



The Chartered Institute of Loss Adjusters

Associateship Examination 2010 (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

a) In a typical Business Interruption Policy explain briefly what is meant by the following terms:

1. Gross Profit
2. Additional Increased Costs of Working
3. Alternative trading clause
4. Professional Accountants Clause
5. Denial of access extension

(15 Marks)

b) You are dealing with a claim for fire damage which has occurred in a local suburban licensed restaurant. The restaurant is in family ownership and has been established for several years. It is open for business seven days a week providing lunch and evening meals. The same family members also own a fast food takeaway only restaurant located about one mile away from the licensed restaurant.

The fire has caused severe damage to the building and to trade fixtures, fittings and equipment. All the stock comprising foodstuffs and beverages etc has been destroyed. The Insured will not be able to trade from the premises again until the necessary building repairs have been carried out and the various trade contents and the stock has been replaced.

Your Principals' policy covers all the trade contents including stock and provides cover for business interruption with a twelve month indemnity period. The building is insured by the Landlords and their Insurers have appointed their own Loss Adjusters. Your principals' Insured have not engaged Loss Assessors or other advisors to act on their behalf and, for the purposes of the claim negotiations, it has been agreed that you will be dealing direct with two of the family members who own the business.

With specific reference to the Business Interruption element of the claim, the following issues arise:

1. You are told that the building owners wish to take the opportunity to incorporate certain improvements and alterations during the course of the work. Some of these improvements etc will be carried out to enhance the premises for the subsequent benefit of the Landlords but certain others will be necessary to comply with current



statutory requirements. If reinstatement had been carried out to the original specification then a contract period of approximately eight months would have been anticipated but to allow for the additional work a revised contact period of approximately eleven months has been projected. Explain how you would deal with this situation and detail what advice you would provide to your Principals and their Insured.

2. Explain the measures that could be taken to mitigate the effect of the interruption to the Insured's business and the ultimate financial liability of your Principals.

3. Following the closure of the restaurant the Insured have laid off a number of casual and part time staff. However, they also employ a number of key staff including their head chef. They wish to continue to employ them whilst the business is temporarily suspended so that they are immediately available once normal trading can be resumed. Detail the likely cover and explain how you would deal with this.

4. In relation to the Material Damage element, the sum insured on trade fixtures and fittings etc was not adequate. Following the application of average the Insured have incurred a shortfall of £10,000 on that part of the claim. They now seek to include the shortfall within the Business Interruption item on the basis that this is a "consequential loss resulting directly from the fire". Explain the response you would provide to the Insured.

(25 Marks)

40 MARKS



QUESTION 2

1. Explain the difference between contribution at Common Law and Contribution in accordance with ABI Rules.

Give one example of each.

Give two examples where contribution is specifically excluded by ABI rules.

(10 Marks)

2. Where applicable, in all parts of the following questions all workings must be shown:

a) In a policy with a pro rata average condition calculate the amount payable:

(i)

Agreed Loss	£100,000.00
Sum Insured	£150,000.00
Value at Risk	£200,000.00
Salvage	Nil
Excess	£500.00

(6 Marks)

(ii)

Agreed Loss (subject to salvage)	£150,000.00
Sum Insured	£100,000.00
Value at Risk	£150,000.00
Salvage	£ 20,000.00
Excess	£ 250.00

(6 Marks)

b) In a policy with a 20% Co-Insurance Clause calculate the sum payable for loss of stock:

Agreed Loss	£ 50,000.00
Sum Insured on Stock	£100,000.00
Value at Risk	£100,000.00
Salvage Value	NIL
Excess	£ 1,000.00

(6 Marks)



c) Using the same figures as detailed in b) above explain if any different considerations would apply if the Insured had arranged additional cover for stock with separate Insurers. The Sum Insured on the said policy is £25,000.00.

(6 Marks)

d) In dealing with a business interruption claim with cover arranged on a declaration basis, calculate the amount payable:

Agreed Loss of Gross Profit	£150,000.00
Sum Insured	£200,000.00 (declaration linked)
Insurable amount	£250,000.00
Accountant's fees for certifying turnover at Insurers' request	£ 1,000.00
Loss Assessor's fees	£ 3,500.00

(6 Marks)

40 MARKS



QUESTION 3

1. a) Define Warranty in relation to an Insurance Policy.

(4 Marks)

- b) List six warranties which might typically apply in a Commercial Policy.

(6 Marks)

2. Discuss briefly the effect of breach of warranty when dealing with a claim under a domestic policy.

(6 Marks)

- 3 Explain briefly the relevance of the following legislation and how it might apply to the adjustment of a claim:

- Third Parties (Rights Against Insurers) Act (1930)
- Water Industry Act (1991)
- Rehabilitation of Offenders Act (1974)
- Hotel Proprietors Act (1956)

(16 Marks)

- 4 Explain briefly how you would deal with any salvage realisation in the following cases:

- Fire damage which has occurred to stock at a retail pharmacy
- Flood damage which has occurred to the contents of a private dwelling

(8 Marks)

40 MARKS



ANSWER 2 QUESTIONS ONLY

QUESTION LB 1

The Insured, a social club, own an open area beside their Club. The area has never been surfaced and comprises grass and mud. It is open sided and is widely used as a right of way for members of the public who use it to gain access to a residential area.

The claimant rode his bicycle across the area and when his wheel went into a deep rut in the muddy surface and he fell off sustaining injury. You are appointed by the Social Club's PL Insurers.

- a) Outline the enquiries you would make during your first visit to see the policyholder?
(20 Marks)
- b) Outline the various legal liability issues to be considered and state any case law that would be relevant
(15 Marks)
- c) What information would you need to notify the CRU of this incident?
(5 Marks)

40 MARKS

QUESTION LB 2

The Insured manufacture washing machines and you act for their Product Liability Insurers. You receive a letter of claim from "Grabbit and Run" Solicitors who act for the Acme Insurance Company under a CCFA. They are seeking to claim £15,000 which represents their client's outlay following a domestic fire at a policyholder's home. The Solicitors allege that the fire started in a washing machine manufactured by your Insured.

- a) Outline the enquiries you would make in relation to this matter?
(15 Marks)
- b) What Statutes may be relevant to legal liability?
(15 Marks)



- c) What initial Reserve would you propose to your principals and set out the areas where you might seek to adjust the amount claimed?

(10 Marks)

40 MARKS

QUESTION LB 3

In your role as a liability Adjuster explain briefly the circumstances under which you might need to deal with 4 of the following bodies/Acts of Parliament and what issues may arise in dealing with these.

- a) A Rehabilitation Company
- b) The Compensation Recovery Unit
- c) The Third Party (Rights Against Insurers) Act 1930
- d) CPA Conditions
- e) Environment Agency
- f) The Police following a fatality in the workplace

40 MARKS