

The Chartered Institute of Loss Adjusters

**Associateship Examination
October 2008**

Paper C3

Adjustment of Claims

Property Domestic

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 Domestic
ANSWER 2 QUESTIONS ONLY

QUESTION PD1

You are dealing with a claim under the All Risks Section of a Household Policy which covers valuables and personal possessions:

a. Briefly explain what type of property would normally be covered by the term 'Valuables and Personal Possessions'. 4 Marks

b. List six items which you would expect would normally be specifically excluded from this element of the Policy Cover. 6 Marks

c. You are dealing with a claim for the theft of jewellery and electrical goods. The claim includes the following items for which the Insured is unable to produce any purchase receipts or similar supporting documentation:

- 18ct. gold ring
- A 32" flat screen television
- Collection of DVD's
- £500 in cash

i. Explain what enquiries you would make to validate these items and what recommendations you would submit to your Principals. 8 Marks

ii. The claim also includes a gold watch for which the Insured is able to produce satisfactory substantiation, including original purchase documentation. You note from the documentation that the watch was purchased overseas and the Insured confirms that this was acquired whilst on holiday. In answer to your questions, the Insured also confirms that the watch was not declared to the Custom Authorities on returning to the United Kingdom and explains that he was under the impression that it was apparently not necessary to do so in the case of one single item.

Discuss the issues which arise when dealing with claims for items which have not been declared to the Customs Authorities. Include reference to any case law which may be applicable.

6 Marks

d. When dealing with a claim under a Domestic Policy discuss the circumstances under which the following legislation may be applicable:

i. Rehabilitation of Offenders Act 1974 4 Marks

ii. Unfair Contract Terms Act 1977 4 Marks

iii.	(Rights Against Insurers) 1930	Third Parties	4 Marks
iv.	(Metropolis) Act 1774	Fires Prevention	4 Marks

Total: 40 Marks

QUESTION PD2

You are instructed to deal with a claim submitted for damage to a domestic property. This has been caused by gradual leakage from underground drains and which has affected the ground floor of the building. Extensive refurbishment works will be required including the replacement of kitchen units, flooring and other joinery items. The Policy issued by your Principals' covers the building only. Your initial involvement with the claim has identified the following points:

- a. The Insured purchased the property approximately six months ago and your Principals' policy was incepted at the same time.
- b. The Insured moved into the property within a few days of completing the purchase and then became aware of noxious smells emanating from the kitchen area. Gradually, these unpleasant smells seemed to disappear and, initially, the Insured was not unduly concerned believing that they might be associated with lack of ventilation as the property had been unoccupied and empty for some time prior to its sale.
- c. However, and over the next 2/3 months these unpleasant smells started to reoccur and become more frequent. The Insured then made arrangements for a building contractor to carry out some initial investigations. Having completed these investigations, the contractor established that an underground drain was damaged and had evidently been leaking for some considerable time. The contractor advised that in addition to repairing the drain it would also be necessary to renew flooring, kitchen units and joinery etc., as detailed above. The house will not be habitable whilst the work is being carried out.
- d. In instructing you to deal with the claim, your Principals have requested you to attempt to obtain details of the previous owners' building insurers. They explain to you that they would wish to obtain this information since it is possible that some of the damage may have occurred prior to inception of their Policy and, in that event, they would wish to obtain contribution from the previous insurers.
- e. Prior to purchasing the property, the Insured had commissioned a report from an independent Structural Engineer. This was primarily to confirm that the property was not affected by any significant structural problems, for example, subsidence. In submitting their report, the Engineers advised that no structural problems were present.

Produce a narrative report for your Principals including comments on the various issues referred to above and in particular, indicate with appropriate reasoning whether you consider liability would attach or otherwise under their Policy.

Total 40 Marks

QUESTION PD3

You are instructed to deal with a claim for impact damage which has occurred to domestic premises. Your Principals' policy covers building and contents. On attending the site, you find that a delivery van has collided with the front boundary hedge of the property and has continued across the front garden, damaging the lawn and trees and shrubs etc., in the process. It then impacted the single garage attached to the side of the property where it finally came to a halt. Due to the force of the impact, the garage and its contents are severely damaged.

- a. Assuming that Policy Liability is accepted by your Principals, and that the sums insured are adequate, explain how you would deal with the following issues which arise in connection with the claim:

At the time of your initial visit, the Insured informs you that he had been approached by Loss Assessors who have offered to deal with the claim on his behalf. The Insured seeks your advice as to whether it would be appropriate for him to take this course of action.

Explain how you would respond to the Insured and what advice, if any, you would be able to provide. 4 Marks

When dealing with the remaining sections of this question assume that in the event the Insured does not engage the services of Loss Assessors.

- b. The mature hedge at the front of the property has been totally destroyed as a result of the impact. This evidently cannot be replaced immediately and a new hedge would take some years to mature. From the point of view of privacy and security the Insured therefore asks if your Principals would be prepared to meet the cost of a replacement wall or fence as a substitute for the original hedge. 4 Marks
- c. Due to the extent of the damage, it will be necessary to demolish and rebuild the attached garage. The original structure consists of brick elevations with a flat felt covered roof. The insured wishes to take the opportunity to rebuild the garage with a pitched and tiled roof structure in place of the original flat roof. The Insured recognises that this will involve some additional cost element and accepts that this will be for his own account. However, you have established from your inspection that the original felt roof covering was evidently in deteriorated condition and would, in any event, have required replacement in the near future as a matter of normal maintenance. 4 Marks

- d. Although the main house was not directly affected by the impact the Insured subsequently draws attention to various cracks which have appeared in the ceiling to one of the first floor bedrooms. The insured is insistent that these cracks were not present prior to the impact. 4 Marks
- e. When you receive the Insured's final claim submission you note that this includes the following items:
- i. A vintage motor cycle within the garage which the Insured was in the process of restoring.
 - ii. Sundry motor vehicle accessories, which had been stored on shelves and racks.
 - iii. Gardening equipment including a motor mower.
 - iv. Various tools and equipment used by the Insured in connection with his employment as a carpenter.
 - v. The costs incurred in reurfing the front lawn and providing replacement plants and shrubs.

Discuss what recommendations you would make to your Principals in relation to the items detailed above. 16 marks

- f. You have contacted the third party Motor Insurers indicating that you will be seeking recovery of your Principals' outlays. However, they decline liability. In doing so, they explain that their investigations have established that the accident was the fault of a cyclist who emerged from a minor road near the property without warning and caused their Insured's driver to swerve. The cyclist allegedly responsible for the incident apparently made off immediately and has not been traced or identified. What advice do you provide to your Principals? 8 Marks

Total: 40 Marks