time of the incident. The Insured explain that they had intended to be away from the house for only approximately 10 - 15 minutes but their return home was delayed following a serious motor accident and they were trapped in stationary traffic for more than one hour with no alternative route available.
- vi. No locks have been installed on any of the ground floor windows.
- vii. When first applying for the insurance two years earlier, a Neighbourhood Watch scheme was in operation, and, in consequence, a 15% discount on the normal premium was allowed. However, a few months later the scheme was wound up due to lack of support.
- viii. Some of the stolen clothing was later found abandoned in a nearby field. You consider that this is capable of satisfactory cleaning and restoration. However, the Insured refuse to have it back.

Produce a section of a report to your Principals detailing your concerns and your recommendations for the way forward.

**Total 40 Marks**

### Question PD 2

- a) Discuss the liability of Insurers in each of the following scenarios:
  - i. You are dealing with a claim for fire damage which has occurred at a domestic property. Specifications and costings for the necessary repairs have been agreed and a contractor has been appointed. During the course of the work it becomes apparent that areas of timber flooring have been affected by dry rot. It is suspected that the dry rot infestation may be associated with flooding which affected the property several years earlier and where, possibly, the drying out measures may not have been adequate. The property was in different ownership at that time.

Reinstatement of the fire damage can only be satisfactorily carried out if the infested flooring is completed as a variation within the agreed remedial scheme. ( 10 Marks )



- ii. You are instructed to deal with a claim for storm damage which has occurred to a large terraced domestic property. You arrange to meet the Insured at the property to inspect the damage. On attending the property you are told that high winds have dislodged a number of roof slates and have also damaged the down pipe and sections of the guttering. You are aware that storm force winds were recorded in the area at the time.

The Insured appears reluctant to allow you access into the building but advises that, in any event, there is no internal damage and that the damage is restricted to the external elements as above. Following your ground level inspection you are satisfied that storm damage as reported has occurred and you agree that repairs can be carried out in accordance with a quotation provided by a Contractor with whom the Insured has apparently dealt with on a previous occasions.

A couple of weeks later, and before repairs have been carried out, you read in the local press that the Insured has apparently been using the premises for the purposes of garment manufacture and is apparently in some difficulty with the appropriate authorities for paying less than the stipulated minimum wage rates. ( 10 Marks )

b)

- i. In dealing with a domestic claim, list six potential fraud indicators. ( 6 Marks )
- ii. Give an example of
- a. Fraud by a policyholder ( 2 Marks )
  - b. Fraud by an Insurer ( 2 Marks )
- iii. List five examples of insurable interest. ( 5 Marks )
- iv. Outline the main provisions of the Fires Prevention ( Metropolis ) Act 1774. ( 5 Marks )

**Total 40 marks**



### Question PD 3

a) List six specific exclusions which would normally apply to the Accidental Damage section of a typical household policy ( 6 Marks )

b) Discuss the liability of Insurers and any other issues which may be relevant, in the following circumstances. Assume that typical household cover for Buildings and Contents applies and that the Sums Insured are adequate.

- i. The domestic hot water cylinder in the airing cupboard on the first floor of the Insured's property bursts. The escape of water damages furniture, floor coverings and decorations. On investigation it is discovered that the cause of the failure is a defective thermostat which has resulted in the water overheating and rupturing the cylinder. The thermostat which failed had in fact only been installed a few months earlier to replace a previously defective thermostat. The replacement thermostat had been purchased by the Insured and installed free of charge as a favour by a friend who is a Heating Engineer.

On the day of the incident the Insured had also hired outside catering contractors to provide a special meal for a family celebration. Due to the damage which has occurred, the event is cancelled but the caterers still require payment of their fee.

( 10 Marks )

- ii. The ground floor windows of a domestic property are deliberately broken by vandals. Contractors appointed by Insurers from their panel attend the premises to carry out the necessary repairs. They inform the Insured that due to prior weathering and deterioration the timber frames of the windows have rotted and so that the windows can be adequately reglazed it will also be necessary to replace the frames at the Insured's expense. They also tell the Insured that, in view of current statutory regulations, the windows will have to be reglazed with more expensive safety glass and again the Insured will be responsible for the additional material cost.

The Insured are not happy with the explanations provided and tell the Contractors that they will be seeking further clarification direct from Insurers. They also tell the Contractors to take no further action until they have had the opportunity to do so. In the meantime, and due to some apparent misunderstanding, another of Insurers' nominated contractors attends the premises and carries out all the work necessary, simply collecting the applicable £50.00 excess from the Insured. ( 10 Marks )



- iii. Impact damage has occurred to the attached double garage forming part of the Insured's property. The garage is of brick construction with a flat felt covered roof and standard type up and over door. The damage was caused by a delivery vehicle parked on the sloping drive approximately 10m in front of the garage. It seems that either the parking brake of this vehicle failed or was not properly applied by its driver. Various contents within the garage have been damaged including a motor vehicle and personal effects inside the vehicle, various motor accessories and spare parts on shelves, a motor cycle and safety helmet which had been hung on the handlebars of the machine, together with sundry tools and equipment, some of which is used in connection with the Insured's occupation as a Landscape Gardener.

Significant repairs will be required to the garage. These will include renewal of the roof deck and felt covering and replacement of the up and over door. In your discussions with the Insured you find that prior to the incident they were in any event planning to renew the felt covering to the roof due to its age and had already obtained quotations for this purpose but had not yet selected the appropriate contractor. Apart from this you also note that the up and over door has some minor pre-existing damage which the Insured admit was caused by slight impact by one of their own vehicles. Finally, the Insured suggest that they will be unable to live in the property whilst the repairs to the garage are carried out since this activity will result in much noise and disturbance etc, and seek your confirmation that they can obtain suitable alternative accommodation. (10 Marks )

c) What do you understand by the term " 9ct Gold " ? ( 2 Marks )

d) In submitting a report to your Principals you refer to damage to a UPVC window. What does this term mean? ( 2 Marks )

**Total 40 marks**

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