



The Chartered Institute of Loss Adjusters

Associateship Examination 2013 (October)

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

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 the Insured 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 PC1

You are acting for Insurers in connection with a fire claim that involves damage to “Eclipse Point” which is leased by their Insured, Able Offices Ltd, from Pension Fund Plc.

The building is a five storey (plus basement) purpose-built office block completed in 1998 and is of steel frame construction, infilled with brickwork and glazed panels. When the building was constructed, it complied with all Building Regulation requirements for fire protection and means of escape.

The basement area contains all the heating and ventilation equipment and an electrical transformer which supplies the entire building.

The overall floor area is 3,600 m² split equally between the basement and the five floors.

Able Offices Ltd lease the entire building from Pension Fund Plc on a 25 year fully repairing lease dating from 1998. Able has sublet each floor to a different tenant, two of those leases being for 15 year terms, expiring in December 2013, the remainder being on 25 year terms, expiring in December 2023. The rent, which was last reviewed for all parties in 2008, was set at £250 per m², but these rates are now considered high due to the economic downturn and a surplus of office accommodation in the area where rentals are now available at around £180 per m².

Pension Fund Plc are responsible for the insurance of the building against fire and specified perils but accept no responsibility for the insurance of tenants’ improvements or fixtures and fittings.

The lease between Able Offices Ltd and its tenants contains a Cessor of Rent Clause, but there is no similar clause in Able’s lease with Pension Fund Plc.

The two tenants with 15 year leases had served notice of termination on expiry of the 15 year period on 24 December 2013 although a new tenant had been found for one of those floors and they had signed a 5 year lease commencing on 1 February 2014 at a rental of £180 per m² per annum with an initial three month rent-free period.

On 1 June 2013, a fire occurred on the top floor of the building causing extensive damage at that level and total destruction of the tenant’s fixtures and fittings. The floors below were damaged by a combination of smoke and extinguishment water, the latter accumulating in



the basement causing total failure of the mechanical and electrical system and causing extensive damage to the main transformer and heating boilers.

Due to the extent of the damage and failure of the heating and power supply, the tenants have to vacate and they invoke the Cessor of Rent Clause.

Able Offices Ltd appoint Loss Assessors to advise them and the claim is presented as follows:

1. Drying/dehumidification work	£30,000
2. Repairs to heating and electrical systems in the basement	£55,000
3. Alteration of air extraction system and fire suppression system in basement to comply with current regulations	£40,000
4. Refitting of main foyer at ground floor level including the upgrading of the main reception desk and partitioning	£20,000
5. Loss of rent	£62,500 per month
6. Professional fees (Assessor's in-house Surveyor)	£12,000

Apart from these costs, the repairs required to the main structure (insured by Pension Fund Plc) are estimated at £550,000 and, until they are complete (estimated at 9 months), the building cannot be reoccupied. Re-phasing the work to enable all but the top floor to be brought back into use/occupation 2 months earlier would result in an additional cost of £50,000.

Policy cover for Able Offices Ltd is as follows:

Tenants' improvements and fixtures and fittings	£ 550,000
Debris removal	£ 50,000
Professional fees	£ 55,000
Loss of rent	£1,750,000 (36 month maximum indemnity period)
Contents of Communal Areas	£ 40,000

The policy contains a Reinstatement Memorandum and Local Authority Clause.

- a) Detail the steps you would take initially to mitigate the damage. (5 Marks)
- b) Explain the term "tenants' improvements" and explain when these would fall to be dealt with under the landlord's buildings policy. (5 Marks)



c) Briefly define the tests that should be applied in deciding what are landlord's and tenants' fixtures and fittings.

(5 Marks)

d) Outline a proposed settlement, justifying the basis of your adjustment.

(25 Marks)

40 MARKS



QUESTION PC2

You are instructed by Insurers to adjust a claim following a fire at a distribution warehouse occupied by the Insured who are manufacturers of domestic electrical equipment, principally televisions, DVD players and surround sound systems. All manufacturing takes place overseas and the warehouse is solely used for the storage and distribution of completed products to various retailers. The Insured also have agreements with a number of small independent music labels to store and distribute CDs and DVDs on their behalf, and these stock lines are held in a separate part of the warehouse.

On 1 March 2013, a well organised group of individuals used a reinforced heavy goods vehicle to “ram raid” the loading bay doors by reversing the vehicle at speed into the building. Although the intruders succeeded in breaching the security by destroying the doors and adjacent cladding, unfortunately in the process, the vehicle caught fire and the intruders fled empty handed. The fuel tank on the vehicle exploded shortly thereafter and resulted in a fire which spread rapidly through the warehouse causing extensive damage before the Fire Brigade were able to bring it under control.

The Insured occupy the building under the terms of a fully repairing (but not insuring) lease and the policy under which you are instructed provides cover in respect of tenant’s improvements and fixtures and fittings, property held by the Insured in trust for which the insured are responsible, stock and stock debris removal.

1. The policy contains a Protections Warranty. Explain the terms of such a warranty.
(5 Marks)
2. Set out in brief note form the basic accounting details you would require for the preparation of a stock reconciliation.
(20 Marks)
3. Explain the special features that require consideration after the arithmetical stock loss has been established under a reconciliation exercise.
(5 Marks)
4. A number of the independent music labels that lost stock in the fire have submitted claims via the Insured. Explain how this should be dealt with.
(5 Marks)
5. The Insured’s claim includes the sum of £25,000 which represents that portion of the building repairs that relate to replacing the roller shutter doors. Explain how this aspect should be dealt with.
(5 Marks)

40 MARKS



QUESTION PC3

1. Define the cover provided by a Standard “All Risks” Policy (material damage) and list the main exclusions.

(10 Marks)

2. Briefly state the position where:
 - a) A business was wound up prior to the loss.
 - b) A business is wound up after the loss has occurred.
 - c) There is misrepresentation by the Insured.
 - d) There is non-disclosure of material facts.

(8 Marks)

3. On what basis should you value all other contents (AOC)? Define in your answer the categories generally covered by the standard AOC clause.

(8 Marks)

4. If the Insured invokes the Reinstatement Memorandum, what special conditions must they comply with?

(8 Marks)

5. A supermarket chain elects to reinstate on a “different site” which you approve. What restrictions would you apply to the settlement and how would you specifically measure the loss? What shortfall could the Insured sustain as a result of their election to reinstate elsewhere?

(6 Marks)

40 MARKS