



# **The Chartered Institute of Loss Adjusters**

**Associateship Examination 2010 (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 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

You are instructed to deal with a claim submitted to your Principals for fire and malicious damage which has occurred to a farm shop retailing a range of local farm produce from both the Insured's farm and from other similar suppliers in the area. The business premises comprise a detached single storey building of timber construction with a pitched and felted roof supported on a concrete base. Inside the building, there is a basic range of equipment including a shop counter, a cash register, scales, a refrigerator and a freezer.

Your Principals' policy covers both the building and its contents. There is no cover for Business Interruption. The policy was incepted only one month prior to the incident. Your Principals provide you with a copy of the proposal document, which indicates that the business had been operating for several years but there is no apparent history of previous insurance. Your Principals also inform you that shortly after the claim was notified to them they received information from an anonymous source that the farm shop had allegedly been operating without planning permission.

On attending site you establish the majority of the stock and equipment has been damaged, the latter having been attacked with a hammer or similar implements. In addition there has been an attempt to set fire to the counter but this has caused only superficial damage. You learn that the Insured vacated and secured the premises at approximately 5.00 p.m. on the day of incident and at about 8.30 p.m. was contacted by local police officers who informed him there had been a break-in and fire at the premises. When the Insured, who is the sole key holder, arrived at the premises shortly afterwards, he found the front and only entrance door had been forced open. During your initial discussions with him, the Insured loses no time in making it plain he will be looking for settlement of the claim as a matter of urgency and will not tolerate any delay.

Explain what further information you would seek from the Insured at the time of this initial meeting. State what further enquiries and investigations you would deem appropriate to enable you to submit appropriate recommendations to your Principals. Your answer should include an explanation of the benefits or necessity to obtain the information.

**40 MARKS**



## QUESTION 2

A. In a typical Business Interruption Policy, what do the following terms mean?

- Trend
- Customers Extension
- Loss of Attraction
- Public Utilities Extension

(12 Marks)

B. When dealing with claims for Business Interruption in the following scenarios explain what action you would recommend to mitigate loss of turnover and any savings 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 have been destroyed and smoke has permeated throughout 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 and has affected decorations, other internal surfaces, furniture and equipment etc within the reception and bar areas.

(6 Marks)

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

(6 Marks)

(iii) Impact damage has occurred to premises rented by a retail newsagent. At the time of your initial visit following the incident you are informed that the Insured will not be able to resume trading until certain emergency and temporary repairs are undertaken by the Landlords. These should be completed within about two weeks. Thereafter, there may be some further disruption whilst permanent repairs are in progress but, at this stage, it is not possible to evaluate the extent of any such further disruption which may occur.

(6 Marks)

C. 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 in separate ownership which 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 the assumptions you have 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 whilst 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 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 the repairs do not begin until more than twelve months from the date of the fire.

(10 Marks)

**40 MARKS**



### QUESTION 3

Having been instructed to deal with a High Net Worth loss, you are about to commence your pre visit enquiries. The loss concerns a theft from a mansion in a locality generally occupied by celebrities including footballers, television personalities and, it is believed, one of the members of a legendary rock band called “Maximum Indemnity” who had a recent hit with “Love is the Proximate Cause”.

- A. Damage has been sustained to the front door, the doorframe and to the decorations surrounding the front door. The damaged decorations are in the hallway and this is part of the large hall, stairs and landing area. Specify the details you would require to ensure that you are able to validate repair estimates provided in support of the building claim.  
(15 marks)
- B. The Insurer has stated that there is a security warranty but is unable to furnish you with a copy. You believe the warranty to be strict in terms of requirements. Draft a security warranty that you could expect to be in place.  
(15 marks)
- C. Having arrived on the scene you find that the Policyholder uses a pseudonym and is, in fact, a superstar known worldwide. She has recently been involved in adverse publicity allegedly surrounding drug taking and an assault of a night club doorman. Draft a section of your preliminary report concerning moral hazard.  
(10 marks)

**40 MARKS**



## PART 2

### ANSWER 2 QUESTIONS ONLY

#### QUESTION PD 1

##### **A.**

You are appointed to deal with a claim for fire damage which occurred within a modern detached two storey private dwelling, your Principals' policy covering the building only. The fire originated in the roof space but, fortunately, was detected immediately and following prompt attendance by fire-fighters structural damage was limited to part of the roof, although a large part of the building was affected by smoke contamination.

Specifications and costings for the necessary building repairs were agreed with the Chartered Loss Adjuster representing the policyholder. The work has been completed and the policyholder and his family have moved back into the property. However, the Adjusters have been in touch with you and inform you that, despite the repairs which have been carried out, the policyholder can still detect smoke odour within the building. The Assessors further inform you that they have arranged for their surveyor to carry out an inspection and the surveyor is of the opinion that the odour which is apparently present, results from smoke contamination of the insulating material within the cavity walls of the building. The Assessors suggest, in order to resolve the problem, it will be necessary to replace the contaminated material and they request your Principals to confirm they will meet the evidently substantial costs to be incurred in view of the associated building work deemed necessary.

How do you deal with this situation and what advice do you provide to your Principals?

(25 Marks)

##### **B**

i) Define Warranty (5 Marks)

(ii) List five warranties that might apply to a Domestic Policy (5 Marks)

(iii) Discuss briefly the effect of breach of warranty when applied to a Domestic Policy (5 Marks)

**40 MARKS**



## QUESTION PD 2

### A. Discuss the liability of Insurers in each of the following scenarios:

(i) You are dealing with a claim for fire damage which has occurred at a domestic property. Specifications and costings for the necessary repairs have been agreed and a contractor has been appointed. During the course of the work it becomes apparent that areas of timber flooring have been affected by dry rot. It is suspected that the dry rot infestation may be associated with flooding which affected the property several years earlier and where, possibly, the drying out measures may not have been adequate. The property was in different ownership at the time. Reinstatement of the fire damage can only be satisfactorily carried out if the infested flooring is allowed as a variation within the agreed remedial scheme. (10 Marks)

(ii) You are instructed to deal with a claim for storm damage which has occurred at a tenanted domestic property. The Insured who is the owner of the building does not live locally and asks that you arrange to meet the tenant there in order to carry out your inspection. On attending at the property you meet the tenant who points out the areas of storm damage which have occurred to the roof and where a number of tiles have been dislodged. The tenant appears reluctant to allow you inside and stresses there is no need to carry out an internal inspection as all the damage is external.

Following your meeting with the tenant you speak to the Insured and confirm you will arrange for the necessary roof repairs to be carried out by one of your Principals' approved contractors. The Insured is in agreement with this procedure.

A couple of weeks later and before repairs have been carried out, you read in the local press that the tenant has been arrested and has been charged with using the building as a cannabis factory (10 Marks)

### B.

(i) In dealing with a domestic claim, list six potential fraud indicators (6 Marks)

(ii) Give an example of:  
a. Fraud by a policyholder (2 Marks)  
b. Fraud by an insurer (2 Marks)

(iii) List five examples of insurable interest (5 Marks)

(iv) Outline the main provisions of the Fires Prevention (Metropolis) Act 1774. (5 Marks)

**40 MARKS**



### QUESTION PD 3

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 have 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:

- At the time of reporting the incident to your Principals, the Insured had already sold the property.
- 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 contracted established the floor underneath and the lower sections of the adjoining wall were extremely damp.
- The new owners initially notified a claim to their own Building Insurers. These Insurers investigated and then declined the claim on the basis the damage had occurred prior to inception of their policy.
- Before purchasing the property, the new owners had commissioned a Surveyor's Report. This report did not identify any evidence of dampness or any other significant defects or potential problems. On the strength of the Surveyor's report the new owners decide to proceed with the purchase.
- The previous owners maintain they neither had any knowledge nor suspected defects of this type were present prior to the property being sold.
- The new owners have asked the Insured if they are prepared to request your Principals fund the necessary remedial works on the basis 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 the new owners are prepared to pay the excess that applied to the former policy.

Taking account of the above issues, and, in particular, indicate with appropriate reasoning, whether liability would attach to your Principals or otherwise. Assume the



policy covers the building against a typical range of perils.

**40 MARKS**