



The Chartered Institute of Loss Adjusters

Associateship Examination 2010 (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

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 PC 1

You have been instructed by the Insurers of a property investment company in relation to a fire.

The building comprises a steel portal frame, in-filled with blockwork to eaves height, the internal face of which is painted, externally the walls are clad with powder coated steel panels. The roof comprises composite insulated panels fixed to lightweight steel purlins supported by the portal frame. Standard services are provided. The building measures 20m by 60m on plan including the offices and reception which are located in a two-storey section at the front of the premises measuring 20m by 7m.

The fire has damaged 75% of the building. The policy excess is £25,000.

- a) Showing your calculation provide your estimation of the value at risk.
(8 marks)
- b) What methods are available to you to ascertain the value at risk for the building? Provide a brief description of each method, providing a critical assessment of the different methods.
(8 marks)
- c) You established that at the commencement of the policy on 1st January 2009 the building had a value at risk that was 15% more than the sum insured. The fire occurred on 30th December 2009. Discuss what practical implications that this may have with regard to the settlement of the claim if the policy was subject to each of the following:
i) 85% Average Clause
ii) Declared Value on a Day One Basis
(8 marks)
- d) Contrast reinstatement as provided for under the operative clause of the policy and reinstatement under the Reinstatement Memorandum.
(8 marks)
- e) The claim was settled for £1million after an adjustment for average of £475,000 and after the deduction of the policy excess of £25,000. You recover £750,000 following action taken in respect of a recovery. Advise how this sum



is apportioned between the Policyholder and Insurers, providing an explanation.

(8 marks)

40 MARKS



Question PC 2

You are appointed by the Insurers of a company which manufactures packaging for various “ready meals” and about 75% of its production relates to supermarket “own brand” products. The packaging for the meals comprises of card sleeves which are slipped over the sealed “oven ready” food containers.

The policy provides cover for Machinery Plant and All Other Contents, Tenants’ Improvements, Stock and Business Interruption. For the purpose of this question you can assume that the sums insured under each policy item are adequate.

The Insured occupies the premises under the terms of a full repairing (but not insuring) lease. The landlord has a separate policy covering the Buildings and Loss of Rent (36 months).

A fire occurs in a printing press but the Fire Brigade manages to extinguish the fire before it spreads from the machine, however the entire building and contents have been contaminated to various degrees by the by-products of the combustion.

1. Stock contained within the unit has been rendered useless due to the contamination by smoke and the extinguishment medium. The Stock comprise raw materials (i.e. card) work in progress (card which has been printed but not yet cut, folded and glued) and finished stock awaiting despatch to customers.

Assuming that the quantities destroyed are agreed, explain the basis on which you would value the stock.

(10 Marks)

2. Explain how you would deal with these aspects of the claim:
 - (a) The claim for the supermarket “own brand” stock is submitted at the contracted sale price.
 - (b) Part of the raw materials that were damaged comprises the plain card which forms the basis of the final printed sleeve. This is imported and you establish that the cost of replacement has risen, since its purchase, by 18% due to currency exchange rate fluctuations.
 - (c) The Insured claims an additional figure, equivalent to 4% of the stock claim, in respect of “Head Office administration and restocking costs”

(15 Marks)



3. Explain what your response would be, giving a rationale, to the landlord's Insurers request that you deal with the following items:
- (a) The replacement of the electrical intake, main distribution board and wiring adjacent to the press that was destroyed.
 - (b) The upgrading of the ventilation system in the staff canteen to comply with current Building Regulations.
 - (c) A mezzanine floor structure recently installed by the tenant to accommodate additional storage.
 - (d) The cost of temporarily removing the undamaged stock racking and plant to enable the decorating contractors to reinstate the building and decorative finishes.
 - (e) Premium time working costs so that the building repairs can be undertaken outside of normal working hours.

(15 Marks)

(40 Marks)

Question PC 3

You are dealing with a claim for fire damage at a shop premises occupied by your principals' insured who are a retailer of greetings cards and gifts. All applicable warranties have been complied with and your Principals have accepted Policy Liability.

Assessors representing the Insured have presented a claim for Material Damage as follows:

Buildings	£82,000.00
Stock	£30,000.00
Trade Contents, Fixtures & Fittings	£14,000.00
Assessors Fees	£ 5,000.00

From the enquiries which you have carried out the following points have emerged:

- i. The building is tenanted by the Insured but under terms of the lease they are required to arrange building insurance. They have done so but the sum insured is £250,000 against a reinstatement value of £300,000.



- ii. Although the Insured are obliged to arrange the necessary insurance in terms of their lease, you have also established that the building owners have separately arranged their own insurance. The sum insured on their Policy represents the reinstatement value of £300,000.
- iii. The sum insured on stock is £70,000 and this is adequate.
- iv. The sum insured on fixtures, fittings and all other trade contents is also adequate. However, the claim includes certain leased equipment for which the Insured are apparently responsible. The claim submitted for this equipment is based on the full replacement cost although the lease itself simply requires the Insured to indemnify the owner of the equipment against any loss or damage.
- v. The fire originated in an area used as the staff rest room on the ground floor. The source of the fire appears to be within or adjacent to a microwave oven which was purchased new from local suppliers approximately 2 months prior to the fire.

Explain how you would propose to adjust the claim and what further investigations you would carry out and what documentation you would require. Identify any areas and procedures which might mitigate the ultimate financial liability of your Principals.

(40 Marks)