



The Chartered Institute of Loss Adjusters

Associateship Examination 2013 (April)

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

- 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 PD1

You are dealing with a claim for fire damage which has occurred at a semi-detached two storey private dwelling. The building is of standard construction with rendered brick elevations under a pitched and tiled roof. The house is about seventy years old and is located amongst similar properties along a quiet suburban road. It is occupied by the Insured, Mr and Mrs Jones. The fire originated in the lounge on the ground floor rear whilst Mr and Mrs Jones were visiting relatives for the day. It was discovered by the next-door neighbour, who noticed thick smoke billowing from the rear of the building. Extensive damage has been caused within the lounge and adjoining entrance hall as a direct result of the fire and by smoke and heat. All other parts of the building have been affected by smoke contamination to a varying extent. The cause of the fire has not yet been positively established, but it appears to have originated in or close to the television in the lounge. This had been purchased new approximately four months ago from a national retail chain, which has subsequently ceased trading. Mr and Mrs Jones are sure that the television was turned off prior to their departure. The fire was discovered approximately one hour after they had left home.

The policy issued by your Principals covers the Buildings and Contents against the usual range of perils. No warranties or specific endorsements are applicable

1. Detail, in note form, the enquiries that should be made at the time of your first visit to verify the cause. What initial action should be taken and what advice should be provided to the Insured and to mitigation companies?

(16 Marks)

2. You are subsequently contacted by the owner of the neighbouring property. This individual tells you that the conservatory to the rear of his property has been affected by the smoke emanating from the Insured's property and parts of the conservatory structure are smoke stained. He wishes to know what arrangements will be made to compensate him for the damage. Draft a letter to the neighbour explaining how this matter will be dealt with. Your letter, which must not include your name, is to cover the legal and Policy position.

(12 Marks)

3. The Insured's property is uninhabitable as a result of the fire. Initially, and for the first week after the fire, the Insured are accommodated in a hotel. They then find a property for rental which meets their requirements. However, the Insured would be required to rent the property for a minimum of six months. In addition, the property they propose to rent is



evidently of significantly superior type to their own house, but they tell you they are unable to locate any other rented property which would adequately meet their requirements. Repairs to the Insured's property are anticipated to take four months to complete. Explain how this situation should be dealt with.

(6 Marks)

4. Within the property, there is matching carpet to the lounge, entrance hall, stairs and landing. The carpet in the lounge and hall needs to be replaced, but specialist restoration contractors consider that the remainder can be successfully cleaned. The Insured are reluctant to consider this course of action since the replacement carpet to the lounge and hall will not then match the remainder of the carpeting to the stairs and landing. How should this situation be dealt with? Support your answer with appropriate references.

(6 Marks)

40 MARKS



QUESTION PD2

You are instructed to deal with a claim submitted for damage which has occurred to a detached bungalow of standard construction which is used for normal residential purposes. Investigations have established that the damage has been caused by gradual leakage from defective underground drains which has affected the whole substrate of the building. In consequence, all of the flooring together with fitted furniture such as bedroom units and other joinery items will require to be stripped out and renewed. In addition, appropriate remedial works will be required to areas of plasterwork and wall coverings. Your investigations have established the following facts and potential issues:

1. The potential problem first manifested itself approximately two years earlier. The Insured engaged a contractor to investigate, but the investigations carried out at that stage were inconclusive and possibly inadequate, the contractor informing the Insured that “there was no significant problem and no evidence of burst pipes or defective drainage”.
2. The Insured remained uneasy and continued to monitor the problem, noting that damp patches were still appearing on the kitchen floor and that there also appeared to be unpleasant smells occurring within the property from time to time. Eventually, more detailed investigations were put in hand and these revealed the full extent of the problem as specified above.
3. Your Principals’ Policy was incepted six months ago, the Insured seeking the most competitive premium available at renewal. The claim is initially submitted to your Principals since the damage was discovered during the currency of their Policy. Following receipt of your factual report, your Principals instruct you to inform the Insured that the claim must be redirected to his previous Insurers since the damage originated prior to the inception of their Policy. They also tell you that, when applying for the Policy, the Insured did not disclose that the potential problem had first been suspected 18 months earlier and that some investigations had been carried out at that stage.
4. In accordance with the instructions you have received, you notify the Insured that the claim should be submitted to his previous Insurers. You are subsequently contacted by the Adjusters representing those Insurers who tell you that their Principals are not prepared to deal with the claim. They go on to say that your Principals are responsible for dealing with the claim since the damage was discovered during the currency of their Policy. They have notified the Insured that he should again present the claim to your Principals and are now closing their file.
5. A short time later, you are contacted by a very distressed Insured. He points out that insurance has been in place since the problem was first suspected and the damage discovered



and the appropriate premiums paid. He cannot therefore understand why neither Insurer is apparently prepared to assist him.

Discuss in detail the various issues that arise here and explain what further recommendations you would make to your Principals.

40 MARKS



QUESTION PD3

You are dealing with a claim involving theft of jewellery from the Insured's property. The Insured are both in their 80s.

The Insured claim a total amount of £7,000 for the stolen items of jewellery. The majority had been purchased many years previously and some were antique items that had been inherited. The Insured have no supporting documentation such as original receipts or valuation certificates.

You instruct your Principals' normal jewellery suppliers to validate the claim. They contact the Insured to obtain full details and descriptions of the items involved and subsequently inform you that the minimum replacement value of the stolen items would be £15,000. Due to the age of the items involved, they cannot offer similar replacements but, if the Insured did wish to obtain modern replacement jewellery from them to the retail value of £15,000 they would be prepared to allow your Principals a discount of 20%.

1. Discuss each of the following scenarios (a,b,c and d) in relation to the possible further progress of the claim and the issues that might arise in relation to each of these individual scenarios.

2. In conclusion, explain the correct basis for settlement and confirm what recommendations should be presented to your Principals. For the purposes of answering this question, it is NOT necessary to consider the implications of any possible Policy Limits and you should assume that Policy cover is adequate.

a) Since your appointed jewellers have validated the claim in excess of the amount claimed by the Insured, it is simply appropriate to recommend that your Principals settle in the sum claimed of £7,000.

b) Since you are now aware that the Insured have understated their claim, you invite them to resubmit it, obtaining their own valuations in support of any amended amount(s) claimed.

c) You confirm to your Principals that your appointed jewellers have validated the stolen items at £15,000. Since the items cannot be replaced on a like-for-like basis, you recommend that they pay the full validated amount and not the amount initially claimed.

d) You confirm to your Principals the validated amount but enquire whether they may wish to elect to replace and therefore obtain the benefit of the 20% discount. Alternatively, if the Insured do not wish to be supplied with modern replacements, you seek your Principals' instructions on whether they wish to consider concluding settlement on a cash basis at £15,000 less the discount available.

40 MARKS