



The Chartered Institute of Loss Adjusters

Associateship Examination 2009 (October)

Paper C3

Adjustment of Claims
Property Domestic

3 ½ Hours

Maximum Marks 200

Answer ALL questions *in Part 1*
and 2 questions from Part 2X

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) 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 PD 1

On behalf of two separate Insurers you are dealing with claims which have been submitted for damage to two adjoining properties at nos. 18 and 20 Bankside Meadows. The damage occurred during a period of torrential rainfall which overwhelmed the surface water drainage system and substantial volumes of water ingressed into the ground floor of each property to a depth of approx 1M. The following morning, approximately eight hours later, and before any mitigation measures could be put in hand, a nearby stream, which had become swollen due to the volume of rainfall, surcharged and it would appear that the overflow waters from this source also ingressed into each building but to a much lesser extent. Both policies cover buildings and contents against the standard range of perils but the cover for number 20 is subject to a substantial excess of £5000.00 for flood damage.

- a) What advice would you provide to your respective principals regarding the proximate cause of the loss.
(8 Marks)
- b) What measures would you consider taking to mitigate the loss and what advice would you provide to each policyholder.
(8 Marks)
- c) In the case of no. 18 the sum insured applicable to contents is not adequate and represents only 50% of the replacement value. In such circumstances your principals policy reverts to indemnity and they instruct you to make appropriate adjustments for prior depreciation and wear and tear. You explain the position to the policyholder who then states that prior to your involvement, emergency contractors appointed direct by insurers removed for disposal all the saturated contents from the building, and apparently commented that “the Insurers would meet the full replacement cost” The policyholder states that if they were aware that the replacement cost would not be met then they would have wished to investigate the possibility of



repair/refurbishment. How do you resolve this situation?

(8 Marks)

- d) Pending reinstatement neither property will be habitable. Since there was widespread damage of this type there is no reasonably priced hotel accommodation in the area and there is a lack of suitable rental properties. Both families need to remain in the area for the purposes of employment and schools etc and neither family have any relatives in the area who might be able to accommodate them on a short term basis. What advice do you provide to each policyholder and their insurers.

(8 Marks)

- e) Having regard to the circumstances giving rise to the damage explain, with reasons, whether or not any rights of subrogation may apply on this occasion.

(8 Marks)

TOTAL 40 MARKS

QUESTION PD 2

You are dealing with a claim for theft from a large domestic property. This is occupied by the Insured, Mr and Mrs Wang and also by their tenant who lives in a self contained flat on the top floor of the building. The loss includes jewellery, electrical goods, clothing and other personal effects. Entry was achieved by means of a ground floor casement window at the side of the building which had inadvertently been left slightly ajar following a recent spell of warm weather. Mrs Wang was out shopping at the time and the tenant was away visiting relatives. Whilst his wife was out, Mr Wang was working in the detached garage which forms part of the property and is situated approx 30m from the rear of the building. He was engaged in his hobby of restoring old motor cycles and was listening to music on a portable radio whilst inside the garage. The Policy issued by your Principals covers both buildings and contents against the usual range of perils, including accidental damage. The policy also includes a specific warranty which requires that the intruder alarm should always be left in operation whilst the Premises are unattended. Explain how you would deal with the following issues and what recommendations you would make to your Principals:

- a) As a result of your enquiries you find that the intruder alarm had not been left



in operation. By way of explanation Mr Wang states he considered the premises to be “attended” at the time since he was working inside the garage. He does however admit to you that on certain occasions, and if the house will be unattended for only a short period, then it is possible that the alarm may not be set.

(8 Marks)

**FOR THE PURPOSES OF DEALING WITH THE REMAINING PARTS OF THIS QUESTION
ASSUME THAT POLICY LIABILITY HAS BEEN ACCEPTED IN PRINCIPLE BY INSURERS**

- b) The loss includes property owned by the tenant. This person has not arranged separate insurance but you are told by the Insured that when the tenancy was arranged they agreed with the tenant that there was no need for any separate insurance since they were under the impression that their policy would automatically include the tenant’s contents and personal effects.

(8 Marks)

- c) There is a lack of documentation to support the claim, the Insured explaining that they are not in the habit of retaining receipts. That apart, many of the items of jewellery were inherited and some jewellery of more recent acquisition was obtained whilst Mr and Mrs Wang were on holiday abroad.

(8 Marks)

- d) At the time of the incident, the Insured’s two pet dogs were locked in the conservatory at the rear of the building. The intruders did not attempt to enter this area but it seems that the dogs were frightened by their activities and, in consequence, damaged furniture in the conservatory by chewing and also soiled the carpet.

(8 Marks)

- e) Sometime after the incident, but before the claim has been settled, the Police recover a few items of the stolen jewellery and also some of the stolen clothing. The Insured has no objection to being reunited with the missing jewellery but does not wish to have any of the clothing returned to them. They believe that it may have been worn by the thieves or others and consider



that the appropriate items should still be dealt with as part of the claim.

(8 Marks)

TOTAL 40 MARKS

QUESTION PD 3

a) You are dealing with a claim for fire damage at a three storey terraced property occupied by the Insured and their family. Your Principals' policy covers both Buildings and Contents. The fire originated in the kitchen on the ground floor and may have been caused by an ash tray being emptied into a pedal bin without checking that its contents were fully extinguished. However, this cannot be positively verified as being the precise cause.

- i) Briefly detail the enquiries which 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.

(15 Marks)

- ii) At the time of your visit, the Insured tell you that they have been approached by Loss Assessors who have offered to deal with the claim on their behalf. The Insured ask you if the Assessors' fees would be covered as part of the claim and if it would be in their best interest to appoint the Assessors to act on their behalf. How do you deal with this enquiry? If Loss Assessors are appointed what fact do you need to verify about the Loss Assessor?

(5 Marks)

- iii) You are contacted by the occupiers of the adjoining property. They tell you that their property has been affected by smoke and heat and that they are holding the Insured responsible for the damage since the fire originated within the insured property. How do you deal with this situation and how do you respond to the neighbours? State any specific legislation or case law which applies to circumstances of this type?

(5 Marks)



iv) Within the Insured's property there is matching carpet throughout the entrance hall together with the stairs and landing areas. The carpet in the hall has been damaged by the fire whilst the remainder has been affected by superficial smoke damage and may respond to professional cleaning. You are told by the Insured that the original carpet is no longer available and so that there is no mismatch they have requested that the whole of the carpeting should be replaced. How do you deal with this situation?

(5 Marks)

b) You are dealing with a claim for theft and the Assessors involved have presented a schedule of claim which includes the following items:

- i) Ring in 22 carat gold
- ii) Antique tankard in Britannia silver
- iii) 19th century tea caddy in Sheffield Plate

What do you understand by the descriptions of the materials in each of the above items? What further information would you request from the Assessors to verify that the description of each item is correct?

(10 Marks)

TOTAL 40 MARKS