

The Chartered Institute of Loss Adjusters

**Associateship Examination
October 2008**

Paper C3

Adjustment of Claims

Property Commercial

3½ 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 dealing with a claim for Business Interruption following extensive flood damage which has occurred to the Insured's factory. The Insured are manufacturers of biscuits and confectionery products. They operate from two separate sites approximately 100 miles apart. The site at which the loss occurred specialises in the production of biscuits for a variety of supermarket own labels and the like. The other site produces biscuits and confectionery of higher quality and value under the Insured's own well known brand names.

The Policy covers Business Interruption at both sites against which separate sums insured are allocated and the wording of the Policy follows the typical format. For the site at which the loss occurred, gross profit is covered for £20 million on a sum insured basis and a 24 month indemnity period is applicable.

- a) What action would you take at the time of your initial site visit and what information would you obtain at that stage.
- b) Following your initial visit, prepare a document request list for submission to the Insured. Explain briefly against each item your reasons for requesting such documentation.
- c) Assuming that Insurers subsequently accept Policy Liability, list any points which you think should be considered before proceeding to conclude adjustment of the claim.

40 Marks

QUESTION 2

You are instructed to deal with a claim for substantial fire damage which occurred at a garden centre on the 30 August 2008. The fire originated within the main retail showroom and investigations established that this was attributable to an electrical defect. The showroom contained a wide variety of goods including house plants, artificial flower displays, gardening equipment and machinery, garden furniture, outdoor clothing, beverages, confectionery, books, DVD's, together with assorted household and sundry items. Due to the extent of the damage only a few items remain identifiable within the debris which includes part of the

roof structure which collapsed during the course of the fire. In the circumstances, and in view of the extent of the devastation which has occurred, it is agreed at your initial attendance at the site that the only practical method of dealing with the stock claim is by means of a stock reconciliation.

- a. Outline what you consider to be the advantages and disadvantages of a claim based on a stock reconciliation.

10 Marks

- b. What preliminary actions would you take and what documentation would you request at that initial meeting relating to the stock reconciliation.

10 Marks

- c. Set out the calculation (figures need not be included) that you will be drawing up to determine the theoretical stock loss.

10 Marks

- d. What further adjustments, if any, to the theoretical stock loss might you wish to consider before agreeing settlement.

10 Marks

Total: 40 Marks

QUESTION 3

Where applicable, in all parts of the following questions all workings must be shown.

- a. 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 |
| Excess | £ 500.00 |
| Salvage Value | £ Nil |

8 Marks

- b. Using the same figures as detailed 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.

8 Marks

c. In a Policy with a pro-rata average condition calculate the amounts payable:

| | | |
|----|---------------|-------------|
| i. | Agreed Loss | £200,000.00 |
| | Sum Insured | £100,000.00 |
| | Value at Risk | £250,000.00 |
| | Salvage Value | £ Nil |
| | Excess | £ 1,000.00 |

8 Marks

| | | |
|-----|----------------------------------|-------------|
| ii. | Agreed Loss (subject to salvage) | £150,000.00 |
| | Sum Insured | £100,000.00 |
| | Value at Risk | £150,000.00 |
| | Salvage | £ 10,000.00 |
| | Policy Excess | £ 1,000.00 |

8 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 |
| Accountants fees for certifying turnover figures at the request of Insurers | £ 1,500.00 |

8 Marks

Total: 40 Marks

Part 2

Property Commercial

ANSWER 2 QUESTIONS ONLY

Question PC1

The insurers of a packaging company instruct you. The insured buy pet food in bulk, which they package and sell under their own trade name. They also provide a package service to others who provide their own product for packing. The cover they have purchased is for the building, which they own on a freehold basis along with cover for contents and stock.

The building is a steel portal frame, with cladding to the walls and roof being a composite insulated panel. Standard services are provided. The building measures 20m by 60m on plan with an office located on a two-storey section measuring 20m by 7m.

The stock held varies throughout the course of the year. The insured's own stock is valued at approximately £2m, although the value of the customers stock is not known. From a quantity perspective it is similar to the volume taken up by the insured's own product.

You are involved with a fire that has damaged 50% of the stock and 75% of the building. The policy excess is £25,000.

- a) There is a standard stock cover in place that extends to cover goods for you are responsible. You suspect the sum insured is inadequate. What enquires would you make and what difference may the cause of fire have on your conclusions and advice to insurers.
- b) What approximate value would you expect the building to be insured for? Show any assumptions in your calculation.
- c) What methods are available to you to ascertain the value at risk for the building. Provide a brief description of each method, advising the order in which you consider the different methods are most accurate.
- d) You established that the building, at the commencement of the policy had a value at risk 15% more than the sum insured. The fire occurred on the 350 day of the policy. Discuss what practical

implication this may have with regard to the settlement of the claim on the following basis:

- i. 85% Average clause
 - ii. Declared Value on a day one basis.
- e) You have now settled the claim for £1m, having made an adjustment for average of £475,000 and after the deduction of the policy excess of £25,000. You recover £750,000 in the recovery. Advise on how this sum is apportioned along with your reasons.

Total 40 Marks

QUESTION PC2

You are appointed by the Insurers of the Able Printing Company who manufacture packaging for food and pharmaceutical products.

The policy provides cover for:

Machinery plant and AOC

Tenants improvements

Stock

Business Interruption

For the purpose of this question you can assume that the sums insured under each policy item are adequate.

The Able Printing Company occupies the premises under the terms of the 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 five colour printing press causing severe damage to the press. The Fire Brigade manage to extinguish the fire before it spread from the machine, but the entire building and contents have been contaminated to various degrees by the products of the combustion.

Forensic investigation has established that the fire resulted from the ignition of an accumulation of varnish residue in the drying section of the press and not as a result of any mechanical or electrical fault within the press.

- a) You establish that the press, which is 4 years old, is capable of repair at a cost of £700,000, but the parts have to be specially manufactured and all have to be imported from Japan, the timescale is 9 months. However, the Insured's assessors submit a claim for a new machine which can be commissioned and installed within 3 months at a cost of £1.5 million – explain how you would deal with this situation detailing the enquiries that you would need to undertake and the rationale behind the decision making process.
- b) Stock contained within the unit has been rendered useless by smoke and the extinguishment medium. Stocks comprise raw materials (i.e. card) work in progress (card which has been printed but not yet cut and folded) and finished stock awaiting despatch to customers. Explain how you would approach the stock claim in order to correctly establish quantum.
- c) How would your adjustment of the stock claim be affected if the policy contained a Contract Price Clause?
- d) The landlord's Insurers request that you deal with the following items:-

What would be your response (give reasons):-

- a. The decontamination of the staff canteen including all walls, floors, suspended ceilings and fitted appliances.
- b. A mezzanine floor structure recently installed by the tenant to accommodate additional storage.
- c. The cost of temporarily removing the undamaged stock racking and plant to enable the decorating contractors to reinstate the building and decorative finishes.

- d. Premium time working costs on the racking so that the removal can be undertaken outside of normal working hours.

Total 40 Marks

QUESTION PC3

A fire occurs at The Dog and Duck which is a popular gastro pub occupying a rural riverside location in Kent. The property can be traced back to the 16th Century and is Grade II* listed.

The structure is predominately timber framed with external walls of local brick with panels of wattle and daub. The roof is covered with Kent peg tiles. A single storey brick and tile extension was added in the 1950s to accommodate a full size commercial kitchen. At the time of the fire a restaurant extension was being constructed in the form of a large Orangery overlooking the river at the rear. These works were taking place at a traditionally quiet time of year of the restaurant so that it could be closed with minimal impact to the revenue. Snacks and hot meals were still served in the bars. The Orangery was being constructed by a local contractor under a JCT Minor Works Contract.

The fire started in an automatic glass washing machine located in the utility area between the extension and the main building.

The fire causes damage to part of the main roof of the premises, the 1950s extension and the nearly completed Orangery. A large proportion of the property is affected by smoke and extinguishment water. The pub is owned by UK Inns Limited and occupied by an established tenant who has a separate insurance cover in respect of contents/business interruption.

You are appointed by the Insurers of UK Inns Limited, the cover is buildings with a sum insured of £1.2 million which is adequate on a reinstatement basis. The policy also provides cover in respect of loss of rent with the sum insured of £240,000 over 24 months.

A schedule of repairs is drawn up by the Insured's surveyors and submitted to the Local Authority for planning and building regulation approval. Unfortunately, objections are raised by both the Building

Conservation Officer and English Heritage as result of which the planners decide that the design of the roof and proposed materials for the reconstruction of the extension are not in keeping with the design and form of the main property. Consequently, they insist upon changes which are likely to increase the cost of the build by some £30,000.

In addition, when the extension was built in the 1950s it was fitted with metal framed windows, popular at the time.

Two of the windows were damaged but the Conservation Officer is insisting that all 4 windows in the extension are replaced in a style that matches the main building.

These problems result in protracted discussions and negotiations with the English Heritage*/Building Conservation Officer and the necessity to re-submit the planning application on two occasions, as a result of which reinstatement is delayed for 10 months.

- a) Explain the provisions of the Public Authority's clause and the reinstatement memorandum with specific reference to the problems on site.
- b) The Insured's surveyor suggests that once planning approval is obtained, the repairs are carried out based on a price negotiated with the contractor who was constructing The Orangery. Outline the benefits and disadvantages of such a proposal and explain how you would verify the price.
- c) The claim submitted under the buildings policy includes the cost of reinstating the Conservatory and replacing unfixed materials on site. What advice would you give the Insured in relation to this aspect of the claim?

Total 40 marks

*** NOTE FOR NON UK CANDIDATES**

A listed building is a building of historic importance that is protected by law. The level of its importance is governed by the grading, with Grade I being the highest.

Restrictions are placed on works that can be carried out to such buildings and in the event of damage the property has to be reinstated to its original style using comparable materials. Reinstatement therefore tends to be more expensive and can take longer.

English Heritage is an organisation which both maintains some historic buildings and also advises local authorities on restoration work to listed properties.

