



The Chartered Institute of Loss Adjusters

Associateship Examination 2014 (April)

Paper C3

Adjustment of Claims - Property Commercial

3 ½ 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

Outline the main provisions of the following legislation and explain, with examples, the application of each in relation to an insurance claim:

1. Consumer Insurance (Disclosure and Representations) Act 2012
2. Water Industry Act 1991
3. Rehabilitation of Offenders Act 1974
4. Fires Prevention (Metropolis) Act 1774

(10 marks each)

40 MARKS

QUESTION 2

1. In a typical Commercial Policy covering both material damage and business interruption, what do you understand by the following terms:

- a) Contract Price Clause
- b) Public Authorities Clause
- c) Professional Fees Clause
- d) 10% Co-Insurance Clause
- e) Departmental Clause
- f) Increased Costs of Working
- g) Denial of Access
- h) Gross Profit

(4 marks each)

2. Your Principal's policy includes a £500.00 excess for damage caused by flood and a £250.00 excess for damage caused by storm. On receipt of your instructions, the only information is that water has ingressed into the Insured's property due to adverse weather conditions. On attending the premises and having established the relevant circumstances, what criteria would you apply to decide whether the damage was caused by flood or by storm?

(8 Marks)

40 MARKS



QUESTION 3

1. In all parts of the following question, all workings must be shown:

a) In a Policy with a pro rata Average Condition, calculate the sum payable:

Agreed Loss before application of excess	£50,000	
Sum Insured	£120,000	
Value at Risk	£200,000	
Excess	£500.00	(8 marks)

Agreed Loss (subject to salvage)	£175,000	
Sum Insured	£100,000	
Value at Risk	£175,000	
Residual Salvage Value	£10,000	
Excess	£250	(8 marks)

b) In a policy subject to Average under the reinstatement memorandum, calculate the sum payable:

Agreed Loss (before excess)	£20,000	
Sum Insured	£100,000	
Value at Risk	£140,000	
Excess	£500	(8 marks)

c) In dealing with a Business Interruption claim, calculate the sum payable:

Agreed Loss of Gross Profit	£50,000	
Accountants' fees for advising Insured and preparing claim	£3,000	
Accountants fees for certifying turnover to Adjusters	£500	
Sum Insured	£100,000 (declaration basis)	
Insurable Amount	£130,000	(8 marks)

2. You are dealing with a theft claim under a Domestic Contents Policy where the items stolen comprise an assortment of jewellery and no other property. Following your quantum enquiries, the loss is validated at £20,000. The overall Sum Insured is adequate but Valuables, including jewellery, are subject to an aggregate Policy Limit of £15,000. There is a policy excess of £500. There is no additional "All Risks" cover provided by the Policy.

Explain the settlement recommendation that you would submit to your Principals.

(8 marks)

40 MARKS



PART 2
ANSWER 2 QUESTIONS ONLY

QUESTION PC 1

You are instructed by the Insurers of Jane Smith Ltd who are designers and retailers of bespoke wedding dresses and accessories. They occupy the ground floor and first floors of a property located in a highly fashionable retail area of London's West End. The risk address is a middle terrace, three-storey building with a two-storey extension projection to the rear. This has a flat paved roof that serves as a terrace for the self-contained apartment on the second floor. The terrace is enclosed by ornamental railings set on a parapet and is drained via an outlet with drainage running internally within a duct into the ground floor where it joins the combined foul and storm drain. The building is owned by ABC Properties Ltd and their CEO (and sole shareholder) occupies the apartment on the second floor. Jane Smith Ltd occupy the ground and first floors under the terms of 25 year lease with an annual rental of £62,400.

One of the Insured's sales assistants arrived at the premises on a Monday morning to discover water percolating the ceiling of the ground floor rear extension and further investigation revealed that water was also coming through the ceiling of the first floor. The extent of the damage was such that the water had probably been entering throughout most of Sunday when the shop was closed.

Investigations revealed that the gulley grating over the drain hopper on the second floor terrace had become blocked by leaves, as a result of which the rainwater accumulated on the terrace. Eventually it overflowed the flashings and percolated into the premises below.

Damage at ground floor level includes the stock and contents. At first floor level there was damage to the fitting rooms. The Insured were unable to use the rear extension until the repairs were completed and therefore this area was closed off with a temporary stud partition and the main sales areas at the front on both floors were adapted to make up for the loss of one of the two fitting rooms.

1. What avenues of subrogation might be available to the Insurers of Jane Smith Ltd?

(5 marks)

2. The landlord takes a proactive approach with the appointment of a surveyor who draws up a specification for all of the required work. The priced specification includes the following items. Advise Insurers what you would allow in the adjusted claim and why.



a)	Remove and replace the fitted carpets in the rear extension, including the flooring grade chipboard that had been fixed over the original floorboards.	£6,000
b)	Take down undamaged display shelving to facilitate the reinstatement of the timber floorboards, store off site and then reinstate on completion.	£3,000
c)	Construct the temporary stud partitions at ground and first floor levels. Installation and hire of dehumidifiers and air movers for 4 weeks	£8,000
d)	Replace electrical fuse board and re-wiring the first floor lighting circuit including the replacement of 20 halogen down lighters that were recessed in the ceiling.	£6,000
e)	Replace various smoke detectors and renew the fire detection control panel in its entirety as the water damaged motherboard is no longer available.	£3,000

(20 marks)

3. Repairs to the premises take two months but the turnover does not return to previous levels for a further two months. The lease contains a cessor of rent clause. Discuss what policy considerations arise and advise on how you would calculate the rent as a saving under the Business Interruption claim.

(5 marks)

4. The Insured design and make all their wedding dresses to order in their own factory. Explain how you would calculate the stock loss.

(10 marks)

40 MARKS

QUESTION PC 2

- a) Explain how Day One Reinstatement Cover operates.

(8 marks)

- b) Explain how you would check the adequacy of the sum insured on a policy written on a Day One Reinstatement Basis and the basis upon which "Average" applies.

(8 marks)

- c) Explain the terms of the Public Authorities Clause.

(8 marks)



- d) Contrast reinstatement as provided for under the Condition incorporated in a Standard Fire Policy, with reinstatement under the terms of the Reinstatement Memorandum.

(8 marks)

- e) Explain how “Average” applies under the terms of the Reinstatement Memorandum.

(8 marks)

40 MARKS

QUESTION PC 3

You have been instructed by the Insurers of a property investment company in relation to a flood.

The building comprises a steel portal framed warehouse, in-filled with blockwork to eaves height, the internal face of which is simply painted. Externally the walls are clad with powder-coated steel panels and the roof comprises composite insulated panels fixed to lightweight steel purlins supported by the portal frame. Standard services are provided. The building measures 30m by 800m on plan with the offices and reception being located in a two-storey section at the front of the premises measuring 30m by 8m. The external walls of the office area are dry lined internally and there is an insulation layer comprising 100mm of “Rockwool” between the plasterboard and the blockwork. Internally, individual offices have been formed using demountable partitions installed by the tenant. The rent receivable by your Principal’s insured is £249,600 per annum.

The flood occurred when a nearby river burst its banks. The premises were inundated to a depth of 450mm throughout and the water did not dissipate for 10 days.

- 1) What approximate value would you expect the building to be insured for? Show any assumptions in your calculation.
(8 marks)
- 2) What methods are available to you to ascertain the value at risk for the building? Provide a brief description of each method, advising the order in which you consider the different methods are most accurate.
(8 marks)
- 3) Describe the nature and extent of damage that you would expect to find when the water had dissipated and the immediate remedial measures that you should put in place.
(8 marks)



- 4) The loss mitigation company advise you that they have a “rapid drying system” available which could reduce the drying time by three to four weeks, but the additional cost of this specialist equipment is £7,500. Explain how you should approach this aspect and why.

(8 marks)

- 5) Explain the difference between “Tenants’ Improvements” and “Tenants’ Fixtures & Fittings”.

(8 marks)

40 MARKS