



The Chartered Institute of Loss Adjusters

Associateship Examination 2010 (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 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



PART 2

ANSWER 2 QUESTIONS ONLY

QUESTION PC 1

You have been appointed to deal with a fire loss which occurred at a seaside “fish & chips” restaurant and take-away on 31 May 2009. The fire severely damaged the Insured’s frying range and ancillary equipment. There was smoke damage to varying degrees throughout the premises and the premises will be closed until the repairs are completed. The Insured own the premises and their Comprehensive Restaurant Combined Policy provides cover for Buildings, Trade Contents, Fixtures and Fittings, (all on a reinstatement basis), Stock, and Business Interruption (Gross Profit Basis). The sums insured are adequate. The policy is subject to a “Frying Range Warranty”.

1. What enquiries would you make in relation to cause and why?
(10 marks)
2. The manufacturers of the range advise you that the fume extraction capability of the existing ducting above the frying range does not meet the current regulations applying to the “Control of Cooking Fumes in The Workplace” and that consequently a modification is required which will cost an additional £2,500. How would you deal with this aspect of the claim?
(10 marks)
3. The insured advise you that their staff are prepared to clean down and redecorate the smoke contaminated areas at a cost which will be calculated using their normal hourly wage rate, plus the cost of materials, this represents an approximate saving of 20% on the figure put forward by a local contractor. How would you proceed with this request and why?
(10 marks)
4. The manufacturers of the range advise that repairs to the range, which is 5 years old, will cost £7,000 but will take approximately 12 weeks to complete. Alternatively they could supply a new range at a cost of £11,000 and installation would be completed within 8 weeks.

The Insured’s most recent accounts contain the following information:



	Year ended 31 December 2008	
	£	£
Turnover		150,000
Opening stock	1,200	
Purchases	60,300	
Less closing stock	<u>1,500</u>	
Cost of sales	60,000	
Staff & casual wages	12,000	<u>72,000</u>
Gross profit		78,000

The Insured advise you that in the period leading up to the fire weekly takings had varied between £2,800 and £3,200, with an average of £3,000.

The repair period for the damaged range is the critical element in the overall reinstatement timescale. Other equipment can all be delivered in less than 8 weeks and the Insured and staff are confident that they will be able to clean and redecorate the smoke affected areas.

Advise what course of action should be taken with regard to the reinstatement of the damaged range, giving your reasons for this?

(10 marks)

40 MARKS



QUESTION PC 2

You are instructed by Insurers to deal with a claim involving fire damage at a branch of a well known national retail chemists. The premises are located in a town centre two storey building and comprise a retail sales area, Pharmacy/Dispensary, and goods inwards facilities on the ground floor. The first floor contains the manager's office and staff welfare facilities, but is used primarily for the storage of stock and as the fire occurred shortly after Christmas some surplus stock, specially acquired for the Christmas trading period is also present.

The normal range of stock is typical for retail Chemists. This includes prescription and over the counter medicines, toiletries, cosmetics, perfume, and small electrical items (toothbrushes, hairdryers, shavers and the like). A proportion of the stock comprises the Insured's "own brand" items.

The fire originated in the vicinity of the electrical distribution board which is located within the Goods Inwards area on the ground floor, to the rear of the building, adjacent to the stairwell. All the stock in the sales area has been either completely destroyed or so severely damaged that it is fit only for disposal. The remainder of the premises has been affected mainly by smoke and heat as a result of which much of the stock stored at first floor level has been contaminated to varying degrees by the products of the combustion.

i) What action would you take to determine the cause of the fire and what investigations would you arrange to be undertaken?

(5 marks)

ii) What issues might arise if investigations determined that the fire originated on the Power Supply Company's side of the distribution board?

(5 marks)

iii) What action would you take to establish and evaluate the extent of the stock loss? What documentation would you require? On what basis would the value of the stock loss normally be calculated? Would any special consideration apply to the stock which had been specifically acquired for the Christmas period but which is now surplus to the Insured's normal requirements?

(15 marks)

iv) Apart from the items which have either been destroyed or severely damaged, the remainder of the stock has only suffered superficial smoke damage. How would you deal with the salvage element?

(10 marks)



v) The policy contains a “Branded Goods” clause, how would this affect the way you deal with the salvage element?

(5 marks)

40 MARKS



QUESTION PC 3

You are appointed to deal with a claim arising from damage caused by a fire to a care home for adults with learning disabilities.

The property was originally a large country house in private ownership, but after its acquisition by the Insured in 2005 it was converted to a care home and the 3 stable blocks in the grounds were converted into 20 self-contained self-catering units, designed to accommodate one resident in each unit. The main house accommodates 10 residents and also contains the main kitchen, communal areas and administrative offices.

At the time of the incident works are being undertaken at the property to build an extension to one of the stable block accommodation units to double its size, the works being carried out under a JCT Minor Works Contract.

The fire originated in a linen store and has caused severe damage to the block that was being extended. In the light of the damage the Insured has had to relocate 7 residents other Care Homes in the locality.

The cover is granted under a Care Homes Package Policy which provides cover on a reinstatement basis for Buildings, Fixtures & Fittings, Trade Contents; cover is also provided in respect of Stock, Employee's & Resident's Effects and Loss of Revenue (24 Month Maximum Indemnity Period)

- i. A proposal is put forward by the architects to carry out repairs based on a price negotiated with the contractor who is building the extension. Outline the benefits and disadvantages of such a proposal and explain how you would verify the price is reasonable.
(15 marks)
- ii. How would you deal with the claim for damage to the new extension which was under construction?
(5 marks)
- iii. The Buildings sum insured is written on a "Day One" basis, explain what this means and also detail the criteria for applying "Average".
(10 marks)
- iv. How would you deal with the claim for Employees' & Residents' personal effects?
(5 marks)
- v. In view of the extent of the rebuild the contractors will require a larger area for their site cabins and the storage of materials, also, the damaged area of



the original structure is adjacent to the staff / visitor car park, as a result of which this entire area will now be behind the site hoarding. The Insured submit a claim for the construction of a temporary car park on an area currently laid to lawn. How would you deal with this aspect of the claim?

(5 marks)

40 MARKS