



The Chartered Institute of Loss Adjusters

Associateship Examination 2009 (October)

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) Explain the implications on the adjustment of a claim each of the following, using examples:

1. Public Authorities' Clause.

(8 Marks)

2. Professional Fees Clause.

(8 Marks)

3. Debris removal Clause

(8 Marks)

b) Set out the calculation (figures need not be included) that you would use to determine a stock loss using the stock reconciliation basis.

(8 Marks)

c) Explain with rationale, demonstrating impartiality and methods to mitigate the loss, how you would deal with salvage in either of following situations:

1. Smoke logged clothing in a retail outlet (Claim £10,000)

2. Minor irremovable staining to carpets and clothing, in a household situation, caused by an escape of water from a cold water tank (Claim £10,000)

(8 Marks)

TOTAL 40 MARKS



QUESTION 2

a) When dealing with claims for Business Interruption in the following scenarios explain what action you would recommend to mitigate loss of turnover and state any savings which you might be able to identify.

i) Fire damage has occurred within the kitchen of a licensed hotel. Various essential items of catering equipment within the kitchen area has been destroyed and smoke has permeated the remainder of the ground floor including the reception and bar areas. It may be necessary to source some of the replacement catering equipment from overseas suppliers and lead times of approximately three months have been quoted. The smoke damage to the remainder of the ground floor is, generally, fairly superficial affecting decorations, other internal surfaces, furniture and equipment etc within the reception and bar areas.

ii) A firm of solicitors occupies rented offices on the ground floor of a building in multiple tenure. A burst pipe occurs within the roof space of the building and all the office accommodation, including that occupied by the solicitors is extensively waterlogged. In addition to the business interruption element, your Principals policy covers trade contents etc but the building owners are liable for any structural repairs. To allow for the necessary drying out procedures it is estimated that it will be at least three months before the premises can be occupied again.

iii) An old caravan has been converted for use as a snack bar and this is permanently located in a lay by adjacent to a busy main road. The Insured normally trades here during daylight hours Mondays - Saturdays. One night the snack bar is accidentally impacted by a heavy goods vehicle attempting to park in the lay by and, together with its contents, the caravan is totally destroyed. During the course of your enquiries you find that the Insured was apparently trading without the necessary Local Authority licence and that measures were in fact in hand to enforce the removal of the converted caravan from the lay by. However, the Insured had already made arrangements to move the caravan to an alternative site in an adjoining Local Authority area where less stringent trading regulations applied.

(24 Marks)



b) b) You are dealing with a fire loss under a commercial policy which covers property damage and business interruption. The Insured are retail carpet suppliers and they occupy a self contained unit attached to an adjacent much larger unit which is a separate business in entirely separate ownership and is used as a furniture warehouse. The fire originated in the furniture warehouse and both that building and its contents were severely damaged. In addition to the damage to the Insured's premises there is a business interruption claim. Temporary repairs enable the Insured to trade but there is a continuing loss of turnover.

Explain if any of the following losses would be covered. For the purpose of this exercise you may make whatever assumptions you wish regarding the business interruption cover but you must explain fully the assumptions made.

i) Loss of turnover in the week immediately following the fire, during which time the local authority refused permission for the premises to trade while the extent of the damage to the warehouse was assessed.

ii) Costs incurred by the Insured in an advertising campaign designed to make customers aware that the fire, which received substantial publicity in the local media, had not affected their premises and that they continue to trade.

iii) Loss of turnover during the period in which the permanent repairs are undertaken. These repairs cannot be undertaken independently of the work on the warehouse. The damage adjacent is so severe that the repairs do not begin until more than twelve months from the date of the fire.

(16 Marks)

TOTAL 40 MARKS



QUESTION 3

- a) Explain briefly the difference between Contribution at Common Law and Contribution in accordance with ABI Rules. Provide one example of each.

(10 Marks)

- b) In all parts of the following question, all workings must be shown:

- i) In a Policy with a pro rata average condition, calculate the sum payable

| | | |
|--|---|---------|
| Agreed loss before application of excess | £ | 50,000 |
| Sum Insured | £ | 100,000 |
| Value at Risk | £ | 175,000 |
| Excess | £ | 500 |

(10 Marks)

- ii) In a Policy with a pro rata average condition, calculate the sum payable

| | | |
|----------------------------------|---|---------|
| Agreed Loss (subject to salvage) | £ | 175,000 |
| Sum Insured | £ | 90,000 |
| Value at Risk | £ | 175,000 |
| Residual salvage value | £ | 10,000 |
| Excess | £ | 500 |

(10 Marks)



iii) In a Policy subject to average under the reinstatement memorandum calculate the sum payable

| | | |
|-----------------------------|---|---------|
| Agreed loss (before excess) | £ | 20,000 |
| Sum Insured | £ | 100,000 |
| Value at Risk | £ | 140,000 |
| Excess | £ | 100 |

(10 Marks)

TOTAL 40 MARKS



PART 2

ANSWER 2 QUESTIONS ONLY

Question PC1

Manufacturing Services plc occupies two modern steel portal framed units on a large industrial estate owned by the local Council. A fire occurs in one of their units which causes minor damage to their equipment and leaves a large hole in the roof which renders the unit uninhabitable.

You are instructed to deal with the Material Damage and Business Interruption claim submitted by Manufacturing Services Plc. You attend site to be met by the Managing Director who informs you that a representative of the Council's Insurers has already attended and advised that the extent of damage sustained by the steel frame and roof, together with the mechanical and electrical services at that level will need to be assessed by an independent structural engineer and a mechanical & electrical engineer. In addition, the Council will be appointing a surveyor to prepare a detailed specification for the appropriate repairs which will be put out to tender. It is not anticipated that rebuilding works will actually commence for six months.

- a) What options would you consider to minimise the losses suffered by your Principals?

(10 Marks)

- b) How would you determine the extent to which the repairs to the mechanical & electrical services should be apportioned between the Council's insurers and your principals?

(10 Marks)

- c) What do you understand by the term "Tenants Improvements" and when would these fall to be dealt with under the Landlord's building policy.

(10 Marks)



- d) Set out a standard formula, **in brief note form**, for the adjustment of a business interruption claim under a standard turnover policy.

(10 Marks)

TOTAL 40 MARKS

Question PC2

- a) You are instructed by the Insurers to deal with a fire claim under a policy which they issue to Mr Singh covering building, machinery and plant on a reinstatement basis. Their Insured owns the affected building and also occupies the ground, first floor and second floor where he trades as the Way Out Clothing Manufacturing Company. There is serious fire damage to the building and to the machinery and plant which necessitates extensive building repairs and replacement of many items of equipment. Investigations confirm that the fire has been caused negligently by the tenant of the basement area who occupies the premises under a formal lease from Mr Singh.

Discuss the possible relevance of the two under noted cases to the subrogated recovery action you commence on behalf of Insurers.

- (i) Mark Rowlands v Berni Inns (1984)
- (ii) Harbutt's Plasticine v Wayne Tank and Pump Co (1970)

(20 Marks)

- b) The buildings policy is written on a Day One Reinstatement Basis, explain how you would verify the adequacy of the sum insured.

(10 Marks)

- c) The Local Authority tell Mr Shah that, as a result of the fire, the means of escape must be improved and that a new external fire escape stairway must be constructed to provide an alternative escape route



from the only internal staircase that serves the first and second floors.
What advice would you give to Insurers and the Policyholder regarding cover for this additional cost?

(10 Marks)

TOTAL 40 MARKS

Question PC3

You are instructed by Insurers to deal with a fire claim under a policy which they issue to Commercial Vehicles PLC, who operate a sales, servicing and body repair franchise for an international commercial vehicle manufacturer. The policy covers Buildings, Machinery Plant & All Other Contents, (all on a reinstatement basis) Stock, Customers' Vehicles and Business Interruption.

The fire started in one of the two paint spray booths in the body shop, these booths are used to spray paint the vehicles and after completion of the paint application the operatives leave the booth and it is switched to a "bake" cycle which then uses a gas burner to heat indirectly the booth (via a heat exchanger) to a temperature of 50°C to harden the paint.

Forensic investigations determine that the fire was caused by a split in the heat exchange unit which allowed the paint vapour to be ignited, resulting in destruction of the spray booth and damage to the adjacent spray booth, offices, locker rooms and reception. The spray booth was installed by a specialist company in 2001.

- a) Given the cause, what enquiries would you make to determine whether there was any viable subrogation prospect?

(8 Marks)



- b) Various employees lost personal effects and clothing as a result of the damage to the locker room - how would approach these employee claims?
(8 Marks)
- c) At the time of the fire there was articulated trailer unit belonging to an important customer in the spray booth and this sustained damage. The customer expects the repairs to be carried out at the Insured's expense - how would you approach this aspect of the claim?
(8 Marks)
- d) The colour photocopier/scanner in the office is damaged beyond repair, this item is leased from the manufacturer and the agreement states that in the event of its destruction the manufacturer shall be entitled to the written down value of the equipment. The Insured however claims the full replacement cost - how would you deal with the adjustment of this aspect of the claim?
(8 Marks)
- e) The Insured repair immediately the other spray booth and state that they can accommodate all their current and anticipated workload by operating a night shift on the remaining booth until the damaged one is replaced, but they will need to pay this "night-shift" double time for working overnight and seek your approval to this extra cost. How would you approach this request?
(8 Marks)

TOTAL 40 MARKS