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# **The Chartered Institute of Loss Adjusters**

## **Associateship Examination 2014 (October)**

### **Paper C3**

### **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.**

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**PART 1**  
**ANSWER ALL QUESTIONS**

**QUESTION 1**

1. Define the term “Warranty” when applied to a policy of insurance. (4 Marks)
2. List four warranties that might apply to a typical Commercial Policy and two warranties that might apply to a typical Domestic Policy. (6 Marks)
3. Explain briefly the effect of breach of warranty, both in relation to a claim under a Commercial Policy and a claim under a Domestic Policy. (10 Marks)
4. What advice and recommendations should you provide to your Principals in the following circumstances:

The Insured, Mr A, has a portfolio of ten buy-to-let properties, all of which are terraced houses dating from the 1900s, in different areas of an industrial town. Your Principals provide Buildings Cover for all the properties, each of which is separately specified under the Policy. The Policy stipulates, amongst other things, that only “professional lets” are covered, references should be obtained for prospective tenants, each property should be inspected at least every two months and also damage caused by persons lawfully on the premises is excluded.

Mr A manages the portfolio himself and does not employ agents. He is normally diligent in obtaining references from potential tenants and ensuring they are suitable. However, on this occasion, this particular property had been occupied for three years by Mr T who had always been a good tenant. Since he was leaving the area to work elsewhere, he asked the Insured whether a friend of his, Mrs C, could take over as the new tenant. The Insured had met Mrs C on a number of previous occasions when visiting the property and understood that she was employed as a social worker. She seemed to be a respectable individual and could also take up occupation as soon as Mr T left so Mr A agreed that she could become the new tenant, particularly since she could pay six months’ rent in advance. A tenancy agreement was completed on this basis.

Two months later, Mr A called at the property to carry out the normal routine inspection. He had previously attempted to contact Mrs C by telephone to arrange the necessary appointment but without success. Since he was in the area, he decided to make a speculative visit but Mrs C was not at home and he was unable to gain entry. He then wrote to her to arrange a specific appointment for two weeks later. He did not hear from Mrs C but attended there on the appointed date. He then discovered that the front entrance door was temporarily boarded and, on enquiry with neighbours, was told that the Police had recently forced entry and had discovered that the house had been converted into a cannabis factory. The Insured immediately contacted the Police who confirmed these details and also told the Insured that it was suspected that Mrs C had allowed others to use the premises for the cultivation of cannabis. Neither Mrs C nor the other suspects can be traced. In addition, and although the Insured believed that Mrs C was a social worker, it would now appear, from further enquiries that he has carried out, that she worked in an unlicensed bar. The property has sustained significant structural and other cosmetic damage internally following its conversion into a cannabis factory. (20 Marks)

**(40 MARKS)**



## QUESTION 2

1. Discuss the circumstances under which it might be appropriate to evaluate a stock loss using the stock reconciliation method and also comment upon any potential disadvantages of using this method of validation. Explain how the loss would be calculated on this basis (figures need not be included).

(12 Marks)

2. Explain briefly the term “Subrogation” and give one example of how this might arise when dealing with a claim. What initial action should you take once potential subrogation has been identified?

Discuss how the case of Mark Rowlands Ltd v Berni Inns Ltd (1986) impacts upon subrogation.

(14 Marks)

3. In the context of an insurance claim, what do you understand by the term “Salvage” and how should you deal with this if identified during the course of the claim?

(10 Marks)

4. Briefly outline the main features of the following legislation and how they may be relevant to the adjustment of an insurance claim:

- a) Riot (Damages) Act 1886
- b) Hotel Proprietors Act 1956.

(4 Marks)

**(40 MARKS)**

## QUESTION 3

1. In a typical Business Interruption Policy, explain briefly the following terms:

- a) Loss of Attraction
- b) Increased Cost of Working
- c) Departmental Clause
- d) Suppliers Extension.

(12 Marks)

2. In the following scenarios, discuss briefly what action, if any, might be considered to mitigate loss of turnover. Unless otherwise stated, your Principals’ Policy also covers the Buildings and Trade Contents, cover is on the sum insured basis, and the maximum indemnity period is 12 months.



- a) Ladies Fashion Retailer. Estimated period of closure three months.
- b) Gentlemen's Hairdresser. Estimated period of closure five days.
- c) Licensed Betting Office. Privately owned and not part of a national chain. Estimated period of closure five days.
- d) Seaside café. Lock-up detached unit not owned by the Insured and occupied by them as tenants. Unit totally destroyed and interruption period not yet established but could potentially exceed the twelve month maximum indemnity period.

(20 Marks)

3. Explain briefly the following terms found in the Standard Fire Policy and how they would apply to the adjustment of a claim:

- a) Reinstatement Memorandum
- b) Public Authorities Clause.

(8 Marks)

**(40 MARKS)**



**PART 2**  
**ANSWER TWO QUESTIONS ONLY**

You have been appointed to deal with a fire loss at a “fish & chip” restaurant and take-away in a popular tourist resort. The fire occurred on 31 May 2013 and fire severely damaged the Insured’s frying range and ancillary equipment together with the shop front. There was smoke damage to varying degrees throughout the premises which will be closed until the repairs are completed. The Insured own the premises and their Policy provides cover for Buildings, Trade Contents, Fixtures and Fittings, (all on a reinstatement basis), Stock, and Business Interruption (Gross Profit Basis). The sums insured are adequate. The policy is subject to a “Frying Range Warranty”.

**QUESTION PC1**

- i. What enquiries would you make in relation to cause and why?  
(10 marks)
  
- ii. The premises are located within a Conservation Area and the shop front that was damaged had been installed in the 1980’s when the attitude of the planning authority was more relaxed. The current Conservation Officer at the Local Authority is insisting that the new shop front replicates the Victorian style of the shop fronts in surrounding retail premises which will almost double the cost of that item. How should you approach this aspect of the claim?  
(10 marks)
  
- iii. The insured advise you that their staff are prepared to clean down and redecorate the smoke contaminated areas at a cost which will be calculated using their normal hourly wage rate, plus the cost of materials. How should you consider this request?  
(5 marks)
  
- iv. How should you deal with claims for employees possessions damaged in the fire?  
(5 marks)
  
- v. The manufacturers of the range advise that repairs to the range, which is 5 years old, will cost £7,000 but will take approximately 12 weeks to complete. Alternatively, they could supply a new range at a cost of £11,000 and installation would be completed within 8 weeks.



The Insured's most recent accounts contain the following information:-

	Year ended 31 December 2012	
	£	£
Turnover		150,000
Opening stock	1,200	
Purchases	60,300	
Less closing stock	<u>1,500</u>	
Cost of sales	60,000	
Staff & casual wages	<u>12,000</u>	<u>72,000</u>
Gross profit		<u>78,000</u>

The Insured advise you that in the period leading up to the fire weekly takings had varied between £2,800 and £3,200, with an average of £3,000.

The repair period for the damaged range is the critical element in the overall reinstatement timescale. Other equipment can all be delivered in less than 8 weeks and the Insured and staff are confident that they will be able to clean and redecorate the smoke affected areas.

Advise what course of action should be taken with regard to the reinstatement of the damaged range, giving your reasons for this?

(10 marks)

## QUESTION PC2

The Insured are designers, manufactures and retailers of clothing and footwear under a well-known international brand with shops in the UK, Europe and the USA. You are instructed to deal with a fire claim at one of the Insured's retail premises in London. Insurers advise you that they cover Stock and Machinery, Plant and All Other Contents. You are told the policy is subject to a Branded Goods Clause.

On visiting the premises you establish that the stock in the sales area, which has been destroyed, had a retail value of £150,000 however, the stock (with a retail value of £200,000) contained in the store room at the rear, would have a salvage value as most of the clothing was still within the cardboard transport cartons and has only sustained superficial smoke damage

i. How should you deal with the salvage element? (10 marks)

ii. Outline what you would understand by the term "Branded Goods Clause" and how this would operate? (10 marks)



- iii. Set out, in summary form, the information which you would require to carry out a stock reconciliation exercise. (10 marks)
- iv. What special features require consideration after the arithmetical stock loss has been calculated under a reconciliation exercise? (10 marks)
- (40 Marks)**

### QUESTION PC3

You are appointed to deal with a claim arising from damage caused by a fire to a “Country House Hotel” in Flintshire. The property was originally a large country house in private ownership, but after its acquisition by the Insured in 2007 it was converted to a small hotel with 10 luxury en-suite bedrooms, commercial kitchen, restaurant, bar and residents’ lounge. At the time of the incident works are being undertaken at the property to construct an extension to accommodate 3 additional bedrooms, the works being carried out under a JCT Minor Works Contract.

A fire originated in the laundry room and caused damage to the kitchen, dining room and the new extension. In the light of the damage the Insured has had to relocate the guests in other hotels in the locality.

The cover is granted under a Hotel & Restaurant Package Policy which provides cover on a reinstatement basis for Buildings, Fixtures & Fittings, Trade Contents; cover is also provided in respect of Stock, Employee’s & Guest’s Effects and Loss of Revenue (24 Month Maximum Indemnity Period)

- i. A proposal is put forward by the architects to carry out repairs based on a price negotiated with the contractor who is building the extension. Outline the benefits and disadvantages of such a proposal and explain how you would verify the price. (15 marks)
- ii. How would you deal with the claim for damage to the new extension which was under construction? (5 marks)
- iii. The Buildings sum insured is written on a “Day One” basis, explain what this means and explain the criteria for applying “Average”. (10 marks)
- iv. How would you deal with the claim for Guest’s personal effects damaged in the fire? (5 marks)
- v. The Insured submit a claim for the cost of relocating guests to alternative hotels in the immediate aftermath of the fire, the costs include transport and accommodation costs at these hotels for the remainder of the guests’ scheduled stay. How would you approach this aspect of the claim? (5 marks)

**40 MARKS**