



# The Chartered Institute of Loss Adjusters

## Associateship Examination 2010 (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

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 advisers 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 PD 1

You are dealing with a claim for fire damage which has occurred at a detached two storey private dwelling. The building is of standard construction with rendered brick elevations under a pitched and tiled roof. The house is about seventy years old and is located amongst similar properties along a quiet suburban road. It is occupied by the Insured and their family. The fire originated in the lounge on the ground floor rear whilst the family were visiting relatives for the day. It was discovered by the next door neighbour who noticed thick smoke billowing from the rear of the building. Extensive damage has been caused within the lounge and adjoining entrance hall as a direct result of the fire and by smoke and heat. All other parts of the building have been affected by smoke contamination to a varying extent. The cause of the fire has not yet been established but it is suspected that this may have been caused by an electrical defect.

1. Detail in note form the enquiries you would make at the time of your first visit, what initial action you would take and what advice you would provide to the Insured.

*(16 Marks)*

2. In order to gain access to the building it was necessary for the fire-fighters who were summoned to the scene to force entry to the building by means of the front door which sustained irreparable damage in the process. During the course of your enquiries you establish that prior to the fire the Insured had already contracted to have a new UPVC door installed to replace the current one. The Insured wish to include the door within the claim as the damage was directly associated with the fire. How do you deal with this situation?

*(6 Marks)*

3. You are subsequently contacted by the owner of the neighbouring property. This individual tells you that the conservatory to the rear of his property has been affected by the smoke emanating from the Insured's property and parts of the conservatory structure are smoke stained. He wishes to know what arrangements will be made to compensate him for the damage. How do you respond to the neighbour? Cite any legislation or case law which may apply.

*(6 Marks)*

4. The Insured's property is uninhabitable as a result of the fire. Initially, and for the first week after the fire, the family are accommodated in a hotel. They then find a suitable property for rental which meets their requirements. However, the family would be required to rent the property for a minimum of six months. Repairs to the Insured's property are anticipated to take four months to complete. How do you



deal with this situation?

*(6 marks)*

5. The remedial scheme subsequently prepared makes allowance for cleaning the rendering to the rear elevation which is smoke soiled in parts. However, when the contractors involved commence the cleaning process they find that the rendering has suffered prior deterioration due to frost damage and weathering and if cleaning is attempted there is the risk of parts of the render becoming dislodged. They therefore recommend that the rendering to the rear wall should be replaced. You discuss this issue with the Insured, who are not prepared to contribute towards the cost of the re-rendering and suggest that as the work is required as a result of the fire the full cost should be met by Insurers. They also state that if the rear wall is re-rendered then similar treatment should be carried out to the remaining walls for matching purposes. How do you deal with this issue and what advice do you provide to your Principals?

*(6 marks)*

**40 MARKS**



## QUESTION PD 2

You are instructed to deal with a claim submitted for damage which has occurred to a detached bungalow of standard construction which is used for normal residential purposes. Investigations have established that the damage has been caused by gradual leakage from defective underground drains which has affected the whole substrate of the building, and in consequence all of the flooring together with fitted furniture such as bedroom units and other joinery items will require to be stripped out and renewed. In addition appropriate remedial works will be required to areas of plasterwork and wall coverings. Your investigations have established the following facts and potential Issues:

1. At the time of reporting the incident to your Principals, the Insured had already sold the property.
2. The new owners became aware of the potential problems approximately one month after purchasing the property. Prior to moving in they were modernising the kitchen and on removing existing units the workmen they were employing established that the floor underneath and the lower sections of the adjoining wall were extremely damp.
3. The new owners initially notified a claim to their own Building Insurers. These Insurers investigated and then declined the claim on the basis that the damage had occurred prior to inception of their policy.
4. Before purchasing the property, the new owners had commissioned a Surveyor's Report. This report did not identify any significant defects or potential problems and, on this basis the new owners decide to proceed with the purchase.
5. The previous owners maintain that they neither had any knowledge nor suspected that defects of this type were present prior to the property being sold.
6. The new owners have asked the Insured if they are prepared to request your Principals to fund the necessary remedial works on the basis that the damage would have occurred whilst their policy was still in force prior to the sale of the property. The Insured have indicated that subject to the agreement of your Principals, they would have no objection to this course of action provided that the new owners are prepared to pay the excess which applied to the former policy.

Discuss the above issues and, in particular, indicate with appropriate reasoning whether policy liability would attach to your Principals or otherwise.

**40 MARKS**



### QUESTION PD 3

- A) List six specific exclusions which would normally apply to the Accidental Damage Extension to a typical Household Contents Policy (6 Marks)
- B) What would be the extent of Insurers liability in the following circumstances (Assume that this is a typical Household Policy covering Buildings and Contents)
1. Vandals have smashed several windows and glass door panels in a large domestic property located in its own grounds. The property is on the market for sale and has been unfurnished and unoccupied for several months. Contractors appointed by Insurers report that the timber frames of the windows have deteriorated due to weathering and lack of maintenance and in order to re-glaze the windows it will also be necessary to replace the deteriorated frames. The Contractors also report that certain of the existing glazing may require replacement with toughened glass to comply with current statutory requirements. (8 Marks)
  2. You are dealing with a separate claim involving a similar type of property which again is unoccupied and unfurnished. Your Principals have restricted the cover to fire damage only and all other perils have been excluded. Intruders gain access to the building and either deliberately or accidentally set fire to the property. This has been extensively damaged. The Insured indicate that they do not wish to reinstate the damage but would prefer a cash settlement. However, and during the course of your enquiries you establish that the Insured, instead of selling the property, have recently been exploring the possibility of demolishing the building and then developing the site, probably by constructing an apartment block. For the purposes of this question it can be confirmed that there is absolutely no evidence that the fire originated as a result of deliberate intent on the part of the Insured or with their connivance. (8 Marks)
  3. Impact damage has occurred to a detached two storey cottage in a rural location directly adjacent to a minor road which is used by the Insured as a holiday home. Since the premises are only occupied intermittently cover is restricted to "dry" perils including impact but excluding theft and malicious damage. All "wet" perils including escape of water are specifically excluded. The damage was caused by a car, which, according to its driver, swerved to avoid some sheep which had escaped from a nearby field. The vehicle impacted the front elevation resulting in significant structural damage. The incoming water supply pipe was also damaged by the force of the impact and a substantial volume of water escaped and engulfed the whole of the ground



floor causing further damage to floor coverings and other contents. The Insured are notified of the incident by the occupier of a nearby property and make immediate arrangements for local contractors to secure the premises as far as possible. However, before the contractors arrive on site, intruders gain access to the insecure building and steal various contents, mainly from the accommodation on the first floor.

In your initial discussions with the Insured, you make them aware of the restricted cover. The Insured confirm that they were aware that this is the case. However, they suggest that since the water damage and then the theft were all directly associated with the impact, all this additional loss and damage should fall to be dealt with as part of the impact claim.

In addition to responding to the Insured's perception of the claim also comment on the possibility of recovery from the driver of the vehicle as a means of mitigating the ultimate liability of your Principals. Briefly advise the extent of any recovery which may be available from the motorist! motor insurers involved.

*(12 Marks)*

C) You are dealing with a theft claim which includes the following items:

1. Gentleman's gold watch for which an amount of £2,000 is claimed
2. Ladies' diamond ring for which an amount of £ 1,500 is claimed

The Insured tell you that they have no purchase receipts, valuations or any other documentation in relation to these items. They can only tell you that both items were bought many years ago and they believe that the jewellers from where they were obtained are no longer trading.

Explain what further information you would require and what enquiries you would carry out to validate these items.

*(6 Marks)*

**Please note that for the purposes of dealing with this question it is NOT necessary to consider the effects of any possible policy limits.**

**40 MARKS**