



The Chartered Institute of Loss Adjusters

Associateship Examination 2013 (April)

Paper C3

Adjustment of Claims - Liability

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

- a) Explain the difference between Contribution calculated on the Independent Liability basis and Contribution calculated on the Sums Insured basis.
- b) The agreed loss is £10,000. The Sum Insured against Policy A is £20,000 and for Policy B the Sum Insured is £50,000. Calculate the Contribution payable by each Policy on the basis of each Insurer's Independent Liability.
- c) The agreed loss is £15,000. The Sum Insured against Policy A is £10,000 and for Policy B the Sum Insured is £35,000. Calculate the Contribution payable by each Policy on the basis of each Insurer's Independent Liability.
- d) Using the same figures as in b) and c) above, calculate the Contribution payable in each case when using the Sums Insured basis.

NB IN THE ABOVE EXAMPLES, ALL WORKINGS USED TO CALCULATE THE APPROPRIATE CONTRIBUTIONS MUST BE SHOWN.

- e) You are instructed to deal with a claim for fire damage to commercial premises where the Policy is subject to a 20% Co-Insurance Clause. Explain how this clause would operate when adjusting the claim and why a clause of this type would normally be applied to the Policy.

(8 Marks for each)

40 MARKS



QUESTION 2

1. Outline the main provisions of the following legislation and how these would apply to the adjustment of a claim:

- a) Riot (Damages) Act 1886
- b) Rehabilitation of Offenders Act 1974
- c) Water Industry Act 1991
- d) Fires Prevention (Metropolis) Act 1774

(20 Marks)

2. a) Define the term “Fraud”.

(2 Marks)

b) You are instructed to deal with a claim for fire damage which has occurred at a retail furniture store. As a result of your initial investigations, you suspect that the claim may possibly be fraudulent. Explain what action you would then take and what recommendations you would make to your Principals.

(8 Marks)

3. a) Define the term “Warranty” when applied to an insurance policy.

(2 Marks)

b) Explain the effect of breach of Warranty and, in the event of any breach, whether and how different considerations apply to domestic and commercial claims.

(8 Marks)

40 MARKS



QUESTION 3

1. In a typical Business Interruption Policy, explain briefly the following terms:

- a) Gross Profit
- b) Suppliers Extension
- c) Additional Increased Costs of Working
- d) Material Damage Proviso.

(12 Marks)

2. When dealing with a claim under a typical Business Interruption Policy, explain briefly what action you would take to mitigate loss of turnover and any possible savings that might be identified in the following scenarios. *Unless otherwise specified, assume that all Sums Insured are adequate. The Maximum Indemnity Period in each case is twelve months.*

a) Fire damage has occurred to a Convenience Store where the stock includes the usual range of fresh products, groceries and confectionery together with alcohol, cigarettes and tobacco. The fire originated in and was restricted to the stock room at the rear of the premises, but the main sales area and stock there was affected by light smoke contamination. Your Principals Policy also covers all Trade Contents and the Building. The potential interruption period is initially estimated at approximately thirty days.

b) A burst water supply pipe has caused extensive damage to a ladies hairdressing salon located on the ground floor of a three storey building in multiple occupation. The burst pipe was located on the top floor of the building and the escape of water occurred overnight whilst the whole building was unoccupied. Initial estimates suggest that the period of disruption whilst damaged equipment and contents are replaced/repared and the building damage is reinstated will be at least three months. Apart from the Business Interruption element, your Principals' Policy covers all Trade Contents. The Buildings cover is arranged separately by the Landlords.

c) A seaside café accommodated in a detached single storey building is totally destroyed as a result of a gas explosion. The café normally trades between March and November and closes for the winter period from December until the end of February. The explosion occurred in January 2013 whilst the café was closed. Apart from Business Interruption, your Principals' Policy covers all Trade Contents and the Building. Sums Insured are adequate apart from the Building, where the Sum Insured represents only 50% of the Value at Risk on a Reinstatement basis.

(24 Marks)

3. Give two examples only of “consequential losses” that would not normally fall for consideration under a typical Business Interruption Policy.

(4 Marks)

40 MARKS



PART 2

ANSWER 2 QUESTIONS ONLY

QUESTION LB1

You act for the products liability Insurer of an electrical wholesaler, MJH Lighting Supplies Ltd (MJH).

A fire has occurred in the property of Miss Shah on 31 December 2011. The cause is alleged to be a defect in a light fitting in the en suite bathroom.

The light fitting was installed when the bathroom was refurbished by Jones Builders Ltd (Jones) in January 2010. Miss Shah engaged Jones as main contractors for the refurbishment. Jones selected and purchased the materials from The Electric Warehouse Ltd (EWL).

EWL have a sole supplier arrangement with MJH for light fittings.

MJH have received a letter of claim from Miss Shah for full recovery damage on the grounds that the source of ignition was a light fitting manufactured by MJH.

- a) Discuss the enquiries that you would have with MJH Lighting Supplies Ltd. Explain how you would consider quantum.
- b) You ascertain that Miss Shah has asked her friend James to carry out some work to the bathroom. Explain what enquiries you would make in this regard and why.
- c) Discuss the sources of legal liability that the Insured faces to the Claimant and the potential co. defendants.
- d) Explain the recommendations you would make in your preliminary report.

(10 marks for each)

40 MARKS



QUESTION LB2

You act for the public liability Insurers for a roofing contractor, ABC Roofing Ltd (ABC), who are engaged by facility management contractors, DEF Assist Ltd (DEF), to locate and rectify a leak in the flat roof to a mid-terrace four storey period property.

The freeholders of the site are GHI plc (GHI). They lease the entire property to JKL Bank plc (JKL), who occupy the ground and first floors as a retail bank. There is a maisonette on the second and third floors of the building, which JKL lease to private tenants, Mr and Mrs Alphabet (the Alphas).

JKL delegate all maintenance of the property to DEF under a formal contract for facilities management for the site.

ABC were engaged by DEF under a simple contract comprising an estimate from ABC and order confirmation from DEF. The only terms applied are in respect of consideration.

ABC delegate the entire works to a labour only subcontractor, Michael Jones (MJ). They leave him entirely to his own devices to complete the works as he is viewed as a master roofer and was a longstanding employee before he was made redundant two years ago. He has worked for the Insured under this new arrangement continuously and exclusively for the past two years.

MJ was originally a direct employee of ABC for ten years before ABC made all their direct employees redundant and then re-employed them as labour only subcontractors. There is a subcontract agreement in place between ABC and MJ containing specific clauses as follows:

- The agreement between the two parties is in respect of Income Tax and National Insurance purposes only
- The subcontractor is required to arrange his/her own public liability insurance with an indemnity limit of £5M
- The subcontractor must provide a full indemnity to ABC for any liabilities that they incur as a result of works that they complete on behalf of ABC
- The subcontractor has to work in accordance with the method statements and risk assessments provided by ABC
- The subcontractor cannot delegate the completion of the contract works to any other party.

MJ identifies cracks in the roof and decides to patch them with bitumen-backed felt. He uses a blowtorch to dry off the roof and to melt the backing of the felt. He is working with the



blowtorch 50cm away from a timber dome that rises off the flat roof. The dome is covered with lead and the insulation comprises layers of paper, which was installed when the property was first built c1900.

A fire occurs in the dome at 2:00 pm. MJ started work on the roof at 9:00 am and left at 12:00 noon.

The flames demolished the dome, but the flat roof around it remained intact. There is considerable water damage caused by the Fire Brigade in dealing with the fire. All four floors of the premises are uninhabitable. The Alphas' son was at home with the au pair at the time. They were able to leave the maisonette themselves, but were standing outside watching the aftermath until the Alphas got to the scene.

The public liability insurance policy issued by your Principals has an indemnity limit of £5,000,000 and an excess of £2,500. The policy is subject to a Hot Works Endorsement and a Subcontractors Endorsement.

Discuss the following:

- a) The enquiries you should make of the Insured, at the scene and with other interested parties
- b) The experts that should be nominated and why
- c) The legal liability for the Insured
- d) The possible recovery
- e) Policy indemnity issues for your Principals

(8 marks for each)

40 MARKS



QUESTION LB3

You act for a commercial cleaning contractor, Sparkle and Co (Sparkle).

Local High School engaged Sparkle as cleaning contractors for the entire school site. The arrangement is of a formal nature with terms and conditions specified and agreed by both parties in a contract that was agreed and signed by both parties two years ago. There have been no contract amendments in that time. The cleaning specification for the site forms part of the contract.

Sparkle outsource this work entirely to Joe Mop t/a Mops Cleaning (Mops). He assigns two to three cleaners to the job and provides all materials and equipment. Sparkle audit Mops' work twice a year by sending a customer survey to Local High for completion. They have not been to the site since they were awarded the contract, other than at the start of the contract when they met Joe Mop there to run through the expectations of Local High and the detail of the cleaning specification.

Sparkle have now received claims from Insurance High for:

- a) Bleach stains to a carpet in the Headmaster's Office
- b) £500 that has gone missing from a teacher's desk drawer
- c) A subrogated claim from the Employers Liability Insurers of Insurance High for a payment made to a teacher employed by the school. The teacher slipped in the entrance hall on the way out of the building. The floor was wet and a cleaner was mopping the floor at the time.

Discuss briefly the enquiries that should be made for each claim, and the policy and legal liability issues you would raise in your preliminary report.

40 MARKS