



The Chartered Institute of Loss Adjusters

Associateship Examination 2013 (October)

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

1. Define the term “fraud” in legal terms and explain how this might arise in relation to an insurance claim for loss or damage to property.

(10 Marks)

2. Specify six potential fraud indicators.

(6 Marks)

3. Explain with reasoning what recommendations you would submit to your Principals in the following circumstances:

- a) The Insured has submitted a contractor’s quotation for £2000.00 plus VAT for repairing storm damage to the roof of his property. You have approved this quotation and have requested the Insured to send you the contractor’s VAT invoice on completion so that you can then conclude settlement of the claim.

On receiving the invoice, which is for the full amount including VAT, you notice that it does not appear to be prepared in the correct format and does not include the appropriate serial number required for VAT purposes. You contact the contractor who tells you that they have received no instructions from the Insured to carry out the work and have not issued the invoice that has been presented to you.

You then re-attend the Insured’s property with a view to clarifying the position. On arrival you notice that repairs have been carried out to the roof. During the course of further discussion, the Insured admits that the work was carried out by a friend who is a retired roofer for half the total cost originally quoted. This person was not prepared to provide him with any form of receipt for the cash payment and, without such documentation, the Insured was concerned that his claim may no longer have been admissible. He therefore decided to alter the quotation provided by the original contractor to make it appear that this represented an invoice, but he cannot explain why he attempted to claim more than the actual cost he had incurred.

(8 Marks)



- b) Following fire and smoke damage, you approve a quotation for decorative work submitted by the Insured for £1500.00. There is no VAT to consider as the contractor is not VAT registered. You request the appropriate invoice on completion of the work to enable you to conclude settlement of the claim.

On receiving the invoice, you note that it appears to be in the same format as the original quotation but has been crudely altered to make it appear to be an invoice. You investigate further and the Insured explains that the work was completed and the contractor did supply an invoice. Unfortunately, it seems that the invoice was inadvertently discarded with some rubbish before it could be sent on to you. The Insured felt rather foolish in requesting a duplicate from the contractor and therefore amended the quotation into an invoice so that the claim could be settled. Enquiry with the contractor confirms that the work was carried out for the agreed amount and that an original invoice was issued to the Insured.

(8 Marks)

- c) You are dealing with a theft claim which involves the loss of several items of jewellery. To assist with validation, you request the Insured to obtain a post-loss valuation from a high street jeweller. On receiving this valuation, you notice that the amount allocated for one of the items is £1500.00. The original figure appears to have been altered and, on enquiry with the jeweller, you find that the item was valued at £500.00 and not £1500.00. The remaining items are all correct and have not been altered.

On discussing matters with the Insured, he admits that he altered the valuation. However, he goes on to state that he believed it was legitimate to do so because “you would have inevitably made downwards adjustments to the overall claim” and he was simply attempting to ensure that he would receive what he considered to be a fair settlement.

(8 Marks)

40 MARKS



QUESTION 2

(i) Explain, using case law and statute law, the requirement for a “consumer” policyholder to disclose material facts. Within your answer, explain the effect on a claim where non-disclosure arises.

(20 Marks)

(ii) Explain, using the principle of indemnity and insurable interest and case law, the correct procedure in the following circumstances:

- a) The Policyholder has smuggled jewellery into the UK which should have been declared. The Policyholder did so knowing that this was a breach of the law. The item is the subject of an insurance claim.
- b) The same circumstances as in (a) above, but this time the Policyholder was not aware of the need to disclose the importation of the goods.

(20 Marks)

40 MARKS

QUESTION 3

(i) In the context of an insurance claim, explain the term “salvage”. Detail what action you should take to ensure that the optimum amount is realised to mitigate the extent of the loss.

Explain briefly how salvage should be dealt with in the following scenarios:

- a) Smoke damage has occurred to rolls of stainless steel coil at the premises of steel stockholders.
- b) Light smoke contamination has occurred to the stock of a retail pharmacist including prescription medicines.

(12 Marks)

(ii) Explain the term “subrogation”. What action should be taken to protect your Principals’ position when subrogation is likely to arise?

Give two different legal examples and circumstances that might give rise to subrogation when dealing with a property damage claim.

(12 Marks)



(iii) Explain the term “stock reconciliation basis” and discuss the circumstances in which it might be appropriate to quantify the loss on this basis, outlining any specific issues and procedures that might be applicable.

(12 Marks)

(iv) Calculate the amount payable by Insurers in the following circumstances. Full details of your workings must be shown.

Agreed loss of Gross Profit	£100,000.00
Loss Assessor’s Fees	£2,500.00
Accountant’s Fees for certifying turnover at adjuster’s request	£500.00
Sum Insured on Gross Profit	£300,000.00 (Declaration Basis)
Insurable Amount	£400,000.00

(4 Marks)

40 MARKS



PART 2

ANSWER 2 QUESTIONS ONLY

QUESTION LB1

- i) List the standard exclusions of a public liability policy and explain the rationale behind each one

(28 Marks)

- ii) Summarise the terms and briefly explain the purpose of the following endorsements when applied to a public liability policy:

- a) Hot Works/Application of Heat
- b) Height Restriction
- c) Bona Fide Sub Contractors.

(12 Marks)

40 MARKS

QUESTION LB2

You act for the public liability insurers of the window cleaner Mr Twinkle (Twinkle).

Twinkle works exclusively for a single property management company which specialises in the management of multi-storey shopping centres.

Twinkle was cleaning the external windows on the top floor of a shopping centre that overlooks the high street entrance to the building. He was working from a cherry picker he had hired in from a plant hire company, when his bucket fell from the man basket.

The bucket landed on the head of a passer-by on the high street, before smashing into the ground floor windows of the shopping centre.

Initial enquiries indicate that the bucket fell because of a defect with the guards on the man basket.

The Insured rushed to the aid of the passer-by who had been struck by the bucket and apologised profusely in front of witnesses.



- a) Confirm the enquiries that you should make for Insurers in preparation for your preliminary report. (10 Marks)
- b) Confirm the issues that you should raise regarding policy liability. (10 Marks)
- c) Discuss the potential legal liability faced by the Insured to the various third parties affected by this incident. (10 Marks)
- d) Discuss the recovery potential and the evidence required to substantiate any recovery action on the part of the Insured and/or your Principals. (10 Marks)

40 MARKS

QUESTION LB3

You act for the product liability insurers of a plumber's merchant. A claim has been presented against the Insured by the liability insurers of ABC Construction Ltd (ABC) for the costs arising from a flood that occurred a month ago at a recently constructed school gymnasium.

ABC were the main contractors for the construction of the gymnasium and are now funding and project managing the disaster restoration and reinstatement.

ABC have disclosed to the Insured their forensic evidence which concludes that the flood occurred due to the failure of two pressure release valves located on central heating pipes 5m off ground level.

The pipes and valves were installed by DEF Plumbers Ltd (DEF), who were engaged by ABC as domestic subcontractors to supply and install the central heating system for the gymnasium.

DEF state that they purchased the valves from the Insured, along with all other materials for their contract works at the gymnasium, six months prior to the flood occurring.

The Insured purchased the valves from GHI Wholesalers Ltd (GHI), who in turn purchased the valves from a manufacturer in China.

GHI have examined the valves and state that they failed because internal components of each valve have been damaged, consistent with manhandling at the point of installation.

ABC concede that they did open up the valves but this was only once the flood had occurred and they were trying to locate and rectify the source of the water leak.



- a) Confirm the enquiries that you would make for Insurers in preparation for your preliminary report. *(10 Marks)*
- b) Confirm the issues that you would raise regarding policy liability. *(10 Marks)*
- c) Discuss the potential legal liability faced by the Insured to the various third parties affected by this incident. *(10 Marks)*
- d) Discuss the recovery potential and the evidence required to substantiate any recovery action on the part of the Insured and/or your Principals. *(10 Marks)*

40 MARKS