



# **The Chartered Institute of Loss Adjusters**

## **Associateship Examination 2013 (April)**

### **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**

- 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 PC1

You are instructed by Insurers to adjust a claim involving buildings, contents and stock following a serious fire at a department store owned and occupied by the insured. The building comprised a restaurant plus 4 floors containing various concessions along with areas selling the Insured's own-branded goods. The concessions pay a flat rent plus a proportion of their turnover to the Insured.

Such was the damage that you could not determine whether the fire started in or adjacent to the frying range, or in the adjacent concession that sells televisions, sound systems and tablet computers. The stud partition between the two areas had been consumed in the fire. You discover that a contractor had recently (the week before) achieved partial completion of a refurbishment of the kitchen and restaurant at a cost of £1.2m. The contractor was still on site working on the balance of the contract, including work to the common parts of the building, which were also in close proximity to the fire.

Assume a standard fire policy exists with warranties commensurate with the risk.

- 1) What policy considerations should you consider?
- 2) List the warranties you may expect to apply and advise how you would establish compliance.
- 3) Detail the instructions you would provide to a forensic investigator and why.
- 4) What potential recovery rights may arise? Discuss when you would put the third party on notice.
- 4) The policy contains a Branded Goods clause in relation to the Insured's stock. Explain how this clause operates.

**40 MARKS**



## QUESTION PC2

You are instructed by the Insurers of an independent boarding school (fees per term average £6,000 per pupil). The school was constructed in 1970 and is a three storey structure comprising a steel-reinforced concrete frame with brick and concrete infill and cast in situ concrete floors.

During a weekly maintenance inspection, water was found to be collecting on the floor of the boiler room. This appeared to be percolating into the room through the base of the rear wall, approximately 250mm above floor level, where the 10 flow and return pipes pass through the wall to distribute hot water to the heating system throughout the school. The boiler room is at semi-basement level such that the distribution pipework (once it passes through the rear wall) is 450mm below the concrete ground floor of the adjacent dining hall until it reappears in the risers on the opposite side of the hall, a distance of some 20 metres. Consequently, the precise location of the leak has not yet been determined nor has the part of the building that will be affected when the pipe is eventually isolated, as each pair of pipes serve as the flow and return to 5 separate parts of the building.

Subsequent monitoring of the central heating header tank reveals that some 25 litres of water a day are being lost due to the leak, but this appears to be largely lost into the ground and is not causing any visible damage to the building.

The Policyholder claims for:

- Substantial costs in locating the leak
- The cost of repairing the pipe
- The anticipated cost of the lost water
- The cost of hiring portable oil-filled electric heaters so that the affected area of the school can be heated whilst the repair is undertaken.
- As an alternative, the Policyholder suggests that, rather than locating and repairing the leak, the existing pipework is cut off and 10 new pipes run to the riser via another route.

Making whatever assumptions you wish regarding the cover (but you must explain fully the assumptions made), explain whether you regard any of these four heads of loss as covered.

**40 MARKS**



### QUESTION PC3

A fire has occurred in part of a Grade 2 listed\* restaurant in a popular seaside resort causing extensive damage to the main structure together with trade contents, fixtures and fittings. The premises are owned and occupied by the Insured.

At the time of the incident, works were being carried out at the property under a JCT Minor Works Contract to build an extension. The work was being undertaken in the low season and during the construction of the extension the restaurant only opened at weekends. However, the work was scheduled for completion by mid-March so that the restaurant would be fully open for the start of the summer season at Easter. As a result of the fire, the restaurant is expected to remain fully closed until the end of August.

1. Set out a standard formula, **in brief note form**, for the adjustment of a business interruption claim under a Standard Fire Policy (Business Interruption) incorporating a Gross Profit (Sum Insured) Turnover Specification, with no extensions or additional clauses.  
(15 Marks)
2. How should you deal with the claim for damage to the existing works?  
(5 Marks)
3. What particular difficulties can arise when dealing with damage to a listed building?  
(5 Marks)
4. Outline the insurance requirements of the JCT Minor Works contract\*\* and comment on any conflict that would arise between it and the property insurance in force.  
(15 Marks)

**40 MARKS**

#### **NOTES 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 1 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.*

*\*\*JCT Minor Works is a form of contract used in the UK for works involving repair or minor construction. If you are not UK based, you may answer part 4 on a contract with which you are familiar, providing you state the title and details of the contract form being referred to and the country in which you are based.*