



STRICTLY PRIVATE & CONFIDENTIAL
for internal use only

The Chartered Institute of Loss Adjusters

Associateship Examination 2014 (October)

Paper C3

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.

Notice of Copyright

This document and any information contained therein remains the confidential and copyright property of the CIL A. Without infringement neither the whole, nor any extract, may be disclosed, loaned, copied or used for manufacturing, the provision of services or any other purpose whatsoever without the express permission and written consent of the CIL A. No liability is accepted for any loss or damages from any cause whatsoever arising out of the use of this document or its contents.



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

QUESTION PD1

You are instructed to deal with a claim for theft which has occurred from a two storey detached property situated in isolated rural surroundings. The basement of the property has been converted into a home cinema with a built-in large screen television and associated audio equipment. The loss comprises various electrical goods, jewellery, clothing, sundry personal effects, money amounting to £2,000.00 together with damage associated with the forced entry and search of the premises. Entry was achieved by forcing the patio doors to the rear of the building whilst the house was unoccupied during the family's absence on a two week holiday. Your Principals' policy covers household contents against the normal range of perils including theft. There is no additional or separate All Risks cover. The policy incorporates various security requirements including the provision of an intruder alarm and also for suitable locks to be fitted to all opening windows on the ground floor. The policy stipulates that all security devices must be left in full operation whenever the premises are unattended. Due to an oversight on the part of the Insured, there was no Buildings cover in force at the time of the incident, the relevant policy having inadvertently been allowed to lapse.

As a result of your enquiries, the following issues have been identified:

- (i) For various of the electrical goods there is lack of suitable substantiation, including some relatively high value items such as computer and audio equipment, which apparently were acquired no more than twelve months prior to the theft. There is also lack of adequate substantiation for the jewellery, some of which was inherited.
- (ii) The intruders attempted to remove the television and audio equipment from the home cinema. They were not successful but all the equipment, including hard-wired components, has been damaged. The Insured has obtained a verbal report from the original suppliers/installers who suggest that all the damaged equipment/wiring needs to be replaced, for which costs of £20,000.00 are estimated.
- (iii) Other damage caused by the intruders was to fitted wardrobe doors which had been locked but which were forced open by the thieves. During their search of the house, extensive mud deposits were left on fitted carpets throughout, the intruders having apparently approached the property from the adjoining field. The majority of the carpeting had only recently been fitted and the Insured is concerned that it may not be possible to carry out satisfactory cleaning and restoration.
- (iv) No locks have been installed on any of the ground floor windows. In addition, it appears that the intruder alarm may not have been left in operation at the time of the theft. In that regard, the insured's adult son, who lives about twenty miles away, was checking the property every two days. The son admits that at the time of his last visit he may not have set the alarm as he was distracted by a call on his mobile phone as he was leaving. The alarm installed is a "bells only" system. Your Principals tell you that, in view of the isolated location of the property, they had intended that a monitored alarm should be installed but, due to an underwriting error, this was not made clear to the Insured. The theft was discovered by the son at his next visit to the property.



- (v) In discussion with the Insured, you find that the money stolen had been received from a customer (the Insured is a heating engineer) for various work completed before the Insured went on holiday. The insured did not have time to deposit the money at his bank and this had therefore been concealed underneath clothing in one of the locked wardrobes forced open by the intruders.
- (vi) Following your initial visit and inspection, you suspect that the Sum Insured against Contents may not be adequate, perhaps by a significant margin.
- (vii) Some of the stolen clothing was later found abandoned in a nearby field. You consider that this is capable of satisfactory cleaning and restoration. However, the Insured refuses to have it back.

Explain how you should deal with the above issues and indicate what recommendations you should make to your Principals.

(40 MARKS)

QUESTION PD2

A. What advice should you provide to your Principals in each of the following scenarios:

1. You are dealing with a claim for fire damage which has occurred at a domestic property. Specifications and costings for the necessary repairs have been agreed with a contractor introduced by the Insured. During the course of the work, it becomes apparent that areas of timber flooring have been affected by dry rot. It is suspected that the dry rot infestation may be associated with flooding which affected the property several years earlier and where, possibly, the drying out measures may not have been adequate. Different Insurers provided cover at the time of the flood damage.

Reinstatement of the fire damage can only be satisfactorily carried out if the infested flooring is allowed as a variation within the agreed remedial scheme.

(10 Marks)

2. The same circumstances apply and completion of the approved fire damage reinstatement can only be achieved if remediation of the dry rot infestation is included. In addition, other areas of dry rot have been identified. These are not part of the fire damage and, whilst requiring remediation, do not impact on the approved reinstatement scheme. However, on this occasion, your Principals provided cover at the time of the flood damage and the Insured suggests that they should agree to deal with remediation of all the areas affected by dry rot as part of the original flood claim.

(10 Marks)

3. On behalf of Insurers, you have appointed their network contractors to reinstate the fire damage as above. Dry rot is identified within both the fire damaged area and the



remote area as above. On this occasion, the insured had only recently purchased the property and when the earlier flood damage occurred, the claim was dealt with by the previous owner's Insurers. You suggest to the Insured that he may have to contribute towards the cost of the dry rot. He flatly refuses to do so since he takes the view that your Principals and their contractors have taken responsibility to reinstate the property and simply requires it to be handed back adequately repaired. Whilst these discussions are taking place, costs for alternative accommodation continue to accrue. These could be significant since it was initially considered that hotel accommodation for the Insured and his family would be the more economic option, a three week contract period for reinstating the fire damage having been anticipated.

(10 Marks)

- B. In dealing with claims for building damage, discuss briefly the possible advantages and disadvantages of instructing, on behalf of Insurers, their network building contractors to carry out the necessary repairs. Write a letter to explain this procedure to a Policyholder who would prefer to use the services of his/her own preferred contractor and who is concerned that the appointment of a network contractor may impact on the quality and standard of the work with a view to minimizing Insurers' expenditure? (Do not put your name on the letter)

(10 Marks)

(40 MARKS)

QUESTION PD3

- A. You are dealing with a claim for fire damage which has occurred at a detached bungalow. The building is of standard construction with brick elevations under a pitched and tiled roof. There is an extension to the rear with a flat felt-covered roof which accommodates a utility/laundry room. The bungalow is about forty 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 kitchen whilst Mr and Mrs Jones were visiting relatives for the day. It was discovered by the next door neighbour who realised that the smoke alarm had activated and went to investigate. Extensive damage has been caused within the kitchen and adjoining entrance hall as a direct result of the fire and by smoke and heat. All other parts of the bungalow have been affected by smoke contamination to a varying extent. The cause of the fire has not yet been positively established but appears to have originated in or close to a microwave oven in the kitchen. This had been purchased new approximately four months ago from a national retail chain which has subsequently ceased trading. Mr and Mrs Jones state that they had not used the microwave oven prior to their departure. Both Mr and Mrs Jones are moderate smokers but state that neither had smoked whilst in the kitchen earlier that day. 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. The Policy was incepted approximately three months prior to the fire and you understand that the Insured obtain online quotations at each renewal and renew on the basis of the most competitive premium available.



1. Detail in note form the enquiries you should make at the time of your first visit, the initial action you should take and the advice you should provide to the Insured.

(16 Marks)

2. In order to gain access to the bungalow, it was necessary for the firefighters to force the rear entrance door, located in the rear extension. You find that the Insured was, in any event, intending to replace both the door and the windows in the extension prior to the fire and had obtained quotations for this purpose. In addition, it was apparently necessary for the firefighters to stand on the flat roof to check that the fire had not spread to the main roof. The felt covering is several years old and one week after the fire, during heavy rain, water ingresses through the ceiling below. The Insured suggests that the damage was caused by the firefighters. How should you deal with these issues?

(8 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 by other family members. 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 significantly superior 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 three months to complete. How should you deal with this situation?

(8 Marks)

B

1. List four exclusions that would apply under a typical All Risks Policy.

(4 Marks)

2. List four potential fraud indicators when dealing with a domestic claim.

(4 Marks)

(40 MARKS)